



Assessment of the application and impact of the optional 'Reverse Charge Mechanism' within the EU VAT system

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Abstract

The European Commission has requested EY to perform an "Assessment of the application and impact of the optional "reverse charge mechanism" within the EU VAT system.

The European Commission seeks to evaluate to which extent the reverse charge mechanism (hereafter « RCM ») is used as an anti-fraud tool within the EU and the related costs involved in the application of RCM on certain goods and services enumerated in Articles 199 and 199a or pursuant to a derogation granted on the basis of Articles 394 and 395 of Council Directive 2006/112/EC of 28 November 2006 on the common system of Value Added Tax.

The study has three main objectives:

- To identify which Member States make use of the options to apply RCM and under which conditions,
- To evaluate the importance in terms of VAT tax base and VAT revenue of the type of supply to which RCM can be applied compared to the overall economy of the Member States ; and
- To describe and quantify the administrative burden, including cash flow effects, for the taxable persons concerned, taking also into consideration the differences existing between the national rules of the Member States in this respect.

Résumé

La Commission Européenne a requis EY d'effectuer « Une évaluation de l'application et de l'impact du mécanisme d'auto liquidation au sein du système TVA Européen ».

La Commission Européenne souhaite évaluer dans quelle mesure le mécanisme d'auto liquidation (ci-après « MAL ») est utilisé en tant qu'instrument de lutte contre la fraude au sein de l'UE ainsi que d'estimer les coûts induits par l'application du MAL à certains biens et services énumérés aux articles 199 et 199a ou en vertu d'une dérogation octroyée sur base des articles 394 et 395 de la Directive 2006/112/CE du Conseil du 28 novembre 2006 relative au système commun de taxe sur la valeur ajoutée.

L'étude a trois objectifs principaux:

- Identifier quels Etats Membres ont eu recours à l'option pour l'application d'un mécanisme d'auto liquidation et sous quelles conditions,



- Evaluer l'importance en termes de base taxable et de recette TVA des catégories de transactions auxquelles le mécanisme d'auto liquidation peut s'appliquer, et ce au regard de l'économie globale des Etats Membres ; et
- Décrire et quantifier la charge administrative, en ce inclut l'impact en termes de flux de trésorerie, pour les assujettis concernés, tenant compte des différences existant entre les dispositions nationales des Etat Membres à cet égard.



Part I

Application of the reverse charge mechanism under Article 199, 199a, 394 and 395 of the VAT Directive



1. Background and Scope

The EU VAT system is notably characterised by fractionised payments, VAT being collected at each stage of the production and distribution chain after offsetting the input VAT paid on purchases against the output VAT received on sales. According to the main rule laid down by Article 193 of Council Directive 2006/112/EC (hereafter "VAT Directive"), the person liable for the payment of this VAT is the person supplying the goods or services.

However, this system has also led to a risk of "missing trader" fraud, where the supplier evades paying to the State the VAT collected on sales while the customer has the right to deduct VAT on the basis of a valid tax invoice. This particularly involves trading of goods or services between Member States with several supplies of the same goods or services without VAT payment (i.e. "carousel fraud") and where the missing trader exploits the break in the link in the chain which appears when there is an intra-community supply.

A way to tackle such fraud is the application of a so-called "reverse charge mechanism", where the customer becomes liable for the VAT on goods or services supplied to him. In this case, the customer is paying and deducting the VAT via the same VAT return (within the limit of its VAT deduction right), thus eliminating the cash risk as no actual payment of the VAT takes place. However, this system brings on the retail sector the charge of collecting the VAT due for the whole chain on the consumption.

Some Member States are in favour of a "generalised reverse charge mechanism"; while others are opposed to such mechanism because of the risk of having the fraud shifted to the last stage of the distribution chain.

Currently, the reverse charge mechanism can be implemented by the Member States in specific cases to tackle fraud in accordance with the following provisions of the VAT Directive:

- Derogations granted on the basis of Article 395 of the VAT Directive (or on the basis of a standstill provision with reference to Article 394),
- Options to apply a reverse charge mechanism to the goods and services enumerated by and under the conditions laid down by Article 199 and Article 199a of the VAT Directive.

The reverse charge mechanisms implemented by Member States according to Articles 194 through 198 are not part of this study and neither the obligation for the customer to pay VAT on intra-community acquisitions of goods is (Article 200).

The study looks at the legislations applicable in the Member States as of December 31st, 2013.



The 28 Member States have been consulted in respect of the scope of application of the reverse charge mechanism (table 1 below)¹ and in respect of part I and II of the report, however not all of them provided their feedback.²

¹ The Member States, which have provided a feedback are : Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Finland, Germany, Ireland, Lithuania, Luxembourg, Portugal, Slovakia, Romania, The Netherlands

² The Member States, which have provided a feedback are : Austria, Croatia, Cyprus, Czech Republic, Finland, Germany, Greece, Latvia, Luxembourg, Malta, Poland, Portugal, Romania, Slovenia and Spain, Slovak Republic



2. Application of the reverse charge mechanism in the EU and main features

According to Article 199 of the VAT Directive, the Member States can opt to apply a reverse charge mechanism to the following type of transactions:

- Construction work, including repair, cleaning, maintenance, alteration and demolition services
- Supply of staff engagement in activities covered by point A
- Supply of immovable property, as referred to in Article 135 (1)(j) and (k), where the supplier has opted for taxation of the supply pursuant to Article 137
- Supply of used material, used material which cannot be re-used in the same state, scrap, industrial and non-industrial waste, recyclable waste, part processed waste and certain goods and services
- Supply of goods provided as security by one taxable person to another in execution of the security
- Supply of goods following the cession of a reservation of ownership to an assignee and the exercising of this right by the assignee
- Supply of immovable property sold by a judgment debtor in a compulsory sale procedure

According to Article 199a of the VAT Directive, the Member States can opt to apply a reverse charge mechanism to the following type of transactions:

- Transfer of allowances to emit greenhouse gases as defined in Article 3 of Directive 2003/87/EC of the European Parliament and of the Council of 13/10/03
- Transfer of other units that may be used by operators for compliance with the same Directive
- Supply of mobile telephones, being devices made or adapted for use in connection with a licensed network and operated on specified frequencies, whether or not they have any other use
- Supply of integrated circuit devices such as microprocessors and central processing units in a state prior to integration into end use products
- Supplies of gas and electricity to a taxable dealer as defined in Article 38(2)
- Supply of gas and electricity certificates



- Supply of telecommunication services as defined in Article 24(2)
- Supply of game consoles, tablet PCs and laptops
- Supply of cereals and industrial crops including oil seeds and sugar beet, that are not normally used in the unaltered state for final consumption
- Supply of raw and semi-finished metals, including precious metals, where they are not otherwise covered by point D of Article 199(1), the special arrangements for second-hand goods, works of art, collector's items and antiques pursuant to Articles 311 to 343 or the special scheme for investment gold pursuant to Articles 344 to 356

The survey conducted with our local VAT practices in each Member State and based on the legislations applicable as of December 31st, 2013 shows that the construction sector (Article 199, a and b), the waste sector (Article 199, d) as well as the sectors impacted by the emission of greenhouse gases are by far the sectors where the reverse charge mechanism has been the most widely implemented across the EU.

Seventeen Member States have implemented a reverse charge mechanism in the construction sector. Most of the Member States (excluding Cyprus, Czech Republic, Latvia and Malta) which have implemented it for construction work, including repair, cleaning, maintenance, alteration and demolition services (Article 199, a), have implemented it as well for the supply of staff engagement in those activities (Article 199, b). Twenty-three Member States have implemented a reverse charge mechanism for the supply of used material, used material which cannot be re-used in the same state, scrap, industrial and non-industrial waste, recyclable waste, part processed waste and certain goods and services (Article 199, d). Those Member States are mainly the same as the eighteen above, but with some differences.

The transfer of allowances to emit greenhouse gases (Article 199, a) is also subject to a reverse charge mechanism in the majority of the Member States (twenty-one).

For all the other sectors, less than half of the Member States have implemented a reverse charge mechanism.

Besides the categories listed in Articles 199 and 199a or for which a derogation has been granted based on Article 394 or 395, a reverse charge mechanism has not been applied by the Member States except based on provisions of the Directive which fall outside the scope of this study.



Table 1: Implementation of the reverse charge mechanism per sector and per Member State.

SECTORS	MEMBER STATES																												
	AT	BE	BG	HR	CY	CZ	DK	EE	FI	FR	DE	EL	HU	IE	IT	LV	LT	LU	MT	NL	PL	PT	RO	SK	SI	ES	SE	UK	
Article 199																													
A. Construction work, including repair, cleaning, maintenance, alteration and demolition services	X			X	X	X			X	X	X		X	X	X	X			X	X		X			X	X	X		
B. Supply of staff engagement in activities covered by point A.	X			X					X	X	X		X		X				X		X				X	X	X		
C. Supply of immovable property, as referred to in Article 135 (1)(j) and (k), where the supplier has opted for taxation of the supply pursuant to Article 137				X				X			X		X	X	X				X		X			X	X	X			
D. Supply of used material, used material which cannot be re-used in the same state, scrap, industrial and non-industrial waste, recyclable waste, part processed waste and certain goods and services	X		X	X	X	X	X	X		X	X	X	X	X	X	X	X			X	X	X	X	X	X	X	X	X	
E. Supply of goods provided as security by one taxable person to another in execution of the security	X										X		X							X				X		X			



SECTORS	MEMBER STATES																												
	AT	BE	BG	HR	CY	CZ	DK	EE	FI	FR	DE	EL	HU	IE	IT	LV	LT	LU	MT	NL	PL	PT	RO	SK	SI	ES	SE	UK	
F. Supply of goods following the cession of a reservation of ownership to an assignee and the exercising of this right by the assignee	X																X							X					
G. Supply of immovable property sold by a judgment debtor in a compulsory sale procedure	X			X									X							X				X		X			
Article 199a																													
A. Transfer of allowances to emit greenhouse gases as defined in Article 3 of Directive 2003/87/EC of the European Parliament and of the Council of 13/10/03	X	X		X		X	X		X	X	X	X	X	X				X		X	X	X	X	x	X	X	X	X	X
B. Transfer of other units that may be used by operators for compliance with the same Directive		X																X									X		
C. Supply of mobile telephones, being devices made or adapted for use in connection with a licensed network and operated on specified frequencies, whether or not they have any other use	X						X				X				X					X				X					X



SECTORS	MEMBER STATES																												
	AT	BE	BG	HR	CY	CZ	DK	EE	FI	FR	DE	EL	HU	IE	IT	LV	LT	LU	MT	NL	PL	PT	RO	SK	SI	ES	SE	UK	
D. Supply of integrated circuit devices such as microprocessors and central processing units in a state prior to integration into end use products	X						X				X				X						X			X					
E. Supplies of gas and electricity to a taxable dealer as defined in Article 38(2)	X										X												X						
F. Supply of gas and electricity certificates	X																						X						
G. Supply of telecommunication services as defined in Article 24(2)										X																			
H. Supply of game consoles, tablet PC's and laptops	X						X													X									
I. Supply of cereals and industrial crops including oil seeds and sugar beet, that are not normally used in the unaltered state for final consumption			X										X										X	X					



SECTORS	MEMBER STATES																												
	AT	BE	BG	HR	CY	CZ	DK	EE	FI	FR	DE	EL	HU	IE	IT	LV	LT	LU	MT	NL	PL	PT	RO	SK	SI	ES	SE	UK	
J. Supply of raw and semi-finished metals, including precious metals, where they are not otherwise covered by point D of Article 199(1), the special arrangements for second-hand goods, works of art, collector's items and antiques pursuant to Articles 311 to 343 or the special scheme for investment gold pursuant to Articles 344 to 356	X																							X					
Article 394																													
1) Immovable works i.e construction, repair, cleaning or maintenance works on an immovable property + transactions incorporating movable goods into immovable property + installation within a building of sanitary, electrical, fire, alarm, phone, or air conditioning equipment, embedded cupboards, stores and shutters, wall or floor-covering,...		X																											
Certain types of timber (logs, planks, girders)																X	X						X						



SECTORS	MEMBER STATES																												
	AT	BE	BG	HR	CY	CZ	DK	EE	FI	FR	DE	EL	HU	IE	IT	LV	LT	LU	MT	NL	PL	PT	RO	SK	SI	ES	SE	UK	
Supply of mobile telephones, being devices made or adapted for use in connection with a licensed network and operated on specified frequencies, whether or not they have any other use																													
Supply of integrated circuit devices such as microprocessors and central processing units in a state prior to integration into end use products																													X
Supply of game consoles, tablet PC's and laptops																													
Supplies of gas and electricity to a taxable dealer as defined in Article 38(2)										X																			
Supply of cereals and industrial crops including oil seeds and sugar beet, that are not normally used in the unaltered state for final consumption																													
Goods or services acquired from the VAT payer under insolvency procedure																		X											



Our analysis of the main features of the optional reverse charge mechanism implemented in the Member States legislation shows a generally straightforward application with fairly limited administrative obligations. There are however some exceptions in countries like France, Portugal and the UK where the scheme has been implemented in a far more detailed manner.

The complexity generally arises from the problem of understanding the exact scope of the measure, i.e. in determining the supplies which fall under the reverse charge rule and the ones where the reverse charge is not applicable. The impact of this complexity in terms of administrative costs will be covered in the third part of our study and integrated in our final report.

The mechanism generally applies only in a Business-to-Business relationship and is mandatory. There are however cases where the parties can mutually agree to apply the reverse charge (Austria) or where the reverse charge applies on request (Malta). It is the exception where a Member State regards a public body or a partial taxable person as a taxable person in respect of services received and subject to the reverse charge mechanism (only seven Member States).

A threshold is generally not applied, except in seven Member States. The defined supplies of goods and services are subject to the reverse charge mechanism whatever the value of the concerned transaction or yearly turnover generated.

The administrative obligations imposed on businesses in case of application of the reverse charge mechanism generally consist in a specific report in the VAT return and a statement on invoices. However, twelve Member States impose obligations going beyond this. For instance, the UK has introduced a so-called "Reverse Charge Sales List" to be completed by the supplier of services or goods subject to the scheme.

A reverse charge mechanism as an anti-fraud tool has been implemented quite early in certain Member States. The tendency to have recourse to such a mechanism seems however to have increased with sixteen Member States having extended or introduced measures from 1 January 2013.

Table 2: main features of the reverse charge mechanism per Member State

Member State	Complexity	B2B only	Mandatory	Public body / partial TP = TP	Threshold	Admin obligations beyond VAT return and invoicing	New in 2013/2014 or planned for 2015
AT	medium	yes	yes, but mutual agreement if doubt	yes	yes	no	2014
BE	low	yes	yes	yes	no	no	No
BG	low	no	yes	no	no	yes	2014
HR	low	yes	yes	no	no	no	2013 / 2015
CY	low	yes	yes	no	no	yes	no
CZ	low	yes	yes	yes	no	yes	2015



Member State	Complexity	B2B only	Mandatory	Public body / partial TP = TP	Threshold	Admin obligations beyond VAT return and invoicing	New in 2013/2014 or planned for 2015
DK	low	no	yes	yes	no	no	2014
EE	low	yes	yes	no	no	yes	no
FI	low	yes	yes	yes	no	no	2015
FR	high	yes	yes	no	no	no	2014
DE	medium	yes	yes	no	yes	no	2014
EL	medium	yes	yes	no	no	no	no
HU	low	yes	yes	no	no	yes	2013
IE	low	yes	yes	no	no	no	no
IT	medium	yes	yes	no	no	yes	no
LV	low	yes	yes	yes	no	yes	no
LT	low	yes	yes	no	no	no	no
LU	low	yes	yes	no	no	no	no
MT	low	yes	on request	no	yes	yes	no
PL	low	yes	yes	no	no	no	extended in 2013
PT	high	yes	yes	no	no	no	no
RO	medium	yes	yes	no	no	yes	2013
SK	medium	yes	yes	no	yes	yes	2014
SI	low	yes	yes	no	no	yes	no
ES	low	yes	yes	no	no	no	2015
SE	low	no	yes	no	no	no	2013
NL	medium	no	yes	yes	yes	no	2013
UK	high	yes	yes	no	yes	yes	2014



3. Current VAT treatment in the EU

3.1. Provisions of the EU VAT Directive 2006/112

According to Article 199 of the VAT Directive, the Member States can opt to consider the person to whom the supply is made liable for the VAT, i.e. reversing the charge of the VAT to the customer, contradictory to the main rule laid down by Article 193 according to which the supplier is the person liable for the VAT. This option can be introduced only for certain sectors of activities which are enumerated in Article 199. In this respect, the Member States can opt to limit the application of this reverse charge mechanism to specific supplies of goods or services and/or restrict the application to certain categories of suppliers or customers.

The enumeration of those specific sectors in Article 199 has its origin in derogations which had previously been granted individually to certain Member States. Their integration in the VAT Directive has the benefit of making them available to all Member States.

The Member States can consider a partial taxable person, i.e. carrying out both activities within the scope of VAT and activities outside the scope of VAT, as being a taxable person for all supplies received to which the reverse charge mechanism applies in accordance with this provision. Also, the Member States may consider non-taxable public bodies as taxable persons in respect of supply of goods provided as security in execution of the security, supply of goods following the cession of a reservation of ownership to an assignee and the exercising of this right by the assignee, as well as the supply of immovable property sold by a judgment debtor in a compulsory sale procedure.

If the introduction of the measure has not been approved by the Council before 13 August 2006 (Article 27, 1 to 4, of Directive 77/388/EEC), the Member State who wishes to opt for the reverse charge mechanism has to inform the VAT Committee.

According to Article 199a of the VAT Directive, the Member States can also introduce a reverse charge mechanism to the sectors listed in paragraph 1 of this provision, until 31 December 2018 and for a minimum period of two years.

The origin of this provision is a proposal of the European Commission on the possibility to apply temporary measures of a targeted reverse charge mechanism on certain fraud-sensitive goods and services.

The Member States have to inform the European Commission when introducing such reverse charge measure and provide the latter with information mainly on the scope of the measure, its impact in terms of reporting and control, as well as with regard to its effectiveness to tackle fraud including the potential consequences due to a shift of the risk of fraud to other activities. The Member States will also inform the European Commission on date of introduction and the period covered.

In this respect, the Member States having opted to apply the mechanism on the basis of Article 199a will have to submit a report to the European Commission by 30 June 2017 providing a detailed assessment on the effectiveness and efficiency of the measure, including the impact of the measure as an anti-fraud tool, the possible shift of fraudulent activities to other sectors and the related compliance costs for the businesses.

In addition, Member States which would have experienced a shift in the trends of fraudulent activities since the introduction of Article 199a in its territory will have to report it to the European Commission by 30 June 2017.

According to Article 394 of the VAT Directive, the Member States which, at 1 January 1977, applied measures to simplify the collection of the VAT or to tackle VAT evasion or avoidance can continue to apply them providing they have notified the European



Commission before 1 January 1978 and the measures introduced to simplify the collection system do not result in lower VAT receipt at the stage of the final consumption.

According to Article 395 of the VAT Directive, the European Council, on the proposal of the Commission, can authorize a Member State to introduce a reverse charge mechanism with the view of simplifying the collection of VAT or reducing the risk of tax evasion or avoidance. As for the standstill clause of Article 394, such measure - when introduced to simplify the collection system - cannot result in lower VAT receipt at the stage of the final consumption.

Paragraphs 2 and 3 of Article 295 provide detail on the application procedure to be followed by a Member States wishing to introduce such derogation.

3.2. Adoption of the reverse charge mechanism in the 28 Member States

The results of our survey of the applicable reverse charge mechanism conducted with our VAT experts based in each Member State covered the scope of the implementation listing the specific supplies which are subject to the reverse charge mechanism, the conditions for the application of the reverse charge mechanism, including specific accompanying measures and reporting obligations, the period of application, the date of introduction and the duration when the measure has been implemented for a determined period, the basis of the implementation, as well as the importance of the reverse charge mechanism in terms of taxable basis, VAT receipt and cash flow impact.

These results have been summarized in Appendix 7 - Adoption of the reverse charge mechanism in the 28 Member States.



Part II

Importance of the sectors under reverse charge in terms of tax base and VAT receipts



1. Importance and cash flow impact of the application of the reverse charge mechanism in each Member State

Following an analysis for each Member State of the exact scope of the application of the reverse charge mechanism, we have evaluated its importance, compared to the overall economy of the Member State concerned, using the available data which most closely corresponds to the VAT taxable basis. It should be noted, however, that no precise figures were available for the sectors to which the reverse charge mechanism applies and we have therefore been forced to calculate estimates for both the margin and the turnover. In general these should be regarded as maximum amounts and the actual figures could in some cases be lower.

In addition, this economic impact has been assessed on the assumption that the Member States would opt for all categories listed in Articles 199 and 199a as well as for the ones for which a derogation has been granted on the basis of Articles 394 or 395. Finally, based on the overall economic data available, the 'cash flow effects' have been assessed.

The figures number 5 and 6 below show the results of our calculations with regard to the importance of application of the reverse charge mechanism in terms of VAT receipts compared to the total VAT receipts of each Member State, thus reflect the possible budgetary impact of the application of the reverse charge mechanism in each Member State.

1.1. Methodology applied to estimate the volume of transactions per sector

In order to reflect in the most accurate way the importance of the sectors subject to the reverse charge mechanism, in terms of VAT taxable basis and VAT receipts, compared to the overall economy of the Member State concerned, the statistical information available to Eurostat have been used, namely:

- the Structural Business Statistics (SBS) which "describe the structure, conduct and performance of businesses across the European Union" and "contain a comprehensive set of basic variables describing business demography and employment characteristics, as well as monetary variables (mainly concerning operating income and expenditure, or investment)" (Eurostat). Please note that SBS cover industry, construction, trade and services. In our assessment, the main indicator available within SBS, which is the turnover expressed in monetary values realized by enterprises active in the defined sectors has been used.
- Economic Accounts for Agriculture, more specifically output of the agricultural industry at basic prices narrowed to the data on cereals and crops. The basic price is defined as the price received by the producer, after deduction of all taxes on products but including all subsidies on products. Output of the agricultural industry consists of the sum of the output of agricultural products,



agricultural services and of the goods and services produced in inseparable non-agricultural secondary activities.

- Economic accounts for forestry and logging, more specifically forestry output at current basic prices. The economic accounts for forestry and logging are based on national accounts, but are collected with greater detail. The term "current basic prices" refers to the price received by the producer after deduction of all taxes on products, but including all subsidies on products. The definition of the activity of forestry is based on Division 02 of NACE Rev. 2 (i.e. NACE: "Nomenclature statistique des Activités économiques dans la Communauté Européenne").
- Regarding the assessment of the importance of the transfer of allowances to emit greenhouse gases, we based our computation on information recommended by the EU Commission (i.e. "EU Emissions Trading System data viewer and ICE (Intercontinental Exchange) Futures Europe Emissions Index"). This data represents the volume of transactions and the price.

The latest available SBS data sets relate to the year 2011. For consistency reasons, the 2011 data have been used from all above-mentioned sources.

When our computations were made with reference to the SBS figures, we used the data representing the turnover of enterprises active in the sub-sectors classified according to the following 4-digits NACE codes for the year 2011.



Table 3: NACE codes used for each category:

Reverse Charge Mechanism per Category	NACE code	Description of the code
Construction work, including repair, cleaning, maintenance, alteration and demolition services	41	Construction of buildings
	42	Civil engineering
	43	Specialised construction activities
Supply of staff engagement in activities covered by point A.	81.10	Combined facilities support activities
	81.20	Cleaning activities
Supply of immovable property, as referred to in Article 135 (1)(j) and (k), where the supplier has opted for taxation of the supply pursuant to Article 137	68.10	Buying and selling of own real estate
Supply of used material, used material which cannot be re-used in the same state, scrap, industrial and non-industrial waste, recyclable waste, part processed waste and certain goods and services	38.10	Waste collection
Supply of integrated circuit devices such as microprocessors and central processing units in a state prior to integration into end use products	26.11	Manufacture of electronic components
	26.12	Manufacture of loaded electronic boards
Supplies of gas and electricity to a taxable dealer as defined in Article 38(2)	35.14	Trade of electricity
	35.23	Trade of gas through mains
Supply of telecommunication services as defined in Article 24(2)	61	Telecommunications
Supply of raw and semi-finished metals, including precious metals, where they are not otherwise covered by point D of Article 199(1), the special arrangements for second-hand goods, works of art, collector's items and antiques pursuant to Articles 311 to 343 or the special scheme for investment gold pursuant to Articles 344 to 356	24.10	Manufacture of basic iron and steel and of ferro-alloys
	24.20	Manufacture of tubes, pipes, hollow profiles and related fittings, of steel
	24.30	Manufacture of other products of first processing of steel
	24.40	Manufacture of basic precious and other non-ferrous metals



More detailed information on the NACE codes mentioned above has been included in Appendix 1 to the report.

Some of the detailed NACE levels were however unavailable due notably to statistical confidentiality.

With regard to the real estate sector, the NACE categories mentioned above were too broad compared to the volume of transactions to which the reverse charge mechanism could be applied. Indeed, part of the transactions covered by these NACE codes is either "Business-to-Consumer" and/or exempt, hence falling outside the scope of a possible reverse charge mechanism. In order to refine these categories, the following methodology has been applied.

Based on the information available to the National Statistical Office of nineteen Member States³, an estimate of the proportion of non-residential buildings compared to residential buildings has been made with reference to the square meters of the building for which a building permit has been granted in 2011. When this reference was not available, the number of granted permits has been considered if available. Reference to the building stock or to the territory occupation has been used only once. For the nine Member States where no information was available, the average percentage obtained for the nineteen Member States above has been applied (i.e. 47.19% non-residential / 52.81% residential).

The non-residential proportion has then been further refined in order to exclude the transactions for which an option to tax is generally not possible i.e. real estate transactions for which the recipient is either a non-taxable person (e.g. human healthcare sector, public sector) or an exempt taxable person (e.g. financial and insurance services sectors, gambling sector). Considering that the value of the transactions must directly depend on the size of the building sold or built, which in its turn depends on the number of employees working in the respective buildings, the proportion of the active population employed in VAT exempt or outside the scope sectors compared to the total active population in each Member State has been used to estimate the proportion of the non-residential building allocated to sectors for which an option to tax is generally not possible. On this basis, the following percentages of the transactions covered by the NACE categories 41, 42, 43, 81.10, 81.20 and 68.10 have been taken into account⁴.

Member State	Percentage applied
Belgium	11%
Bulgaria	38%
Czech Republic	37%
Denmark	32%
Germany	29%
Estonia	37%
Ireland	42%

³ No information was available for Austria, Croatia, Cyprus, Latvia, Lithuania, Malta, Portugal, Romania, Slovenia.

⁴ In Finland, the reverse charge mechanism can also be applied between construction firms where the final product (building) is intended for residential use. Hence, for Finland, our above estimate is not fully accurate.



Member State	Percentage applied
Greece	37%
Spain	32%
France	29%
Croatia	38%
Italy	54%
Cyprus	36%
Latvia	37%
Lithuania	37%
Luxembourg	17%
Hungary	49%
Malta	33%
Netherlands	27%
Austria	35%
Poland	18%
Portugal	37%
Romania	40%
Slovenia	36%
Slovakia	64%
Finland	43%
Sweden	29%
United Kingdom	29%

The NACE code (26.30) covering the mobile phones also covers other communication equipment. Hence, in order to obtain the best estimate of the volume of transactions potentially subject to the reverse charge mechanism, the following methodology has been applied.

In order to estimate the turnover per Member State generated from the supply of mobile telephones, the average consumer price of a mobile phone of EUR 282, based on the estimate provided by our Centre of Excellence for the telecommunication sector, has been applied to the number of the mobile phone subscriptions per Member State as available to Eurostat.

The most recent data on mobile phones subscriptions, per Member State available to Eurostat relate to the years 2008 and 2009. The number of subscriptions for 2011 has been extrapolated, assuming a constant growth from 2009 to 2011.

For the Member States where no data on the number of subscriptions were available to Eurostat (e.g. Italy, Latvia, Luxembourg, Hungary, the Netherlands, Poland and the UK) or the available data was not reliable (Spain), we have estimated the number of subscriptions based on the average number in the Member States where the data was available pro rata parte the respective active population.

In order to take into account the average duration of mobile phones subscriptions in our calculations we have conducted interviews with major providers of the telecommunication services in the EU. Based on the answers received from 4



businesses the average duration of a mobile phones subscription is estimated at 26 months i.e. 2,17 year.

We have then divided the taxable basis calculated as above (i.e. number of subscriptions x average price) by the average duration of the mobile phones subscriptions (i.e. 2,17).

This computation resulted in the following volume of supply of mobile phones.

Member State	Amounts (mill EUR)
Belgium	22,83
Bulgaria	4,70
Czech Republic	4,23
Denmark	52,56
Germany	495,49
Estonia	6,50
Ireland	14,25
Greece	23,45
Spain	113,77
France	494,62
Croatia	8,46
Italy	220,83
Cyprus	0,12
Latvia	9,13
Lithuania	4,07
Luxembourg	2,12
Hungary	37,80
Malta	1,57
Netherlands	77,08
Austria	95,38
Poland	151,61
Portugal	153,41
Romania	92,43
Slovenia	12,85
Slovakia	23,77
Finland	42,17
Sweden	39,05
United Kingdom	278,38

The use of a threshold for the application of the reverse charge mechanism related to the supply of mobile phones (e.g. Germany and Austria) have been disregarded for the calculations, as it was not feasible to acknowledge this fact for the purpose of calculations based on the available data.



With regard to the supply of game consoles, tablet PCs and laptops, the NACE codes (26.20 and 26.40) covering the manufacturing of computers and peripheral equipment (26.20) and the manufacturing of consumer electronics (26.40) also cover other equipment. In order to obtain the best estimate of the volume of transactions potentially subject to the reverse charge mechanism, the following methodology has been applied.

We used data available at MarketLine, a company based in the UK, the US and Australia. MarketLine is profiling all major companies, industries and geographies and is one of the most productive publishers of business information. Their content is produced by an internal team of analysts, drawing on primary and secondary research and prepared under an established methodology that has been tried and tested over 10 years.

The data available at MarketLine for 2011 and 2012 give the total turnover realised from the sale of computers in the UK, Germany, France, Italy, Spain, The Netherlands and Belgium, as well as a total for all EU Member States. This data has been converted from USD to EUR at a conversion rate of 1,3920 (ECB). Where the data was only available for 2012, we applied the average EU growth to obtain 2011 data for those 7 Member States. We then extrapolate these data to the 28 Member States based on the respective active population in each Member State. However, the reverse charge mechanism applies generally only in a "Business-to-Business" relationship. Data on wholesale and retail sale of hardware are available to Eurostat for 21 Member States in 2011. These data show an EU average proportion of 85% wholesale. We applied this 85% to the turnover obtained for the 28 Member States. We estimate the specific supply of game consoles as insignificant and, hence, considered only the data as above described. This computation results in the following figures, which on average represent 21% of the 2008 turnover data from "wholesale of computers, computer peripheral equipment and software" available at Eurostat (more recent data were not available).

Member State	Amounts (mill EUR)
Belgium	616
Bulgaria	348
Czech Republic	544
Denmark	304
Germany	4 289
Estonia	72
Ireland	225
Greece	517
Spain	1 343
France	3 912
Croatia	179
Italy	1 648
Cyprus	45
Latvia	107
Lithuania	154



Member State	Amounts (mill EUR)
Luxembourg	25
Hungary	446
Malta	19
Netherlands	1 121
Austria	450
Poland	1 793
Portugal	577
Romania	1 027
Slovenia	106
Slovakia	279
Finland	279
Sweden	522
United Kingdom	4 150

In order to exclude the supplies to private individuals (B2C) from the calculations made for the telecommunication sector and the absence of reliable statistical data, we have conducted interviews with providers active in this sector. Based on the answers received from 4 major providers of telecommunication services widely present in the European Union market, 60% of the total supplies represent the part supplied to private customers. This proportion has thus been excluded from our estimations.

In order to exclude the supplies to private individuals (B2C) from the calculations made for the gas and electricity sector, we have used the data available by Eurostat on the final residential gas and energy consumption at the EU level for the year 2011. Concerning the gas sector, the percentage has been calculated by comparing the Eurostat indicator "Final Energy Consumption" of gas in the "Residential" sector at the EU level to the total consumption of gas at the EU level. The same methodology has been used for the electricity sector based on the data on electricity consumption. According to the calculations, 41% percentage of gas has been consumed by private individuals at the EU level during 2011, while 29% of electricity has been consumed by private individuals during the year 2011. These percentages have then been used to exclude the turnover on supplies to private individuals from our estimations.

For the Member States where no data on the turnover in gas and electricity sector were available by Eurostat, we have estimated it based on the average turnover in the Member States where the data was available prorata the respective active population.

As a general rule, the reverse charge mechanism is not applicable to transactions performed in favour of public bodies. Therefore, in order to exclude the supplies made to public bodies, the proportion of the active population employed in public sectors compared to the total active population in each Member State has been used to estimate the proportion of the supplies made to public bodies. This proportion has been excluded from the B2B supplies in the sectors where the public bodies are likely to be customers i.e. integrated circuits, PCs, gas and electricity, waste collection, mobile phones and telecommunication.



However, the exclusion of supplies to public bodies has not been applied in the countries where the reverse charge mechanism is applicable to public bodies i.e. Austria, Belgium, Czech Republic, Denmark, Latvia and the Netherlands.

With regard to the Forestry sector, the 2011 data on forestry output at basic prices were not available at Eurostat for Spain, Italy, Lithuania, Hungary, Netherlands and Romania. For those Member States, the 2011 data has been extrapolated assuming a constant growth since 2005.

For the Agricultural sector, we referred to the Economic Accounts for Agriculture (EAA) which provides detailed information on revenue in the agricultural sector. The list of characteristic agricultural activities of the EAA corresponds to the seven groups of activities of the NACE code 01, but with some differences. In our computation, we used the 2011 data available at Eurostat in terms of value at current basic price for cereals and crops (codes 01000 and 02000).

Finally, the reverse charge mechanism foreseen in Article 199, e, f, and g does not correspond to a specific sector of activity, hence to a NACE code. As a consequence these reverse charge mechanisms had to be disregarded. However, as shown by table 1, they are not widely applied by the Member States.

1.2. Methodology applied to estimate the margin applicable to taxable basis

In order to refine the data representing the taxable basis calculated according to point 1.1 above and take into account the offset of the output VAT against input VAT, we applied the methodology as described below.

The data used for the calculation of the taxable basis has been reviewed by applying a percentage representing the margin which is generally made in the specific sector, so to represent the value added on which VAT is applied.

The percentage (margin) has been calculated by comparing the Gross Value Added (at basic prices) data classified according to the 2-digits NACE code applicable to each sector concerned with the equivalent SBS figures on the turnover or gross premium written data for these 2-digits codes. The percentage resulting from this calculation (i.e. applicable margin) has then been then applied to the 4-digits SBS figures or other data used for the calculation of the taxable basis.

As far as the CO2 emission right sector is concerned, considering the lack of data at Eurostat level, we have applied a margin of 3% to this sector. This margin, according to our transfer pricing experts, reflects in the most accurate way the margin applicable to this sector.

The results of the above calculations (i.e. applicable margin), for each sector subject to the RCM are presented in the below table.



Sector	Margin
Cereals and Crops (Production value at basic price) (01)	42%
Timber (Forestry output at basic prices) (02)	18%
CO2 emission (based on available data)	3%
Metal (24)	17%
Integrated circuits (26)	27%
PCs,games,etc (26)	27%
Gas and Electricity (35)	16%
Waste collection (38)	56%
Construction (41)	40%
Mobile phones estimations (46)	10%
Telecommunications (61)	42%
Buying and selling of own real estate (68)	40%
Construction staff (81)	40%

1.3. Methodology applied to estimate the importance of the reverse charge mechanism and results obtained

We compared the data as obtained based on the previously described methodologies to the total « Gross Value Added » of the total economy (hereafter GVA) generated in the concerned Member State in 2011 in order to estimate the importance, in terms of taxable basis, of the sectors or sub-sectors to which the reverse charge mechanism can be applied.

According to the Eurostat definition, GVA can be defined as output at market prices minus intermediate consumption at purchaser prices.

GVA can be broken down by industry. The sum of GVA at basic prices for all industries plus taxes on products minus subsidies on products gives the gross domestic product ("GDP"). The GVA of the total economy usually accounts for more than 90 % of GDP.

In order to estimate the importance in terms of VAT receipts, we applied to these data, expressed in turnover amounts, the average percentage of value added



generated in each sector. We then multiplied the results by the VAT rate applicable in each of the sectors or sub-sectors. In limited cases, the standard VAT rate and a reduced rate or two reduced rates were applicable to one sub-sector. In these cases, we applied the standard rate or the highest reduced rate based on educated guess (e.g. lowest rate guessed to apply to dwellings in the construction sector).

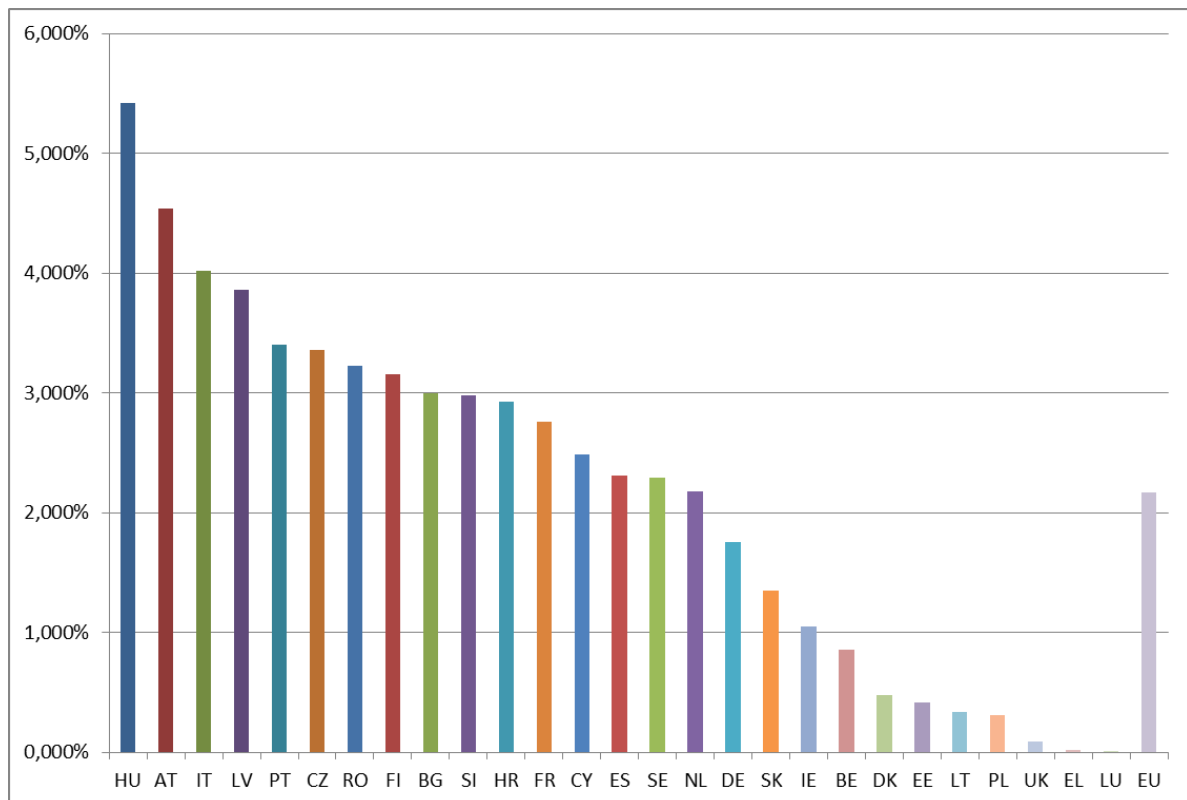
On the other hand, we have added to the 2011 VAT receipts of each Member State the VAT on the value added generated in sectors where a reverse charge mechanism is currently applied, in order to have comparable figures.

Finally, the VAT on the value added per sector has then been compared to the total grossed-up VAT receipts for 2011 in each Member State.

Taking into account the available data, we have evaluated the importance of the reverse charge mechanism in terms of taxable basis compared to the overall economy of the Member State as follows:

$$\text{Percentage in terms of taxable basis} = \frac{\text{2011 estimated turnover of enterprises in sectors where a RCM applies in MS X}}{\text{2011 GVA in MS X}}$$

Figure 1: importance of the applied reverse charge mechanism in all Member States compared to the overall economy based on the 2011 available data



Our analysis shows that in about half of the Member States (16), the currently applied reverse charge mechanism represents between 1% and 4% of their respective overall economy i.e. GVA. There are however some exceptions such as Hungary, Austria and

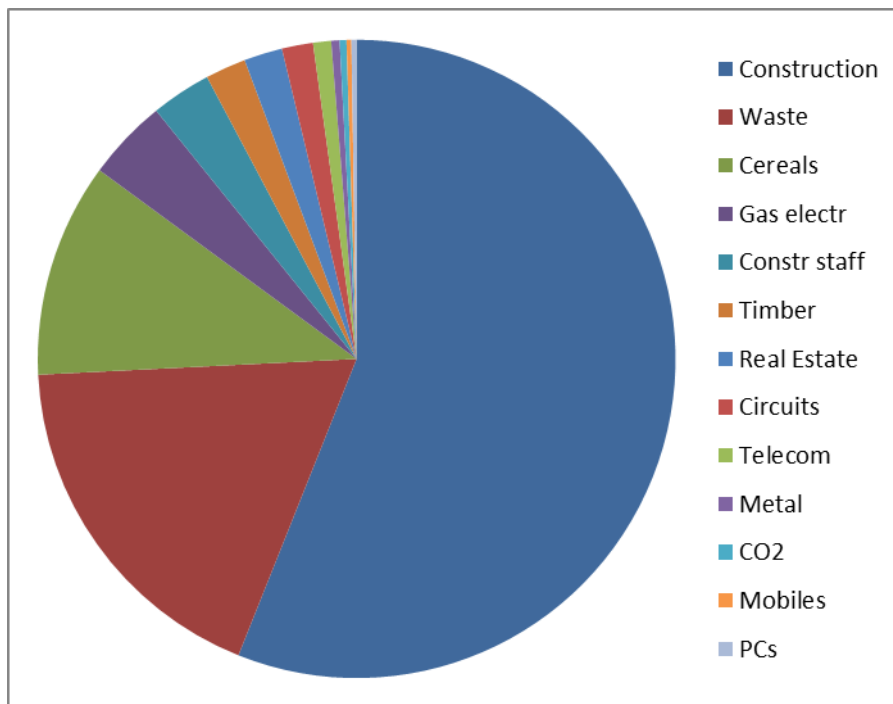


Italy where the application of the reverse charge mechanism are wider. This brings the average for the countries covered to 2,17%.

However, Malta is missing in the figure due to the fact that no data are available (except for CO2 emission rights). Also, the full set of data is unavailable in the following countries: Bulgaria, Czech Republic, Germany, Estonia, Ireland, Spain, The Netherlands and Slovakia.

The importance of each sector subject to the reverse charge mechanism at the EU level has been presented in the following figure:

Figure 2: importance of each sector subject to the reverse charge mechanism at the EU level

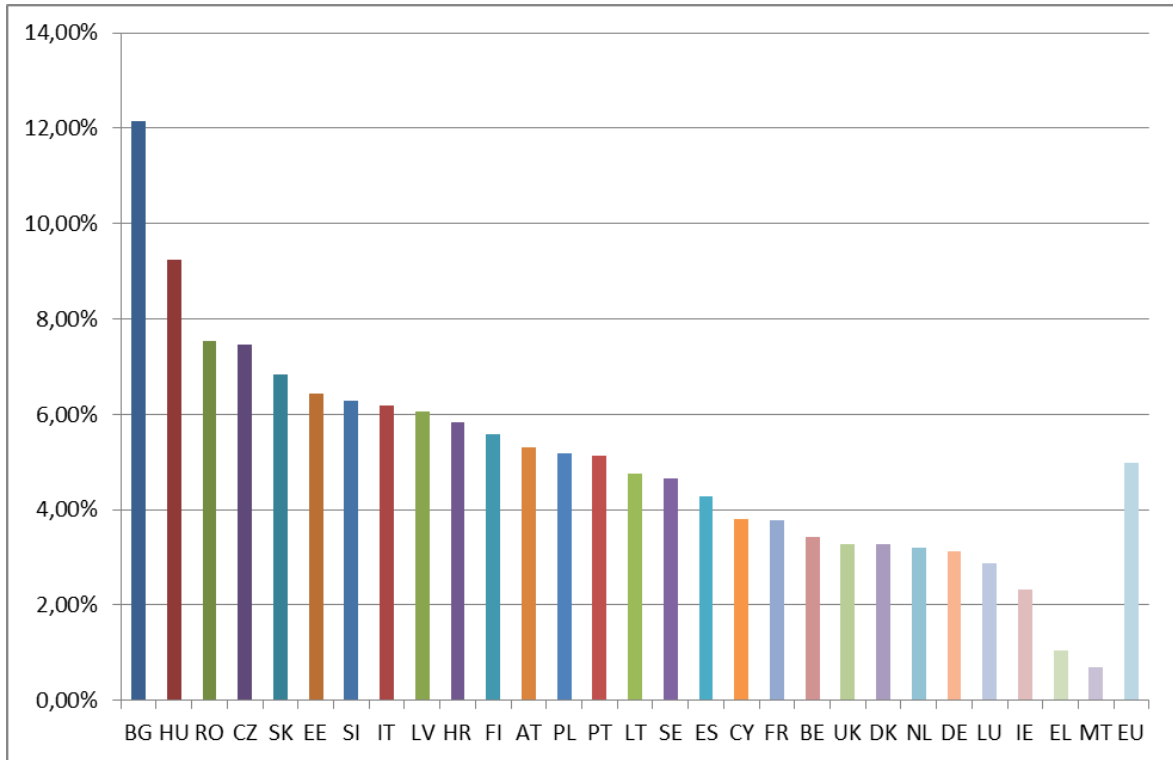


On the same basis, we looked at the scenario where all Member States would apply a reverse charge mechanism to all sectors listed in Articles 199 and 199a or for which a derogation has been granted based on Article 394 or 395. Our related computations have been based on the following formula:

Percentage in terms of taxable basis = $\frac{2011 \text{ estimated turnover if RCM applies to all sectors in MS X}}{2011 \text{ GVA in MS X}}$



Figure 3: importance of the reverse charge mechanism if applied to all sectors in all Member States compared to the overall economy based on the 2011 available data



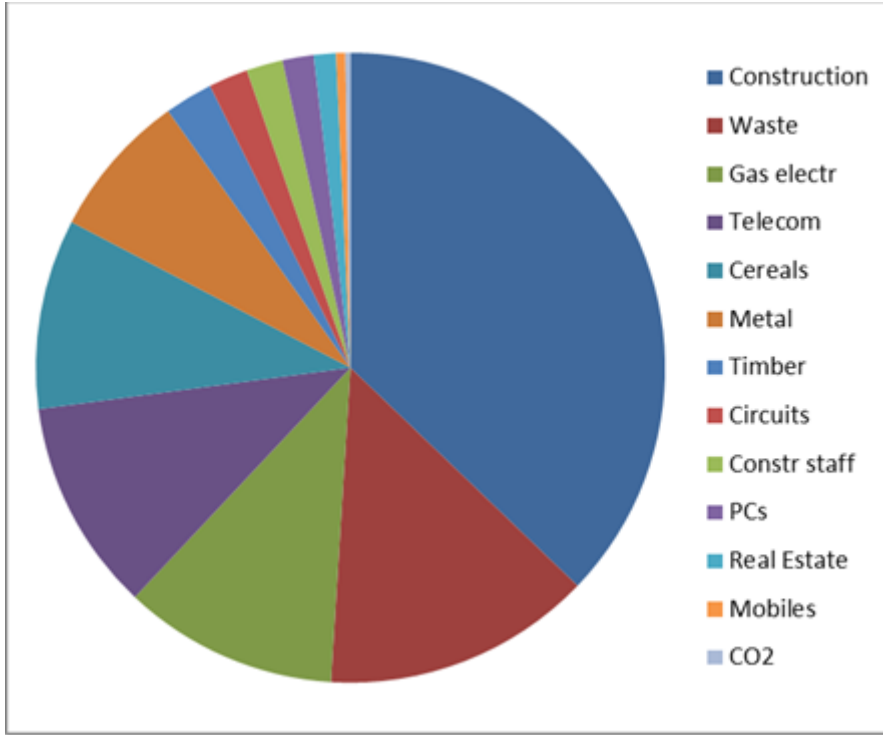
Under this scenario, the figure shows that if the reverse charge would be applied to all the sectors enumerated in Articles 199 and 199a or for which a derogation has been granted based on Article 394 or 395, the importance of this mechanism would range between 2% and 7% in the majority of the Member States (23). The average of all Member States is at 4,99%.

However, as mentioned above, the data are only partly available in the countries listed above.

The importance of each sector subject to the reverse charge mechanism at the EU level if the reverse charge would be applied to all the sectors enumerated in Articles 199 and 199a or for which a derogation has been granted based on Article 394 or 395 has been presented in the following figure:



Figure 4: importance of each sector subject to the reverse charge mechanism at the EU level if the reverse charge would be applied to all the sectors

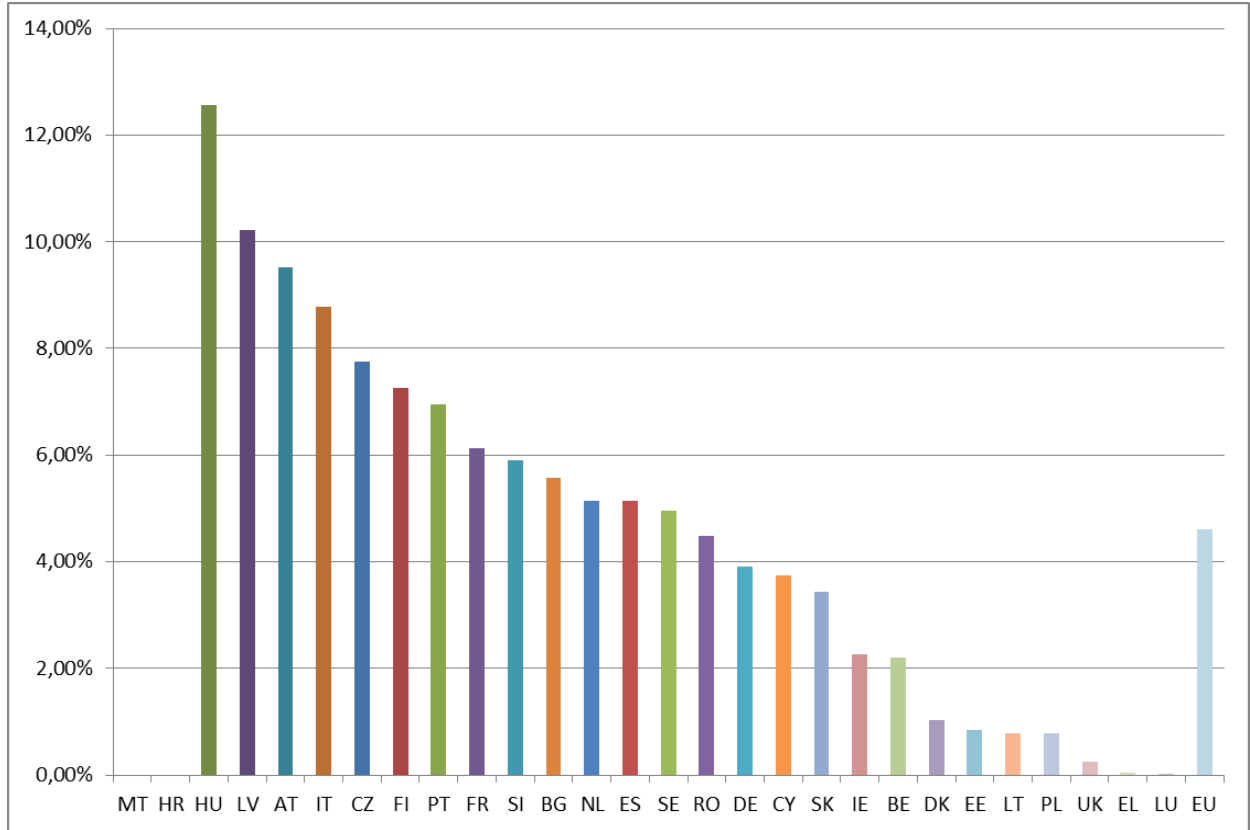


Taking into account the available data, we have also evaluated the importance of the reverse charge mechanism in terms of VAT receipts compared to the total VAT receipts of the Member State as follows:

Percentage in terms of VAT receipts =
$$\frac{\text{VAT applicable on the 2011 estimated value added realized by enterprises in sectors where a RCM applies in MS X}}{\text{2011 total VAT receipts of MS X plus VAT receipts on the estimated value added in sectors where a RCM applies}}$$



Figure 5: Importance of the VAT receipts on applied reverse charge mechanism in all Member States compared to the total VAT receipts based on the available data



Our analysis first shows that the 4 Member States (i.e. Hungary, Latvia, Austria and Italy) for which the importance in terms of taxable basis was the highest are also the ones for which the importance in terms of VAT receipts is the highest, indicating that the applied VAT rates are not the main driver, but rather the respective importance of the sectors. This figure also shows that for about half of the Member States (17), the importance in terms of VAT receipts ranges between 2% and 10%, with an average at 4.60%.

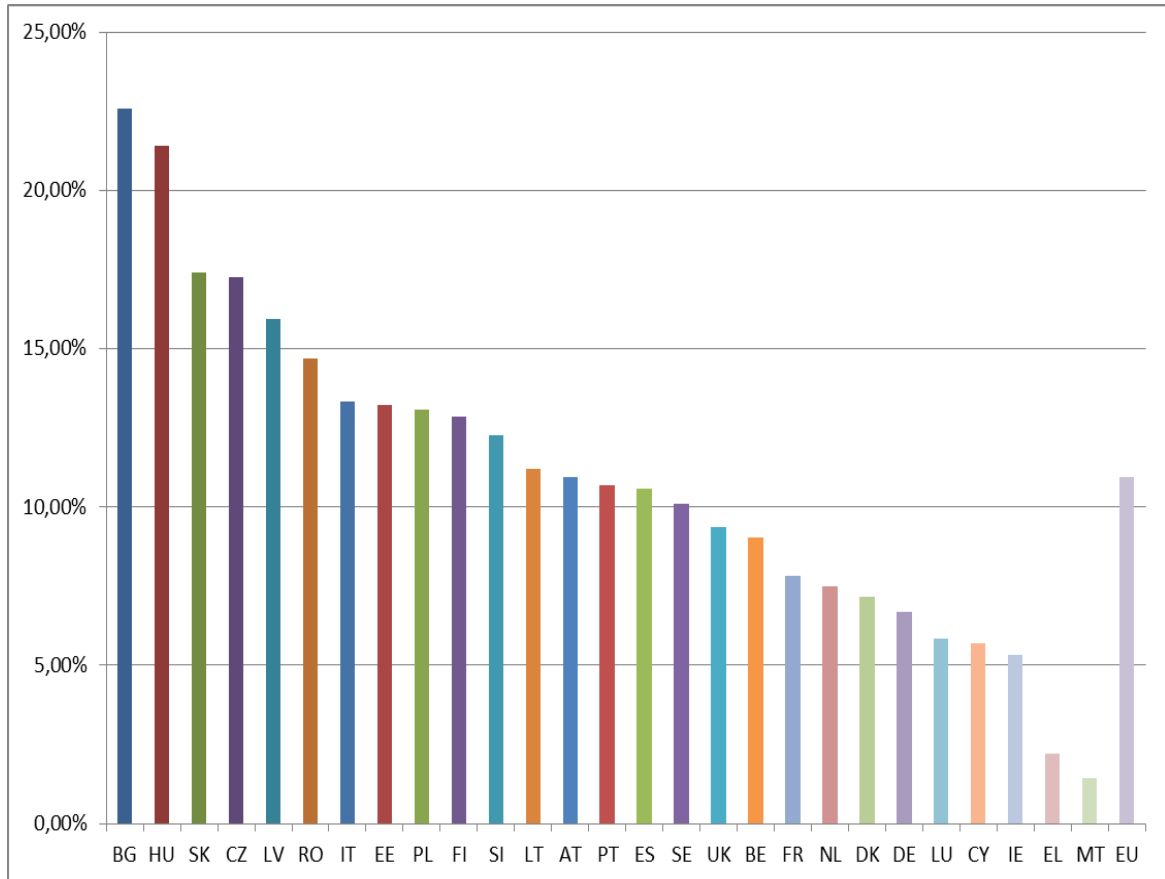
However, the data were not fully available for all Member States as listed above.

Finally, we have evaluated the importance of the reverse charge mechanism in terms of VAT receipts as if all Member States would apply a reverse charge mechanism to all sectors listed in Articles 199 and 199a or for which a derogation has been granted based on Article 394 or 395. Our related computations have been based on the following formula:

$$\text{Percentage in terms of taxable basis} = \frac{\text{VAT applicable on the 2011 estimated value added if RCM applies to all sectors in MS X}}{\text{2011 total VAT receipts of MS X plus VAT receipts on the estimated value added in sectors where a RCM applies}}$$



Figure 6: importance of the reverse charge mechanism in terms of VAT receipts if applied to all sectors in all Member States compared to the total VAT receipts



Our analysis first shows that the 2 Member States (i.e. Bulgaria and Hungary) for which the importance in terms of taxable basis was the highest are also amongst the highest in terms of VAT receipts. However, two Member States, and especially Latvia, for which the importance in terms of taxable basis was lower show more significant impact in terms of VAT receipts, which could indicate that the standard VAT rate applies proportionally more to sectors which could be subject to the reverse charge mechanism compared to the overall balance between the application of reduced rates and the standard rate. For the majority of the Member States (18), the importance of the application of a reverse charge mechanism would range between 5% and 15% if applied to all sectors listed in Articles 199 and 199a or for which derogation has been granted based on Article 394 or 395, with an average at 10.95%.



1.4. Methodology applied to estimate the cash flow impact of the reverse charge mechanism and results obtained

We have evaluated the cash flow impact of the application of a reverse charge mechanism taking into account the following available information:

- the official filing deadlines of VAT returns in each Member State,
- the data available with regard to the total number of the VAT returns filed and their respective periodicity in each Member State,
- the VAT receipts for sectors currently subject to a reverse charge mechanism and the VAT receipts for all sectors listed in Articles 199 and 199a.

Moreover, we have taken the following assumption:

- the VAT refund/payment is made at the filing date of each return in all Member States,
- invoices are paid 30 days after receipt's date. In this respect, we referred to Directive 2011/7/EU of the European Parliament and the Council of 16 February 2011 on combating late payment in commercial transactions (L.48/1) and its objectives (§26 of preamble).

On this basis, we used the following formula to evaluate the cash flow saving for businesses active in the sectors currently covered by a reverse charge mechanism, compared to a situation where such scheme would not be applied:

$$(Npr1/Ntr) \times (Vrs/Py) \times [(Ddr1 \times (Infl/365) \times Py)] + (Npr2/Ntr) \times (Vrs/Py) \times [(Ddr2 \times (Infl/365) \times Py)]$$

Npr – number of the related periodical VAT returns filed in MS X during the year

Ntr – number of total VAT returns filed in MS X during the year

Vrs – VAT on value added generated in sectors subject to RCM in MS X during the year

Ddr – number of days of the delay in the VAT refund/payment based on the official deadlines for filing of the VAT returns in MS X

Py – number of periods per year related to the VAT returns (for instance 12 months for monthly VAT returns)

Infl – annual inflation rate in MS X

On the same basis, we looked at the cash flow saving for businesses active in all sectors where a reverse charge could be applied based on Articles 199, 199a, 394 and 395, which obviously equals the cash flow cost for Member States, compared to a scenario where the Member States would not have applied any of these reverse charge mechanisms.



Our related computations have been based on the following formula:

$$\begin{aligned} & (Npr1/Ntr) \times (Vra/Py) \times [(Ddr1 \times (Infl/365) \times Py] + \\ & (Npr2/Ntr) \times (Vra/Py) \times [(Ddr2 \times (Infl/365) \times Py] \end{aligned}$$

Npr – number of the related periodical VAT returns filed in MS X during the year

Ntr – number of total VAT returns filed in MS X during the year

Vra – VAT on value added generated in all sectors mentioned in art 199 and 199a or based on art 394 or 395 in MS X

Ddr – number of days of the delay in the VAT refund/payment based on the official deadlines for filing of the VAT returns in MS X

Py – number of periods per year related to the VAT returns (for instance 12 months for monthly VAT returns)

Infl – annual inflation rate in MS X

Considering the specificity of the VAT returns filing regime in Italy, where only annual VAT returns are due, but with monthly or quarterly prepayments, we have treated the periodical prepayments as if these would be periodical VAT returns while applying the formula mentioned above.

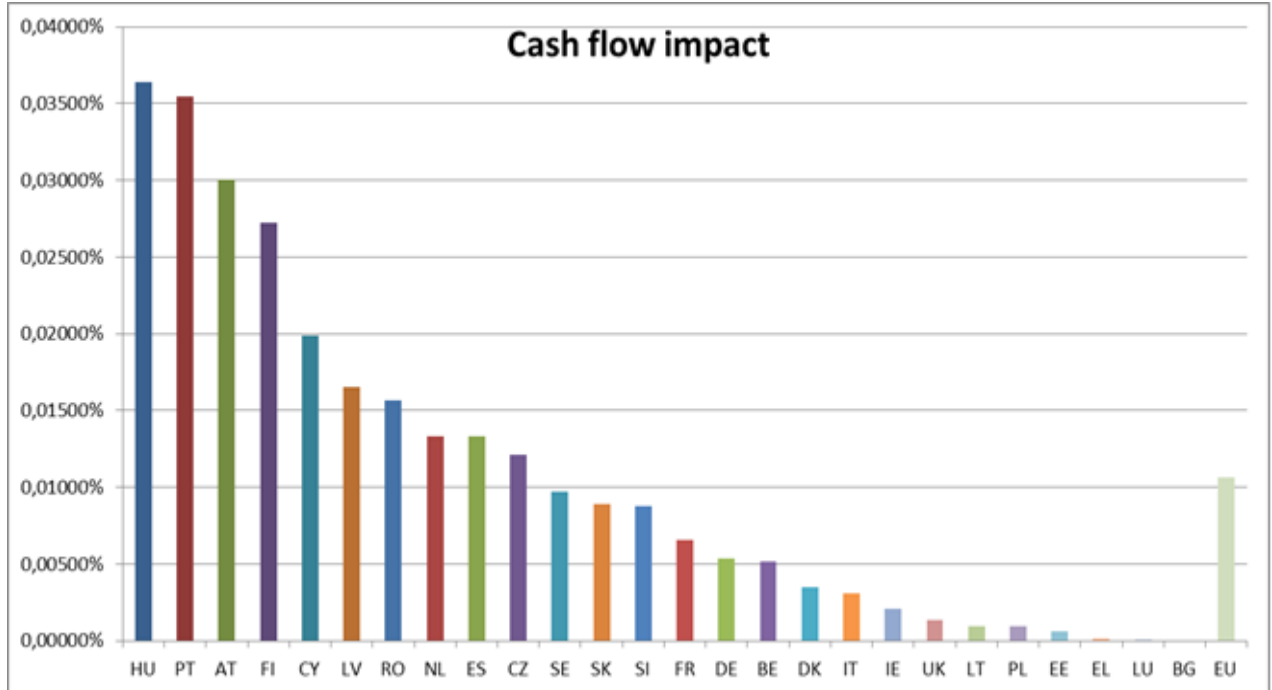
The differences between the two situations computed above represent the cost incurred by businesses or saving for Member States due to the currently limited application of the reverse charge mechanism, looking at all sectors listed in Articles 199 and 199a and based on derogations granted based on Article 394 or 395 in Member State X. This difference, expressed in monetary amounts (i.e. the cash flow impact of the current application of the reverse charge mechanism comparing to the cash flow impact of a full application of the scheme) is shown in figure 9 below.

The importance of the cash flow impact is directly derived from a combination of two elements, namely the scope of the currently applied reverse charge mechanisms on the one hand and the filing periodicity and filing deadline of VAT returns on the other hand.

As mentioned above, at this stage, the cash flow impact has been estimated, on the assumption that VAT payments and refunds are made within the filing deadline of the return (except for Italy). We have not taken into account the administrative practice existing in the 28 Member States. As agreed, this will be made at a later stage, based on an extrapolation from the information to be collected during the interviews in the 6 Member States to be selected.



Figure 7: cash flow cost expressed in percentage for Member States due to the current application of the reverse charge mechanism compared to the total VAT receipts



As shown in this figure 7, in Luxembourg and Estonia the impact in terms of cash flow of the currently applied reverse charge mechanism is insignificant. This is mainly explained by the fact that those countries currently apply the reverse charge mechanism to a limited number of sectors (in case of Luxembourg only to the transfer of allowances to emit greenhouse gases).

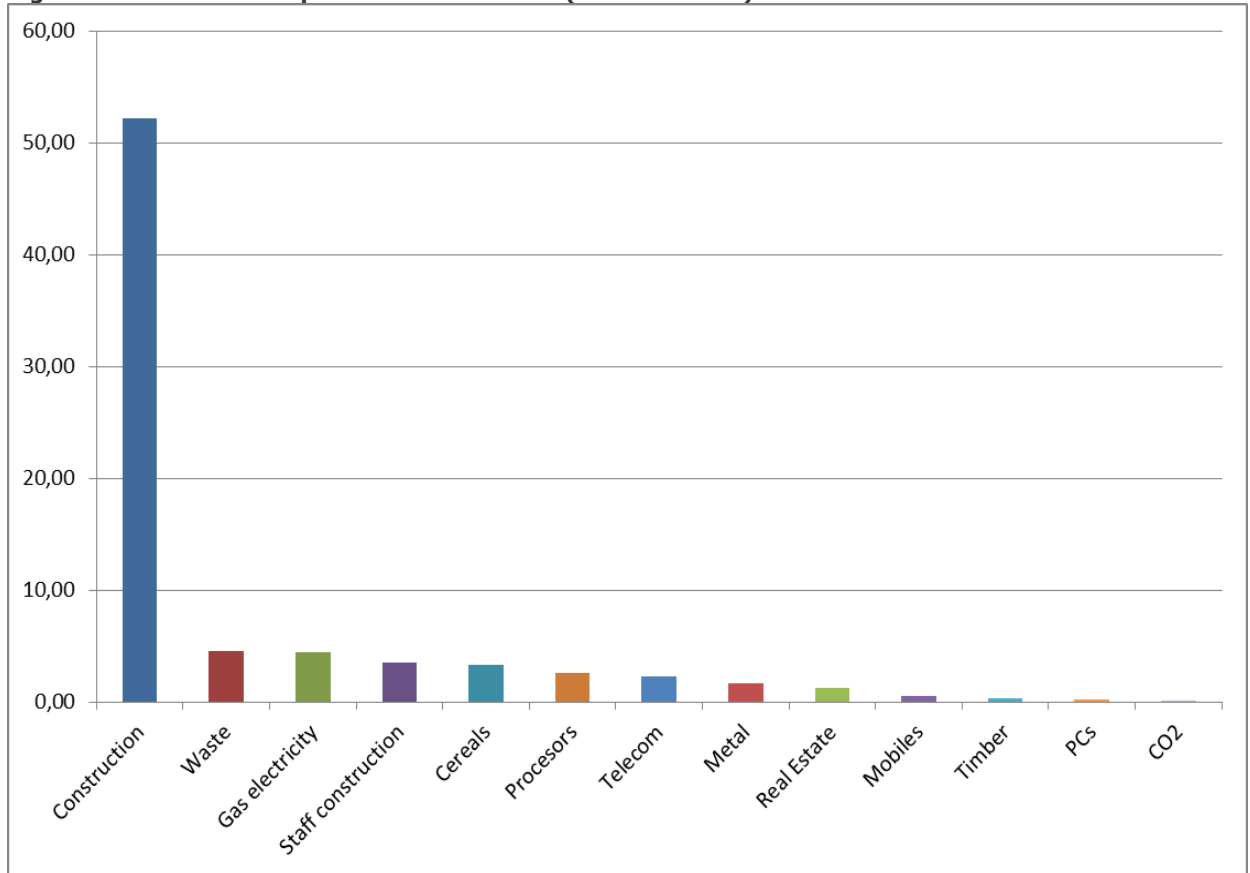
The estimate of the impact is also very dependent on the filing periodicity and filing deadline of VAT returns existing in each Member State. For instance, taking the assumption that clients pay the invoice on the 30th day after receipt and based on monthly filing by the 14th following day in Bulgaria, the cash flow impact is null.

On the other hand, Hungary and Austria are amongst the Member States which have widely applied a reverse charge mechanism. Portugal applies such scheme to a more limited number of sectors. However, the filing deadline plays a role i.e. with 60 days delay for quarterly returns - which are the most frequent - the cash flow impact is significant.

Finally, we looked at the cash flow impact at an EU level for each sector.



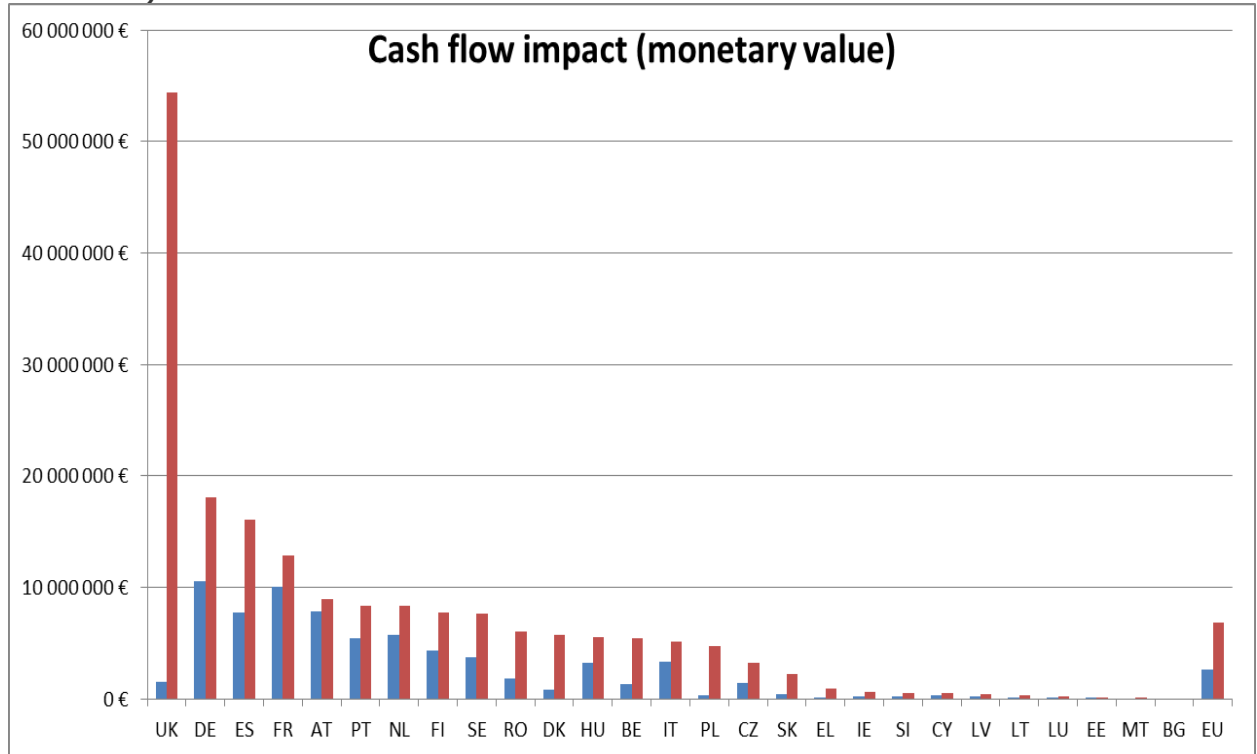
Figure 8: cash flow cost per sector at EU level (in million EUR)



This analysis, as summarised in this Figure 8, shows that the sector which is the most impacted by the currently applied reverse charge mechanism is the construction sector. This is explained by two factors: 1. the construction sector is the one where the reverse charge mechanism is applied the most widely- 2. the turnover values in this sector are quite significant. These two factors play a role for waste as well. For gas, the driver is the turnover value, while the applied reverse charge mechanism is limited.



Figure 9: Cash flow cost expressed in monetary amounts (current application of the reverse charge mechanism compared to the application on all sectors subject to the reverse charge mechanism)



The blue column above represents the monetary value of the cash flow impact of the current application of the reverse charge mechanism, while the red column represents the monetary value of the cash flow impact if applied to all sectors.

The impact of an extension of the scope of the reverse charge mechanism is the highest in the UK which Member State currently applies the scheme in limited cases, but where the sectors which could be subject to it are important – e.g. construction. In Germany, the impact would be also significant, mainly due to the importance of sectors not currently covered – e.g. agriculture, metal, telecom. The situation is similar in Spain, where these industries are important but not currently subject to a reverse charge mechanism.

On the other hand, as long as the filing periodicity remains the same in Bulgaria, the impact of an extension will remain null.



Part III

Administrative burden



1. Analysis and comparison of costs to taxable persons across selected Member states

The objective of this section of the report is to describe and quantify the administrative burden for businesses due to the application of RCM. The study is informed by responses from businesses in 6 different EU Member States and represents a mix of small, medium and large enterprises, as well as representatives from different industries subject to domestic RCM compliance.

Structured interviews were used for collecting relevant data from businesses. The analysis was based on "Activity Based Costing" (ABC) methodology, which uses "time spent on compliance activities" and "cost per hour" for businesses to quantify the VAT burden (both due to RCM application and other VAT procedures). We then compared cost data to trade (sales and purchases) in order to normalise the inherent differences across businesses and compare results.

The following areas of business were identified as areas that should be examined as part of the study:

- Number of employees employed by businesses
- Activities and time spent by employees for VAT compliance
- Implementation costs
- Cash flow impact



2. Approach, Methodology and Limitations

2.1. Identifying a sample of Member States for analysis

Articles 199 and 199a of Council Directive 2006/112/EC allow Member States to opt for the application of a reverse charge mechanism ("RCM") to specific listed transactions. In addition, according to Articles 394 and 395 of this Directive, Member States can be granted a derogation to apply a domestic RCM. A summary of the implementation of the RCM by sector and by each Member State can be found in the Country section. It is important that the analysis of administrative costs reflects the diversity of the European Union, and therefore the European Commission has specified that the following six Member States have been selected, not only to represent the differences in application across the EU, but also to provide an appropriate mix of large, medium and small Member States:

- Hungary
- Italy
- Lithuania
- The Netherlands
- Slovenia
- United Kingdom

2.2. Identifying businesses (taxable persons) for interview

Relevant businesses, defined as those within the above countries that are subject to the application of RCM, have been identified from EY's client network. We sought to find six businesses in each selected Member State that would be willing to provide information for the study. This included a mix of businesses in terms of the following, as relevant⁵:

- Size - Small and Medium Enterprises (SME)⁶ as well as large enterprises; and
- Industry - businesses from different sectors e.g. manufacturing, finance and technology.

⁵ Relevant industries in each Member State differ due to different applications of RCM. The structure of these industries also varied, in terms of sizes of businesses for example. This is explained further in the section on sampling.

⁶ Small and medium-sized enterprises – as defined in EU law: EU recommendation 2003/361. The main factors that determine if a business is an SME are: 1) number of employees less than 250, and 2) turnover is less than €50m;



2.3. Preparation for interviews and data collection instrument and process design

Preparation and identification of an appropriate data collection instrument is a key component in the success of any subsequent analysis. A structured interview approach⁷ has been deemed as the most appropriate method due to the complexity of the subject matter under analysis, the detailed cost information required from businesses and the potentially sensitive nature of the analysis. Structured interviews allow for sufficient explanation and reassurance to interviewees about these risks, as well as mitigating risks of inconsistency that may arise during a free flowing conversation, for example.

The effectiveness of these interviews is dependent on appropriate and sufficient preparation in terms of the study requirements and the interviewee (audience). We considered the following points while preparing the interview guide:

- Identification and expansion of the objectives of the interview - as agreed with the European Commission and outlined in the preface to this report;
- Identification of the key matters or topics - three key cost areas are identified during a review of the relevant literature⁸ about tax cost burdens and subsequent discussion with EY tax experts. These include implementation costs, ongoing costs and cash flow costs. The European Commission has also requested that the study investigates qualitatively if a business experiences any difficulties when dealing with domestic RCM rules in another Member State;
- Prioritization of the topics to be discussed and identification of the questions to be asked during the interview - an initial set of questions for the business interviews, based on study requirements above and similar previous studies, was drafted. This list was then refined during discussions with the Commission and via a piloting process with businesses in order to reflect both the most important areas of enquiry and likely available data; and
- Determination of whether documentation should be requested during the interview and if so, identify the types – it was determined during the piloting process that even though requesting documentation could be valuable for the purposes of the analysis, this would reduce the willingness of some businesses to participate in our study. Therefore, we did not ask businesses to provide us with additional documentation.

⁷ A structured, or directive interview, implies a fixed format interview in which all questions are prepared beforehand and are put in the same order to each interviewee.

⁸ 'Measuring and reducing administrative burdens for businesses' International SCM Network

'Study in respect of introducing an optional reverse charge mechanism in the EU VAT Directive' 2007, PriceWaterhouseCoopers



2.4. Objectives to the interview – identifying key topics to meet objectives

The following topics were determined as key elements required to meet the objectives of the study:

2.4.1. General business characteristics

- Establishing the size of the business in terms of turnover and employees
- Collecting financial data to determine the proportion of the business that is affected by RCM
- Whether a business was reporting VAT information for a single legal entity or for a wider VAT group

2.4.2. RCM administrative burden (ongoing costs)

- Establishing whether this activity is undertaken internally or outsourced to an external party
- Collecting cost data about the overall administrative burden borne by the business
- Defining which activities are relevant when dealing with RCM compliance
- Collecting costs data per activity or per time and seniority of the staff undertaking the activity

2.4.3. RCM administrative burden (implementation/one-off costs/savings)

- Collecting data on initial costs when RCM domestic rules were first introduced in the subject country
- Defining which areas of the business are impacted by the change
- Collecting costs/savings data per area of the business which has been impacted by the change

2.4.4. Cash flow issues

- Collecting data on VAT payable to the authorities, accounts receivables and credit terms to quantify the cash flow issues
- RCM role in trade in other Member States
- Collecting qualitative data on RCM related to trade in other Member States



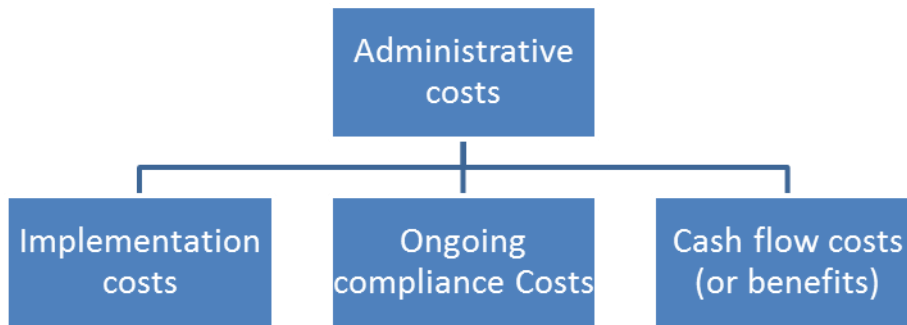
2.4.5. RCM in another Member State

- Collecting data to assess qualitatively if a business has experienced any difficulties implementing RCM in other Member States

2.5. Collecting comparable cost data – identification of relevant costs

The chart and narrative below provide a summary of the different costs associated with the application of RCM. The summary is based on a review of relevant studies and literature^{9 10} and based on our experience of working with relevant taxable persons.

Figure 1: Breakdown of administrative costs



2.5.1. Implementation costs

Implementation costs include costs associated with the upgrading of IT systems and the training of staff about policies and procedures that are required to comply with the mechanism. Such expenses may be made to a third party in the form of registration fees with local VAT authorities, software licenses and consultancy fees. However, they also include some internal expenses, such as internal training costs and disruption.

One-off costs are generally incurred at the time when RCM is first applicable within a Member State, or the relevant goods and services are purchased or sold by the firm in question. However, in some instances these costs might be capitalised on a firm's balance sheet and accrued over a number of years.

2.5.2. Ongoing costs

Ongoing compliance costs associated with RCM include maintaining and performing a separate set of VAT accounts for RCM related goods. These costs tend to be incurred on a monthly, quarterly or annual basis, depending largely on the frequency of VAT

⁹ 'Measuring and reducing administrative burdens for businesses' International SCM Network

¹⁰ 'Study in respect of introducing an optional reverse charge mechanism in the EU VAT Directive' 2007, PriceWaterhouseCoopers



returns stipulated by the relevant local taxation authority. These costs are largely internal and incurred through expenditure on staff salaries (labour costs).

2.5.3. Cash flow impact

The implementation of the RCM implies a potential change in cash flow patterns for firms because:

- A firm does not collect VAT on RCM eligible sales because the buyer reverse charges it from their VAT return. This means firms cannot benefit from holding cash from sales in advance of its next VAT payment to the tax authorities, assuming the buyer's payment terms are such that payments are made to the seller before the latter has to pay VAT to the State.
- In contrast to this, a firm does not pay VAT on RCM eligible purchases as they "reverse charge" this from their own VAT return and in principle claim the deduction of the same VAT amount via the VAT return, making the reporting cash neutral. This means on the buyer side contrary to the standard VAT regime where the later may have to pay VAT to the seller before being able to offset this input VAT against output VAT, and depending on its payment terms and the VAT reporting obligations, in case of RCM eligible purchases, the buyer does not have to advance this cash as a payment to the seller before getting it back from the State.
- Generally, firms add value to the goods and services they produce. Therefore the benefit of reduced cash out-flows on purchases is unlikely to counteract the extent of reduced in-flows of cash for sales. As such, RCM is likely to reduce the cash balance of firms below that which would exist in the absence of RCM (i.e. with normal VAT charging procedures). However, for some firms it could instead reflect a benefit.

2.6. Collecting comparable cost data – approach

Previous studies¹¹ suggest that labour costs form the majority of ongoing tax compliance costs for businesses. In order to identify and analyse these costs, specifically in relation to the application of domestic RCM, in a consistent and comparable way across businesses and across Member States, an Activity Based Costing¹² (ABC) approach was taken.

ABC requires the collation of data about the following:

- The salary per hour each grade/seniority of staff involved with ongoing administration costs; and
- The number of hours spent specifically on RCM VAT compliance activity, as distinct from complying with VAT on non-RCM goods and services, or other tax and accounting tasks.

¹¹ 'Measuring and reducing administrative burdens for businesses' International SCM Network

¹² Activity Based Costing recognises the relationship between costs, activities and products.



There are other implementation and ongoing costs aside from labour costs that should also be analysed but for which the ABC approach is not suitable. In these cases financial information is required in terms of absolute costs or costs as a proportion of other costs (for example technology costs in relation to RCM as a proportion of total technology costs). Data was also collected on the number of Full Time Equivalents ("FTEs¹³") engaged in the RCM activity compared to other business activities.

2.7. Interview type and process

The types of information required for meeting the objectives of the study require that the interview is comprised of a combination of closed and open questions. Initial closed questions enabled interviewers to identify the overall structure of RCM administration. Open ended questions facilitated the collection of more qualitative information about cash flow issues and the implementation of RCM rules in other Member States. This approach also enabled interviews to be shorter in length and therefore more engaging to businesses, while ensuring that the data collected was comparable throughout the sample.

The interviews were conducted via telephone as this process enables more rapid collection of information and increases the likelihood of a business' willingness to respond to the survey.

Prior to conducting the telephone interviews, each interviewer was provided with a summary of the study background and objectives, as well as a summary of its importance. Explaining the sampling logic and process was also critical to the success of the study and was important to minimise interviewer bias¹⁴.

2.8. Pilot interview

Pilot interviews and subsequent discussions were conducted with an SME and a large enterprise to assess if the proposed survey was suitable for businesses of different sizes. The aims of the pilot were to:

- Identify any shortcoming of the approach;
- Validate how long it takes to complete the interview; and
- Capture any ambiguities in content or presentation of particular questions.

The feedback from the pilot interview informed us of some critical issues that were then addressed in the final version of the interview:

¹³ We requested each responded to define their understanding of Full Time Equivalent (FTE). In cases where this was not provided we assumed it is defined as 40 hour per week.

¹⁴ Without adequate information interviewers may inadvertently make inappropriate selection choices by misinterpreting the information they receive from selection interviews.



- Due to the complex legal structure of large enterprises, interview respondents should be given a choice to decide if the response should be given from the point of view of a Single Legal Entity, VAT Group or country level. A question was added to inform how the respondent's choice fitted within the overall legal organization of their business, in particular in relation to RCM activity.
- Some businesses outsource their accounting and tax activities and pay fixed amounts for such services. Therefore, identifying tax compliance costs via the ABC approach for such businesses may not be feasible. Businesses using consultancy advice or a "Shared Service Center" were asked questions about financial costs rather than questions based on ABC principle.
- SMEs often have a small number of administration personnel, with financial and tax functions undertaken by the same person/people. Therefore, identifying hours spent on sales and purchasing activities in relation to RCM was extremely difficult and responses from such businesses should be treated with caution. We asked businesses to describe such situations so that we could adjust analysis as necessary.

2.9. Design of the interview guide

Building on feedback from the preparation process outlined above, we designed an interview guide and a questionnaire that aimed to address the following areas:

- Describe the background, scope, purpose and importance of the RCM study;
- Ensure confidentiality of the respondents;
- Define the methodology of cost assessment;
- Articulate general company information on business industry, size and trade activities;
- Determine and describe the different type of costs of implementation (Capital expenditure – "CAPEX", Operational expenditures – "OPEX") for different categories (SMEs and large companies);
- Assess the average OPEX and CAPEX on a 12 months period;
- Assess the cash flow impact for each business; and
- Estimate the extra costs and effort in a cross-border context, with the view of performing a qualitative assessment of the cross-border effects

An example of the interview guide and questionnaire has been provided in Appendix 6.4.



2.10. Limitation and bias

The results presented in this report are based on a sample of 36 businesses in six Member States. It should be noted that the quantification of administrative burdens due to RCM obligations is specific to this sample, and this needs to be taken into considerations when extrapolating the results to an EU level. However, we also note that despite the small sample, the results for VAT compliance are broadly in line with results from similar studies¹⁵

The data collected is based on interviews from employees, and therefore we noted that even though we have put significant efforts into facilitating the interview process, misinterpretation of questions or unintentional error in providing information is still possible.

We also note that as the subject of the study is about quantifying the administrative burden of RCM, some participants might have put more emphasis on providing accurate data on RCM questions only while misjudging the importance of data accuracy regarding other VAT compliance costs.

When discussing implementation costs, it should be noted that the analysis is based on historic data collected from businesses. In some cases RCM has been applied more than 5 years ago. Implementation costs are also compared and presented in terms of last year's trade (sales and purchases for 2013) and therefore should be treated with caution.

¹⁵ A retrospective evaluation of elements of the EU VAT system'



3. Findings

3.1. Data validation

After collating responses across the sample, the interview outputs were reviewed and screened to help understand potential outliers and misinterpretations of questions or study objectives. The quality of responses was also reviewed for each respondent across the different areas of questioning. This resulted in some follow up communications with relevant parties to clarify and where possible correct or fill in data gaps.

Following this process a data sample for each of the areas identified in our approach was identified with remaining outliers and inconsistencies eliminated. These samples were then taken forward for use in the main analysis.

3.2. Overview of sample

As noted, the application of RCM varies by Member State. Since it varies by product or service, its impact can also be expected to vary by industry. It might also be expected to vary by firm size, which for the purposes of this study we measure by number of employees¹⁶.

In order to assess this, the sample is intended to reflect a broad basket of firms across the European Union, the extent of which is reflected in the graphs below (please refer to Appendix 2 for further chart representation of this data):

Table 1 Sample size per country, business size and industry

Country	Hungary	Italy	Lithuania	Netherlands	Slovenia	UK	Total
Absolute response	6	6	6	6	6	6	36
SME/Large	0/100 ¹⁷ %	33/66%	33/66%	50/60%	50/50%	0/100 ¹⁸ %	28/72%
Industry							
Technology				X			X
Utilities		X		X	X	X	X
Manufacturing		X	X			X	X
Construction	X	X		X	X		X

¹⁶ For the purpose of this study, the threshold between SMEs and Larger Enterprises has been assumed to be 250 employees.

¹⁷ Further analysis of the industries where the RCM is applicable implies that this is representative of the industry structures in Hungary.

¹⁸ Further analysis of the industries where the RCM is applicable implies that this is representative of the industry structures in the UK.



IT		X					X
Finance			X		X	X	X
Extractive			X				X
Wholesale/Retail			X		X		X
Agribusiness	X						X

Note: there may be some discrepancies due to rounding

3.3. Issues identified in relation to the sample

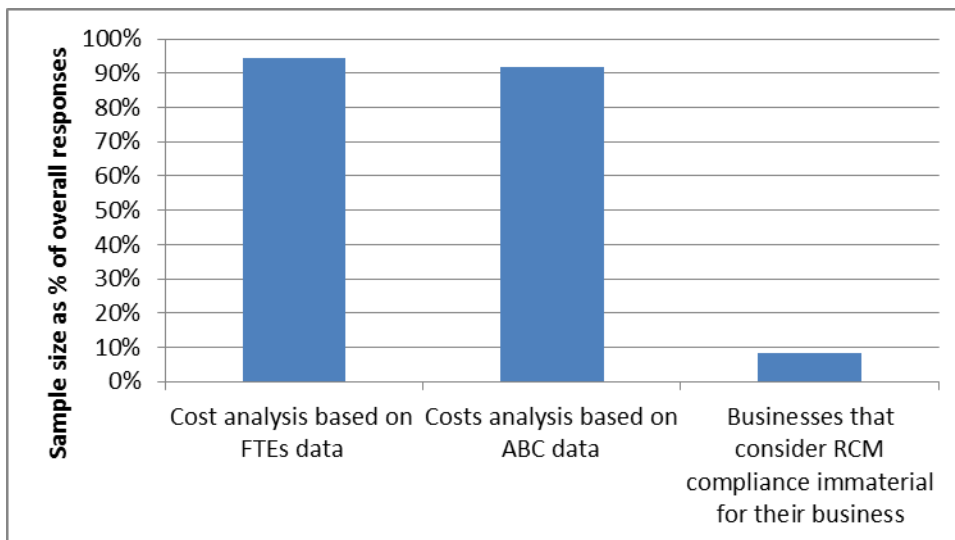
Some respondents were unable to provide any ABC data, and therefore these businesses' administrative burden needs to be assessed on the basis of responsible Full Time Equivalents ("FTEs") for tax compliance in relation to total FTEs employed by the business.

Further to this (reportedly for confidentiality reasons) some businesses have qualitatively responded to us that for the size of their business RCM compliance costs are immaterial and they do not consider it to create any disproportionate administrative burden if compared to other VAT compliance costs (8% of the sample).

Four percent of the respondents also indicated that their tax function is outsourced and they pay fixed costs irrespective of domestic RCM compliance.

This is outlined in the chart below. Outlier observations such as the above have been removed from the analysis.

Figure 2: Sample size





Austrian business example– case study

The response we received from an Austrian business cannot be included in the sample analysis due to the nature of the entity, but it does provide an interesting case study.

The Austrian business is part of a French consortium, and the Austrian legal entity carries out accounting activities for the whole group. This legal entity has only three employees and VAT compliance (both RCM and non-RCM related) for the whole consortium is undertaken by one of these employees. The legal entity does not directly deal with trade (we were not provided with trade figures for the whole international consortium), therefore the data provided indicates extremely high VAT compliance costs relative to other activity. However, this disproportionate VAT burden arises from the legal structure of the business and cannot necessarily be directly traced to VAT compliance rules in Austria.

Consultation with tax experts suggests that the legal structure of the Austrian businesses is not unusual and some businesses that make use of Shared Service Centers have similar cost/activity based structures.

Further investigation needs to be undertaken for such legal entities to assess and whether RCM VAT compliance.



3.4 Analysis of labour engaged in RCM activity

Certain compliance costs can be examined on the basis of the number of FTEs who are engaged in tax compliance activities. This provides valuable comparative information that is invariant to wage differentials between Member States. It also enables us to examine a wider sample size in cases where firms were unable or unwilling to provide salary details which resulted in limited cost information. After controlling for outliers, the analysis presented below is based on a sample of 34 businesses across six Member States.

To facilitate comparison across different sized firms, the results have been presented as a percentage of total FTEs within the firm:

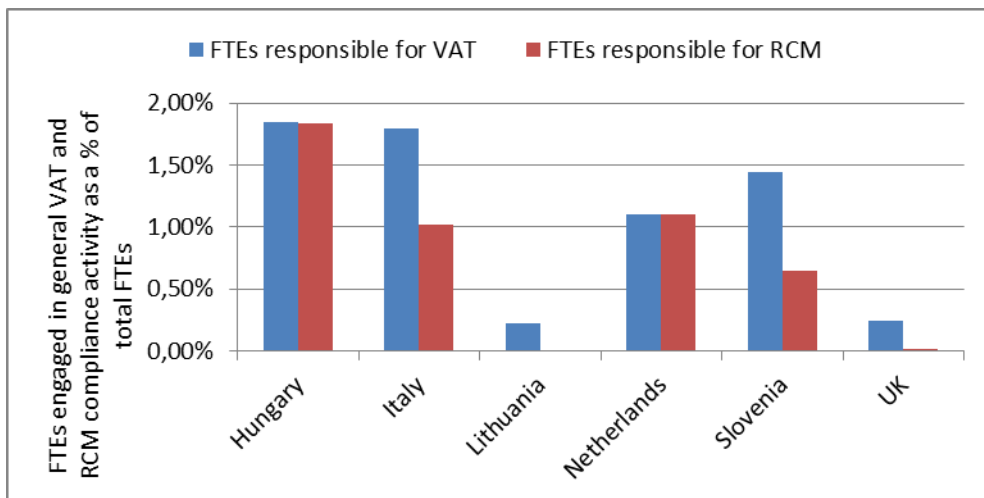
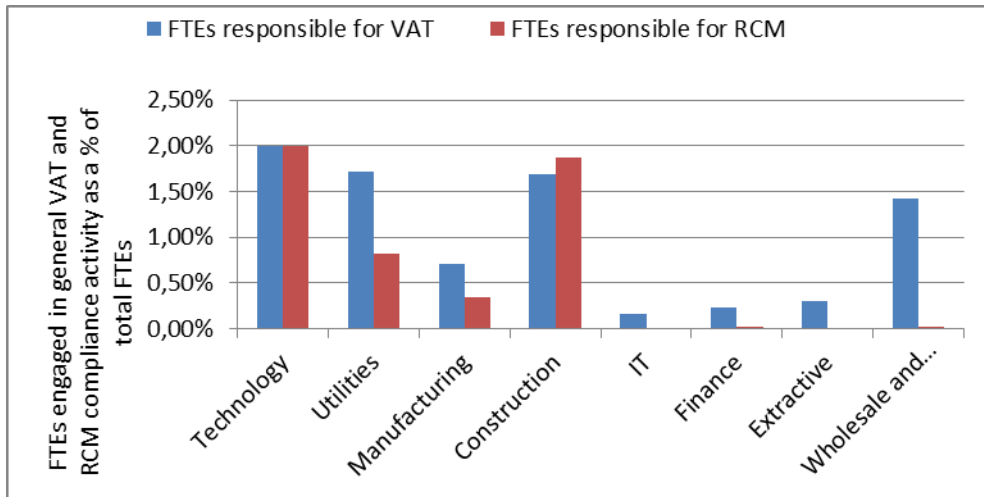
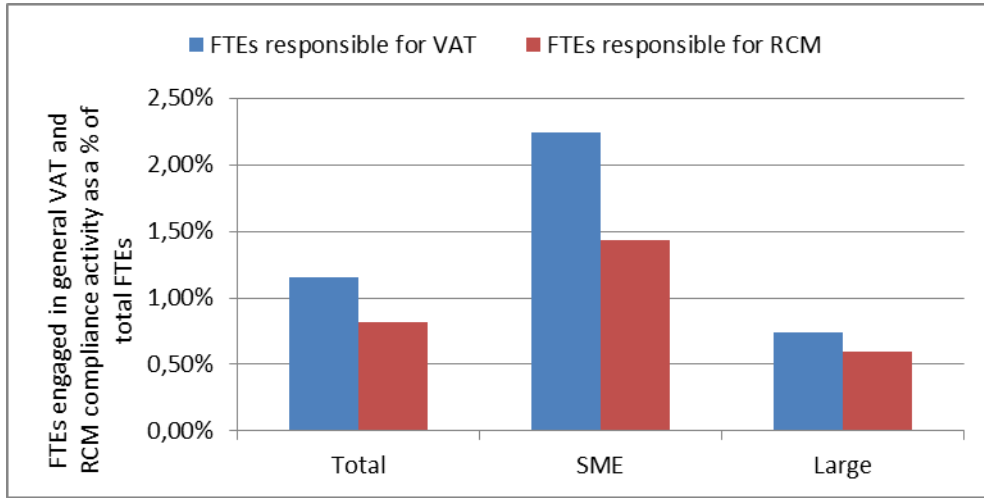
Table 2 FTEs engaged in general VAT and RCM compliance activity as a % of total FTEs

	FTEs responsible for VAT	FTEs responsible for RCM		FTEs responsible for VAT	FTEs responsible for RCM
Total	1,2%	0,8%	Total	1,2%	0,8%
SME	2,2%	1,4%	Technology	2,0%	2,0%
Large	0,7%	0,6%	Utilities	1,7%	0,8%
Country:			Manufacturing	0,7%	0,3%
Hungary	1,8%	1,8%	Construction	1,7%	1,9% ¹⁹
Italy	1,8%	1,0%	IT	0,2%	0,0%
Lithuania	0,2%	0,0%	Finance	0,2%	0,0%
Netherlands	1,1%	1,1%	Extractive	0,3%	0,0%
Slovenia	1,4%	0,6%	Wholesale/Retail	1,4%	0,0%
UK	0,2%	0,0%	Agribusiness	1,2%	0,0%

¹⁹ The original question to businesses asks for the size of the VAT department in terms of FTEs and as a subsequent question the respondents are asked for the proportion of FTEs from that department and deals with RCM compliance. Therefore, the RCM proportion of FTEs should not exceed the general VAT department. However, we note that a representative business from the Construction industry has misread the question and while they reported the FTEs responsible to RCM activities, they omitted to include the number in the general VAT part of their business.



Figure 3: Engaged in general VAT and RCM compliance





The results indicate that the typical pool of employees with responsibility for general VAT activity is slightly larger (c1,2%) than that for RCM (c0,8%). This suggests that in general firms choose to train and expose the majority of their tax teams to RCM. This infers that it is not seen as specialist work, or requiring a significantly higher level of skills or experience. It may also suggest that RCM administration can be efficiently addressed alongside that for non-RCM goods and services.

SMEs seem to employ a higher proportion of staff on average when dealing with VAT compliance. Our sample implies c2,2% for SMEs compared to less than c0,7% for large businesses. However, our sample also implies that large businesses expose more of their staff to RCM compliance activity, as 79% of the VAT responsible employees have some involvement in RCM compliance activities compared to 64% for SMEs.

On a country level, larger percentages of staff engaged in RCM activity are observed in Hungary and Italy (1,8% and 1,0% respectively), compared to Lithuania and the UK (both less than 0,1%). It should be noted that this follows the same pattern as that of FTEs engaged in other VAT compliance across these countries too. This may suggest a correlation with other burdens such as the VAT return, invoicing requirements etc.

We note some industry differences as well; Technology, Construction, Utilities, and Wholesale and Retail seem to have larger VAT departments in relation to overall employees within the business. Further to this, the employees responsible for RCM compliance are the same team members as those responsible for non-RCM VAT compliance in the Technology industry. However, it should be noted that this result is based on a single observation from an SME, where administrative functions are often undertaken by the same individual(s) in the firm.

3.5. Translating labour activity into costs

Administrative burden cost data was collected based on the VAT compliance activities that were identified and informed by the literature review and our VAT experts, familiar with compliance requirements and procedures. The data requested in interviews ultimately covers four broad areas:

- General VAT compliance (including sales and purchase listings, filing of VAT return and communication with tax authorities);
- Other costs (including consultancy fees, HR related training, IT system update and others);
- VAT compliance costs related to sales activities (including sales quotations, confirmation of customers, dealing with accounts receivables and collections); and
- VAT compliance costs related to purchasing activities (including development of contracts, order and receiving goods and processing account payable).

These activities have then been analysed in terms of domestic trade and transaction size to examine relationships between VAT compliance costs and business activities. We define trade as sum of sales and purchases.



3.5.1. Overview

As outlined in the methodology and sample sections of the report, we received responses from 36 businesses across the target countries. For the analysis presented in this section, four businesses did not provide cost information, while another was reluctant to provide any trade information due to potential confidentiality issues. It should be noted that the three companies that did not provide any cost information indicated that they do not consider being compliant with the RCM to create any disproportionate administrative burden for their business.

In the analysis below, another business was also removed as it was identified as an outlier to the sample,²⁰ and therefore including it would result in skewed and unrealistic outcomes. The results presented in this section are therefore based on a sample of 30 businesses.

The table and graph below represent a summary of the breakdown of RCM vs non-RCM²¹ costs per activity area, as outlined above, contrasting them with trade values. Each cost category and trade is expressed as 100%, and within each cost category, we analyse the split between RCM and non-RCM costs. This allows us to investigate for which cost category RCM creates a disproportionate administrative burden for businesses.

The table below indicates that on average the business trade split between RCM and non-RCM goods and services is 26% to 74%, while administrative costs for general VAT compliance is 40% to 60%. This leads us to the conclusion that for this cost category, businesses spend more time and resources on RCM compliance in comparison with non-RCM compliance.

Presenting the costs this way assumes each cost description and trade bears equal weighting in terms of contribution to total costs. For detail of how this is actually weighted, please refer to Appendix 3.

Table 3: Comparison of trade and administrative costs between RCM eligible and Non-RCM goods and services²²

	RCM	Non-RCM
Trade	26%	74%
Cost Description:		
General VAT compliance	40%	60%
Sales activities	34%	66%
Purchasing activities	52%	48%
Other compliance costs	32%	68%

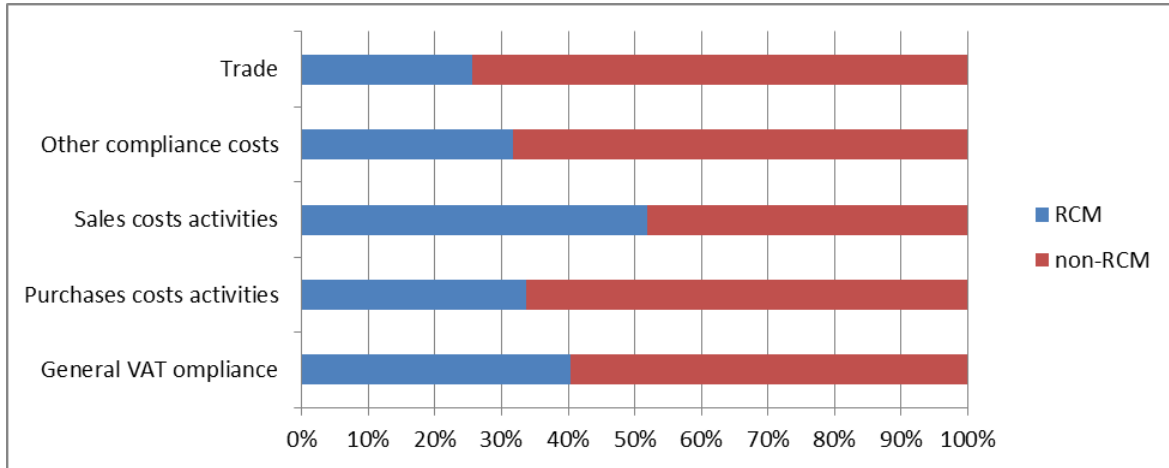
²⁰ This is based on the assumption that business response figures (when normalized for trade) are normally distributed. An outlier is defined in terms of distance from the other observation

²¹ We define non-RCM goods and services as those that are not subject to RCM tax compliance requirements

²² The percentage sum in each row is 100%



Figure 4: Comparison of trade and administrative costs between RCM eligible and Non-RCM goods and services



The results indicate that RCM related costs are on average disproportionately higher than non-RCM compliance costs when compared to the business overall trade profile (sales *and* purchases), if we consider this in comparison to total VAT compliance costs.

The results change if we analyse the split of trade between sales and purchases related to RCM and non-RCM and costs. Here we show sales and purchases values separately, together with their associated administrative costs:

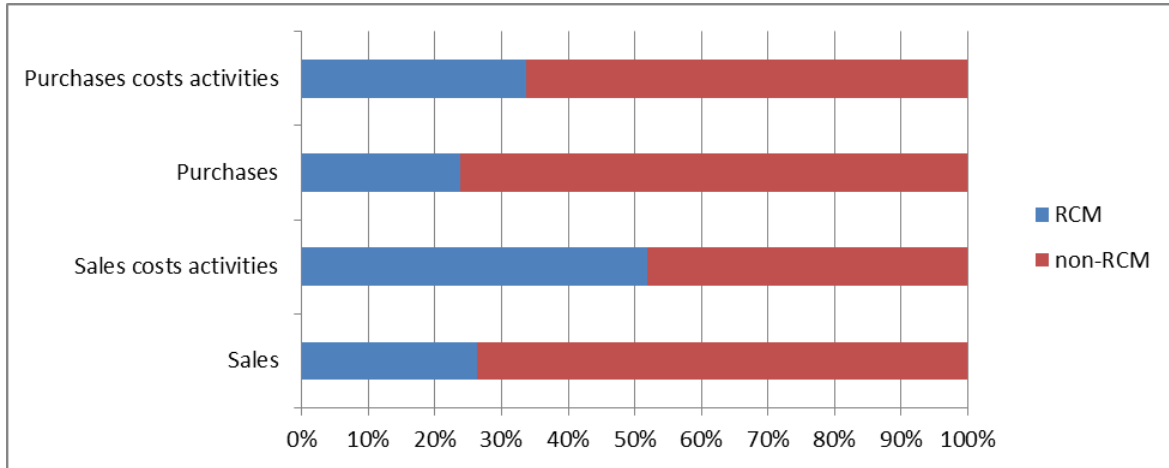
Table 4: Comparison of trade and administrative costs between RCM eligible and Non-RCM goods and services²³

	RCM	Non-RCM
Sales	26%	74%
Administrative costs related to sales activities	52%	48%
Purchasing	24%	76%
Administrative costs related to purchasing activities	34%	66%

²³ The percentage sum in each row is 100%



Figure 5: Comparison of trade and administrative costs between RCM eligible and Non-RCM goods and services



These results indicate that in this sample, businesses bear higher costs in relation to RCM compliance costs as opposed to non-RCM compliance costs for both sales and purchasing activities. Further, it should be noted that sales compliance activities result in a higher administrative burden when compared to purchase compliance activities, even though on average sales coming from goods and services that are treated under RCM rules account for less than associated purchases.

The activities that create disproportionately higher RCM compliance costs tend to be related to sales quotations, sales confirmation, invoicing and sales processing and collection.

The final costs breakdown that will be discussed in this section are related to overall RCM and non-RCM costs in comparison to trade activities:

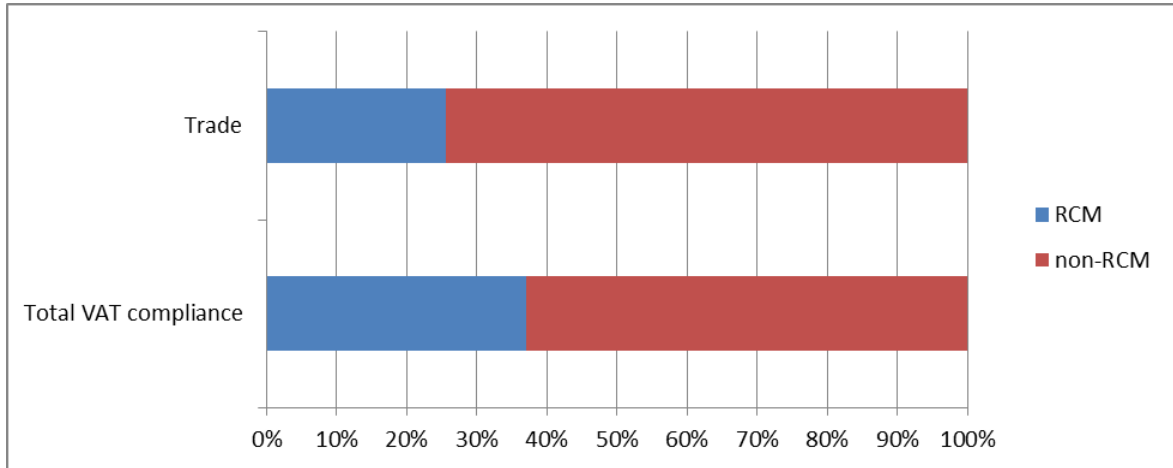
Table 5: Comparison of administrative costs between RCM eligible and Non-RCM goods and services²⁴

Cost Description	RCM	Non-RCM
Trade	26%	74%
Overall VAT compliance costs	37%	63%

²⁴ The percentage sum in each row is 100%



Figure 6: Comparison of administrative costs between RCM eligible and Non-RCM goods and services



In Figures 4 and 5 we noted that RCM and non-RCM compliance costs were disproportionately higher compared to trade for three of the four cost categories that we examined. In figure 6, however, we observe that on average RCM and non-RCM compliance costs are less divergent compared to trade.

This is largely driven by non-RCM consultancy fees, training and IT system updates. These costs are on average the largest cost drivers for businesses and represent c30%. Please refer to Appendix 3 for further breakdown of these costs and Appendix 5 for costs expressed in absolute terms in Euros.

3.5.2. Ongoing compliance costs in relation to trade profiles

The analysis presented in this section is based on 26 business observations. Five businesses were identified as outliers to the sample mean and five others did not provide a sufficient level of costs and trade data to be included in the analysis.

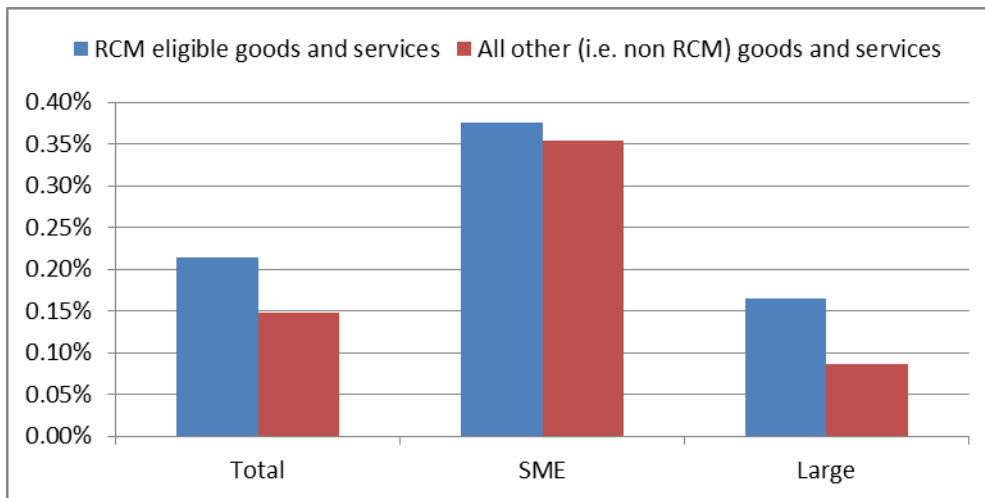
The table below compares ongoing VAT compliance costs to trade information provided by businesses. The first column represents the average proportion of total VAT compliance costs in relation to total trade (sales and purchases) of the business. The second column represents the average proportion of RCM compliance costs compared to sales and purchases that are subject to domestic RCM rules. The third column indicates the proportion of non-RCM compliance costs (i.e. other VAT compliance) in relation to goods and services that are not subject to RCM rules for businesses.



Table 6: Ongoing Compliance Costs in relation to business trade profile

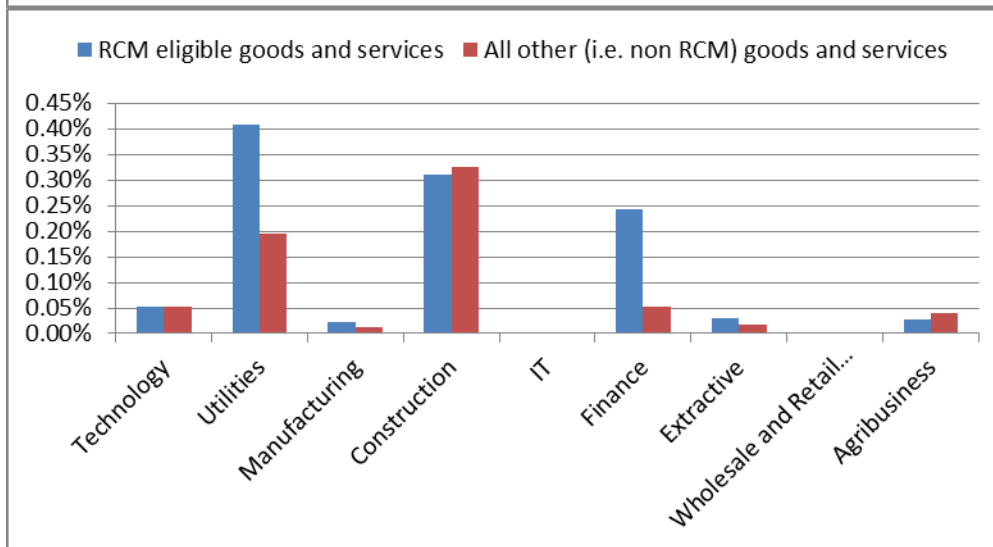
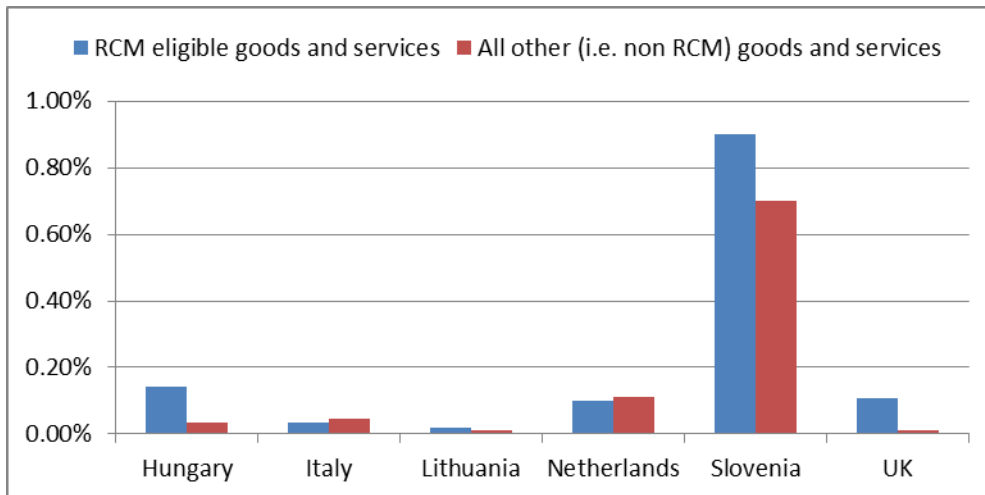
	RCM ²⁵	Non-RCM ²⁶		RCM	Non-RCM
Total	0,21%	0,15%	Total	0,21%	0,15%
SME	0,38%	0,35%	Technology	0,05%	0,05%
Large	0,16%	0,09%	Utilities	0,41%	0,20%
Country:			Manufacturing	0,02%	0,01%
Hungary	0,14%	0,04%	Construction	0,31%	0,33%
Italy	0,03%	0,05%	IT	0,00%	0,00%
Lithuania	0,02%	0,01%	Finance	0,24%	0,05%
Netherlands	0,10%	0,11%	Extractive	0,03%	0,02%
Slovenia	0,90%	0,70%	Wholesale/Retail	N/A	N/A
UK	0,11%	0,01%	Agribusiness	0,03%	0,04%

Figure 7: Ongoing compliance costs in relation to business trade profile



²⁵ RCM refers to the average compliance costs of a business that is mandated to comply with RCM VAT rules.

²⁶ Non-RCM refers to the average compliance costs of a business which is not mandated to comply with RCM rules. It was calculated on the basis of the non RCM costs of the businesses in the sample for their trade in non RCM goods.



Non-RCM goods and services compliance costs represent, on average 0,21% of sales and purchases trade values, while RCM goods and services compliance costs represent 0,15%.

The results differ significantly across countries. However, we are not able to conclude whether the size of the country has any effect on RCM compliance costs, as our sample results indicate that the highest compliance costs are observed in Slovenia, while the lowest compliance cost were indicated by our sample of Lithuanian businesses. Italian and Dutch businesses have reported on average higher non-RCM compliance costs, in comparison with RCM VAT compliance costs.

Industry variations regarding the VAT administrative burden can also be observed within the sample. The highest VAT compliance costs compared to business trade are detected in the Utilities sector. Businesses within the Construction and Agribusiness sector report higher non-RCM compliance costs in comparison with RCM costs. In all other sectors, RCM VAT compliance in relation to trade emerging from eligible goods and services is higher in comparison with non-RCM compliance.

Business size seems to be an important determinant of the compliance cost burden of RCM. This could be because the scale of a firm may give rise to economies (or diseconomies) of scale, as smaller firms need to comply with similar regulations and



procedures to large companies irrespective of the size of the business. In particular, it can be seen from Figure 7 that the proportion of compliance costs (both related to RCM and non-RCM compliance) are higher for SMEs compared to those observed in the large businesses sample.

However, when analysing SMEs compared to large enterprises, it is important to note that in absolute terms, more SMEs have reported lower RCM VAT compliance costs in relation to eligible trade. The results could be summarised in the following table:

Table 7: Number of businesses having higher RCM/non-RCM compliance cost in relation to trade profile

	Higher RCM cost related to trade profile	Higher non-RCM cost related to trade profile
Total number of businesses	15	11
SME	2	4
Large	13	7

When comparing these results with the ones presented in Table 6, it becomes clear that on average the proportion of RCM costs compared to trade is significantly higher than non-RCM compliance costs. However, looking only at the number of observations from SMEs would lead to the opposite conclusion. This implies that some SMEs experience significant inefficiencies when dealing with domestic RCM compliance obligation. This result could be very sample specific and further investigation needs to be undertaken in order to make conclusions.

3.5.3. Ongoing compliance costs in relation to turnover

Table 8 Ongoing Compliance Costs in relation to business turnover

	RCM	Non-RCM
Total	0.43%	0.30%
SME	0.75%	0.71%
Large	0.33%	0.17%
Country:		
Hungary	0.28%	0.07%
Italy	0.07%	0.09%
Lithuania	0.04%	0.02%
Netherlands	0.20%	0.22%
Slovenia	1.80%	1.40%
UK	0.22%	0.02%

	RCM	Non-RCM
Total	0.43%	0.30%
Technology	0.11%	0.11%
Utilities	0.82%	0.39%
Manufacturing	0,02%	0,01%
Construction	0.62%	0.65%
IT	0.00%	0.00%
Finance	0.48%	0.10%
Extractive	0.06%	0.03%
Wholesale/Retail	N/A	N/A
Agribusiness	0.05%	0.08%



Our survey respondents show that businesses incur VAT compliance costs on sales as well as purchases, with each respondent having a different combination of RCM compliance costs in sales and purchases.

For example some firms may have no costs relating to sales but large compliance costs in purchases, while others might have a different split. If RCM sales related activities represent only 5% of the total sales but 50% of total purchases then excluding purchase would result in disproportionately high RCM compliance costs as most of their compliance activity would be related to purchases.

Therefore if we only include compliance costs on turnover we are under representing or over estimating the costs that firms face, as we exclude any compliance costs firms face with purchases. To include the costs that firms incur we take an arithmetic average of sales and purchases, and we define that as turnover. Afterwards we compare that to compliance costs. Therefore the results in this section are exactly twice as large as in section 2.5.2.

This will mean that an RCM compliance cost in relation to turnover is 0,43% and non RCM compliance costs are 0,30%. Therefore we note that the reverse charge mechanism increase in compliance costs is 0,43%. The difference between RCM and non RCM compliance is 0,13% on average, which represents an increase by 43% of compliance costs.

3.5.4. Extrapolation to EU level

If we assume that the figures calculated above are representative for the overall EU population of firms, this implies that the reverse charge mechanism results in additional 0,13% compliance costs as a percentage of turnover. When extrapolating this figure to the overall estimated revenue generated from activities currently subject to a reverse charge mechanism i.e. GVA at EU level (2,17% of GVA as presented in section II of the report), we come to the conclusion that reverse charge mechanism compliance creates an additional burden of EUR 323-m or 0,003-% of GVA. If that figure was to be extrapolated to 100% of trade (same level of compliance costs on the whole economy), that would almost represent 15 bn euros.

3.5.5. Ongoing compliance costs in relation to transaction size

This section of the report analyses whether a relationship between average transaction size or transaction volume and VAT compliance costs can be established. This is based on the assumption that the processing of more/less invoices could take more/less time spent on activities related to VAT compliance.

The estimates in this section are based on observations from 23 businesses, as many businesses were unable to provide information regarding transaction volumes. Further to this, some outlier observations were removed from the sample.

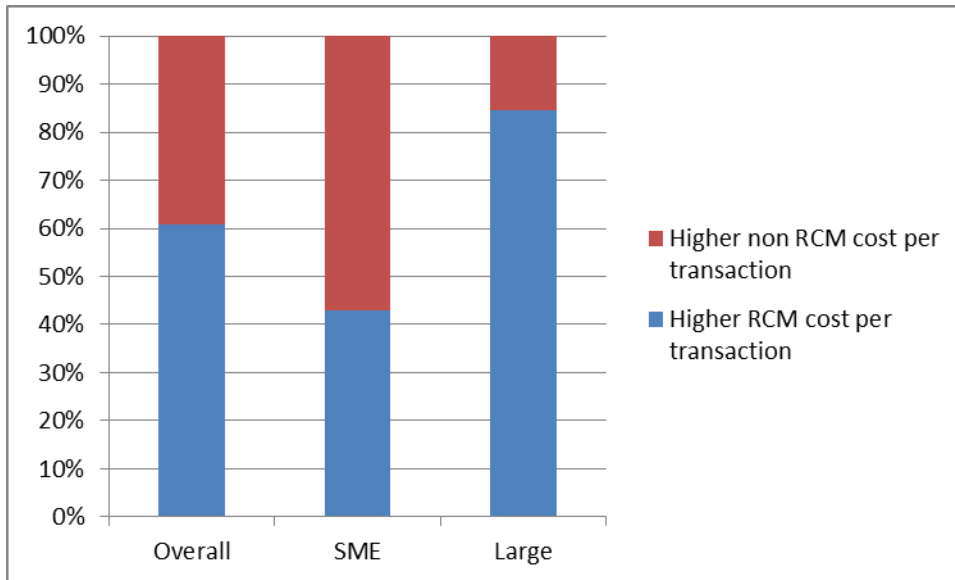
As the reporting results presented are based on average costs per transaction, these results could be misleading and difficult to understand. Therefore, the breakdown presented below indicates the number of businesses that have reported higher RCM than non-RCM compliance costs per transaction. Please find detailed analysis in Appendix 4.



Table 9: Number of businesses having higher RCM/non-RCM compliance cost per transaction

	Higher RCM cost per transaction	Higher non-RCM-cost per transaction
Total number of business	14	9
SME	3	4
Large	11	2

Figure 8: Percentage of businesses having higher RCM/non-RCM compliance cost per transaction



It should be noted that as transaction volume for eligible goods and services subject to RCM domestic rules were derived from businesses' trade profile, the results presented above mirror to a certain extent what we observed in the previous section.

3.6. Implementation costs

The timing and nature of the introduction of RCM compliance rules have varied across different Member States. Therefore, some businesses have been subject to RCM compliance for many years and collecting/recalling data regarding the costs/savings that their business incurred during and since implementation is not feasible (e.g. the most recent RCM rule in Hungary was introduced back in 2008). Within the sample of 36 business responses, only seven²⁷ businesses were able to provide us with information regarding RCM implementation costs.

²⁷ Of these seven companies, two were in Member States where RCM was implemented over five years ago. Implementation cost data should therefore be treated with additional caution.



The table below compares how implementation costs (defined as one-off costs that businesses incur when the compliance rule first came into force) compare to: 1) annual ongoing RCM compliance cost; 2) annual RCM trade profile of the business; and 3) annual sales and purchases of business.

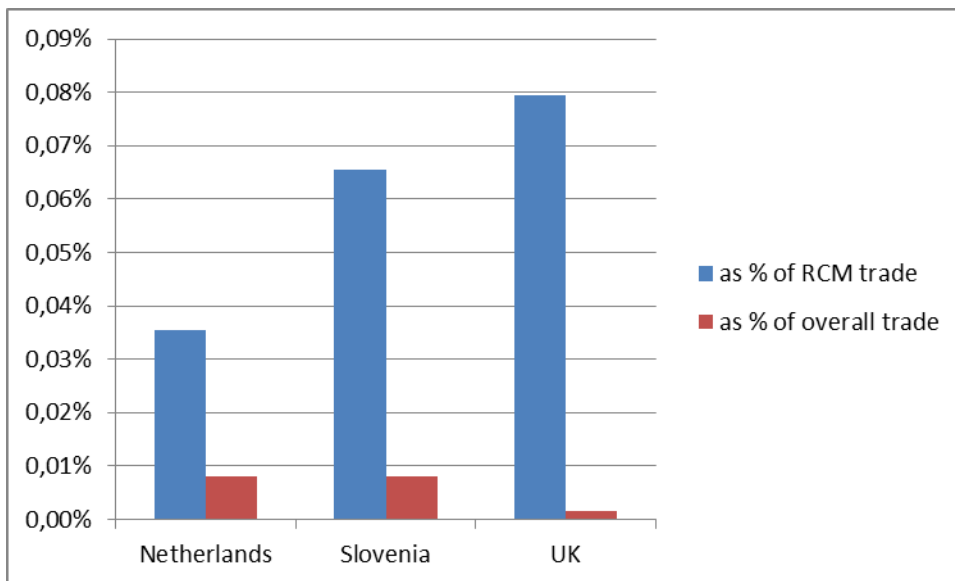
Table 10: Implementation Costs

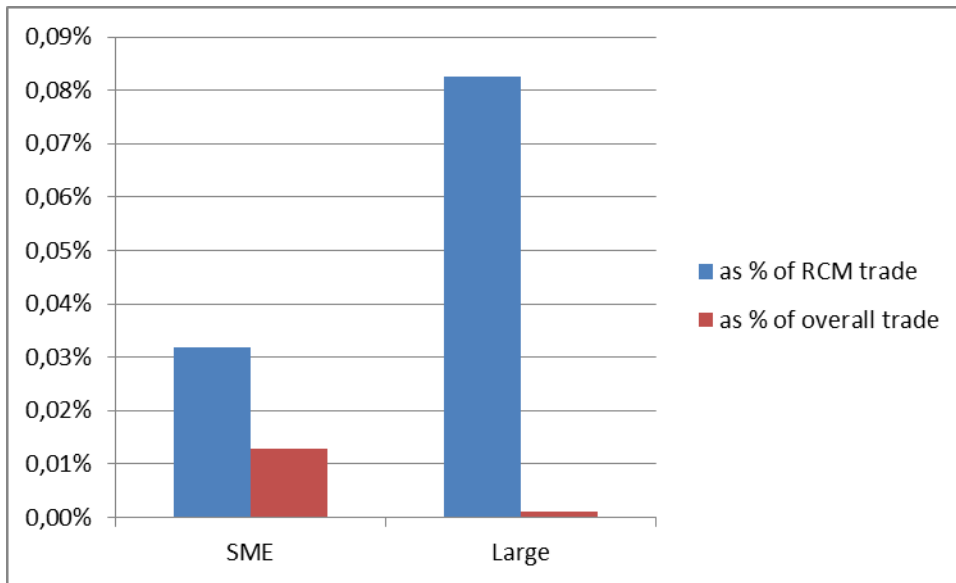
	Value
1) as "years" of ongoing compliance costs	0,3 years
2) as % of RCM Trade	0,06%
3) as % of Total Trade (including non-RCM Goods and Services)	0,01%

These results indicate that in our sample of seven businesses, on average, businesses incurred 0,3 times of their annual ongoing RCM compliance costs for implementing the new VAT rule.

The graphs below represent how implementation costs vary across Member States and for various sizes of businesses.

Figure 9: Implementation costs per country and business size





The above chart illustrates how the highest implementation costs, as a percentage of RCM trade, is observed in the UK. However, when we compare the implementation cost in terms of overall business, UK has the lowest cost profile.

SMEs spent on average less in implementation / one-off activities (c0.03%) compared to RCM trade in comparison with large enterprises (c0.08%). When comparing these results with what was observed in the previous section, there is an apparent distinction between upfront investment in implementation and ongoing compliance costs. It could be concluded that while SMEs may have higher ongoing RCM compliance costs, they spend less in upfront implementation.

3.7. Cash flow assessment

This section of the report is a continuation of the cash flow assessment presented in Part II of the report. However, the assessment takes into account only the responses that were received from the businesses presented in our sample and represents qualitative feedback received from the businesses within our sample.

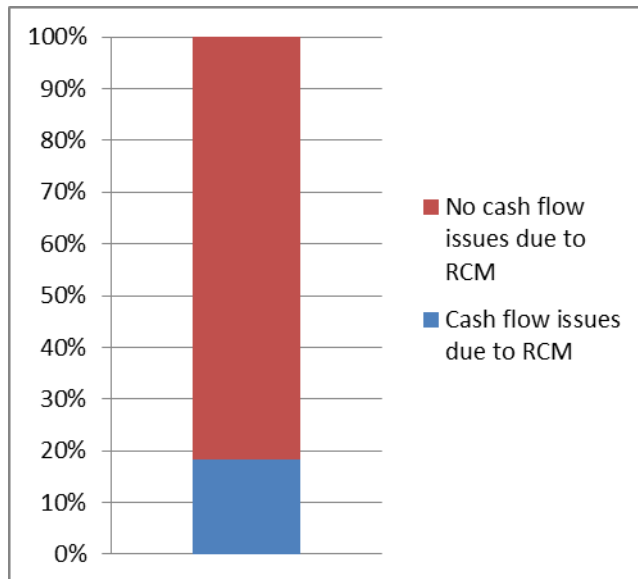
In the survey that was distributed to businesses, we asked if the RCM obligation creates any cash flow issues for their operations and in cases where this was identified, we have estimated the impact in terms of business' trade profile.

In our sample of 36 responses, three businesses did not provide any data, 27 businesses replied that RCM does not create any issues in terms of cash flow and six businesses noted that RCM has an impact on their cash flow. The majority of respondents are both suppliers and buyers of RCM goods and services, and some businesses have reported that the cash flow effect, has therefore, been diluted or netted out for their business.

The other six responses represent an appropriate mix of SMEs/large businesses (two of each).



Figure 10: Qualitative response from businesses regarding cash flow arising from RCM



To quantify the impact on the businesses which consider RCM to be an issue, our analysis has considered the following relevant factors, namely:

- The percentage of the annual VAT bill that arises from goods and services due to RCM compliance; and
- The percentage of the relevant VAT bill in terms of business's trade profile.

From the analysis of our sample, SMEs seem to have experienced a higher impact on their cash flow in comparison with large businesses. One of the SMEs is only a buyer of RCM goods/services and therefore they report a saving equivalent to 2% of their RCM activities per year. In contrast, the other SME is a net supplier of RCM goods/services and their cash flow effect is negative (c.3,2% impact of their RCM trade and c2,0% impact of overall trade).

Four large businesses have noted that RCM has an impact on their cash flow. All of these are net suppliers and therefore the cash flow impact is negative. We note that no large company that has a positive impact has reported any positive financial impact for their business. On average, the cash flow impact is equivalent to c3,1% of their RCM annual trade. However this number is based on very few observations, as this question was intended for more qualitative impact from businesses.

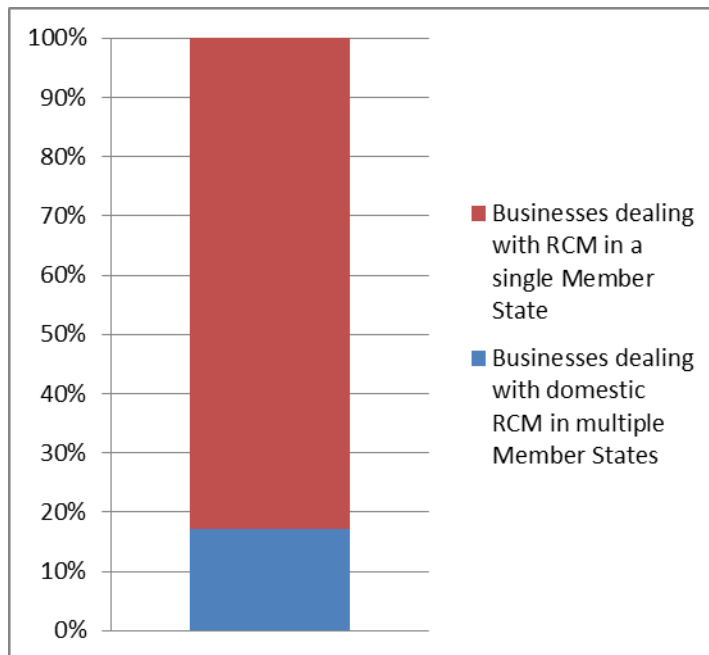
It should be noted that 75% of the respondents did not consider the current domestic RCM obligations to create any burden for their business in terms of cash flow and therefore, we did not include these observations in our analysis. Out of the six responses we analysed, one has a positive impact and reports a saving for their businesses; while three have a negative impact as they are net suppliers of RCM goods/services. As the sample of business responses that have RCM cash flow issues is very small, further investigation is needed in order to draw detailed conclusions.



3.8. Domestic RCM compliance in other Member States

The application of RCM can vary by Member State, and therefore firms operating in multiple Member States may have to comply with various domestic RCM legislations and interpretations. We received responses from 29 businesses regarding their activities in other Member States. The graph below shows that 20% of the firms had experience with domestic RCM in another Member State:

Figure 11: Firms dealing with RCM in more than one Member State



The survey results indicate that the majority of the businesses questioned had not had to implement RCM in more than one Member State. Of those that had implemented RCM in another Member State:

- The maximum number of additional Member States was 3, out of a theoretical maximum of 27²⁸ Member States; and
- Interview responses highlighted that the relevant costs were around registering for and familiarising themselves with additional RCM VAT systems.

These responses suggest a limited burden of complying with RCM as it stands in other Member States.

3.9. Qualitative feedback

We sought to complement the compliance cost data we have collected from businesses, in respect to the application of the domestic RCM, with additional qualitative information about the issue. Therefore, we contacted various industries and

²⁸ Excluding the Member State of origin.



businesses across Europe to achieve this objective. In particular, we wanted to identify:

- Specific issues that businesses have come across when implementing the rule or issues connected with on-going compliance
- Specific industries/countries where RCM has been problematic and the reasons for this
- Successful cases where RCM has been implemented as a VAT fraud prevention mechanism

During our meeting with representatives from various European businesses, they expressed their concern regarding the fact there is no uniform classification of goods and services that are subject to RCM compliance across Member States. This is due to the various implementations of domestic RCM in different jurisdictions and differences in the systems used by authorities in the recognition of RCM goods/services. The issue is worsened by differences that are often unclear in VAT compliance guidelines. As a result, large enterprises across Europe struggle to identify goods/services that fall under the RCM compliance. This hinders implementation, causes confusion and results in additional time spent dealing with the tax authorities. The issue is worse for SMEs who often do not have high technical resources to handle RCM compliance requirements. Some businesses are unsure if they need to apply RCM at all and this creates additional uncertainty for their business and business partners. In that respect, a representative of the construction sector in the Netherlands expressed concerns with the current application of the RCM due to the fact that the business spends considerable time in communication with the tax authorities.

Some businesses have pointed that the current RCM rules create, under certain conditions, cash-flow burdens. We note that a – representative expressed their concern over the cash flow issue the current RCM application has created for their business. It was expressed that this is against one of the fundamental rules of VAT, i.e. VAT should be neutral. On a contrary, another business expressed satisfaction from the RCM implementation due to the positive effect on their cash flow balance.

In Italy, for intra-Community acquisitions of specific categories of goods - such as vehicles, mobile phones, personal computers, living animals, fresh meat - Italian VAT legislation (art. 35, c. 15 ter, DPR 633/72) requires the tax payer to provide the competent Tax Office with a bank guarantee. The bank guarantee must be filed before carrying out the mentioned transactions and lasts for three years from the date of its granting. Moreover, its amount must be equal to the estimated turnover of the tax payer and, in any case, cannot be lower than Eur. 50.000. The above tax provision is explicitly aimed at preventing the risk of carousel frauds and tax evasion within some delicate commodities sectors, guaranteeing to the Tax Authorities the payment of VAT amounts and interest and penalties in case of tax challenges. However, for this particular provision, we received a complaint from an Italian business which outlined the administrative burden this provision creates for their business.

The application of RCM has been used as a tool to stop an existing loophole in the tax system. For example this has been the case in the UK for Telecoms/Mobile phones, CO2 emission trading for banks and the Polish construction industry. We received positive feedback from the business representatives in the UK which expressed their satisfaction with the implementation of the RCM where VAT fraud had been problematic. However, some business representatives feel that RCM is useful in the



short-run, as the tax rule fails to remove fraud from the economy (or catch fraudulent businesses). RCM compliance rules have caused the spread or shift of fraud to other sectors of the economy and other countries. A Danish business pointed that RCM in their country was introduced just to follow Germany and UK implementation rather than to fix an existing problem. The implementation of the rule has caused general confusion for the Danish businesses and some smaller businesses were mandated to register for VAT.

Business representatives also pointed out that given the current application of RCM governments are unable to distinguish between compliant and fraudulent businesses, as the current rule treats all businesses as fraudulent. In the long-term, businesses suggest that other VAT mechanisms to fight against fraud should be explored.



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Appendices

Appendix 1 – Description of the NACE codes used for the calculations

1. Cereals and crops

Source: Eurostat (Economic accounts for agriculture - values at current prices)

Indicator: Production value at basic price

Name of category: CEREALS (including seeds) + INDUSTRIAL CROPS

2. Timber

Source: Eurostat (Economic accounts for forestry and logging - values at current prices)

Indicator: Forestry output at basic prices

Name of category: Forestry output at basic prices

3. CO2

Source: EU Emissions Trading System (ETS) data viewer

ICE (Intercontinental Exchange) Futures Europe Emissions Index

Indicator: Emission unit - t CO₂-eq - Total EU allowances (EUAs) - All stationary sectors (1-9 and 99) x Average price according to ICE Futures Europe Emission Index

4. Metal

Source: Eurostat (SBS classification)

Indicator: Turnover or gross premiums written

Name of category:

- (24.10) Manufacture of basic iron and steel and of ferro-alloys
- (24.20) Manufacture of tubes, pipes, hollow profiles and related fittings, of steel
- (24.30) Manufacture of other products of first processing of steel
- (24.40) Manufacture of basic precious and other non-ferrous metals

Description of each category:

- (24.10) Manufacture of basic iron and steel and of ferro-alloys

This class includes:

- operation of blast furnaces, steel converters, rolling and finishing mills
- production of pig iron and spiegeleisen in pigs, blocks or other primary forms



- production of ferro-alloys
- production of ferrous products by direct reduction of iron and other spongy ferrous products
- production of iron of exceptional purity by electrolysis or other chemical processes
- remelting of scrap ingots of iron or steel
- production of granular iron and iron powder
- production of steel in ingots or other primary forms
- production of semi-finished products of steel
- manufacture of hot-rolled and cold-rolled flat-rolled products of steel
- manufacture of hot-rolled bars and rods of steel
- manufacture of hot-rolled open sections of steel- manufacture of sheet piling of steel and welded open sections of steel
- manufacture of railway track materials (unassembled rails) of steel

This class excludes:

- cold drawing of bars

- (24.20) Manufacture of tubes, pipes, hollow profiles and related fittings, of steel

This class includes:

- manufacture of seamless tubes and pipes of circular or non-circular cross section and of blanks of circular cross section, for further processing, by hot rolling, hot extrusion or by other hot processes of an intermediate product which can be a bar or a billet obtained by hot rolling or continuous casting
- manufacture of precision and non-precision seamless tubes and pipes from hot rolled or hot extruded blanks by further processing, by cold-drawing or cold-rolling of tubes and pipes of circular cross section and by cold drawing only for tubes and pipes of non circular cross section and hollow profiles
- manufacture of welded tubes and pipes of an external diameter exceeding 406,4 mm, cold formed from hot rolled flat products and longitudinally or spirally welded
- manufacture of welded tubes and pipes of an external diameter of 406,4 mm or less of circular cross section by continuous cold or hot forming of hot or cold rolled flat products and longitudinally or spirally welded and of non-circular cross section by hot or cold forming into shape from hot or cold rolled strip longitudinally welded
- manufacture of welded precision tubes and pipes of an external diameter of 406,4 mm or less by hot or cold forming of hot or cold rolled strip and longitudinally welded delivered as welded or further processed, by cold drawing or cold rolling or cold formed into shape for tube and pipe of non-circular cross section
- manufacture of flat flanges and flanges with forged collars by processing of hot rolled flat products of steel
- manufacture of butt-welding fittings, such as elbows and reductions, by forging of hot rolled seamless tubes of steel
- threaded and other tube or pipe fittings of steel

This class excludes:

- manufacture of seamless tubes and pipes of steel by centrifugally casting, see 24.52
 - (24.3) Manufacture of other products of first processing of steel

This group includes manufacturing other products by cold processing of steel.

- 24.31 Cold drawing of bars

This class includes:



- manufacture of steel bars and solid sections of steel by cold drawing, grinding or turning

This class excludes:

- drawing of wire, see 24.34

- 24.32 Cold rolling of narrow strip

This class includes:

- manufacture of coated or uncoated flat rolled steel products in coils or in straight lengths of a width less than 600 mm by cold re-rolling of hot-rolled flat products or of steel rod

- 24.33 Cold forming or folding

This class includes:

- manufacture of open sections by progressive cold forming on a roll mill or folding on a press of flatrolled products of steel

- manufacture of cold-formed or cold-folded, ribbed sheets and sandwich panels.

- 24.34 Cold drawing of wire

This class includes:

- manufacture of drawn steel wire, by cold drawing of steel wire rod

This class excludes:

- drawing of bars and solid sections of steel, see 24.31

- manufacture of derived wire products, see 25.93

▪ (24.4) Manufacture of basic precious and other non-ferrous metals

- 24.41 Precious metals production

This class includes:

- production of basic precious metals:

n production and refining of unwrought or wrought precious metals: gold, silver, platinum etc. from ore and scrap

- production of precious metal alloys

- production of precious metal semi-products

- production of silver rolled onto base metals

- production of gold rolled onto base metals or silver

- production of platinum and platinum group metals rolled onto gold, silver or base metals

This class also includes:

- manufacture of wire of these metals by drawing

- manufacture of precious metal foil laminates

This class excludes:

- casting of non-ferrous metals, see 24.53, 24.54

- manufacture of precious metal jewellery, see 32.12

- 24.42 Aluminium production

This class includes:

- production of aluminium from alumina

- production of aluminium from electrolytic refining of aluminium waste and scrap

- production of aluminium alloys

- semi-manufacturing of aluminium

This class also includes:



- manufacture of wire of these metals by drawing
- production of aluminium oxide (alumina)
- production of aluminium wrapping foil
- manufacture of aluminium foil laminates made from aluminium foil as primary component

This class excludes:

- casting of non-ferrous metals, see 24.53, 24.54

- 24.43 Lead, zinc and tin production

This class includes:

- production of lead, zinc and tin from ores
- production of lead, zinc and tin from electrolytic refining of lead, zinc and tin waste and scrap
- production of lead, zinc and tin alloys
- semi-manufacturing of lead, zinc and tin

This class also includes:

- manufacture of wire of these metals by drawing
- production of tin foil

This class excludes:

- casting of non-ferrous metals, see 24.53, 24.54

- 24.44 Copper production

This class includes:

- production of copper from ores
- production of copper from electrolytic refining of copper waste and scrap
- production of copper alloys
- manufacture of fuse wire or strip
- semi-manufacturing of copper

This class also includes:

- manufacture of wire of these metals by drawing

This class excludes:

- casting of non-ferrous metals, see 24.53, 24.54

- 24.45 Other non-ferrous metal production

This class includes:

- production of chrome, manganese, nickel etc. from ores or oxides
- production of chrome, manganese, nickel etc. from electrolytic and aluminothermic refining of chrome, manganese, nickel etc., waste and scrap
- production of alloys of chrome, manganese, nickel etc.
- semi-manufacturing of chrome, manganese, nickel etc.
- production of mattes of nickel

This class also includes:

- manufacture of wire of these metals by drawing

This class excludes:

- casting of non-ferrous metals, see 24.53, 24.54

- 24.46 Processing of nuclear fuel

This class includes:

- production of uranium metal from pitchblende or other ores
- smelting and refining of uranium

5. Telecommunication



Source: Eurostat (SBS classification)

Indicator: Turnover or gross premiums written

Name of category: (61) Telecommunications

Description of category:

This division includes the activities of providing telecommunications and related service activities, that is transmitting voice, data, text, sound and video. The transmission facilities that carry out these activities may be based on a single technology or a combination of technologies. The commonality of activities classified in this division is the transmission of content, without being involved in its creation. The breakdown in this division is based on the type of infrastructure operated. In the case of transmission of television signals this may include the bundling of complete programming channels (produced in division 60) in to programme packages for distribution.

- 61.10 Wired telecommunications activities

This class includes:

- operating, maintaining or providing access to facilities for the transmission of voice, data, text, sound and video using a wired telecommunications infrastructure, including:

n operating and maintaining switching and transmission facilities to provide point-to-point communications via landlines, microwave or a combination of landlines and satellite linkups

n operating of cable distribution systems (e.g. for distribution of data and television signals)

n furnishing telegraph and other non-vocal communications using own facilities

The transmission facilities that carry out these activities, may be based on a single technology or a combination of technologies.

This class also includes:

- purchasing access and network capacity from owners and operators of networks and providing telecommunications

services using this capacity to businesses and households

- provision of Internet access by the operator of the wired infrastructure

This class excludes:

- telecommunications resellers, see 61.90

- 61.20 Wireless telecommunications activities

This class includes:

- operating, maintaining or providing access to facilities for the transmission of voice, data, text, sound, and video using a wireless telecommunications infrastructure

- maintaining and operating paging as well as cellular and other wireless telecommunications networks

The transmission facilities provide omni-directional transmission via airwaves and may be based on a single technology or a combination of technologies.

This class also includes:

- purchasing access and network capacity from owners and operators of networks and providing wireless telecommunications

services (except satellite) using this capacity to businesses and households

- provision of Internet access by the operator of the wireless infrastructure

This class excludes:

- telecommunications resellers, see 61.90

- 61.30 Satellite telecommunications activities



This class includes:

- operating, maintaining or providing access to facilities for the transmission of voice, data, text, sound and video using a satellite telecommunications infrastructure
- delivery of visual, aural or textual programming received from cable networks, local television stations or radio networks to consumers via direct-to-home satellite systems. (The units classified here do not generally originate programming material.)

This class also includes:

- provision of Internet access by the operator of the satellite infrastructure

This class excludes:

- telecommunications resellers, see 61.90

- 61.90 Other telecommunications activities

This class includes:

- provision of specialised telecommunications applications, such as satellite tracking, communications telemetry and radar station operations
- operation of satellite terminal stations and associated facilities operationally connected with one or more terrestrial communications systems and capable of transmitting telecommunications to or receiving telecommunications from satellite systems
- provision of Internet access over networks between the client and the ISP not owned or controlled by the ISP, such as dial-up Internet access etc.
- provision of telephone and Internet access in facilities open to the public
- provision of telecommunications services over existing telecom connections:
 - n VOIP (Voice Over Internet Protocol) provision
- telecommunications resellers (i.e. purchasing and reselling network capacity without providing additional services)

This class excludes:

- provision of Internet access by operators of telecommunications infrastructure, see 61.10, 61.20, 61.30

6. Gas and electricity

Source: Eurostat (SBS classification)

Indicator: Turnover or gross premiums written

Name of category:

- (35.14) Trade of electricity
- (35.23) Trade of gas through mains

Description of each category:

- (35.14) Trade of electricity

This class includes:

- sale of electricity to the user
- activities of electric power brokers or agents that arrange the sale of electricity via power distribution systems operated by others
- operation of electricity and transmission capacity exchanges for electric power
 - (35.23) Trade of gas through mains

This class includes:

- sale of gas to the user through mains
- activities of gas brokers or agents that arrange the sale of gas over gas distribution systems operated by others



- commodity and transport capacity exchanges for gaseous fuels

This class excludes:

- wholesale of gaseous fuels, see 46.71
- retail sale of bottled gas, see 47.78
 - direct selling of fuel, see 47.99

7. Integrated circuits

Source: Eurostat (SBS classification)

Indicator: Turnover or gross premiums written

Name of category:

- (26.11) Manufacture of electronic components
- (26.12) Manufacture of loaded electronic boards

Description of each category:

- **26.11 Manufacture of electronic components**

This class includes the manufacture of semi-conductors and other components for electronic applications.

This class includes:

- manufacture of capacitors, electronic
- manufacture of resistors, electronic
- manufacture of microprocessors
- manufacture of electron tubes
- manufacture of electronic connectors
- manufacture of bare printed circuit boards
- manufacture of integrated circuits (analogue, digital or hybrid)
- manufacture of diodes, transistors and related discrete devices
- manufacture of inductors (e.g. chokes, coils, transformers), electronic component type
- manufacture of electronic crystals and crystal assemblies
- manufacture of solenoids, switches and transducers for electronic applications
- manufacture of dice or wafers, semi-conductor, finished or semi-finished
- manufacture of display components (plasma, polymer, LCD)
- manufacture of light emitting diodes (LED)

This class also includes:

- manufacture of printer cables, monitor cables, USB cables, connectors etc.

This class excludes:

- printing of smart cards, see 18.12
- manufacture of computer and television displays, see 26.20, 26.40
- manufacture of modems (carrier equipment), see 26.30
- manufacture of X-ray tubes and similar irradiation devices, see 26.60
- manufacture of optical equipment and instruments, see 26.70
- manufacture of similar devices for electrical applications, see division 27
- manufacture of fluorescent ballasts, see 27.11
- manufacture of electrical relays, see 27.12
- manufacture of electrical wiring devices, see 27.33
- manufacture of complete equipment is classified elsewhere based on complete equipment classification

- **26.12 Manufacture of loaded electronic boards**

This class includes:

- manufacture of loaded printed circuit boards



- loading of components onto printed circuit boards
- manufacture of interface cards (e.g. sound, video, controllers, network, modems)

This class excludes:

- printing of smart cards, see 18.12
- manufacture of bare printed circuit boards, see 26.11

8. Waste

Source: Eurostat (SBS classification)

Indicator: Turnover or gross premiums written

Name of category: (38.10) Waste collection

Description of category:

This group includes the collection of waste from households and businesses by means of refuse bins, wheeled bins, containers, etc. It includes collection of non-hazardous and hazardous waste e.g. waste from households, used batteries, used cooking oils and fats, waste oil from ships and used oil from garages, as well as construction and demolition waste.

▪ 38.11 Collection of non-hazardous waste

This class includes:

- collection of non-hazardous solid waste (i.e. garbage) within a local area, such as collection of waste from households and businesses by means of refuse bins, wheeled bins, containers etc may include mixed recoverable materials.
- collection of recyclable materials
- collection of refuse in litter-bins in public places

This class also includes:

- collection of construction and demolition waste
- collection and removal of debris such as brush and rubble
- collection of waste output of textile mills
- operation of waste transfer facilities for non-hazardous waste

This class excludes:

- collection of hazardous waste, see 38.12
- operation of landfills for the disposal of non-hazardous waste, see 38.21
- operation of facilities where commingled recoverable materials such as paper, plastics, etc. are sorted into distinct categories, see 38.32

▪ 38.12 Collection of hazardous waste

This class includes the collection of solid and non-solid hazardous waste, i.e. explosive, oxidizing, flammable, toxic, irritant, carcinogenic, corrosive, infectious and other substances and preparations harmful for human health and environment.

It may also entail identification, treatment, packaging and labeling of waste for the purposes of transport.

This class includes:

- collection of hazardous waste, such as:
 - n used oil from shipment or garages
 - n bio-hazardous waste
 - n nuclear waste
 - n used batteries etc.
- operation of waste transfer stations for hazardous waste

This class excludes:

- remediation



Appendix 2 – Detailed sample overview

The survey conducted was consistent across all companies within the sample. However, for reasons of commercial sensitivity, some interviewed parties were unable to provide information for every question asked. Also, as outlined in Part III of the main report there were some errors in the responses received. Taking both of these factors into account, the table below summarises the effective response rate across the different categories of enquiry.

Table 11: Response Rates by Area of Enquiry

Area of Enquiry	Response Rate
General Business Characteristics	100%
RCM Ongoing Compliance: Finance Costs and Time	92%
RCM implementation costs	78%
Cash-flow issues	92%
RCM role in trade in other member states	81%

As illustrated in the table above, higher response rates were achieved for general business characteristics and Ongoing Compliance Costs. Firms found it more difficult to give precise figures on Implementation Costs, Cash-Flow Issues and their activities in Other Member States.

Figure 12: Sample Breakdown by Business Size

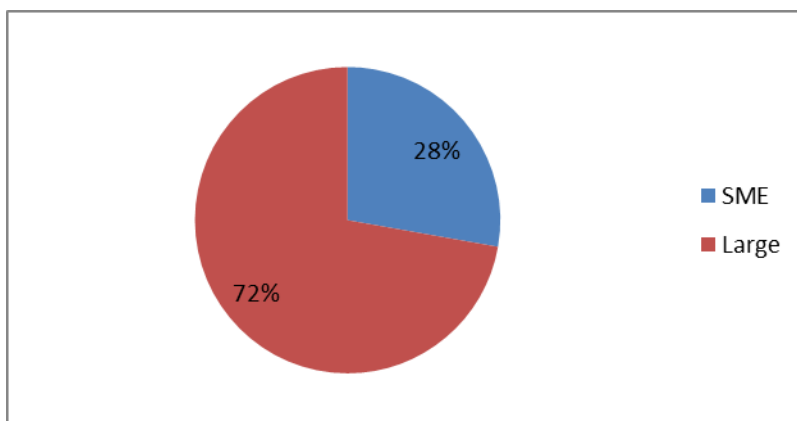
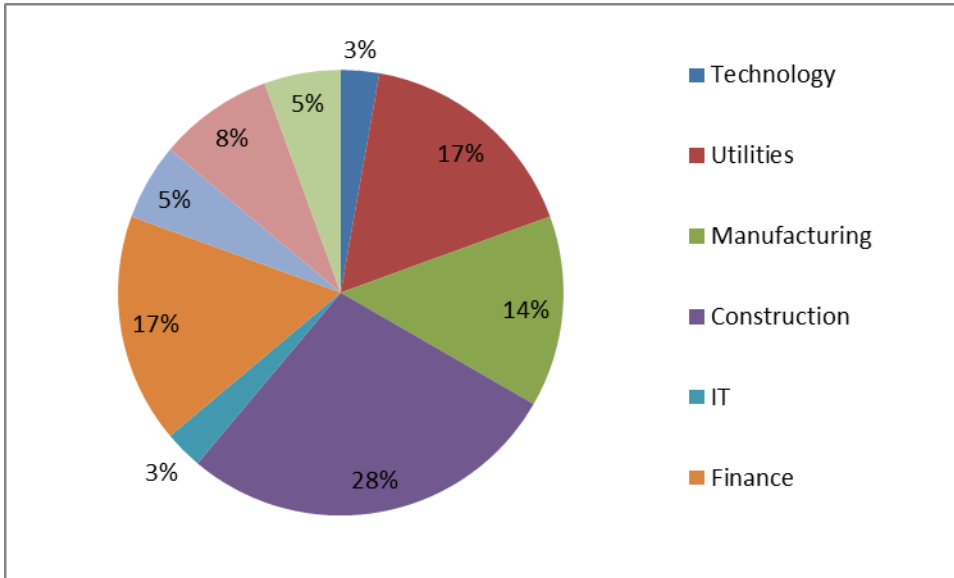




Figure 13: Sample Breakdown by Industry





Appendix 3 – Detailed cost structure overview

The analysis and graphs presented below represent how costs are split between RCM and non-RCM costs regardless of trade volumes for companies. It should be noted that on average other non-RCM costs represent the highest cost for businesses, i.e. consultancy fees, training and IT maintenance.

This can also be seen in Figure 14; there we note that non-RCM other compliance costs are on average 30% of all compliance costs for businesses. The second highest cost component appears to be general non-RCM compliance costs.

Figure 14: Average business cost structure RCM vs non RCM functions

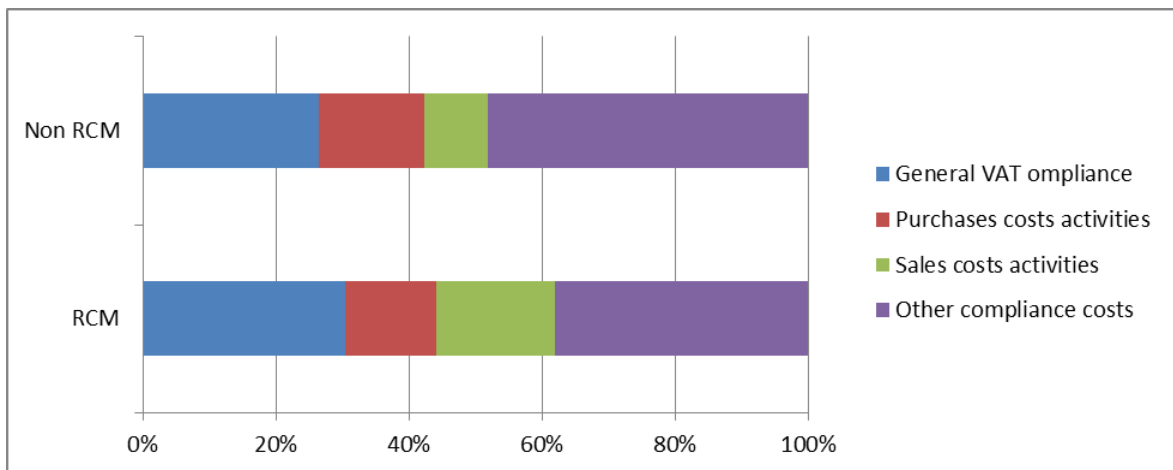
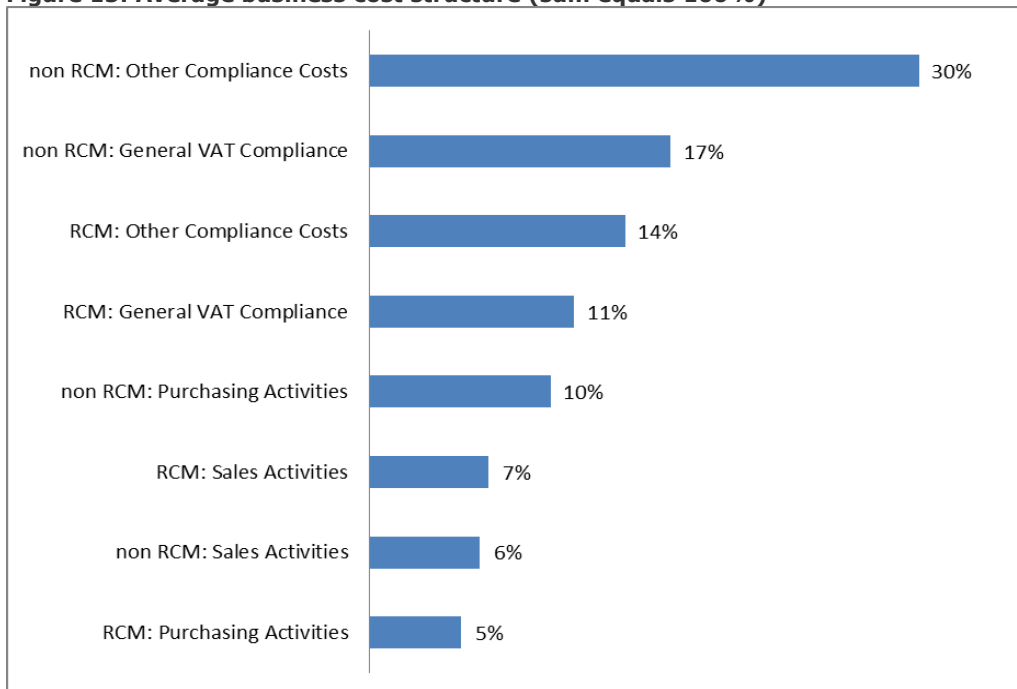


Figure 15: Average business cost structure (sum equals 100%)





Appendix 4 – Detailed costs analysis in terms of transaction volumes

The following table represents how transaction volumes could be related to VAT compliance costs. The results indicate that a RCM transaction on average costs more to businesses than a non-RCM transaction.

It should be noted that as the analysis is based on averages rather than weighted averages, some of the results are misleading and specific to outliers. For more representative analysis, please refer to the main body of report.

Table 12: Ongoing Compliance Cost per transaction in Euros

	RCM ²⁹	Non RCM ³⁰		RCM	Non RCM
Total	151	34	Total	151	34
SME	126	22	Technology	4	4
Large	163	40	Utilities	25	12
Country:			Manufacturing	3	190
Hungary	12	4	Construction	89	24
Italy	195	23	IT*	NA	NA
Lithuania	1	1	Finance	463	37
Netherlands	2	3	Extractive	1	1
Slovenia	167	29	Wholesale and Retail Trades	401	5
UK	459	129	Agribusiness	7	11

*Outlier business

As it can be seen from the table above, the total average results are very skewed for some of the low volume transaction industries (i.e. Finance and Manufacturing) and countries (i.e. UK and Slovenia). Therefore, the analysis presented in the main body of the report gives a more representative overview of the relationship between VAT compliance administration costs and transaction volumes of businesses.

²⁹ Proportion of RCM compliance costs to transaction volumes of goods and services that are subject to RCM compliance rules

³⁰ Proportion of non RCM compliance costs (other VAT costs) to transaction volume of goods and services that are subject to VAT.



Appendix 5 – Detailed costs analysis expressed in EUR terms

The following table represents compliance costs in absolute term Euro values.

It should be noted that as the analysis is done on averages rather than weighted averages, some of the results are misleading and specific to outliers. For more representative analysis, please refer to the main body of report.

Table 13: Ongoing Compliance Costs in Euros (for the sample)

	RCM	Non RCM
Total	630.430	673.092
SME	33.440	45.545
Large	800.998	852.391
Country:		
Hungary	115.386	143.374
Italy	97.819	147.371
Lithuania	5.174	9.566
Netherlands	576.438	598.885
Slovenia	208.868	323.276
UK	2.403.739	2.417.965

*Outlier business

	RCM	Non RCM
Total	630.430	673.092
Technology	15.163	20.182
Utilities	724.421	750.969
Manufacturing	2.845.860	2.871.024
Construction	114.202	208.968
IT*	NA	NA
Finance	248.102	264.268
Extractive	8.262	16.525
Wholesale and Retail Trades	7.320	15.384
Agribusiness	277.799	320.169



Appendix 6 – Survey

Cf following page.



RCM study final master version

Survey

1 . Business related questions (to provide us with sample information and understand the importance of domestic RCM trade to your business, also to provide us with information about the cost structure in your business for dealing with domestic VAT/RCM compliance)

1.1 Please confirm your VAT registration number (this is to confirm country and for survey ID purposes, and it will not be reported)

Country Code: Italy VAT number: []

1.2 Please indicate if you prefer to answer the questions in this survey for a single legal entity or at a country level (VAT or corporate group)?

Single Legal Entity [] VAT Group [] Country Level (Corporate Group) []

1.3 If you have selected to answer this survey for a single legal entity, but it is part of a VAT or corporate Group, please describe, if possible, the position of the legal entity within the group that your business is operating, in particular in relation to Reverse Charge Mechanism (RCM) products. For example information regarding the size of the entity relative to the rest of the Group, number of employees, proportion of RCM products relative to the rest of the Group etc.

[]

1.4 Please select your preferred currency for providing information throughout the remainder of this survey

Euro

1.5 Please confirm the year (latest financial year if possible) for which you will provide answers

2013

1.6 Please describe the industry/sector (s) in which your business operates

[]

1.7 The Reverse Charge Mechanism (RCM) applies to domestic supplies of services and goods under the following rules in the relevant countries. Please tick all that apply to your business in Italy

Table with 2 columns: Tick, Austria. Lists various RCM rules for Austria with checkboxes.

Table with 2 columns: Tick, Italy. Lists various RCM rules for Italy with checkboxes.



	<p>Lithuania</p> <p>Objects of ownership taken over as a property contribution; Transfer of material improvement of a building/structure used on different than ownership grounds; Goods or services acquired from the VAT payer under insolvency or judicial restructuring procedure; Supply of ferrous and non-ferrous waste, scrap, and used materials including that of semi-finished products resulting from the processing, manufacturing or melting down of ferrous and non-ferrous metals and their alloys; Supply of the following types of timber: i) Logs; ii) Planks – oblong sawn timber, 3-40 mm thick and under 25 mm width; and iii) Girders – logs, cut, girded or milled parallel to the axis of the log, thicker and wider than 40 mm;</p>
	<p>Netherlands</p> <p>Supplies of construction work (including shipbuilding), including repair, cleaning, maintenance, alteration and demolition services in relation to immovable property and including the handing over of construction works (construction, ship-building and cleaning sectors); Supplies of staff engaged in the construction sector (construction, ship-building and cleaning sectors); Supplies of immovable property under the option for taxation; Supplies of used materials, scrap, waste and specific services; Supplies of goods provided as security by one taxable person to another in execution of that security; Supplies of immovable property sold by a judgment debtor in a compulsory sale procedure; Supplies of CO2 emission allowances; and Supplies of mobile phones, chips, game consoles, tablet computers and laptops.</p>
	<p>Slovenia</p> <p>Supply of construction work, including repair, cleaning, maintenance, alteration and demolition services in relation to immovable property; This also includes the assembly of prefabricated building Supply of staff engaged in activities covered by above point; Supply of immovable property, where the supplier has opted for taxation of the supply; Supply of ferrous and non ferrous waste, scrap, and used materials including that of semi-finished products resulting from the processing, manufacturing or melting down of ferrous and non-ferrous metals and their alloys; The transfer of allowances to emit greenhouse gases as defined in the Environmental Act.</p>
	<p>United Kingdom</p> <p>Mobile Phones An integrated circuit device such as a central processing unit and microprocessor unit, in a state prior to integration into an end user produce (i.e., computer chips). Emissions allowances</p>

1.8 How does your company (legal entity/group) deal with VAT compliance? Please tick *all* that apply to your business. (This helps us to understand cost structure for this activity)

	<input type="checkbox"/> Consultant advice <input type="checkbox"/> VAT department <input type="checkbox"/> Shared Service Centre <input type="checkbox"/> Responsible employee(s) (there isn't a dedicated department to VAT compliance, but the action is undertaken by someone from your organization) <input type="checkbox"/> Other (please specify)
--	---

1.9 Please provide the number of Full Time Equivalents (FTEs) currently employed in the legal entity/country for which you are filling in this survey and the number of FTEs dealing with VAT? This question informs whether your business is small, medium or large enterprise and how many FTEs are responsible for domestic VAT and RCM compliance in relations to the overall size of the business. This information would be used for comparison with different countries and sectors.

Overall organization	FTE	
Those responsible for dealing with VAT compliance	FTE*	This can be provided as a percentage of total FTEs or as a number of FTEs For example, number of staff dedicated with domestic RCM; percentage of employees from the VAT department; percentage of time spent dealing with RCM compliance by a single employee.
Those responsible for dealing with <u>RCM only</u>	FTE*	

Please confirm how you have calculated the number of FTE(s) that deal with domestic RCM.

*Could be less than 1 FTE



1.10 Please provide an estimate of your total sales and purchases. Please estimate the percentage of the sales and purchases that are subject to RCM VAT compliance rules? *After we quantify the administrative burden that your business bears due to the application of domestic RCM rules, we will use this information to assess how these costs are proportionate to your sales/purchases.*
Please provide your answer in thousands

	€ '000	2013	% of total that is subject to domestic RCM VAT rule in 2013
Estimated Sales for your legal entity/group			
Estimated Purchases for your legal entity/group			

1.11 Please indicate your net VAT payment/repayment to/from the tax authorities in 2013 (thousands) in Italy.
This helps us to assess any cash-flow impact that domestic RCM imposes to your business (section 5 covers cash-flow related questions in more detail).

	€ '000	2013	% of total that is subject to RCM VAT rule in 2013
Total net VAT payment/repayment to/from the authorities in Italy			

1.12 Please indicate the average number of transaction (both sales and/or purchases) for your business per year. (i.e. How many transaction are reported in on your VAT bill per financial year)
This helps us establish the relationship between administrative costs and the average number of transactions that your business deals with on yearly basis.
Please provide your best possible estimate. Providing a range is also sufficient

2013

2 . Costs related questions (information about activities undertaken in relation to domestic RCM and non RCM VAT compliance)

2.1 You indicated in question 1.7 the goods/services RCM rule is applied to your business. Taking into account only these goods, are you a supplier, a buyer or both?

	Tick
Supplier	
Buyer	
Both	

2.2 Before completing the Activity-Based-Costing information, could you please select the basis of the information you are providing in terms of:

Time frame for the bases of the answers provided below

Could you please provide the average cost per hour (compensation) per activity owners? This should be provided as an absolute number and in the local currency indicated in question 1.4 (this would be used to help calculate the administrative burden of your organization for VAT compliance activities). We have included 5 different levels of seniority, but if this split does not cover all the seniority levels within your business, please use the space in the bottom to include additional FTEs. Please insert additional rows if needed.

Activity Owner	Hour rate
<input type="text" value="Please select"/>	€ <input type="text"/>
<input type="text" value="Please select"/>	€ <input type="text"/>
<input type="text" value="Please select"/>	€ <input type="text"/>
<input type="text" value="Please select"/>	€ <input type="text"/>
<input type="text" value="Please select"/>	€ <input type="text"/>
<input type="text" value="Please select"/>	€ <input type="text"/>
<input type="text" value="Please select"/>	€ <input type="text"/>

The information provided in question 2.2 will form the basis of quantifying the administrative burden to your business due to the application of domestic RCM rules on goods/services. The administrative burden will be estimated by applying Activity-Based-Costing (ABC) methodology, which involves two steps:

- 1) identification of business activities that are undertaken in relation to all the compliance obligations in relation to domestic RCM (these activities are covered in questions 2.3, 2.5 and 2.6); and
- 2) assigning how many people perform these activities, how much time they spend performing these activities, and what resources (level of seniority, for example defined as 1-5 above) are required to perform these activities (please provide your best possible estimates)



2.3

Could you please provide the following estimate of in hours spent on each activity. This should take into consideration costs/activities that relate to dealing with VAT compliance (RCM and non-RCM goods/services)
Please provide the rank of the person who is undertaking the activity and how many hours per period (indicated in question 2.2) does the activity require to complete?
Please provide your best possible estimate/expectation for the requested information

Technical note: Currently, the questionnaire template is set up to include two different types of activity owners per activity, if more FTEs are dealing with a given activity, please insert rows as applicable. If for a given activity, there is more than one activity owner from the same type, please sum the hours spent on that activity accordingly. Same is applicable for questions 2.5 and 2.6.

	Goods/services subject to RCM		Goods/services NOT subject to RCM	
	Activity Owner	2013	Activity Owner	2013
File purchase and sales listings: supplier perspective				
File periodic VAT returns: supplier perspective				
Communication with tax authorities: supplier perspective				
File purchase and sales listings: customer perspective				
File periodic VAT returns: customer perspective				
Communication with tax authorities: customer perspective				
Other (please specify)				
Other (please specify)				
Other (please specify)				

(insert additional rows if needed)

2.4 Other than the VAT costs related to the activities listed in questions 2.3, could you please provide information regarding any other VAT compliance (RCM and non-RCM) costs in (thousands) Euro

	Goods/services subject to RCM	Goods/services NOT subject to RCM
	2013	2013
Consultancy fees (this should include any audit and tax advice related to RCM and non-RCM compliance)	€ '000	€ '000
Training of staff	€ '000	€ '000
Other HR related costs	€ '000	€ '000
System (Software) costs	€ '000	€ '000
Other costs (please describe)	€ '000	€ '000
	€ '000	€ '000

(insert additional rows if needed)



2.5 If possible to distinguish, from supplier perspective please estimate the time taken for sales activities in relation to RCM and non-RCM compliance.
 For example: the time it takes to identify RCM trade on invoices, additional time taken to develop contracts that relate to RCM goods due to compliance requirements.
 Please provide the rank of the person who is carrying out the activity and how many hours per period (indicated in question 2.2) does the activity require to complete if possible?
 Please provide your best possible estimate/expectation for the requested information

	Goods/services subject to RCM		Goods/services NOT subject to RCM	
	Activity Owner	2013	Activity Owner	2013
Sales activities				
<i>Please provide breakdown of the costs:</i>				
Sales Quotation				
Sales Confirm Order				
Sales Invoice customer				
Sales Process A/R and manage collections				
Sales Manage / Process Adjustment and Bonuses Discounts				
Sales: Other (please specify) <i>(insert additional rows if needed)</i>				

2.6 If possible to distinguish from customers perspective, please estimate the time taken for purchasing activities in relation to RCM and non-RCM compliance.
 For example: the time it takes to identify RCM trade on invoices, additional time taken to develop contracts that relate to RCM goods due to compliance requirements.
 Please provide the rank of the person who is carrying out the activity and how many hours per period (indicated in question 2.2) does the activity require to complete if possible?
 Please provide your best possible estimate/expectation for time taken for each activity.

	Goods/services subject to RCM		Goods/services NOT subject to RCM	
	Activity Owner	2013	Activity Owner	2013
Purchasing activities				
<i>Please provide breakdown of the costs:</i>				
Purchasing: Select suppliers & develop contracts				
Purchasing: Order & receive goods and services				
Purchasing: Process accounts payable				
Purchasing: Other (please specify) <i>(insert additional rows if needed)</i>				



3. Implementation of RCM domestic rules for goods/services related questions

3.1 Did the implementation of the RCM result in any one-off savings or costs for your business when the rule was first introduced?
Please complete the question in the most convenient way for you (either absolute cost in Euro or by activity owner and additional time in hours as per ABC methodology)
Please provide your best possible estimate of relevant implementation costs to your business.

When were RCM domestic rules first introduced
If the RCM was introduced prior to 2009, you are not required to complete the rest of section 3

	Please tick all that apply			(Please choose either absolute cost in Euro or by activity owner and additional time in hours)		
	Saving	Cost	Neutral	Activity Owner	Additional time spent	Absolute cost in Euro
Hiring additional/ Dismiss staff						
Purchase of new software equipment						
Updating existing software						
Updating internal documentation						
Consultancy fee costs/savings						
Training of staff (external/formal)						
Training of staff (on-the-job training/informal)						
How many people were involved in the training?						
Other HR related costs/savings						
Obtaining a new VAT-number						
Other direct one-off costs/savings (insert additional rows if needed)						

4. Domestic RCM in (an)other Member State related questions. (identification of issues related to application of domestic RCM in other EU MS)

Please note that we are not asking for information related to the acquisition of intra-community goods/services RCM compliance.

4.2 Have you applied domestic RCM rules in other Member State? Which ones?
Yes
No
 Please list all that apply

If your business haven't applied RCM in other Member States, you are not required to complete the rest of section 4

4.3 In case of doing business in different Member States(MS) where you have been obliged to apply domestic RCM rules in that country, have you encountered any difficulties that have resulted in additional costs or savings related to the application of the domestic RCM in that MS? For example additional time spend on familiarizing with RCM rules or dealing with local authorities; obtaining local VAT registration number.

Savings
Costs
Neither (no impact on costs)

If you have incurred any costs/savings, please describe the issue and the impact on your business (qualitatively)



5 . Cash flow related questions (to understand and compare how specific rules affect cash flow for businesses)

5.1 Do the current RCM mechanism rules create any cash flow issues for your business? For example delayed payment from your customers prior to the time when VAT is due to the authorities in your country.

Yes Tick

No

If yes, could you describe them

5.2 Please provide the following details related to your Balance Sheet. Please provide your answer in thousands, local currency

Account Receivables € '000 2013

5.3 What are your terms of payment towards your supplier and terms of payment for sales (DPO and DSO on average)

Days Payable Outstanding days 2013

Days Sales Outstanding days

5.4 What percentage of your accounts receivables is delayed by?

10 days 2013

30 days

3 months

9 months

Not recoverable

5.5 How many times per year is net VAT payable/receivable to the authorities and what are the terms of payment?

Times VAT is due to the authorities times

Terms of payment 2013

10 days

30 days

2 months

3 months

Other (please specify)

5.6 How do you address VAT cash flow imbalances if faced with any? (tick all that apply)

Take a loan Tick

Use cash savings

Cost cutting initiatives

Other

N/A

6 . End (thank you very much)



Appendix 7 – Adoption of the reverse charge mechanism in the 28 Member States

1. AUSTRIA

SCOPE of the implementation

According to the Austrian law, the following supplies of services and goods are subject to the reverse charge mechanism:

- construction work and related transfer of personnel;
- the supply of goods provided as security by one taxable person to another in execution of that security;
- the supply of goods following the cession of a reservation of ownership to an assignee;
- revenues relating to immovable property sold by a judgment debtor in a compulsory sale procedure;
- the transfer of allowances to emit greenhouse gases as defined in Article 3 of Directive 2003/87/EC of the European Parliament and of the Council of 25 October 2003 establishing a scheme for greenhouse gas emission allowance trading within the Community as well as the transfer of other units that may be used by operators for compliance with the same Directive;
- supplies of mobile phones, integrated circuits, video game consoles, notebooks and tablets with a remuneration exceeding EUR 5,000;
- supplies of metal (from chapter 71 and from section XV of the combined nomenclature, except position 7113 to 7118, chapter 73, position 7411 to 7419, 7507, 7508, 7608, sub-item 7609 00 00 to position 7616, sub-item 7806 00, 7907 00 00, 8007 00 80, 8101 99 90, 8102 99 00, 8103 90 90, 8104 90 00, 8105 90 00, 8106 00 90, 8107 90 00, 8108 90 60, 8108 90 90, 8109 90 00, 8110 90 00, 8111 00 90, 8112 19 00, 8112 29 00, 8112 59 00, 8112 99, sub-item 8113 00 90, chapter 82 and 83), unless they are subject to the scrap-VAT regulation ("Schrott-Umsatzsteuerverordnung), or the margin scheme according to § 24 UStG 1994;
- supplies of gas and electricity to a taxable dealer;
- transmission of gas or electricity certificates;
- supplies and services relating to scrap as listed in the Austrian VAT decree relating to scrap.



CONDITIONS

The transaction performed has to be subject to Austrian VAT. In general the recipient has to be a taxable business (independently of domestic establishment). In case of supply of goods provided as security by one taxable person to another in execution of that security, the supply of goods following the cession of a reservation of ownership to an assignee or revenues relating to immovable property sold by a judgment debtor in a compulsory sale procedure the recipient has to be a taxable business or a public body under public law.

Further, there are several specific requirements:

- construction work and related transfer of personnel: recipient is assigned the construction work himself or usually performs construction work;
- mobile phones, integrated circuits, video game consoles, notebooks and tablets: the reverse charge mechanism is only applied if the net invoice amount exceeds EUR 5,000.
- supply of metal : a threshold of EUR 5,000 has been recently introduced
- supply of gas and electricity: recipient is a taxable dealer.

All taxable businesses (independently of domestic establishment) performing any of the services/supplies mentioned under point 1 in Austria are obliged to apply the reverse charge mechanism in case the requirements stated under point 3. are met.

In Austria, there are no specific accompanying measures. The Austrian Federal Ministry of Finance informed that for the sake of convenience in case of doubt whether the reverse charge mechanism is applicable, the supplier and the recipient of construction work and services or goods enumerated in the Anti-VAT fraud regulation in force since 1 January 2014 can mutually agree on the application of the reverse charge mechanism.

The reporting obligations in Austria can be summarized as follows.

Supplier: The supplier has to issue invoices including his VAT-ID number, the VAT-ID number of the recipient and a reference to the application of the reverse charge system. Further, he has to declare the outgoing reverse charge revenues in his periodic VAT returns.

Customer: The recipient has to declare the ingoing reverse charge amount (VAT amount) in his periodic VAT returns. In case input VAT deduction is allowed, this is declared in the same VAT return.

Under certain conditions a VAT registration in Austria might not be required for both the supplier or customer.



PERIOD OF APPLICATION

The regulations came into effect as follows (transactions performed from the mentioned date onwards):

- 1 October 2002: construction work;
- 1 January 2011: related transfer of personnel
- 1 January 2005:
 - a) the supply of goods provided as security by one taxable person to another in execution of that security;
 - b) the supply of goods following the cession of a reservation of ownership to an assignee;
 - c) revenues relating to immovable property sold by a judgment debtor in a compulsory sale procedure;
- 1 July 2007: supplies and services relating to scrap as listed in the Austrian VAT decree relating to scrap;
- 30 June 2010: the transfer of allowances to emit greenhouse gases as defined in Article 3 of Directive 2003/87/EC of the European Parliament and of the Council of 25 October 2003 establishing a scheme for greenhouse gas emission allowance trading within the Community as well as the transfer of other units that may be used by operators for compliance with the same Directive where the supplier is a taxable business established in Austria;
- 1 January 2012: supplies of mobile phones and integrated circuits with a remuneration exceeding EUR 5,000;
- 1 October 2012: scrap gold has been included in the amendment of the Austrian VAT decree relating to scrap.
- 1 January 2014:
 - a) video game consoles, notebooks and tablets with a remuneration exceeding EUR 5,000;
 - b) supplies of metal as mentioned under point 1.;
 - c) supplies of gas and electricity to a taxable dealer;
 - d) transmission of gas or electricity certificates and taxable supplies of investment gold

The period to be covered is not further specified; the applicability is not limited to a certain period. However, the time limit stated in Article 199a of the VAT Directive has to be considered.

BASIS OF THE IMPLEMENTATION

Generally, the measures have been implemented based on Articles 199 and 199a of the VAT Directive. However there are few exceptions, e.g. the regulation for supplies of mobile phones and integrated circuits with remuneration exceeding EUR 5,000 has been implemented initially based on Article 395 of the VAT Directive, but now covered by Article 199.

IMPORTANCE IN TERMS OF TAXABLE BASIS AND VAT RECEIPT



As far as Austria is concerned, the importance of the reverse charge mechanism can be summarized in the following table:

Importance in terms of taxable basis of applied RCM	Importance in terms of taxable basis of all RCM	Importance in terms of VAT receipt of applied RCM	Importance in terms of VAT receipt of all RCM applied
5%	5%	10%	11%

Currently, Austria applies a reverse charge mechanism on 12 categories listed in Article 199, and 199a, as well as the ones for which a derogation has been granted on the basis of 394 and 395.

These 12 sectors represented circa 5% of the overall economy of Austria. If Austria would apply a reverse charge mechanism on all the sectors, around 5% of the GVA would come from activities subject to a reverse charge. This has however limitation due to unavailable data.

CASH FLOW IMPACT

Cash flow cost in case of no application of RCM compared to current situation (,000,000 EUR)	Cash flow cost in case of no application of RCM compared to full application (,000,000 EUR)	Difference: additional cost due to currently limited application of RCM (,000,000 EUR)	Difference expressed in percentage
7,82	8,98	1,16	15%

Taking into account that Austria already applies the reverse charge mechanism in 12 sectors, the cash flow impact in this case can be considered as insignificant.



2. BELGIUM

SCOPE OF the implementation

According to the Belgian law, the following supplies of services and goods are subject to the reverse charge mechanism:

- Immovable works including construction, repair, cleaning or maintenance works on an immovable property as well as transactions consisting in incorporating movable goods into immovable property, installation within a building of sanitary, electrical, fire, alarm, phone, or air conditioning equipment, embedded cupboards, stores and shutters, wall or floor-covering;
- the transfer of allowances to emit greenhouse gases as defined in Article 3 of Directive 2003/87/EC of the European Parliament and of the Council of 25 October 2003 establishing a scheme for greenhouse gas emission allowance trading within the Community
- the transfer of other units that may be used by operators for compliance with the same Directive

Conditions

All suppliers non established in Belgium and Belgian suppliers of above listed goods and services are concerned.

The recipient must be either established or VAT registered in Belgium via the appointment of a VAT representative.

There is however an exception with regard to the transfer of emission rights, where the recipient may also be a foreign (not established) taxable person directly VAT registered in Belgium, i.e. not necessarily via a VAT representative.

In addition, with regard to the recipients, the following accompanying measures have been introduced:

- for partial taxable persons - reverse charge mechanism applies regardless of the capacity in which the partial taxable person acts (i.e. whether for its taxable, non-taxable or both activity/ies) - see e.g. Décision TVA n° E.T. 122.360 dd. 20.03.2012;
- non-taxable public body that do not file periodic VAT return are not concerned (see answer to question 3).

In terms of reporting, the following obligations exist:



Suppliers: specific boxes in the Belgian VAT return if they are registered for VAT in Belgium;

Recipients: specific boxes in the Belgian VAT return where the taxable amount and the VAT due are reported (along with other boxes where the taxable amount and the deductible VAT on the same transaction are reported as well).

period of application

The reverse charge mechanism has been introduced on the following dates:

- immovable works: 9 October 1978
- emission rights: 18 January 2010.

There is no end date specified in the Belgium law.

basis of implementation

The reverse charge mechanism has been implemented based on:

- Article 394 for immovable works and foreign suppliers;
- Article 199a for emission rights.

IMPORTANCE IN TERMS OF TAXABLE BASIS

Importance in terms of taxable basis of applied RCM	Importance in terms of taxable basis of all RCM	Importance in terms of VAT receipt of applied RCM	Importance in terms of VAT receipt of all RCM applied
1%	3%	2%	9%



Currently, Belgium applies a reverse charge mechanism on 3 categories listed in Article 199, and 199a, as well as the ones for which a derogation has been granted on the basis of 394 and 395.

These 3 sectors represented 1% of the overall economy of Belgium. If Belgium would apply a reverse charge mechanism on all the sectors, around 3% of the GVA would come from activities subject to a reverse charge

CASH FLOW IMPACT

Cash flow cost in case of no application of RCM compared to current situation (,000,000 EUR)	Cash flow cost in case of no application of RCM compared to full application (,000,000 EUR)	Difference: additional cost due to currently limited application of RCM (,000,000 EUR)	Difference expressed in percentage
1,36	5,48	4,12	303%

Considering that Belgium currently applies a reverse charge mechanism only in 2 sectors the cash flow impact in this case may be considered as significant.



3. BULGARIA

SCOPE OF the implementation

The option applies for the agricultural and waste sectors.

Waste and waste related services: Household waste; production waste; construction waste; hazardous waste; ferrous and non-ferrous scrap; household ferrous and non-ferrous scrap. The services concerned are: the recovery, treatment and re-use of the above-mentioned goods.

Cereals and crops: categories of the latter are explicitly listed in the VAT Act, such as: anise seeds; wheat and wheat and rye mixtures; rye; oats; corn; rice; buckwheat; sorghum; soya seeds; colza seeds.

conditions

In case of domestic supply of the aforesaid goods or services the reverse charge mechanism should be applied.

The reverse charge mechanism is applicable irrespectively whether the supplier is a taxable or non-taxable person.

With regard to the reporting obligations, the recipient of the supply should issue a special document (Protocol) containing information as to: the supplier; the value and quantity of the goods/services supplied; the legal basis for charging VAT; taxable base; the VAT charged; the date of the taxable event. The latter should be issued within 15 days following the day on which VAT is due.

period OF APPLICATION

The option was introduced on 1 January 2014 and will remain in force until 31 December 2015.

basis OF implementATIION



The legal basis for introducing the reverse charge mechanism regarding supplies related to waste is Article 199 of the VAT Directive and for the supplies of cereals and crops is 199a.

IMPORTANCE IN TERMS OF TAXABLE BASIS

Importance in terms of taxable basis of applied RCM	Importance in terms of taxable basis of all RCM	Importance in terms of VAT receipt of applied RCM	Importance in terms of VAT receipt of all RCM applied
3%	12%	6%	23%

Currently, Bulgaria applies a reverse charge mechanism on 2 categories listed in Article 199, and 199a, as well as the ones for which a derogation has been granted on the basis of 394 and 395

These 2 sectors represented circa 3% of the overall economy of the country. If Bulgaria would apply a reverse charge mechanism on all the sectors, around 12% of the GVA would come from activities subject to a reverse charge. This has however limitation due to unavailable data.

CASH FLOW IMPACT

Cash flow cost in case of no application of RCM compared to current situation (,000,000 EUR)	Cash flow cost in case of no application of RCM compared to full application (,000,000 EUR)	Difference: additional cost due to currently limited application of RCM (,000,000 EUR)	Difference expressed in percentage
0,00	0,00	0,00	-

The VAT returns in Bulgaria are due on a monthly basis by 14th day of the month following the tax period. Based on the official deadline for filing of the VAT returns, there is no delay of payment/refund, hence there is no cash flow impact in Bulgaria.



4. CROATIA

SCOPE OF the implementation

The reverse charge obligation arises for Croatian VAT payers who are receiving supplies of goods and services described as follows:

- construction work including to building, maintenance, reconstruction or removal of buildings, including cleaning and repair (provision of staff engaged for construction activities described),
- used material, used material which cannot be re-used in the same state, scrap, industrial and non-industrial waste, recyclable waste, part processed waste and other goods and services related,
- the supply of immovable property subject to VAT where the supplier has opted for taxation (in force from 1 January 2015),
- supply of immovable property sold by debtor in a foreclosure (compulsory sale) procedure,
- the transfer of allowances to emit greenhouse gases as defined in regulations establishing a scheme for greenhouse gas emission allowance trading.

COnditions

The reverse charge application is mandatory for all above mentioned sectors for all suppliers (taxable persons registered in the VAT register in Croatia). The reverse charge applies only if the recipient is a taxable person who is registered in the VAT register in Croatia (e.g. not applicable to recipients who are not registered in the VAT register but have obtained the Croatian VAT ID number). The regular VAT reporting rules are applicable. Special boxes in the VAT return are to be used both by the supplier and the customer.

period of application

Reverse charge has been implemented in the Croatian VAT legislation as of 1 July 2013, i.e. date of Croatia's accession to the EU.

basis for implementation

The measures have been introduced on the basis of Article 199 and 199a.



IMPORTANCE IN TERMS OF TAXABLE BASIS

Importance in terms of taxable basis of applied RCM	Importance in terms of taxable basis of all RCM	Importance in terms of VAT receipt of applied RCM	Importance in terms of VAT receipt of all RCM applied
3%	6%	N/A	N/A

Currently, Croatia applies a reverse charge mechanism on 6 categories listed in Article 199, and 199a, as well as the ones for which a derogation has been granted on the basis of 394 and 395.

These 6 sectors represented circa 3% of the overall economy of the country. If Croatia would apply a reverse charge mechanism on all the sectors, around 6% of the GVA would come from activities subject to a reverse charge. This has however limitation due to unavailable data.

The estimation of the importance of the application of the reverse charge mechanism in terms of VAT receipt was not feasible in case of Croatia due to the lack of information on the total VAT receipts.

CASH FLOW IMPACT

Cash flow cost in case of no application of RCM compared to current situation (,000,000 EUR)	Cash flow cost in case of no application of RCM compared to full application (,000,000 EUR)	Difference: additional cost due to currently limited application of RCM (,000,000 EUR)	Difference expressed in percentage
n/a	n/a	n/a	-

The data used for the computation of cash flow impact (number of the VAT returns filed) does not include Croatia. Therefore, due to the lack of available information, the estimate of the cash flow impact in this case was not feasible.



5. CYPRUS

SCOPE OF the implementation

The sectors listed in Article 199 for which the reverse charge is mandatory applicable in Cyprus are:

- the supply of construction work, including repair, cleaning, maintenance, alteration and demolition services in relation to immovable property, as well as the handing over of construction works regarded as a supply of goods pursuant to Article 14(3);
- the supply of used material, used material which cannot be re-used in the same state, scrap, industrial and non-industrial waste, recyclable waste, part processed waste and certain goods and services. This includes used metals and / or metal scraps.

conditions

The reverse charge mechanism can be applied on construction services when the recipient receives the services in the course or furtherance of his business, even if such services involve capital assets of his business.

The reverse charge mechanism can be applied on the supply of used materials for the supply of goods made to persons who are registered for VAT purposes and whose code of economic activity is Combined Nomenclature code 46771 and consists of used metals and / or metal scraps.

In the case of the application of the option for the supply of used metal every person to whom these provisions are applied, shall for a period of six (6) years from the date on which the goods are delivered to the customer, keep records , in which the relevant transactions are recorded. This record should contain all the information related to the purchase and delivery of goods.

Period of application

The option for construction services was introduced on 9/03/12 whereas the option for the supply of used metals was introduced on 11/10/13.

Basis for implementation



The option has been introduced on the basis of Article 199.

IMPORTANCE IN TERMS OF TAXABLE BASIS

Importance in terms of taxable basis of applied RCM	Importance in terms of taxable basis of all RCM	Importance in terms of VAT receipt of applied RCM	Importance in terms of VAT receipt of all RCM applied
2%	4%	4%	6%

Currently, Cyprus applies a reverse charge mechanism on 2 categories listed in Article 199, and 199a, as well as the ones for which a derogation has been granted on the basis of 394 and 395

These 2 sectors (including transfer of CO2 rights) represented circa 2% of the overall economy of the country. If Cyprus would apply a reverse charge mechanism on all the sectors, around 4% of the GVA would come from activities subject to a reverse charge. This has however limitation due to unavailable data.

CASH FLOW IMPACT

Cash flow cost in case of no application of RCM compared to current situation (,000,000 EUR)	Cash flow cost in case of no application of RCM compared to full application (,000,000 EUR)	Difference: additional cost due to currently limited application of RCM (,000,000 EUR)	Difference expressed in percentage
0,32	0,49	0,17	53%

The VAT returns in Cyprus are due on a quarterly basis. Considering the filing deadline, the delay of payment/refund has been estimated to 55 days. Taking into account the filing periodicity and deadline, as well as the fact that Cyprus currently applies the reverse charge mechanism in 2 categories listed in Article 199, and 199a, as well as the ones for which a derogation has been granted on the basis of 394 and 395, the cash flow impact in this case may be considered as insignificant.



6. CZECH REPUBLIC

SCOPE OF APPLICATION

The reverse charge mechanism is applied on:

- supplies of selected types of scrap and waste (Annex V of the Czech VAT law);
- transfer of allowances to emit greenhouse gases; and
- supplies of construction and assembly services involving:
 - i. buildings and their construction (including services of developer subjects);
 - ii. engineering buildings and their construction;
 - iii. specialized construction and assembly services like demolition, exploration, painting, installation of devices, etc.

CONDITIONS

The mentioned taxable supplies that have their place of supply in the Czech Republic are subject to the reverse charge mechanism if the taxable person registered for VAT in the Czech Republic (Czech VAT payer) provides them to another taxable person registered for VAT in the Czech Republic.

In order to apply the reverse charge mechanism, the customer must act in his capacity as a taxable persons registered for Czech VAT.

In case of a partial taxable person or a non-taxable public body, the customer must at least partially use the provided supply/service for his economic activity. The supplier may assume this fact if he is provided by the VAT identification number of the customer.

In terms of administrative obligations, the mention that the reverse charge mechanism is applied - 'daň odvede zákazník' - must be stated on the invoice. Special evidence has to be filed electronically along with the VAT returns (in the same deadline) both by the supplier and the customer stating the VAT number of the supplier/customer, tax point, tax base and the description of the supply and its extent.

PERIOD OF APPLICATION



The reverse charge mechanism was introduced into the Czech VAT law on 1 April 2011 with respect to the supplies of selected types of scrap and waste and the transfer of allowances to emit greenhouse gases.

Concerning construction and assembly services, the reverse charge mechanism has been effective since 1 January 2012.

BASIS FOR IMPLEMENTATION

These measures have been introduced on the basis of Articles 199 and 199a of the VAT Directive.

IMPORTANCE IN TERMS OF TAXABLE BASIS

Importance in terms of taxable basis of applied RCM	Importance in terms of taxable basis of all RCM	Importance in terms of VAT receipt of applied RCM	Importance in terms of VAT receipt of all RCM applied
3%	7%	8%	17%

Currently, The Czech Republic applies a reverse charge mechanism on 3 categories listed in Article 199, and 199a..

These 3 sectors (including the transfer of CO2 emission rights) represented circa 3% of the overall economy of the country. If The Czech Republic would apply a reverse charge mechanism on all the sectors, around 7% of the GVA would come from activities subject to a reverse charge. This has however limitation due to unavailable data.

CASH FLOW IMPACT

Cash flow cost in case of no application of RCM compared to current situation (,000,000 EUR)	Cash flow cost in case of no application of RCM compared to full application (,000,000 EUR)	Difference: additional cost due to currently limited application of RCM (,000,000 EUR)	Difference expressed in percentage



1,45	3,22	1,77	123%
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The VAT returns in Czech Republic are due on a monthly and quarterly basis on the 25 of the following month. Based on the official deadline for filing of the VAT returns, the delay of payment/refund for VAT returns is estimated to 10 and 40 days respectively. Considering the deadline for filing of the VAT returns and the fact that the Czech Republic currently applies a reverse charge mechanism only in 3 sectors the cash flow impact in this case may be considered as significant.



7. DENMARK

SCOPE OF APPLICATION

A reverse charge mechanism has been introduced in respect of:

- CO2 credits and CO2 allowance trading
- scrap metal in Denmark
- easily shifted electronic goods (mobile phones, integrated circuit devices, gaming consoles, tablets and laptops) sold in Denmark to businesses. The retail industry is not affected by this new rule.

CONDITIONS

The reverse charge mechanism applies to all taxable suppliers.

In relation to easily shifted electronic goods, an exception applies to the retail industry.

The recipient is required to account for the VAT. Where the recipient is a non-taxable public body or a partial taxable person this will result in non-recoverable VAT, i.e. a net VAT payment.

The supplier is obliged to issue an invoice in accordance with the Danish VAT legislation, and include a reference to the reverse charge mechanism (a reference to the legislation is not required).

PERIOD OF APPLICATION

The reverse charge has been introduced at the following dates:

- 9 April 2010 for CO2 credits and CO2 allowance trading,
- 1 July 2012 for scrap metal,
- 1 July 2014 for easily shifted electronic goods (mobile phones, integrated circuit devices, gaming consoles, tablets and laptops) sold in Denmark to businesses.



BASIS FOR IMPLEMENTATION

The measures have been introduced on the basis of Article 199 and 199a.



IMPORTANCE IN TERMS OF TAXABLE BASIS

Importance in terms of taxable basis of applied RCM	Importance in terms of taxable basis of all RCM	Importance in terms of VAT receipt of applied RCM	Importance in terms of VAT receipt of all RCM applied
0%	3%	1%	7%

Currently, Denmark applies a reverse charge mechanism on 5 categories listed in Article 199, and 199a, as well as the ones for which a derogation has been granted on the basis of 394 and 395.

These 5 sectors represented less than 1% of the overall economy of the country. If Denmark would apply a reverse charge mechanism on all the sectors, around 3% of the GVA would come from activities subject to a reverse charge. This has however limitation due to unavailable data.

CASH FLOW IMPACT

Cash flow cost in case of no application of RCM compared to current situation (,000,000 EUR)	Cash flow cost in case of no application of RCM compared to full application (,000,000 EUR)	Difference: additional cost due to currently limited application of RCM (,000,000 EUR)	Difference expressed in percentage
0,83	5,75	4,92	593%

The VAT returns in Denmark are, primarily, filed on a monthly and quarterly basis. Based on the official deadline for filing of the VAT returns, the delay of payment/refund for VAT returns is estimated to 10 and 55 days respectively. Considering this period and the fact that Denmark applies a reverse charge mechanism in 3 sectors the cash flow impact in this case may be considered as significant.



8. ESTONIA

SCOPE OF APPLICATION

Following transactions are subject to domestic reverse charge:

- supply of real-estate (tax on option)
- supply of scrap metal

CONDITIONS

Both the supplier and the purchaser should be registered for VAT. In case of sale of real-estate, the seller of the goods should inform the Estonian tax authorities of the taxation of such goods.

In case of scrap metal every transaction between taxable persons should be subject to reverse charge.

If the public body is non-taxable person then no reverse charge shall be applied and the supplier shall issue invoice with VAT.

With regard to the administrative obligations, the supplier has to report the supply subject to domestic reverse charge in a separate column of the VAT return.

PERIOD OF THE APPLICATION

The reverse charge mechanism has been introduced at the following dates:

- supply of real estate: 01.01.2011
- supply of scrap metal: 01.04.2012

BASIS FOR APPLICATION

The measures have been introduced on the basis of art 199 and 199a.



IMPORTANCE IN TERMS OF TAXABLE BASIS

Importance in terms of taxable basis of applied RCM	Importance in terms of taxable basis of all RCM	Importance in terms of VAT receipt of applied RCM	Importance in terms of VAT receipt of all RCM applied
0%	6%	1%	13%

Currently, Estonia applies a reverse charge mechanism on 2 categories listed in Article 199, and 199a, as well as the ones for which a derogation has been granted on the basis of 394 and 395.

These 2 sectors represented less than 1% of the overall economy of the country. If Estonia would apply a reverse charge mechanism on all the sectors, around 6% of the GVA would come from activities subject to a reverse charge. This has however limitation due to unavailable data.

CASH FLOW IMPACT

Cash flow cost in case of no application of RCM compared to current situation (,000,000 EUR)	Cash flow cost in case of no application of RCM compared to full application (,000,000 EUR)	Difference: additional cost due to currently limited application of RCM (,000,000 EUR)	Difference expressed in percentage
0,01	0,13	0,12	1453%

Taking into account a monthly filing of the VAT returns and the filing deadline, the delay of payment/refund for monthly VAT returns is estimated to 5 days. Considering that Estonia currently applies a reverse charge mechanism only in 2 sectors the cash flow impact in this case may be considered as essential.



9. FINLAND

SCOPE OF APPLICATION

The following is subject to the reverse charge:

- real estate related construction services, which includes building and repair work on immovable property, as well as supply of goods, which are installed in connection with the work,
- hiring of workforce to perform above-mentioned services,
- transfer of emission allowances.

CONDITIONS

With regard to real estate related construction service, the purchaser has to be an entrepreneur who sells construction services more often than only occasionally or conducts certain self-supplies of immovable property. The RCM applies also, if the purchaser is an entrepreneur who further sells the construction service to an entrepreneur who sells construction services more often than occasionally.

With regard to the sale of emission allowances, the buyer has to be registered for VAT.

The suppliers have to be VAT taxable businesses.

If annual turnover of the supplier is below EUR 8.500, the reverse charge is not applied on construction services.

Sales and purchases of construction services (that fall under the reverse charge mechanism) have to be reported separately on the VAT return. Also, from 1 July 2014 onwards construction companies/acquirer of construction services will be required to file monthly reports regarding contracts (value of contracts, subcontractors, salaries paid, employees etc.). However, these requirements do not directly relate to VAT Act.

PERIOD OF THE APPLICATION

The reverse charge mechanism applies:



- since 1 April 2011 for construction services
 - since 1 August 2010 for emission allowances
- Finland will adopt reverse charge mechanism in supply of waste and scrap as of 1 January 2015.

BASIS OF THE IMPLEMENTATION

The measures have been implemented on the basis of Articles 199 and 199a.



IMPORTANCE IN TERMS OF TAXABLE BASIS

Importance in terms of taxable basis of applied RCM	Importance in terms of taxable basis of all RCM	Importance in terms of VAT receipt of applied RCM	Importance in terms of VAT receipt of all RCM applied
3%	6%	7%	13%

Currently, Finland applies a reverse charge mechanism on 3 out of 17 sectors covered by Articles 199 and 199a.

These 3 sectors, which include the transfer of CO2 emission rights, represented circa 3% of the overall economy of the country. If Finland would apply a reverse charge mechanism on all the sectors, around 6% of the GVA would come from activities subject to a reverse charge. This has however limitation due to unavailable data.

CASH FLOW IMPACT

Cash flow cost in case of no application of RCM compared to current situation (,000,000 EUR)	Cash flow cost in case of no application of RCM compared to full application (,000,000 EUR)	Difference: additional cost due to currently limited application of RCM (,000,000 EUR)	Difference expressed in percentage
4,38	7,76	3,379	77%

Considering that Finland currently applies a reverse charge mechanism only in 3 sectors the cash flow impact in this case may be considered as significant.



10. FRANCE

SCOPE OF APPLICATION

France has introduced a reverse charge mechanism for:

- the delivery of natural gas and electricity, as well as related services, for purposes other than consumption by the purchaser, provided they are transported to the purchaser by transmission and / or distribution.

The relevant "related services" cover the services providing access to transmission and distribution network of electricity or natural gas, routing via these networks and other services that are directly related.

In terms of natural gas, the transportation network is composed of high-pressure pipelines.

The distribution network consists of pipes at medium or low pressure.

With regard to electricity, the relevant transmission network consists of lines with high and very high voltage through that electricity flows and that are routed between an injection and withdrawal point. The distribution network consists of the lines low and medium voltage.

- the supplies and work performance of new industrial waste and recoverable materials.

New industrial waste includes, in general, manufacturing scrap that is unusable in its present form that cannot normally be included in preparation or manufacturing without prior treatment such as sorting, shearing, breaking, and grinding.

Recoverable materials include materials and objects disused or discarded are recovered to be recovered or recycled in a new production process. These materials may come from individuals (households), businesses or communities.

For instance, in the plastics industry, a plastic product removed from a production process due to a manufacture failure, or removed from the sales cycle for non-compliance qualifies as industrial waste.

In the metal industry, in general, waste from metalworking is considered as new industrial waste; scrap items qualify for recoverable materials; waste from manufacturing or processing metals such as slag, dross, ash, sludges and other residues are new industrial waste when they are made of the same metal to metal which they come, or byproducts otherwise they may also be considered secondary materials (e.g., silver-sludge fixer) or semi-finished products (copper mattes, for example).

Transactions involving sub-products or semi-finished products are not covered by the relevant provision.

Material separation by category metal, grinding, shearing or crushing do not qualify as treatment for transforming industrial waste and recoverable materials as required by art. 283, 2 sexies FGTA.



▪ the transfer (assignment) of emission allowances to emit greenhouse gas emissions and emission reduction units. This reverse charge mechanism applies to the assignment of emission allowances is related to the transfer of such allowances between persons established in the EU or in third countries where the allowances are recognized, managed by registration in a national registry. This possibility of assignment is not reserved only for companies issuing greenhouse gas emissions. It also applies to the assignment of emission reduction units refers to the creation of "carbon credits" in the form of "emission reduction units" that are assigned to project leaders in order to reduce emissions in developing countries and transition economies. Similar to emission allowances, these units are negotiable by their holders.

▪ electronic communication services, provided these are not subject to a special duty set forth in Article 302 bis KH FGTA. This covers all services that enable the emission, transmission or reception of signs, signals, writing, images or sounds delivered in an electromagnetically manner.

It includes also services electronic communication services providers render among each other. In particular the mechanism applies to:

- Fixed-line wholesale services (fixed line subscription and internet value-added services), including the provision of telecommunications services in the form of prepaid cards or refills;
 - Mobile wholesale services (voice and messaging, internet, SMS, MMS, email, value-added services), including the provision of telecommunications services in the form of prepaid cards or refills;
 - Capacity wholesale services (leased lines and data transport);
 - Interconnection and access referred to in art. L. 34-8, I of the of the French Post and Electronic Communication Act;
 - Unbundled local access telecommunications network;
 - The wholesale bandwidth;
 - Roaming services in the meaning of art 17 ° L 32 of the French Post and Electronic Communication Act.
- services provided by subcontractors acting in construction sector in particular to construction work, including repair, cleaning, maintenance, alteration and demolition services related to immovable property carried on by a subcontractor.

CONDITIONS

The reverse charge mechanism on the delivery of natural gas and electricity applies provided the place of delivery is deemed to be located in France and the following conditions are satisfied:

- The supplier is established in France,
 - the purchaser is identified for VAT purposes in France,
 - the delivery is performed for other purposes other than consumption by the purchaser
-



With regard to new industrial waste and recoverable materials, the reverse charge mechanism applies to all suppliers realizing the mentioned operations, whether established in France or abroad, provided the place of delivery is deemed to be in France. However, for suppliers realizing work performance and who are established abroad, the general reverse charge mechanism as set forth in Article 196 of the VAT Directive applies.

Regarding reverse charge mechanism on transfer of allowances to emit greenhouse gases it applies only to suppliers established in France.

The application of the reverse charge mechanism on electronic communication services requires – provided the relevant services are taxable in France - that

- the relevant electronic communication services are not subject to the special duty set forth in Article 302 bis KH FGTA and
- the purchaser is identified for VAT purposes in France.

The relevant services are only taxable in France if the purchaser is established in France. Consequently, the reverse charge mechanism in question applies only if the purchaser is not only identified, but also established for VAT purposes in France.

Furthermore, this reverse charge mechanism only applies if also the supplier is established in France. Otherwise, if the supplier is established abroad, the general reverse charge mechanism according to Article 196 of the VAT Directive is predominantly applicable.

With regard to the construction work, the French VAT law does not specify any particular conditions.

However, the application of the mentioned reverse charge mechanism requires – provided that the relevant services are taxable in France – that

- either the subcontractor and the taxable purchaser are established in France or
- the subcontractor is established in France and the taxable purchaser is established abroad, but is VAT identified in France.

The following administrative obligations exist in all above mentioned categories of reverse charge mechanism in France:

- The outgoing invoice does not mention output VAT on the relevant sales.
- The application of the reverse charge mechanism has to be mentioned on the outgoing invoice issued by the supplier.
- The relevant sales have to be declared on the VAT return filed by the purchaser and also on the supplier's VAT return filed in France.

Any omission on the purchaser's VAT return is subject to tax fines.



PERIOD OF THE APPLICATION

The mentioned reverse charge mechanism is applicable since 1st April 2012 for the delivery of natural gas and electricity, as well as related services.

With regard to new industrial waste and recoverable materials, the reverse charge mechanism is applicable since 1st January 2008. Concerning the transfer of emission allowances to emit greenhouse gas the reverse charge mechanism has been implemented on 1st January 2011.

The reverse charge mechanism on electronic communication services was introduced on 1st April 2012.

Finally, the reverse charge mechanism in construction sector entered into force on 1st January 2014.

BASIS FOR THE IMPLEMENTATION

The introduction of the reserve charge mechanism for the delivery of gas and electricity is based on Article 395 of the VAT Directive.

The introduction of the reserve charge mechanism for the waste industry was based on Article 199, 1, d) of the VAT Directive.

The introduction of the reserve charge mechanism for the transfer of emission allowances was based on Article 199a, 1 (a) of the VAT Directive.

The option of the reserve charge mechanism for the electronic communication services was based on Article 199a, 1 (g) of the VAT Directive.

The introduction of the reserve charge mechanism relating to the construction sector initially was based on Article 199 1 (a) of the VAT Directive.

IMPORTANCE IN TERMS OF TAXABLE BASIS

Importance in terms of taxable basis of applied RCM	Importance in terms of taxable basis of all RCM	Importance in terms of VAT receipt of applied RCM	Importance in terms of VAT receipt of all RCM applied
3%	4%	6%	8%



Currently, France applies a reverse charge mechanism on 6 categories listed in Article 199, and 199a, as well as the ones for which a derogation has been granted on the basis of 394 and 395.

These 6 sectors, including the transfer of CO2 emission rights, represented circa 3% of the overall economy of the country. If France would apply a reverse charge mechanism on all the sectors, around 4% of the GVA would come from activities subject to a reverse charge. This limited increase can be partly explained by the fact that no data are available notably on 199, e) to g) which are sectors where France currently does not apply the scheme.

CASH FLOW IMPACT

Cash flow cost in case of no application of RCM compared to current situation (,000,000 EUR)	Cash flow cost in case of no application of RCM compared to full application (,000,000 EUR)	Difference: additional cost due to currently limited application of RCM (,000,000 EUR)	Difference expressed in percentage
10,08	12,85	2,77	27%

The VAT returns in France are, primarily, filed on a monthly and quarterly basis. Based on the official deadline for filing of the VAT returns, the delay of payment/refund for VAT returns is estimated to 9 and 39 days respectively. Considering this period and the fact that France already applies a reverse charge mechanism in 5 sectors the cash flow impact in this case may be considered as insignificant.



11. GERMANY

SCOPE OF APPLICATION

The following supplies of goods are subject to the reverse charge in Germany:

- Immovable property
- Supply of used material
- Supply of goods provided as security
- Supply of mobile phones and integrated circuits if prior to assembling into a good to be ready to be supplied by a retailer and if the total amount to be invoiced within one transaction is at least EUR 5,000

The following supplies of services are subject to the reverse charge in Germany:

- Construction work
- Cleaning of building and part of buildings
- The transfer of allowances to emit greenhouse gases

CONDITIONS

The conditions for the application of the reverse charge mechanism differ:

Supply of used material:

- The material has to be included in Appendix 3 to the German VAT Act (Please find a copy of the Appendix attached under question 10).

Supply of construction work and cleaning of buildings and part of building:

- The reverse charge only applies, if the customer qualifies as a taxable person who - as part of its business - also mainly provides construction work respectively cleaning of buildings and parts of buildings.

Supply of mobile phones and integrated circuits:



- The reverse charge applies if the customer qualifies as taxable person, if delivered prior to assembling into a good to be ready to be supplied by a retailer and if the total amount to be invoiced within one transaction is at least EUR 5,000.

Immovable property and supply of goods provided as security:

- The reverse charge applies if the customer qualifies as taxable or legal person.

The transfer of allowances to emit greenhouse gases:

- The reverse charge applies if the customer qualifies as taxable person.

The reverse charge also applies if the goods or services are purchased for the non-taxable area.

In terms of administrative obligations, the goods and services subject to the reverse-charge have to be reported in the preliminary and the annual VAT returns. Invoices have to be issued within 6 months and must not show VAT but the indication that the reverse charge applies, i.e. "Steuerschuldnerschaft des Leistungsempfängers".

PERIOD OF APPLICATION

The measures have been introduced at the following dates:

- Immovable property: applicable since 1 January 2002;
- Supply of used material: applicable since 1 January 2011;
- Supply of goods provided as security: applicable since 1 January 2002;
- Supply of mobile phones and integrated circuits if prior to assembling into a good to be ready to be supplied by a retailer: applicable since 1 July 2011;
- Construction work: applicable since 1 January 2004;
- Cleaning of building and part of buildings: applicable since 1 January 2011;
- Transfer of allowances to emit greenhouse gases: applicable since 1 January 2011.

Germany will introduce the reverse charge mechanism on supply of game consoles, tablet PC's and laptops and supply of metal as from 1 October 2014

BASIS FOR THE IMPLEMENTATION

The reverse charge mechanism has been implemented on the basis of the following provisions:

- Immovable property: Article 199 para 1 letter c
 - Supply of used material: Article 199 para 1 letter d)
-



- Supply of goods provided as security: Article 199 para 1 letter e)
- Supply of mobile phones and integrated circuits if prior to assembling into a good to be ready to be supplied by a retailer: Art 395
- Construction work: Article 199 para 1 letter a)
- Cleaning of building and part of buildings: Article 199 para 1 letter a)
- Transfer of allowances to emit greenhouse gases: Article 199a para 1 letter a)

IMPORTANCE IN TERMS OF TAXABLE BASIS

Importance in terms of taxable basis of applied RCM	Importance in terms of taxable basis of all RCM	Importance in terms of VAT receipt of applied RCM	Importance in terms of VAT receipt of all RCM applied
2%	3%	4%	7%

Currently, Germany applies a reverse charge mechanism on 9 categories listed in Article 199, and 199a, as well as the ones for which a derogation has been granted on the basis of 394 and 395.

These 9 sectors represented circa 2% of the overall economy of the country. If Germany would apply a reverse charge mechanism on all the sectors, around 3% of the GVA would come from activities subject to a reverse charge.

CASH FLOW IMPACT

Cash flow cost in case of no application of RCM compared to current situation (,000,000 EUR)	Cash flow cost in case of no application of RCM compared to full application (,000,000 EUR)	Difference: additional cost due to currently limited application of RCM (,000,000 EUR)	Difference expressed in percentage
10,53	18,06	7,53	72%



The VAT returns in Germany are filed mainly on quarterly basis. Based on the official deadline for filing of the VAT returns, there is a delay of 25 days for quarterly VAT returns. Taking into account the delay, the cash flow impact in this case may be considered as significant.



12. GREECE

SCOPE OF APPLICATION

1) Which sectors, goods or services are subject to the option?

Greece has exercised the option of applying the reverse charge to:

- Recyclable waste
 - The supply of ferrous and non-ferrous waste, scrap and used materials;
 - The supply of ferrous and non-ferrous semi-processed products;
 - The supply of residues and other recyclable materials consisting of ferrous and non-ferrous metals, their alloys, slag, ash, scale and industrial residues containing metals or their alloys;
 - The supply of parings, scrap, waste and used and recyclable material consisting of cullet, glass, paper, paperboard and board, rags, bone, leather, imitation leather, parchment, raw hides and skins, tendons and sinews, twine, cordage, rope, cables, rubber and plastic;
 - The supply of scrap and waste from the processing of raw materials;
 - The supply of the aforementioned materials after processing in the form of cleaning, polishing, selection, cutting, fragmenting and pressing.

Based on the clarifications issued by the Ministry of Finance, the recyclable waste shall particularly include sawdust, ferrous filings, used cartons, obsolete books of a publishing house, obsolete electrical equipment of the Public Power Corporation, cables, used pallets, obsolete fixed assets that are not in use, oil wastes etc. to the extent they are supplied in the form of waste and are destined for recycling.

- The transfer of allowances to emit greenhouse gases as defined in Article 3 of Directive 2003/87/EC of the European Parliament and of the Council of 13 October 2003.

CONDITIONS

The reverse charge to the supply of recyclable waste should apply under the following conditions:



- The goods (recyclable waste) are destined for recycling, i.e. the supply should aim at their reintroduction in their initial processing stage and their further utilization in the production of new products;
- Both the supplier and the recipient of the goods are registered for VAT as taxable persons under regular regime;
- The supplier can be any VAT registered taxable person that supplies those goods either in the course of its standard business activity (recyclable waste trader) or as residuals from the execution of economic activity.
- The recipient of the goods is engaged in a relevant business activity;
- The supplies of such goods are effected by either recyclable waste traders or by persons supplying those goods as residuals due to the exercise of economic activity;
- The indication "Article 39a, reverse charge" has to be mentioned on the relevant invoice.

With regard to the transfer of allowances to emit greenhouse gases the following requirements should be met:

- Both the supplier and the recipient of the goods are Greek VAT registered taxable persons;
- The indication "Article 39a, reverse charge" is mentioned on the relevant invoice.
- The supplier has to be a company with gas emission business activity. Moreover, companies intermediating, by purchasing and selling those rights, have to be entitled to transfer allowances to emit greenhouse gases under the special scheme, under the condition that they have registered in the Registry of Emission Gases Traders maintained electronically and operated by National Center of Environment and Sustainable Development (EKPA).

Greece has not exercised its option to introduce the measures provided in Article 199 (3) of the VAT Directive in respect of partial taxable persons or non-taxable public bodies.

With regard to the VAT reporting obligations, the supplier should report the value of those supplies to box 309 of the monthly VAT return (box 610 of the Annual VAT return), whilst the recipient of those supplies should self-account for VAT and fill in the relevant input and output boxes depending on the applicable VAT rate (value: 301-303 / 351-353 value and 331-333 / 371-373 VAT). In addition, the recipient has to declare them in box 343 of the monthly VAT return (box 644 of Annual VAT return).

PERIOD OF APPLICATION

The measures have been introduced on

- 1 January 2007 for recyclable waste
- 1 January 2011 for the transfer of allowances to emit greenhouse gases

Both provisions are currently in force.



BASIS FOR IMPLEMENTATION

The measures have been introduced on the basis of Articles 199 and 199a of the VAT Directive.



IMPORTANCE IN TERMS OF TAXABLE BASIS

Importance in terms of taxable basis of applied RCM	Importance in terms of taxable basis of all RCM	Importance in terms of VAT receipt of applied RCM	Importance in terms of VAT receipt of all RCM applied
0%	1%	0%	2%

Currently, Greece applies a reverse charge mechanism on 2 categories listed in Article 199, and 199a, as well as the ones for which a derogation has been granted on the basis of 394 and 395.

These 2 sectors represented less than 1% of the overall economy of the country. If Greece would apply a reverse charge mechanism on all the sectors, around 1% of the GVA would come from activities subject to a reverse charge. This has however limitation due to unavailable data.

CASH FLOW IMPACT

Cash flow cost in case of no application of RCM compared to current situation (,000,000 EUR)	Cash flow cost in case of no application of RCM compared to full application (,000,000 EUR)	Difference: additional cost due to currently limited application of RCM (,000,000 EUR)	Difference expressed in percentage
0,02	0,97	0,95	4371%

Considering that Greece currently applies a reverse charge mechanism only in 2 sectors the cash flow impact in this case may be considered as essential.



13. HUNGARY

SCOPE OF APPLICATION

Services and goods subject to domestic reverse charge mechanism:

- construction and installation work and the rental of the respective machine operator, services and goods that are undergoing liquidation process,
- sale of immovable property,
- sale of land,
- sale of crop (agricultural activities),
- sale of pledge between the creditor and the debtor,
- transfer of a negotiable right for the emission of greenhouse gases,
- sale of waste.

In case of sale of immovable property, taxable persons need to opt for reverse charge taxation first (otherwise it is exempt).

In case of sale of crop and waste, sub-categories are:

- Waste: slag and dross, ferrous scrap; copper waste and scrap; nickel waste and scrap; aluminum waste and scrap; waste and scrap of lead; waste and scrap of zinc; waste and scrap of tin; wolfram (tungsten) waste and scrap; molybdenum waste and scrap; tantalum waste and scrap; magnesium waste and scrap; cobalt waste and scrap; bismuth waste and scrap; cadmium waste and scrap; titanium waste and scrap; zirconium waste and scrap; antimony waste and scrap; manganese waste and scrap; granulated slag (slag sand) from the manufacture of iron or steel; slag, and ash (excluding granulated slag), dross and waste from the manufacture of iron or steel; slag and dross suitable for the extraction of arsenic, metal, or their compounds (excluding slag and dross from the manufacture of iron or steel); recycled (waste and scrap) of paper and paperboard; cullet and other waste and scrap of glass; waste, parings and scrap, of plastics; waste, parings and scrap of rubber (except hard rubber), rubber residues, powder and granulates; waste and scrap of gold or of metal clad with gold; waste and scrap of other precious metals or amalgams of precious metals suitable for the extraction of other precious metals; granules and powders of pig iron, spiegeleisen, iron or steel; new or used cloth, twine, rope, loading slings waster and scrap



of textile Articles made of twine, rope or slings; waste and scrap of primary cells, primary batteries and electric accumulators; spent primary cells and spent electric accumulators.

- Crop: maize; wheat and meslin; barley; rye; oats; triticale; sunflower seeds, whether they are broken or not; rape or colza seeds, whether they are broken or not; soya beans, whether they are broken or not.

CONDITIONS

Generally, both parties should be taxable persons liable to pay VAT in Hungary and registered in Hungary for VAT purposes. The invoice issued must not contain VAT charged and the wording "fordított adózás" i.e. "reverse-charge" needs to be indicated on the invoice issued.

In case of construction work, any of the related parties is obliged to obtain a permission from the respective authority.

In case of sale of immovable properties, the supplier needs to opt for taxation.

Otherwise, the domestic reverse-charge mechanism is automatic in connection with above listed business activities.

Taxpayers who excised the option for taxation in connection with the sale of immovable properties will be bound to the option for the following five calendar years.

Taxpayers need to provide the tax authority with an announcement by 31 December of the year prior to the year of the application of the RCM in connection with the above.

Domestic reverse-charge is applicable only in case of B2B activities, where both parties shall be taxable persons in connection with the reverse-charge supply. Partial taxable persons and non-taxable public bodies are not subject to RCM.

In terms of administrative obligations, the taxpayers are obliged to report both the supply and acquisition of services or goods subject to the domestic reverse-charge mechanism in their VAT returns. There is a separate sheet in the return for the agricultural related activities.

PERIOD OF APPLICATION

The reverse charge mechanism has been introduced at the following dates:

- construction and installation work: 01.05.2008
- rental of the respective machine operator: 01.01.2008
- services and goods that are undergoing liquidation process: 01.01.2011



- sale of crop (agricultural activities): 01.07.2012
- sale of pledge between the creditor and the debtor: 01.01.2013
- transfer of a negotiable right for the emission of greenhouse gases: 01.01.2011
- sale of waste: 01.01.2008
- sale of immovable property and sale of land: 01.01.2008

BASIS FOR IMPLEMENTATION

The measures have been implemented on the basis of Article 199 and 199a.

IMPORTANCE IN TERMS OF TAXABLE BASIS

Importance in terms of taxable basis of applied RCM	Importance in terms of taxable basis of all RCM	Importance in terms of VAT receipt of applied RCM	Importance in terms of VAT receipt of all RCM applied
5%	9%	13%	21%

Currently, Hungary applies a reverse charge mechanism on 8 categories listed in Article 199, and 199a, as well as the ones for which a derogation has been granted on the basis of 394 and 395.

These 8 sectors represented circa 5% of the overall economy of the country. If Hungary would apply a reverse charge mechanism on all the sectors, around 9% of the GVA would come from activities subject to a reverse charge. This has however limitation due to unavailable data.

CASH FLOW IMPACT



Cash flow cost in case of no application of RCM compared to current situation (,000,000 EUR)	Cash flow cost in case of no application of RCM compared to full application (,000,000 EUR)	Difference: additional cost due to currently limited application of RCM (,000,000 EUR)	Difference expressed in percentage
3,28	5,59	2,31	70%

The VAT returns in Hungary are filed on a monthly, quarterly and annual basis. Based on the official deadline for filing of the VAT returns, the delay of payment/refund for VAT returns is estimated to 5, 35 and 195 days respectively. Considering this period the cash flow impact in in this case may be considered as significant.



14. IRELAND

SCOPE OF APPLICATION

The reverse charge applies to:

- Transfer of Green house gas emission allowances. "Greenhouse gas emission allowances" means allowances to emit greenhouse gases transferable in accordance with the Directive and other units that may be used by operators for compliance with the Directive.
- Supply of construction work. "Construction work" in relation to immovable goods includes construction, extension, alteration, demolition services and engineering work or other operations which adapt those immovable goods for materially altered use.
- Supply and dealing in scrap metal. "Dealing" in scrap metal includes the purchase, sale, resale or recovery of scrap metal. Scrap metal includes scrapped metal and metal waste originating from, or extracted from, the processing of metals, metal derived from vehicles, metal derived from construction and demolition waste, machine parts and metal items no longer usable in their original form due to their breaking, obsolescence, shearing, wearing or the like and also includes goods listed in paragraph (1) to (3) of annex V1 of the VAT Directive.
"Recovery" in relation to scrap metal, includes any activity carried out for the purpose of re-claiming, recycling or re-using, in whole or in part, scrap metal and any activities related to such reclamation, recycling or re-use.
- Supply of immovable property subject to VAT on option, provided the purchaser is in business and agrees to the option.

CONDITIONS

The supply must be made between taxable persons in Ireland.

In addition, with respect to the supply of construction work, including supplies between connected persons, the reverse charge applies to all principal contractors and sub contractors within the construction industry.

Finally, in relation to construction operations, Revenue guidance states that "both principal contractors and sub-contractors should ensure that their records and accounting systems can deal with the new system". In terms of reporting the Reverse charge VAT will be included in the recipients VAT return.



PERIOD OF APPLICATION

For green-house gas emissions the reverse charge system applies from 8 April 2010.

For Scrap metal the Reverse Charge rule applies from 8 May 2011.

For Construction operations involving a principal and subcontractor, the starting date is 01 September 2008. The extension to the supply for such construction services between taxable persons entered into force on 01 May 2012.

For supplies of property the Reverse charge rule applies from 1 July 2007.

BASIS FOR IMPLEMENTATION

These measures have been introduced on the basis of Article 199 and 199a.

IMPORTANCE IN TERMS OF TAXABLE BASIS

Importance in terms of taxable basis of applied RCM	Importance in terms of taxable basis of all RCM	Importance in terms of VAT receipt of applied RCM	Importance in terms of VAT receipt of all RCM applied
1%	2%	2%	5%

Currently, Ireland applies a reverse charge mechanism on 4 categories listed in Article 199, and 199a, as well as the ones for which a derogation has been granted on the basis of 394 and 395.

These 4 sectors, including the transfer of CO2 emission rights, represented circa 1% of the overall economy of the country. If Ireland would apply a reverse charge mechanism on all the sectors, around 2% of the GVA would come from activities subject to a reverse charge. This has however limitation due to unavailable data.

CASH FLOW IMPACT



Cash flow cost in case of no application of RCM compared to current situation (,000,000 EUR)	Cash flow cost in case of no application of RCM compared to full application (,000,000 EUR)	Difference: additional cost due to currently limited application of RCM (,000,000 EUR)	Difference expressed in percentage
0,27	0,63	0,36	135%

The VAT returns in Ireland are filed on bi-monthly, quarterly, bi-annual or annual basis. Taking into account the periodicity of filing of the returns the cash flow impact in this case shows as being significant.



15. ITALY

SCOPE OF APPLICATION

The reverse charge in Italy applies to the following categories of supplies of goods and services:

- supply of specific typologies of immovable property where the supplier has opted for taxation of the supply. This concerns the supply of owner-occupied buildings or parts thereof.
- the provision of services, including labour, provided in the building sector by subcontractors to companies implementing construction or reconstruction activities of buildings or to the main contractor or to another subcontractor.
- the supply of terminal equipment for public land mobile telecommunications services subject to tax on Government concessions;
- the supply of personal computers and their components and accessories;
- supplies of scrap, waste and residues of ferrous metals and related works, shredded paper, bone waste, skin waste, glass waste, rubber and plastic waste, deemed to include even those related to the aforementioned goods which have been re-cleaned, selected, cut, compacted, transformed into ingots or subjected to other treatments to facilitate their use, transport and storage without modifying their nature.
- supplies of services, including labour, provided in the building sector by contractors to Arexpo S.p.A. and Expo 2015 S.p.A. for the purpose of the Universal Exposition to be held in Milan from 1st of May to 31st of October 2015.

CONDITIONS

The supplier must exercise the option in the relevant contract in case of supply of immovable properties and issue the relevant invoices reporting the wording "inversione contabile" (i.e. reverse charge).

In other sectors, the supplier must issue the relevant invoices reporting the wording "inversione contabile" (i.e. reverse charge) and possibly the Law reference (e.g. Article 17.6 of Presidential decree n. 633 of 1972).

The supplier must register the relevant invoices in the VAT sales ledger.



The purchaser must physically integrate the invoice and then register it in both the VAT sale and purchase ledgers. To integrate means that the purchaser physically adds on the invoice (e.g.: by pen, stamp, etc.): i) the applicable VAT rate , ii) the corresponding VAT in EUR.

Supplies subject to domestic reverse charge must be specifically included in the Annual VAT return by both supplier and purchaser.

PERIOD OF APPLICATION

The measure has been introduced on 01/10/2007 on a permanent basis.

BASIS FOR IMPLEMENTATION

The above mentioned measures have been implemented on the basis of:

- Article 199 (1) (a) and (b) for supplies of specific services in the building sector.
- Article 199 (1)(c) for supplies of specific typologies of immovable property.
- Article 199 (1)(d) for supplies of scrap, waste and residues of ferrous metals and related works, shredded paper, bone waste, skin waste, glass waste, rubber and plastic waste,
- Article 199a (1)(c) and (d) for supply of mobile phones and personal computers and their components and accessories.

IMPORTANCE IN TERMS OF TAXABLE BASIS

Importance in terms of taxable basis of applied RCM	Importance in terms of taxable basis of all RCM	Importance in terms of VAT receipt of applied RCM	Importance in terms of VAT receipt of all RCM applied
4%	6%	9%	13%

Currently, Italy currently applies a reverse charge mechanism on 6 categories listed in Article 199, and 199a, as well as the ones for which a derogation has been granted on the basis of 394 and 395.

These 6 sectors represented circa 4% of the overall economy of the country. If Italy would apply a reverse charge mechanism on all the sectors, around 6% of the GVA would come from activities subject to a reverse charge. This has however limitation due to unavailable data.



CASH FLOW IMPACT

Cash flow cost in case of application of RCM compared to current situation (,000,000 EUR)	Cash flow cost in case of no application of RCM compared to full application (,000,000 EUR)	Difference: additional cost due to currently limited application of RCM (,000,000 EUR)	Difference expressed in percentage
3,37	5,12	1,74	52%

Considering that Italy currently applies a reverse charge mechanism in 6 sectors and the monthly and quarterly prepayments for the annual VAT returns the cash flow impact in in this case may be considered as insignificant.



16. LATVIA

SCOPE OF APPLICATION

According to the Latvian VAT law, the reverse charge is applicable to :

- the supply of timber and services related to the supply of timber,
- the supply of scrap metal and services related to the supply of scrap metal
- the supply of construction services

Supply of timber

The reverse charge is applied to the supply of the following timber products:

- cut and trimmed, cross-cut and not cross-cut, barked and un-barked, lengthways split and un-split round timber consisting of one element without artificial joints, the length of which exceeds 1 (one) meter, but the top end diameter of which is at least 3 (three) centimeters
- sawn timber of any length, sawn, planed or un-planed, consisting of one element without artificial joints and which is thicker than six millimeters.

Supply of scrap metal

The reverse charge is applied to the supply of the following scrap metal products:

- ferrous and non-ferrous metals and their alloys and scrap resulting from operations in industry, construction, agriculture or other fields, as well as everyday life
- metal products or parts that are not used for the intended purpose due to breakage, cutting-up, wear or other reasons
- different types of re-worn and unusable vehicles or parts thereof, including car wrecks
- electrical and electronic waste
- batteries and accumulators.

The supply of construction services

The reverse charge is applied to construction work related to:

- construction of new buildings or engineering structures
- renovation, simplified renovation on parts of an existing building



- reconstruction, simplified reconstruction on parts of an existing building
- restoration on parts of an existing building
- preservation or demolition of an existing building
- all kinds of design if specified in service agreement.

CONDITIONS

The conditions to apply the reverse charge in Latvia for all mentioned sectors are similar. Firstly both parties to the transactions have to be registered VAT taxable persons in Latvia. Secondly the place of supply for the supplies at hand has to be in Latvia. Additionally to apply the reverse charge to the supply of scrap metal, the acquirer of scrap metal has to have obtained either a license to collect scrap metals or if such a license is not obtained the acquirer has to have a permit to perform activities related to A or B category contamination or waste disposal. If the acquirer of scrap metal does not have the mentioned documentation the reverse charge mechanism cannot be applied.

The reverse charge mechanism in respect of the supply of timber, supply of scrap metal and supply of construction services is applicable only when the recipient is a fully taxable person for VAT purposes.

When considering the reverse charge mechanism in respect of the supply of construction services to public bodies it is important to note that the reverse charge mechanism is applicable also in case construction services are received by a public body registered as a VAT taxable person. Further the VAT law prescribes that in case a non-taxable public body receives construction services described in Section 142 for which the reverse charge is applied, and those services are supplied as a result of a public tender or under a public private partnership agreement, the public body is required to register as a VAT taxable person before the services have been received.

With regard to the administrative obligations, both the supplier and the recipient are obliged to indicate these transactions in their VAT returns as well as in specific VAT return annexes.

PERIOD OF APPLICATION

The reverse charge on the supply of timber has been granted based on Article 395(1) of the VAT Directive. Latvia can continue to apply the reverse charge mechanism on the supply of timber until December 31st 2015.

The reverse charge on the supply of scrap metal has been in force in Latvia since October 1st 2011 for an indefinite period.



The reverse charge on the supply of construction services has been in force in Latvia since January 1st 2012 for an indefinite period.

BASIS FOR IMPLEMENTATION

The reverse charge for the supply of timber has historically always been applied in accordance with Article 395 (1).

The reverse charge for the supply of scrap metal and construction has been introduced by on Article 199.

IMPORTANCE IN TERMS OF TAXABLE BASIS

Importance in terms of taxable basis of applied RCM	Importance in terms of taxable basis of all RCM	Importance in terms of VAT receipt of applied RCM	Importance in terms of VAT receipt of all RCM applied
4%	6%	10%	16%

Currently, Latvia applies a reverse charge mechanism on 3 categories listed in Article 199, and 199a, as well as the ones for which a derogation has been granted on the basis of 394 and 395.

These 3 sectors represented circa 4% of the overall economy of the country. If Latvia would apply a reverse charge mechanism on all the sectors, around 6% of the GVA would come from activities subject to a reverse charge. This has however limitation due to unavailable data.

CASH FLOW IMPACT

Cash flow cost in case of application of RCM compared to current situation (,000,000 EUR)	Cash flow cost in case of no application of RCM compared to full application (,000,000 EUR)	Difference: additional cost due to currently limited application of RCM (,000,000 EUR)	Difference expressed in percentage
0,25	0,39	0,14	57%



The VAT returns in Latvia are filed on the monthly and quarterly basis with relatively short period of delay (5 and 35 days respectively), therefore the cash flow impact in in this case shows as being insignificant, but this is not fully reliable due to missing data.



17. LITHUANIA

SCOPE OF APPLICATION

The reverse charge mechanism applies to the following:

- Objects of ownership taken over as a property contribution;
- Transfer of material improvement of a building/structure used on different than ownership grounds;
- Goods or services acquired from the VAT payer under insolvency or judicial restructuring procedure;
- Supply of ferrous and non-ferrous waste, scrap, and used materials including that of semi-finished products resulting from the processing, manufacturing or melting down of ferrous and non-ferrous metals and their alloys;
- Supply of the following types of timber:
 - a. Logs;
 - b. Planks – oblong sawn timber, 3-40 mm thick and under 25 mm width;
 - c. Girders – logs, cut, girded or milled parallel to the axis of the log, thicker and wider than 40 mm;

CONDITIONS

Generally, the reverse charge mechanism applies for all VAT payer's supplying goods or services listed above. Special requirement established in point c) – the supplier shall be under insolvency procedure.

For points a) to b) the reverse charge mechanism applies in case the VAT was deducted of the transferred objects subject to ownership or the transferred material improvement of a building/structure;

As regards point c) the supplier has to be under the insolvency procedure at the moment of supply.

For points d), e), reverse charge mechanism applies in case the goods supplied meet the descriptions provided.

Please note that the reverse charge mechanism will not be applicable in case the acquisition is made by budget offices or the cash register receipt is issued for the goods or services supplied.



With regard to the administrative obligations, the invoice issued has to include the note that the reverse charge is applicable. Also, both the supplier and the customer are obliged to report the transactions falling under the reverse charge mechanism separately from other transactions in their monthly VAT returns.

PERIOD OF APPLICATION

The dates reverse charge mechanism application came into force are:

- a) 1st July 2002;
- b) 1st July 2002;
- c) 1st July 2002 (applicable till 31st December 2015);
- d) 1st January 2008;
- e) 1st January 2008 (applicable till 31st December 2015).

BASIS FOR IMPLEMENTATION

- a) Article 199
- b) Article 199
- c) Article 395
- d) Article 199
- e) Article 395

IMPORTANCE IN TERMS OF TAXABLE BASIS

Importance in terms of taxable basis of applied RCM	Importance in terms of taxable basis of all RCM	Importance in terms of VAT receipt of applied RCM	Importance in terms of VAT receipt of all RCM applied
0%	5%	1%	11%

Currently, Lithuania applies a reverse charge mechanism on 3 categories listed in Article 199, and 199a, as well as the ones for which a derogation has been granted on the basis of 394 and 395.



These 3 sectors represented less than 1% of the overall economy of the country. If Lithuania would apply a reverse charge mechanism on all the sectors, around 5% of the GVA would come from activities subject to a reverse charge. This has however limitation due to unavailable data.

CASH FLOW IMPACT

Cash flow cost in case of application of RCM compared to current situation (,000,000 EUR)	Cash flow cost in case of no application of RCM compared to full application (,000,000 EUR)	Difference: additional cost due to currently limited application of RCM (,000,000 EUR)	Difference expressed in percentage
0,02	0,35	0,33	1322%

Considering that Lithuania currently applies a reverse charge mechanism only in 3 sector the cash flow impact in this case may be considered as essential.



18. LUXEMBOURG

SCOPE OF APPLICATION

Luxembourg has opted to introduced a reverse charge mechanism only to the transfer of allowances to emit greenhouse gases as defined in Article 3 of Directive 2003/87/EC of the European Parliament and of the Council of 25 October 2003 establishing a scheme for greenhouse gas emission allowance trading within the Community as well as the transfer of other units mutually recognized in compliance with the same Directive.

CONDITIONS

The transaction performed has to be subject to Luxembourg VAT. In general the recipient has to be a taxable business (independently of domestic establishment).

All taxable businesses (independently of domestic establishment) performing the above supply are obliged to apply the reverse charge mechanism.

The following administrative obligations exist;

Supplier: The supplier has to issue invoices including his VAT-ID number, the VAT-ID number of the recipient and a reference to the application of the reverse charge system. Further, he has to report the transaction as being subject to the reverse charge mechanism in its VAT returns.

Customer: The recipient has to report the incoming reverse charge transaction in its VAT returns, pay and deduct the related VAT in the same return within the limit of its VAT deduction right.

PERIOD OF APPLICATION

The measure has been introduced on 1 July 2010.



The applicability is not limited to a certain period. However, the time limit stated in Article 199a of the VAT Directive has to be considered.

BASIS FOR IMPLEMENTATION

The measure has been introduced on the basis of Article 199a of the VAT Directive.

IMPORTANCE IN TERMS OF TAXABLE BASIS

Importance in terms of taxable basis of applied RCM	Importance in terms of taxable basis of all RCM	Importance in terms of VAT receipt of applied RCM	Importance in terms of VAT receipt of all RCM applied
0%	3%	0%	6%

Currently, Luxembourg applies a reverse charge mechanism on 2 category listed in Article 199, and 199a, as well as the ones for which a derogation has been granted on the basis of 394 and 395.

These 2 sector, the transfer of CO2 emission rights, represented less than 1% of the overall economy of the country. If Luxembourg would apply a reverse charge mechanism on all the sectors, around 3% of the GVA would come from activities subject to a reverse charge. This has however limitation due to unavailable data.

CASH FLOW IMPACT

Cash flow cost in case of no application of RCM compared to current situation (,000,000 EUR)	Cash flow cost in case of no application of RCM compared to full application (,000,000 EUR)	Difference: additional cost due to currently limited application of RCM (,000,000 EUR)	Difference expressed in percentage
0,00	0,25	0,25	98255%

Considering that Luxembourg applies a reverse charge mechanism only on the transfer of CO2 emission rights, the the cash flow impact in this case is estimated as essential.



19. MALTA

SCOPE OF APPLICATION

The reverse charge mechanism is limited to construction and construction related services (i.e. the construction industry).

CONDITIONS

The Maltese VAT Act does not stipulate any conditions. However in practice, in order to apply the reverse charge mechanism, the recipient of the service needs to file a request in writing with the Maltese VAT Department and if the VAT Department is satisfied that such services qualify to be treated as construction related services, and if the customer is entitled to a full right of refund, the VAT Department informs both parties in writing about the application of the reverse charge mechanism for such services.

The written instructions issued by the Maltese VAT Department specifically indicate the manner in which such transactions are to be recorded in the VAT Returns and the wording to be inserted on the respective invoices issued.

Usually the start date is the first day of the month of when the request is filed by the recipient of the service and it usually runs for a period of 12 months (thereafter renewed on an annual basis if requested by the recipient of the service).

There is no obligation for any particular supplier to apply such a scheme. However if (following a request by the recipient of the construction services) such a direction is issued by the VAT Department, the supplier of the construction/construction related services is obliged not to charge VAT on the services rendered and the recipient of the service is obliged to account for such services using the reverse charge mechanism.

Although not officially contemplated in the law/guidelines our understanding is that it is of €70,000 per supplier. Hence contracts below such a threshold would not qualify for such an option.

PERIOD OF APPLICATION

The reverse charge mechanism has been introduced on 1 May 2004.



IMPORTANCE IN TERMS OF TAXABLE BASIS

The measure has been introduced on the basis of Article 199.



IMPORTANCE IN TERMS OF TAXABLE BASIS

Importance in terms of taxable basis of applied RCM	Importance in terms of taxable basis of all RCM	Importance in terms of VAT receipt of applied RCM	Importance in terms of VAT receipt of all RCM applied
N/A	1%	N/A	1%

Currently, Malta applies a reverse charge mechanism on 1 category listed in Article 199. The data for this sectors was however unavailable for Malta.

If Malta would apply a reverse charge mechanism on all the sectors, around 1% of the GVA would come from activities subject to a reverse charge. This has however limitation due to unavailable data.

CASH FLOW IMPACT

Cash flow cost in case of no application of RCM compared to current situation (,000,000 EUR)	Cash flow cost in case of no application of RCM compared to full application (,000,000 EUR)	Difference: additional cost due to currently limited application of RCM (,000,000 EUR)	Difference expressed in percentage
n/a	0,04	n/a	-

Considering that Malta currently applies a reverse charge mechanism only in 2 sectors the cash flow impact in this case may be estimated as significant. This has however limitation due to unavailable data.



20. POLAND

SCOPE OF APPLICATION

The optional reverse charge mechanism is applicable to:

- some specific steel and copper semi-products (e.g. steel rebars, flat steel products, copper bars and alloy etc.)
- ferrous, non-ferrous, other waste and scrap material (e.g. paper, rubber, glass, metal and plastic scrap)CO2 emission rights.

CONDITIONS

The reverse charge mechanism is applicable to taxable persons (i.e. B2B supplies not VAT-exempt) purchasing the different ferrous, non-ferrous and other waste and scrap (e.g. paper, rubber, glass, metal and plastic scrap), steel and copper semi-products (e.g. steel rebars, flat steel products, copper bars and alloys etc.) and CO2 emission rights.

The reverse charge mechanism is applied, provided that:

- the supplier of these goods / emission rights is a VAT taxable entity, other than VAT-exempt small businesses,
- the purchaser is a VAT taxable entity
- the goods are not VAT-exempt as second-hand goods.

According to the general rule, the reverse charge mechanism is applicable in situations when the recipient is a taxable entity under the Polish VAT rules.

There are no specific administrative obligations under the reverse charge mechanism.

PERIOD OF APPLICATION

The reverse charge mechanism on waste and scrap and the CO2 emission rights has been introduced on 1 April 2011 for the indefinite period of time.

On 1 July 2011, the VAT Act has been revised to extend the list of goods subject to the reverse charge mechanism.



As of 1 October 2013, the scope of the reverse charge mechanism has been broadened to include additional types of waste and scrap as well as steel and copper semi-products (e.g. steel rebars, flat steel products, copper bars and alloys etc.).

The reverse charge mechanism has been applied for an indefinite period of time.

BASIS FOR IMPLEMENTATION

The reverse charge mechanism on different ferrous, non-ferrous and other waste and scrap, as well as some specific steel and copper semi-products has been introduced based on Article 199 par. 1 (d) of the VAT Directive.

The introduction of the reverse charge mechanism on CO2 emission rights is based on the Article 199a par. 1 (a) of the VAT Directive.

IMPORTANCE IN TERMS OF TAXABLE BASIS

Importance in terms of taxable basis of applied RCM	Importance in terms of taxable basis of all RCM	Importance in terms of VAT receipt of applied RCM	Importance in terms of VAT receipt of all RCM applied
0%	5%	1%	13%

Currently, Poland applies a reverse charge mechanism on 3 categories listed in Article 199, and 199a.

These 3 sectors represented less than 1% of the overall economy of the country. If Poland would apply a reverse charge mechanism on all the sectors, around 5% of the GVA would come from activities subject to a reverse charge. This has however limitation due to unavailable data.

CASH FLOW IMPACT

Cash flow cost in case of application of RCM compared to current situation (,000,000 EUR)	Cash flow cost in case of no application of RCM compared to full application (,000,000 EUR)	Difference: additional cost due to currently limited application of RCM (,000,000 EUR)	Difference expressed in percentage



0,29	4,77	4,49	1565%
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Considering that Poland currently applies a reverse charge mechanism only in 3 sectors, the cash flow impact in this case may be considered as essential. The application of a reverse charge mechanism has an impact on the budget of each Member State. The shift of the VAT receipts causes on-off loss in the budgetary year and the need to find funds to compensate it.



21. PORTUGAL

SCOPE OF APPLICATION

In Portugal, the following sectors are subject to application of the RCM:

a) Recyclable waste, residues and scrap metal

The reverse charge mechanism applies to the following transfer of goods and supplies of services of the waste and scrap sector:

- Transfer of waste, ferrous and non-ferrous, scrap and waste materials, namely semi-finished products resulting from the processing, manufacturing or melting of ferrous and non-ferrous metals and their alloys;
- Transfer of ferrous and non-ferrous semi-processed products and certain related processing services;
- Transfers of waste and other recyclable materials consisting of ferrous and non-ferrous metals, their alloys, slag, ash, scale and industrial residues containing metals or their alloys and supply of services consisting in the selection, cutting, fragmenting and pressing of these products;
- Transfers, as well as processing related services, of ferrous and non-ferrous waste, as well as parings, scrap, waste and used and recyclable materials consisting of glass powder, glass, paper, rags, bones, leather, false leather, parchment, raw hides, tendons and sinews, twine, cordage, cables, rubber and plastic;
- Transfers of the materials above mentioned after processing in the form of cleaning, polishing, selection, cutting, fragmenting, pressing or casting into ingots;
- Transfers of scrap and waste resulting from the processing of base materials.

b) Civil construction services

The reverse charge mechanism applies on civil construction services (under a contracting or subcontracting arrangement) including improvements, repairs, maintenance, conservation and demolition with regards to immovable property.

c) Real estate



Moreover, the reverse charge mechanism applies on some operations related with the transfer of real estate, in case the VAT exemption is waived.

d) CO2 emission rights

The RCM applies to the transfer of CO2 emission rights, certified emission reductions (CERs) and emission reduction units (ERU);

CONDITIONS

The conditions for the application of the reverse charge mechanism depend on each particular case. We detail below what these conditions are:

a) Scrap material

The reverse charge mechanism must be applied if the following requirements are cumulatively met:

- 1) Acquisition of waste and scrap recyclable material or services included in Annex E of the Portuguese VAT Code.
- 2) The buyer must be a Portuguese VATable entity that performs operations in Portugal that grant, totally or partially, the right to deduct VAT and the supplier must be a VAT taxpayer.

If the above mentioned requirements are met, the supplier should not charge VAT on the invoice, which should state the reference "IVA - Autoliquidação". Subsequently the acquirer will be responsible for self-assessing and simultaneously deducting the VAT on such goods or services in its periodic VAT returns.

b) Civil construction services

The reverse charge mechanism must apply if the following requirements are cumulatively met:

- 1) Acquisition of civil construction services;

It should be considered as "construction service" any service which concerns the realization of a work, including the entire set of acts that are necessary for its achievement.

Moreover, it should be considered as "work" any work of construction, reconstruction, enlargement, alteration, repair, maintenance, rehabilitation, cleaning, restoration and demolition related to immovable property and any other work involving the construction process, whether of public or private nature. In case of construction services supplied to public bodies the reverse charge mechanism only applies if the latter carry out taxable operations.



- 2) The buyer must be a Portuguese VATable entity that performs operations in Portugal that grant, totally or partially, the right to deduct VAT. Please note that the RCM does not apply when the buyer only performs intra-community acquisition of goods in Portugal.

If the above mentioned requirements are met, the supplier should not charge VAT on the invoice, which should state the reference "IVA - Autoliquidação". Subsequently, the acquirer will be responsible for self-assessing and simultaneously deducting the VAT on such services in its periodic VAT return.

c) Transfer of real estate

In this case the reverse charge mechanism applies on operations related with the transfer of real estate, if the VAT exemption is waived.

In particular, in these cases the reverse charge mechanism must apply if the following requirements are cumulatively met:

- 1) Objective requirements: Operations of transfer and lease of real estate are normally exempt from VAT. However, VATable persons may opt for taxation in these operations. The option for taxation establishes subjective conditions for the entities and objective conditions concerning the real estate. As for the transfer of the real estate it should be an urban building or a land for construction. Additionally for the lease of real estate, the annual rent has to be equal or superior to 1/25 of the acquisition/construction value.
- 2) Subjective requirements: Provided the acquirer is a fully or partially deductible taxable person (prorata higher than 80%), it should apply the reverse charge mechanism in the operations regarding the transfer and supply of services related to real estate. Moreover, the supplier must be a VAT taxpayer and must include in the invoice the reference "IVA - Autoliquidação", meaning the acquirer is liable to account for the VAT due.
- 3) Formal requirements: The taxpayers that opt for taxation in these operations must request to the Portuguese Tax Authorities the issuance of a certificate. This certificate waiving the VAT exemption is requested electronically and has a validity of 6 months.

d) CO2 emission rights

In this case the reverse charge mechanism must apply if the following requirements are cumulatively met:

- 1) Acquisition of CO2 emission rights, certified emission reductions (CERs) or emission reduction units (ERU);
 - 2) The buyer must be a Portuguese VATable entity that performs operations in Portugal that grant, totally or partially, the right to deduct VAT.
-



If the above mentioned requirements are met, the supplier should not charge VAT on the invoice, which should state the reference "IVA - Autoliquidação". Subsequently, the acquirer will be responsible for self-assessing and simultaneously deducting the VAT on such services in its periodic VAT return.

The application of the reverse charge mechanism is mandatory when the acquirer is a Portuguese taxpayer that performs operations in Portugal which give a full or partial VAT deduction right.

From an administrative obligations point of view, these operations have to be reported in special boxes of the periodic VAT return by both for the supplier and recipient.

PERIOD OF APPLICATION

- Recyclable waste, residues and scrap metal:

Starting date: October 2006.

Period to be covered by the option: Indefinite

- Civil construction services and transfer of real estate:

Starting date: January 2007.

Period to be covered by the option: Indefinite

- CO2 emission rights:

Starting date: April 2010

Period to be covered by the option: Indefinite

BASIS FOR IMPLEMENTATION

These measures have been introduced on the basis of Article 199 and 199a of the VAT Directive.

IMPORTANCE IN TERMS OF TAXABLE BASIS

Importance in terms of taxable basis of applied RCM	Importance in terms of taxable basis of all RCM	Importance in terms of VAT receipt of applied RCM	Importance in terms of VAT receipt of all RCM applied
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3%	5%	7%	11%
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Currently, Portugal applies a reverse charge mechanism on 5 categories listed in Article 199, and 199a, as well as the ones for which a derogation has been granted on the basis of 394 and 395.

These 5 sectors represented circa 4% of the overall economy of the country. If Portugal would apply a reverse charge mechanism on all the sectors or sub-sectors to which the RCM applies, around 5% of the GVA would come from activities subject to a reverse charge. This has however limitation due to unavailable data.



CASH FLOW IMPACT

Cash flow cost in case of application of RCM compared to current situation (,000,000 EUR)	Cash flow cost in case of no application of RCM compared to full application (,000,000 EUR)	Difference: additional cost due to currently limited application of RCM (,000,000 EUR)	Difference expressed in percentage
5,41	8,38	2,97	55%

The VAT returns in Portugal are filed on a monthly and quarterly basis. Based on the official deadline for filing of the VAT returns, the delay of payment/refund for VAT returns has been estimated to 25 and 60 days respectively. Considering the fact that Portugal applies a reverse charge mechanism in 6 important sectors the cash flow impact in this case may be considered as insignificant.



22. ROMANIA

SCOPE OF APPLICATION

The reverse-charge mechanism is applicable to the following supplies of goods and services having the place of supply in Romania:

- supplies of ferrous and non-ferrous waste and scrap, as well as the supply of semi-finished goods resulted further to their processing, manufacturing or smelting;
- supplies of residue and other recyclable materials made of ferrous and non-ferrous metals, their alloys, cinder, ashes and industrial residue containing metals or their alloys;
- supplies of recyclable materials waste and used recyclable materials consisting of paper, cardboard, textiles, cables, rubber, plastic and glass;
- supplies of any of the materials mentioned above after their processing/transformation through cleaning processes, polishing, cutting, fragmenting, pressing or smelting into ingots, including non-ferrous metals' ingots for which other alloy materials were used;
- supplies of wood mass and wooden materials;
- supplies of certain cereals and industrial plants;
- transfer of greenhouse emission certificates defined in Council Directive 2003/87/CE;
- supplies of electricity performed to taxpayers established in Romania whose main activity is that of buying and reselling electricity; and
- transfer of green certificates.

CONDITIONS

Under the Romanian VAT law, the application of the reverse charge mechanism is mandatory in respect of the supplies of goods/services mentioned under point 2) having the place of supply in Romania once the condition that both the beneficiary and the supplier of goods/services are registered for VAT purposes in Romania is met.

For the purpose of applying the reverse charge mechanism in respect of supplies of electricity to taxable persons established in Romania acting in their capacity of energy traders, the following conditions should be observed in respect of the beneficiaries of the supplies:



- a) a taxable person is considered as acting in its capacity of energy trader provided that it possesses a license for its activity as operator of the electricity market for the next day market transactions and intra-day market transactions issued by the Romanian Energy Regulatory Authority; or
- b) a taxable person is considered as acting in its capacity of energy trader provided that:
 - the beneficiary of the supply should possess a valid license for the supply of electricity issued by the Romanian Energy Regulatory Authority; and
 - the main activity of the beneficiary in respect of the electric energy acquired is that of re-selling it and its own consumption is negligible (i.e. maximum 1% of total acquisitions). Moreover, an own liability statement attesting the fulfillment of this condition for the following calendar year should be submitted to the relevant tax authorities by 10 December. For acquisitions of electric energy performed during the year in which the taxpayer obtained a license for the supply of electricity from the Romanian Energy Regulatory Authority, the respective taxpayer should provide its supplier with an own liability statement attesting that the main activity of the beneficiary in respect of the electricity acquired is that of re-selling it and its own consumption is negligible.

Under the Romanian VAT law, for supplies of goods/services subject to the reverse charge mechanism, as well as for any advance payments for such supplies of goods, the suppliers have to issue invoices without VAT, containing a mention that the reverse charge mechanism is applicable to the respective supplies.

The relevant VAT is computed by the beneficiary and is inserted in the invoices and booked in the purchase journal both as input VAT and output VAT.

With respect to VAT reporting, the beneficiaries of supplies of goods subject to the reverse charge mechanism should declare in their VAT returns the related VAT both as input VAT and as output VAT. The respective acquisitions/supplies should also be declared by the beneficiaries/suppliers in another Romanian specific VAT statement - the monthly listing of local supplies/acquisitions of goods/services.

PERIOD OF APPLICATION

A reverse charge mechanism applies for:

- ferrous and non-ferrous waste and scrap and secondary raw materials resulted therefrom since 1 January 2005
- residue and other recyclable materials since 1 January 2005



- recyclable materials waste and secondary raw materials resulted therefrom since 1 January 2007
- materials mentioned above after their precessing/transformation since 2 September 2011
- supplies of wood mass and wooden materials from 1 January 2005 to 31 December 2016
- certain cereals and industrial plants from 23 June 2010 to 31 December 2018
- greenhouse emission certificates from 1 January 2011 to 31 December 2018
- electricity to taxpayers from 1 September 2013 to 31 December 2018
- green certificates from 1 September 2013 to 31 December 2018

BASIS FOR IMPLEMENTATION

The measures have generally been introduced pursuant to Article 199 and Article 199a of the VAT Directive. However, in respect of the application of the reverse charge mechanism for supplies of wood mass and wooden materials, a derogation was requested by Romania for the purpose of preventing VAT fraud within the meaning of Article 395 of the EU VAT Directive.

In respect of the application of the reverse charge mechanism for supplies of cereals and industrial, a derogation was requested by Romania for the purpose of preventing VAT fraud within the meaning of Article 395 of the EU VAT Directive starting with 31 May 2011.

IMPORTANCE IN TERMS OF TAXABLE BASIS

Importance in terms of taxable basis of applied RCM	Importance in terms of taxable basis of all RCM	Importance in terms of VAT receipt of applied RCM	Importance in terms of VAT receipt of all RCM applied
3%	8%	4%	15%

Currently, Romania applies a reverse charge mechanism on 6 categories listed in Article 199, and 199a, as well as the ones for which a derogation has been granted on the basis of 394 and 395.

These 6 sectors represented circa 3% of the overall economy of the country. If Romania would apply a reverse charge mechanism on all the sectors, around 8% of the GVA would come from activities subject to a reverse charge. This has however limitation due to unavailable data.



CASH FLOW IMPACT

Cash flow cost in case of no application of RCM compared to current situation (,000,000 EUR)	Cash flow cost in case of no application of RCM compared to full application (,000,000 EUR)	Difference: additional cost due to currently limited application of RCM (,000,000 EUR)	Difference expressed in percentage
1,84	6,05	4,21	228%

The VAT returns in Romania are filed on a monthly and quarterly basis. Based on the official deadline for filing of the VAT returns, the delay of payment/refund for VAT returns is estimated to 10 and 40 days respectively. Considering the period of delay the cash flow impact in this case may be considered as significant.



23. SLOVAKIA

SCOPE OF APPLICATION

The goods for which Slovakia opted to apply reverse charge mechanism are:

- metal waste and scrap metal
- greenhouse gas emission allowances
- immovable property (or a part of it) where the option to tax was elected by the supplier
- supply of goods provided as security by one taxable person to another in execution of that security
- supply of goods following the cession of a reservation of ownership to an assignee and the exercising of this right by the assignee
- supply of immovable property within the enforcement of bankruptcy proceedings
- selected agricultural crops
- Iron and Steel
- selected articles of iron and steel (codes 7301, 7308 and 7314)
- mobile telephones, being devices made or adapted for use in connection with a licensed network and operated on specified frequencies, whether or not they have any other use;
- integrated circuit devices such as microprocessors and central processing units in a state prior to integration into end user products.

CONDITIONS

A Slovak VAT payer (even foreign taxable person not established, but registered for VAT purposes in Slovakia) that purchases the goods listed above from another Slovak VAT payer is obliged to apply reverse charge mechanism providing the place of supply is in Slovakia.

Threshold of EUR 5,000 (excluding VAT) applies for the supplies of:

- selected agricultural crops
- Iron and Steel
- selected Articles of iron and steel (codes 7301, 7308 and 7314)



- mobile telephones, being devices made or adapted for use in connection with a licensed network and operated on specified frequencies, whether or not they have any other use;
- integrated circuit devices such as microprocessors and central processing units in a state prior to integration into end user products.

Threshold applies for each subtotal of these categories and k) in ONE invoice.

If summary invoices are made, all supplies made during the summarized period are added up into the mentioned four categories, and each of the subtotals is tested against the 5,000 threshold.

There are no specific reporting for these reverse charge supplies, apart from a VAT ledger report. The recipient of such supply is obliged to report this transaction in its VAT return, in the VAT ledger (a detailed reporting introduced in Slovakia as of January 2014). The supplier is only required to report in the VAT Ledger report. There is no reporting for supplies to be made in the VAT return. The VAT ledger report is a separate report from the VAT return and requires the VAT payer to provide detail on every single transaction subject to domestic reverse charge mechanism.

PERIOD OF APPLICATION

The starting dates are:

- metal waste and metals scrap: April 2009
- greenhouse gas emission allowances: October 2012
- immovable property (or a part of it) where the option to tax was elected by the supplier: October 2012
- supply of goods provided as security by one taxable person to another in execution of that security: October 2012
- supply of goods following the cession of a reservation of ownership to an assignee and the exercising of this right by the assignee: October 2012
- supply of immovable property within the enforcement of bankruptcy proceedings: October 2012
- selected agricultural crops: January 2014
- Iron and Steel: January 2014
- selected articles of iron and steel (codes 7301, 7308 and 7314): January 2014
- mobile telephones, being devices made or adapted for use in connection with a licensed network and operated on specified frequencies, whether or not they have any other use: January 2014
- integrated circuit devices such as microprocessors and central processing units in a state prior to integration into end user products: January 2014



The period is not specifically limited by the local VAT legislation.

BASIS FOR IMPLEMENTATION

The above mentioned measures were introduced based on Article 199 and 199a of the VAT Directive.

IMPORTANCE IN TERMS OF TAXABLE BASIS

Importance in terms of taxable basis of applied RCM	Importance in terms of taxable basis of all RCM	Importance in terms of VAT receipt of applied RCM	Importance in terms of VAT receipt of all RCM applied
1%	7%	3%	17%

Currently, Slovakia applies a reverse charge mechanism on 9 categories listed in Article 199, and 199a, as well as the ones for which a derogation has been granted on the basis of 394 and 395.

These 9 sectors represented circa 1% of the overall economy of the country. If Slovakia would apply a reverse charge mechanism on all the sectors, around 7% of the GVA would come from activities subject to a reverse charge. This has however limitation due to unavailable data.

CASH FLOW IMPACT

Cash flow cost in case of no application of RCM compared to current situation (,000,000 EUR)	Cash flow cost in case of no application of RCM compared to full application (,000,000 EUR)	Difference: additional cost due to currently limited application of RCM (,000,000 EUR)	Difference expressed in percentage
0,44	2,22	1,78	407%



The VAT returns in Slovakia are filed on a monthly and quarterly basis. Based on the official deadline for filing of the VAT returns, the delay of payment/refund for VAT returns has been estimated to 10 and 40 days respectively. Considering the relatively long period of delay the cash flow impact in this case may be considered as significant.

24. SLOVENIA

SCOPE OF APPLICATION

The following sectors, goods and services are subject to domestic reverse charge in Slovenia:

- supply of construction work, including repair, cleaning, maintenance, alteration and demolition services in relation to immovable property; This also includes the assembly of prefabricated building
- supply of staff involved in the performance of activities referred to in the preceding point ;;
- supply of immovable property regarding the supply of buildings or parts thereof and of the land on which they stand, unless the supply is performed before the buildings or parts thereof are first occupied or used or if the supply is performed prior to the expiration of the two-year period from the commencement of the first use or first occupation and regarding the supply of land other than building land provided that the supplier has opted for taxation of the supply;
- Supply of waste, residues and used materials and services referred to in Annex III a to the Slovenian Value Added Tax Act (supply of ferrous and non-ferrous waste, residue products and used materials, including semi-finished products in processing, manufacturing or smelting of ferrous and non-ferrous metals and their alloys and supply of semi-processed ferrous and non-ferrous products and supply of processing services associated therewith) ;
- Transfer of greenhouse gas emission rights as defined by the act governing the protection of the environment.

CONDITIONS

The recipient and supplier of goods/services subject to reverse charge have to be VAT registered in Slovenia. Every Slovenian VAT taxable person performing supplies stated under point 1 above to another VAT taxable person in Slovenia should apply the reverse charge mechanism.

Public and local bodies and other bodies governed by public law which receive supplies of goods/services subject to reverse charge with respect to the activities for which they are not considered VAT taxable persons are not obliged to self-assess VAT on those supplies.



With regard to the administrative obligations, taxable person performing supplies of goods and services that are subject to reverse charge in Slovenia in line with Articles 199 and 199a of the VAT Directive should provide the Tax Authorities with the monthly report about the supplies they performed in a given month (i.e. VAT reporting period). The taxable person has to report the VAT ID number of the recipient of goods/services and the total value of supply in VAT reporting period (i.e. calendar month). This report has to be filed with the Tax Authorities until the last working day of the month following the period to which it relates.

The taxable person has to report VAT identification number under which the taxable person supplied the good or services for which the recipient is the person liable for the payment of VAT, identification number of the recipient of these supplies of goods and services and for each recipient of such supplies, the total value of the supplies excluding VAT for reporting period (i.e. calendar month).

The supplier should also include a statement that VAT is subject to reverse charge on its invoices (in line with Article 82 of the VAT Act, corresponding to Article 226 of VAT Directive).

PERIOD OF APPLICATION

The reverse charge mechanism corresponding to Article 199 of the VAT Directive has been introduced in Slovenia as of 1 January 2010.

The reverse charge mechanism corresponding to Article 199a of the VAT Directive has been introduced in Slovenia as of 1 January 2011. This option is valid until 30 June 2015.

BASIS FOR IMPLEMENTATION

The measure has been introduced on the basis of Articles 199 or 199a of the VAT Directive.

IMPORTANCE IN TERMS OF TAXABLE BASIS

Importance in terms of taxable basis of applied RCM	Importance in terms of taxable basis of all RCM	Importance in terms of VAT receipt of applied RCM	Importance in terms of VAT receipt of all RCM applied
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3%	6%	6%	12%
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Currently, Slovenia applies a reverse charge mechanism on 5 categories listed in Article 199, and 199a..

These 5 sectors represented circa 3% of the overall economy of the country. If Slovenia would apply a reverse charge mechanism on all the sectors, around 6% of the GVA would come from activities subject to a reverse charge. This has however limitation due to unavailable data.

CASH FLOW IMPACT

Cash flow cost in case of no application of RCM compared to current situation (,000,000 EUR)	Cash flow cost in case of no application of RCM compared to full application (,000,000 EUR)	Difference: additional cost due to currently limited application of RCM (,000,000 EUR)	Difference expressed in percentage
0,27	0,57	0,30	108%

The VAT returns in Slovenia are filed on a monthly and quarterly basis. Based on the official deadline for filing of the VAT returns, the delay of payment/refund for VAT returns is estimated to 15 and 45 days respectively. Considering the period of delay and that Slovenia applies a reverse charge mechanism in 5 sectors the cash flow impact in this case may be considered as significant.



25. SPAIN

SCOPE OF APPLICATION

The reverse charge mechanism applies to:

- supply of construction works and staff engaged
- supply of immovable property in three cases: execution of that security, the supplier has opted for taxation and execution of goods provided as security
- supply of used materials
- greenhouse gases.

CONDITIONS

The reverse charge in Spain is compulsory when the conditions are met.

Regarding the supply of construction works, the reverse charge mechanism only applies between the developer and contractor, or contractor and subcontractors. It does not apply to cleaning services.

Regarding the supplies of real estate, the supplier should have been in a debtor procedure.

In case of supplies of real estate where there has been an option for taxation, the recipient should fulfill certain formal requirements and such recipient must have 100% of the right to recover the input VAT.

PERIOD OF APPLICATION

The measures entered into force on October 31st, 2012, with no end date for:

- the supply of construction work;
 - the supply of staff engaged in activities covered by point (a);
 - the supply of immovable property where the supplier has opted for taxation of the supply;
 - the supply of immovable goods provided as security by one taxable person to another in execution of that security;
-



The measures entered into force on January 1st, 2012, with no end date for:

- the supply of immovable property sold by a judgment debtor in a compulsory sale procedure.

The measures entered into force on October 28th, 2009, with no end date for:

- the transfer of allowances to emit greenhouse gases;
- the transfer of other units related to greenhouse gases.

The measures entered into force on January 1st, 2004, with no end date for:

- the supply of used material, used material which cannot be re-used in the same state, scrap, industrial and non industrial waste, recyclable waste, part processed waste and certain goods and services, as listed in Annex VI;

BASIS FOR IMPLEMENTATION

The measures have been introduced on the basis of Articles 199 and 199a.

IMPORTANCE IN TERMS OF TAXABLE BASIS

Importance in terms of taxable basis of applied RCM	Importance in terms of taxable basis of all RCM	Importance in terms of VAT receipt of applied RCM	Importance in terms of VAT receipt of all RCM applied
2%	4%	5%	11%

Currently, Spain applies a reverse charge mechanism on 8 categories listed in Article 199, and 199a, as well as the ones for which a derogation has been granted on the basis of 394 and 395.

These 8 sectors represented circa 3% of the overall economy of the country. If Spain would apply a reverse charge mechanism on all the sectors, around 4% of the GVA would come from activities subject to a reverse charge. This has however limitation due to unavailable data.



CASH FLOW IMPACT

Cash flow cost in case of no application of RCM compared to current situation (,000,000 EUR)	Cash flow cost in case of no application of RCM compared to full application (,000,000 EUR)	Difference: additional cost due to currently limited application of RCM (,000,000 EUR)	Difference expressed in percentage
7,71	16,11	8,40	109%

The VAT returns in Spain are filed on a monthly and, in the major part, on a quarterly basis. Based on the official deadline for filing of the VAT returns, the delay of payment/refund for VAT returns is estimated to 5 and 35 days respectively. Considering that the VAT returns are filed mainly on a quarterly basis and the period of delay the cash flow impact in this case may be considered as significant.



26. SWEDEN

SCOPE OF APPLICATION

The reverse charge mechanism applies to:

- Construction services performed by Swedish or foreign providers of construction services. It is generally required that the purchaser of the construction service is an undertaking which in its own business provides such services subject to these rules, or that the purchase is made by another undertaking (agent) who provides such services to an undertaking in the construction sector. Resale of services by companies within the construction sector shall also be subject to reverse charge. The reverse charge mechanism applies to most services that construction companies perform and shall be used when selling these services to companies who in their turn sell these services forward.

The term construction services includes services related to real estate, such as construction work, installation, demolition, repairs, alteration, maintenance, and also:

- construction of new buildings, enlarging of buildings and re-building,
- building installations, such as plumbing and installations of fire alarms.
- Examples of services which do not qualify as construction services in Sweden are:
 - Architectural activities, building consulting or project management in construction
 - Janitorial service by request, including minor repairs.
- Scrap: in order for the sales to be covered by the reverse charge mechanism it is required that the waste and scrap can be attributed to one of the following CN codes:
 - iron and steel (CN code starting 7204)
 - copper (CN code starting with 7404)
 - nickel (CN code starting with 7503)
 - aluminum (CN code starting with 7602)
 - lead (CN code starting with 7802)
 - zinc (CN code starting with 7902)
 - tin (CN code starting with 8002)
 - other base metals (CN starting with 8101-8113)
 - primary cells, primary batteries and electric accumulators (CN starting with 854810).



- Allowances to emit greenhouse gases: the allowances to emit greenhouse gases covered by RCM are those within the definition in Article 3 of the European Parliament and Council Directive 2003/87/EC of 13 October 2003 establishing a system of emissions trading for greenhouse gas emissions Union, which may be transferred in accordance with Article 12 of that Directive or sales of other devices that operators can use to comply with the Directive.

CONDITIONS

The rules on RCM are not linked to the category of the suppliers in Sweden. If the conditions under 1) are met, the reverse charge mechanism applies. There is no application procedure.

PERIOD OF APPLICATION

The reverse charge mechanism has been introduced at the following dates:

- Construction services: 1 July 2007
- supply of scrap/waste: 1 January 2013
- transfer of allowances to emit greenhouse gases: 1 January 2011

BASIS FOR IMPLEMENTATION

The measures have been introduced on the basis of Articles 199 and 199a in the EU VAT Directive.

IMPORTANCE IN TERMS OF TAXABLE BASIS

Importance in terms of taxable basis of applied RCM	Importance in terms of taxable basis of all RCM	Importance in terms of VAT receipt of applied RCM	Importance in terms of VAT receipt of all RCM applied
2%	5%	5%	10%

Currently, Sweden applies a reverse charge mechanism on 4 categories listed in Article 199, and 199a, as well as the ones for which a derogation has been granted on the basis of 394 and 395.



These 4 sectors represented circa 2% of the overall economy of the country. If Sweden would apply a reverse charge mechanism on all the sectors, around 5% of the GVA would come from activities subject to a reverse charge. This has however limitation due to unavailable data.

CASH FLOW IMPACT

Cash flow cost in case of application of RCM compared to current situation (,000,000 EUR)	Cash flow cost in case of no application of RCM compared to full application (,000,000 EUR)	Difference: additional cost due to currently limited application of RCM (,000,000 EUR)	Difference expressed in percentage
3,74	7,62	3,88	104%

The VAT returns in Sweden are, primarily, filed on a quarterly basis. Based on the official deadline for filing of the VAT returns, the delay of payment/refund for quarterly VAT returns is estimated to 57 days. Considering the period of delay and that Sweden applies a reverse charge mechanism in 4 sectors the cash flow impact in this case may be considered as significant.



27. THE NETHERLANDS

SCOPE OF APPLICATION

The reverse charge mechanism applies to:

- supplies of construction work (including shipbuilding), including repair, cleaning, maintenance, alteration and demolition services in relation to immovable property and including the handing over of construction works (construction, ship-building and cleaning sectors);
- supplies of staff engaged in the construction sector (construction, ship-building and cleaning sectors);
- supplies of immovable property under the option for taxation;
- supplies of used materials, scrap, waste and specific services;
- supplies of goods provided as security by one taxable person to another in execution of that security;
- supplies of immovable property sold by a judgment debtor in a compulsory sale procedure;
- supplies of CO2 emission allowances; and
- - supplies of mobile phones, chips, game consoles, tablet computers and laptops.

CONDITIONS

All taxable persons making the above listed supplies have to apply the reverse charge mechanism.

For all categories except the two first above, the recipient of the supply should be a VAT taxable person.

For the supplies of the two first categories it is not required that the recipient is a VAT taxable person. However, in practice the recipient of the category A and B supplies is usually a VAT taxable person.

The partial taxable persons are considered to be VAT taxable persons for the purpose of applying the reverse charge mechanism. The non-taxable persons must register themselves and file an (incidental) VAT return.

A threshold of EUR 10,000 applies for the following goods:



1. mobile phones like devices made or adapted for use in a network for which a permit has been issued, and that work on specified frequencies, whether or not they have any other use;
2. integrated circuits, such as microprocessors, central processing units, before they are built into a final product;
3. game computers, such as computers whose objective characteristics and main functions are such that they are designed for playing video games or computer games, whether or not they have any other use;
4. Tablet computers;
5. Laptops.

In terms of administrative obligations:

- The customer needs to self-assess the VAT based on the invoices received. The VAT amount that is reverse charged to the customer needs to be filed in section 2 of the VAT return if the domestic reverse charge is applicable in the Netherlands.
- The supplier needs to mention on his invoices that the reverse charge mechanism applies: "reverse charge".

PERIOD OF APPLICATION

- supplies of construction work etc: starting date is 1 January 1982 (no specific period indicated)
- supplies of staff engaged in the construction sector: starting date is 1 January 1982 (no specific period indicated)
- supplies of immovable property under the option for taxation: starting date is 1 January 1989 (no specific period indicated)
- supplies of used materials, scrap, waste and specific services: starting date is 1 January 2007 (no specific period indicated)
- supplies of goods provided as security by one taxable person to another in execution of that security: starting date is 1 January 2008 (no specific period indicated)
- supplies of immovable property sold by a judgment debtor in a compulsory sale procedure: starting date is 1 January 2008 (no specific period indicated)
- supplies of CO2 emission allowances: starting date is 1 January 2011 (no specific period indicated)
- supplies of mobile phones, chips, game consoles, tablet computers and laptops: starting date is 1 April 2013 (applied until 1 January 2014).

BASIS FOR IMPLEMENTATION

These measures have been introduced on the basis of Article 199 and 199a. However, the reverse charge on supplies of mobile phones, chips, game consoles, tablet computers and laptops has been introduced on the basis of Article 395.



IMPORTANCE IN TERMS OF TAXABLE BASIS

Importance in terms of taxable basis of applied RCM	Importance in terms of taxable basis of all RCM	Importance in terms of VAT receipt of applied RCM	Importance in terms of VAT receipt of all RCM applied
2%	3%	5%	7%

Currently, The Netherlands applies a reverse charge mechanism on 10 categories listed in Article 199, and 199a, as well as the ones for which a derogation has been granted on the basis of 394 and 395.

These 10 sectors represented circa 2% of the overall economy of the country. If The Netherlands would apply a reverse charge mechanism on all the sectors, around 3% of the GVA would come from activities subject to a reverse charge. This has however limitation due to unavailable data.

CASH FLOW IMPACT

Cash flow cost in case of no application of RCM compared to current situation (,000,000 EUR)	Cash flow cost in case of no application of RCM compared to full application (,000,000 EUR)	Difference: additional cost due to currently limited application of RCM (,000,000 EUR)	Difference expressed in percentage
5,72	8,32	2,60	45%

Considering that The Netherlands currently applies a reverse charge mechanism in 10 sectors the cash flow impact in in this case may be considered as insignificant.



28. UNITED KINGDOM

SCOPE OF APPLICATION

The domestic reverse charge applies to the categories of goods and services as follows:

- Mobile Phones (whether it has any function or not in addition to the transmission of or receiving of spoken messages). HMRC has provided the following guidance as to what constitutes a 'mobile phone' for the purposes of the above:
 - any handsets which have a mobile phone function (i.e. the transmitting and receiving of spoken messages), whether or not they have any other functions – it therefore includes other communication devices, such as Blackberry's;
 - mobile phones supplied with accessories (such as a charger, battery, cover or hands-free kit) as a single package;
 - pre-pay (or 'pay as you go') mobile phones, whether or not the selling price includes an element attributable to the cost of future use of the phones; and
 - mobile phones locked to a network but not supplied with a contract for airtime.

HMRC has also clarified that the domestic reverse charge for mobile phones does not include mobile phones which are supplied with a contract for airtime, including the supply of several mobile phones over a period of time under an on-going contract for airtime, mobile phone accessories which are supplied separately from a mobile phone, walkie-talkies, WiFi phones unless also intended for use with mobile phone networks, tablet devices and 3G data cards and WiFi cards.

- An integrated circuit device such as a central processing unit and microprocessor unit, in a state prior to integration into an end user produce (ie, computer chips).

For these purposes, 'computer chips' is taken to mean all computer chips falling under Commodity Code 8542 3190 00. Additionally, the following guidance has been provided by the UK Tax Authorities:

"The term computer chip covers:

- small integrated circuit (i.e. Central Processing Units or CPUs);
 - discrete integrated circuit devices, i.e. Microprocessors or Microprocessor Units (MPUs) and Microcontrollers or Microcontroller Units (MCUs); and
 - chipsets – the dedicated cluster of integrated circuits which support MPUs.
- The reverse charge applies to such items when they are in a state prior to integration into end-user products, or where they are sold separately and not as part of an assembled item, for example a motherboard."



- - Emissions allowances including the transfer on an allowance as defined in Article 3 of Directive 2003/87/EC, the transfer of an Emissions Reduction Unit ("ERU") or a Certified Emissions Reduction ("CER") which can be used by an operator for compliance within the EU ETS.

The emissions allowances domestic reverse charge does not apply to emissions options nor to any emissions allowances issued outside of the EU ETS such as Verified Emissions Reductions ("VER"s).

CONDITIONS

The reverse charge only applies to the sale and purchase of the above goods and services where the following conditions are met:

The transaction is between UK taxable persons. A taxable person is defined in UK domestic legislation at Section 3, VATA 1994 as a person or entity that "is or is required to be registered for UK VAT"; and

For goods the VAT exclusive value of the supply must be £5,000 or more. The value is calculated based on the invoice value i.e. the reverse charge applies if the total VAT exclusive value of all the specified goods on the same invoice is £5,000 or more. However, this de minimis rule does not apply to emissions allowances, no matter what the value; and

The good and services must be bought and sold for business use.

The only condition on the supplier is that it is a UK business that it registered or is required to be registered for UK VAT purposes that supplies the specified goods and/or services outlined above to other UK business that are VAT registered or required to be UK VAT registered.

The supplier must make a statement on the invoice to show that the reverse charge applies and that the customer is required to account for the VAT. The amount of VAT to be accounted for under the reverse charge must be clearly stated on the invoice but should not be included in the amount shown as total VAT charged. There is no prescribed wording for the statement that should be shown on the invoice in UK law but it should include the words 'reverse charge'.

Supplies to customers for non-business use are always excluded from the reverse charge mechanism. This includes public bodies acting in a non-business capacity.

The administrative obligations can be summarized as follows:

The customer must report the supply subject to the reverse charge mechanism on its VAT return.

The supplier must report the supply on its VAT return in Box 6 - Net value of sales. There is no VAT to report in any of the other VAT return boxes.



In addition, the supplier of specified goods (mobile phones and computer chips) must also submit a Reverse Charge Sales List ("RCSL"). This is not required for suppliers of specified services (emissions allowances).

HMRC must be notified within 30 days of the first sale of specified goods subject to the reverse charge. The supplier must submit RCSLs every time a VAT return is submitted - eg, for quarterly VAT returns, quarterly RCSLs must be submitted but for monthly VAT returns, monthly RCSLs must be submitted.

The RCSL must contain information including the UK VAT registration number of the customer and for each calendar month in the period, the total net value of reverse charge sales to that customer.

The supplier must make a statement on the invoice to show that the reverse charge applies and that the customer is required to account for the VAT. The amount of VAT to be accounted for under the reverse charge must be clearly stated on the invoice but should not be included in the amount shown as total VAT charged. There is no prescribed wording for the statement that should be shown on the invoice in UK law but it should include the words 'reverse charge'.

PERIOD OF APPLICATION

The reverse charge for mobile phones and computer chips came into force in the UK with effect from 1 June 2007 and is in force until 31 December 2018.

The reverse charge for emissions allowances came into force in the UK with effect from 1 November 2010 and is in force until 31 December 2018.

BASIS FOR IMPLEMENTATION

The emissions measures were introduced on the basis of Article 199a.

Mobile telephones and computer chips was introduced on the basis of Articles 395 of Directive 2006/112 as a derogation from Article 193.

IMPORTANCE IN TERMS OF TAXABLE BASIS



Importance in terms of taxable basis of applied RCM	Importance in terms of taxable basis of all RCM	Importance in terms of VAT receipt of applied RCM	Importance in terms of VAT receipt of all RCM applied
0%	3%	0%	9%

Currently, the UK applies a reverse charge mechanism on 3 categories listed in Article 199, and 199a, as well as the ones for which a derogation has been granted on the basis of 394 and 395.

These sectors represented less than 1% of the overall economy of the country. If the UK would apply a reverse charge mechanism on all the sectors, around 3% of the GVA would come from activities subject to a reverse charge. This has however limitation due to unavailable data.

CASH FLOW IMPACT

Cash flow cost in case of no application of RCM compared to current situation (,000,000 EUR)	Cash flow cost in case of no application of RCM compared to full application (,000,000 EUR)	Difference: additional cost due to currently limited application of RCM (,000,000 EUR)	Difference expressed in percentage
1,49	54,44	52,95	3551%

The VAT returns in the UK are filed on a monthly, quarterly and annual basis. Based on the official deadline for filing of the VAT returns, the delay of payment/refund for VAT returns is estimated to 15, 45 and 180 days respectively. Considering these relatively long periods and that the UK applies reverse charge mechanism in 3 sectors, the cash flow impact in in this case may be considered as essential.



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