



**COUNCIL OF
THE EUROPEAN UNION**



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Council agrees measures to combat VAT fraud

The Council today¹ reached political agreement on a package of measures aimed at enabling member states to better combat VAT fraud ([10541/13 ADD 1](#), [10150/13](#) + [10151/13](#)).

The measures will be based on two directives:

- one aimed at enabling immediate measures to be taken in cases of sudden and massive VAT fraud ("quick reaction mechanism");
- the other allowing member states to implement, on an optional and temporary basis, a reversal of liability for the payment of VAT on the supply of certain goods and services ("reverse charge mechanism").

At its meeting on 22 May, the European Council called for the two directives to be adopted by the end of June. The political agreement is the first step towards adoption in the coming weeks.

Weaknesses in the VAT system, particularly in respect of cross-border transactions, leave member states vulnerable to fraud, often with serious consequences for national exchequers.

¹ At a meeting of the Economic and Financial Affairs Council, without discussion.

P R E S S

Fraud schemes evolve rapidly, giving rise to situations that require a swift response. A common example is "carousel" fraud, where supplies are rapidly traded several times without payment of VAT. Until now, such situations have been tackled either by amendments to the VAT directive (2006/112/EC) or through individual derogations granted to member states under that directive. Both require a proposal from the Commission and a unanimous decision by the Council, a process that can take several months.

The proposed "quick reaction mechanism" would involve an accelerated procedure for allowing member states to apply a "reverse charge" (see below) to specific supplies of goods and services for a short period of time, by derogation from the provisions of the VAT directive.

The proposed "reverse charge mechanism" is aimed at closing off certain types of known VAT fraud – in particular carousel schemes – by allowing liability for the payment of VAT to be shifted from the supplier (as normally required by EU rules) to the customer. Member states would have the option of applying it within a pre-determined list of sectors.

The main features of the Council's agreement are as follows:

- The "quick reaction mechanism" will only apply until 31 December 2018. Any renewal would require a proposal from the Commission and the unanimous approval of the Council;
- When a member state wishes to introduce a specific measure under the "quick reaction mechanism", the Commission will have a short period in which to confirm whether it objects, taking into account the views of other member states.
- The "reverse charge mechanism" will potentially apply to the following sectors: mobile phones, integrated circuit devices, supplies of gas and electricity, telecoms services, game consoles, tablet PCs and laptops, cereals and industrial crops and raw and semi-finished metals;
- The two mechanisms will be temporary and exceptional, and their timeframe will be aligned (i.e. until the end of 2018);
- The Commission will prioritise work on a new VAT system, as outlined in December 2011 in a communication on the future of VAT¹, with a view to facilitating the prevention of fraud rather than relying on solutions based on derogations.

¹ Doc. [18288/11](#).