



News release

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Romania might be the second Member State, after the Czech Republic, to apply the generalized reverse charge mechanism

ECOFIN (Economic and Financial Affairs Council of the European Union) has recently decided that EU Member States "most affected by VAT fraud" will be able to apply, by 30 June 2022, under very strict technical conditions, the generalized reverse charge mechanism for local operations (transferring the liability to pay VAT from suppliers to clients)*.

States will be able to use the reverse charge mechanism exclusively for local supplies exceeding the EUR 17,500 / transaction threshold. EU Member States wishing to apply this measure must have VAT gaps out of which 25% is due to carousel fraud.

In addition to other requirements, ECOFIN has established that Member States will have to set up appropriate and effective electronic reporting obligations on all taxable persons, in particular those to which the mechanism would apply. In order to be able to use the reverse charge mechanism, states must meet certain eligibility criteria and the Council must authorize requests.

The mechanism is to be applied as a pilot in the Czech Republic, which has shown interest for many years in using this simplified procedure. Depending on the results of the pilot, Member States, including Romania, will be able to request the Council to approve their application of the mechanism, if they meet eligibility criteria.

Moreover, ECOFIN has also agreed on several VAT four quick fixes, designed to modify EU rules, in order to provide solutions to specific issues, before transitioning to the definitive VAT system. Thus, under certain conditions, companies will no longer incur VAT registration costs with call-off stock supplies of goods, as per the simplification measures agreed by the ECOFIN Finance Ministers. At the same time To benefit from a VAT exemption for intra-Community supplies of goods, the identification number of the customer will become an additional condition, while a common framework for the documentary evidence required to claim a VAT exemption for intra-Community supplies of goods has been proposed. ECOFIN has also agreed on uniform criteria in determining the VAT treatment of chain transactions.

During the same meeting, the Council adopted measures to strengthen administrative cooperation and to improve the prevention of VAT fraud, which will improve the exchange of information between national administrations, as well as the quality and comparability of data.

As a result of the meeting, also good news for electronic publications, which will benefit from reduced or zero VAT rates, as physical publications currently do.



As agreement has been reached during an ECOFIN reunion, all normative acts to cover these changes will be adopted without further discussion.

"Given the EU VAT gap, the implementation of the generalized reverse charge mechanism is an appropriate measure in the fight against fraud, being, perhaps, the most important out of this set. Of course, as it is a derogation from the general rule regarding the person liable to pay VAT, this concept might generate additional VAT compliance and IT systems update costs for taxpayers carrying out economic activities in eligible Member States, which will exercise this temporary right. If we take a look at the strict implementation conditions of this mechanism, it is possible, though, that its overall impact be limited, especially since it will initially be tested only by one single Member State, as a pilot.", said Daniel Anghel, Partner, Leader of the Tax and Legal Department, PwC Romania.

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