

Council Adopts Directive Allowing Generalised Temporary Reversal of VAT Liability



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News

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On 20 December 2018, the Council adopted a Directive amending Directive 2006/112/EC on the common system of value added tax. It concerns the temporary application of a generalised reverse charge mechanism in relation to supplies of goods and services above a certain threshold. A general approach on this new EU measure had already been reached by the ECOFIN Council on 2 October 2018.

The legal framework will allow temporary derogations from normal VAT rules in order to better prevent VAT fraud. Under the Directive, proposed by the Commission in 2016, EU Member States most severely affected by VAT fraud can temporarily apply a generalised reversal of VAT liability if they meet a number of very strict conditions. By applying this so-called generalised reverse charge mechanism (GRCM), liability for VAT payments is shifted from the supplier to the customer. This measure is intended to better combat carousel fraud, while a comprehensive and EU-wide solution is put in place.

The GRCM is only applicable to non-cross-border supplies of goods and services above a threshold of €17,500 per transaction. Its applicability is also time-restricted (until 30 June 2022). Any Member State wishing to use the GRCM must fulfil several legal and technical requirements. It must, *inter alia*, establish appropriate and effective electronic reporting mechanisms for all taxable persons, in particular those to which the GRCM would apply. A Member State's request must be authorised by the Council. Ultimately, the application of the measure is subject to strict EU safeguards.

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