



European Commission
consultation

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Extension of ‘optional reverse charge’ and ‘quick reaction’ mechanisms

Summitto welcomes the opportunity provided by the European Commission to give input on the possible extension of the ‘optional reverse charge’ and ‘quick reaction’ mechanisms.

As is stated by the European Commission (the Commission) in the “proposal for a Directive”, the extension of the optional reverse charge mechanism and the quick reaction mechanism (QRC) is considered because it provides time to develop “further tools to fight tax evasion”. Here the Commission specifically points towards the “VAT in the Digital Age” project, with the modernisation of VAT reporting obligations as a central topic. Such modernisation in the form of a transaction-based reporting system, could really close the VAT gap and pave the way towards a definitive system.

Summitto believes that it’s essential to keep this in mind, when a potential extension of the reverse charge mechanism is discussed. In the meantime, while legislation regarding the modernisation of VAT reporting obligations is being prepared, the reverse charge mechanism could be a valuable tool to address VAT fraud. However, the following aspects should be taken into account.

The effectiveness of reverse charge in tackling fraud

According to a 2018 report of the Commission, Member States are in general satisfied with the way reverse charge has been able to stop “particularly aggressive [VAT] fraud”.¹ On

¹ <https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:52018DC0118&rid=18>

the other hand, some Member States rightfully stated that “the reverse charge mechanism is not entirely fraud proof as it is open to other methods of VAT avoidance.” It opens up for fraud at the very end of the value chain, where all VAT is collected. This would allow criminals to defraud the system with even greater sums of money. Furthermore, when reverse charge is applied in a certain sector, fraudsters might simply move to a different sector to apply their fraudulent scheme there. According to half of the Member States this actually happened in practice.

Nonetheless, as there is no other tool available yet (such as transaction based reporting) which can effectively stop certain fraudulent fraud schemes, reverse charge as a transitional tool can still be valuable.

Ease of compliance

Furthermore, by extending the reverse charge mechanism, companies don't have to change their business processes, while awaiting the legislative proposal regarding the modernisation of VAT reporting obligations. This gives them (financial) room to optimally prepare for this upcoming change.

Looking ahead: impact of the VAT in the Digital Age project on reverse charge

Once a transaction-based reporting solution (for intra-Community transactions and/or domestic transactions) is implemented, reverse charge would no longer be strictly necessary. Transaction-based reporting proved to be a highly successful tool to tackle fraud, which doesn't come with the negative effects described above. If implemented in a holistic way, it can even help automate business processes.²

Therefore, we would recommend extending the reverse charge and quick reaction mechanism, but reconsider it after a transaction-based reporting system is implemented to go towards a truly harmonised, definitive VAT system. This would not only increase the VAT revenue of Member States, but will also strengthen the EU Single market.

² See the following article for a comparison of different models:
https://blog.summitto.com/posts/real-time_reporting_models_compared/