EUROPEAN COMMISSION

MEMO

Brussels, 31 July 2012

VAT: Commission proposes new instrument for speedy response to fraud – frequently asked questions

The European Commission has today adopted a proposal for a Quick Reaction Mechanism which would enable Member States to respond more swiftly and efficiently to VAT fraud.

See IP/12/868

How much is lost every year because of VAT fraud?

Although, due to the very nature of fraud, it is difficult to put a precise figure on VAT losses due to fraud, it is thought to be several billion euro each year. In a study on the EU VAT gap[1], the Commission compared what Member States actually got in VAT receipts with what they could have expected. While this VAT gap covers more than just fraud (also legal avoidance and insolvencies), the study set the gap at €106.7 billion in 2006 within the EU-25. This represents an average of 12% of the net theoretical liability although several Member States were above 20%.

VAT fraud does not only affect the financial interests of the Member States and the EU. It also has an impact on honest businesses which find themselves unable to compete on a level playing field in those sectors which are affected by a significant amount of VAT fraud.

What has the Commission done to address the problem of VAT fraud?

In 2006 the Commission presented a Communication to launch an in depth discussion at EU level on the need for a co-ordinated approach in the fight against fiscal fraud in the internal market. In 2008, the Commission set out a coordinated strategy to improve the fight against VAT fraud in the EU. This Strategy included a series of targeted measures, including plans for legislative proposals (which have now all been put forward), and a longer-term reflection on how to fight the problem. One key element was to see how administrative cooperation between tax administrations could be improved, and to establish a network of national officials to detect and combat new cases of cross-border VAT fraud. This network – Eurofisc – is now operational and working to coordinate data exchange and establish an early warning mechanism against fraud.

[1] DG Taxation and Customs Union, Report 21 September 2009, Study to quantify and analyse the VAT gap in the EU-25 Member States, Reckon LLP

What further measures to tackle VAT fraud does the Commission foresee?

In its Communication on the future of VAT, which it presented in December 2011 (IP/11/1508), the Commission set out priority actions needed to create a simpler, more efficient and more robust VAT system in the EU. One of the overriding objectives for the new VAT system was to tackle VAT fraud more effectively, and a number of ideas were laid out on how to achieve this.

First, the Commission intends to monitor the full implementation of the abovementioned Anti-Fraud Strategy, making sure that all instruments in place against fraud are functioning to full potential. It will examine ways to extend the automated access to information, and will assess whether anti-fraud mechanisms, such as Eurofisc, need to be strengthened. In 2014, it will report on whether further action is needed to strengthen or complement these measures.

In addition, the Commission will embark on a number of new anti-fraud projects. The Quick Reaction Mechanism, proposed today, was one such initiative. In addition, the Commission launched the idea of setting up a EU cross border audit team composed of experts from national tax authorities to facilitate and improve multilateral controls.

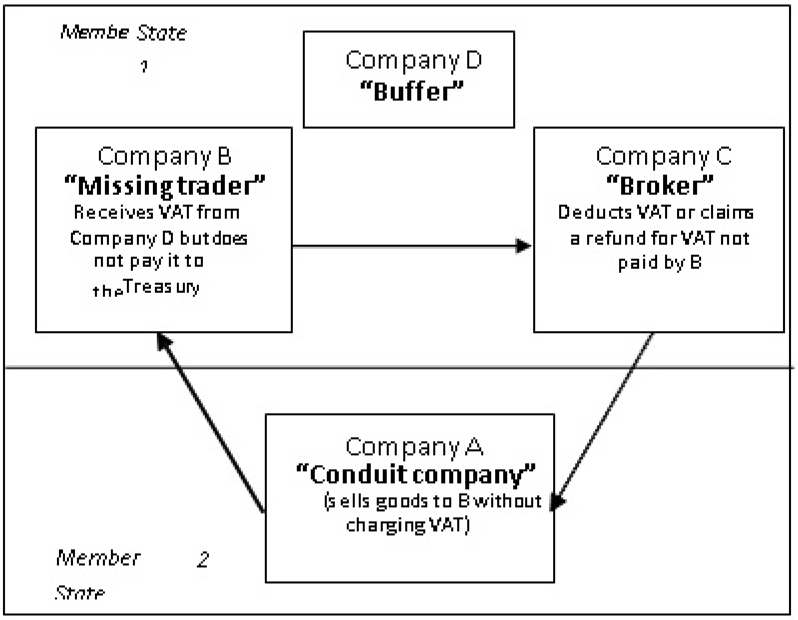
As the success of any anti-fraud measure depends directly on the administrative capacity of the national tax authorities, the Commission will intensify its monitoring of the efficiency and effectiveness of the tax administrations of the Member States. In the Commission's Country Specific Recommendations for 2012, adopted by the Council in June, 10 Member States[2] were told to improve tax compliance and collection. The Commission will also encourage the exchange of best practices in combating fraud in high risk sectors.

[2] Bulgaria, Cyprus, Czech Republic, Estonia, Hungary, Italy, Lithuania, Malta, Poland and Slovakia.

What is carousel fraud?

Carousel fraud is one of the most common types of large-scale VAT fraud schemes in the EU. Under EU legislation VAT on domestic sales is generally due by the seller while VAT on cross border sales is generally due by the purchasing companies.

In carousel fraud schemes, fraudsters import goods to a Member State VAT-free, and then charge VAT to the buyers. The sellers then disappear without paying the tax to the authorities, while the buyers deduct the VAT they paid from their overall taxable income, thus creating a loss to public finances. It is called carousel fraud because there are usually a number of companies involved, each liable to VAT which goes unpaid, and the final buyer reclaims the VAT from the tax authorities before disappearing.



What is the "reverse charge mechanism"?

The reverse charge mechanism undermines the whole basis of carousel fraud, by switching the tax liability. Under this mechanism, the customer, rather than the supplier, is liable for VAT. The customer (if a taxable person) must report and pay the VAT, and can deduct this VAT from their taxable income at the same time.