

## **VAT – Commission takes Portugal to Court concerning its flat-rate scheme for farmers**

***The European Commission has decided to refer a case concerning Portugal to the Court of Justice. The reason is that Portugal does not apply a flat rate scheme for farmers consistent with the objectives of the scheme which is laid down in the VAT Directive.***

Where the application to farmers of the normal VAT arrangements is likely to give rise to difficulties, Member States may apply a flat-rate scheme designed to offset the VAT charged on purchases of goods and services made by the flat-rate farmers. When a farmer opts for this flat rate scheme, he is no longer covered by the normal VAT rules: he may not deduct the VAT paid on his inputs and he is released from his obligations relating to payment of tax, invoicing, declaration and accounting. In order to compensate him for the VAT paid on inputs which he cannot deduct, a flat-rate compensation (calculated by each Member States on the basis of macro-economic statistics) will be paid to him.

Instead of introducing a flat rate scheme for farmers in line with the provisions of the VAT Directive, Portugal has introduced an optional exemption for agricultural activities, exempting VAT on supplies provided by the farmer, unless he opts to apply the normal VAT arrangements. In addition, the flat-rate compensation percentage is fixed at a zero rate: farmers are not compensated for the VAT paid on their inputs while they have to pay VAT on agricultural inputs of 5-12%. Given that too much VAT is levied from the sector, Portugal makes a substantial negative compensation in its own resources to compensate for this factor. The Commission takes the view that the flat rate scheme applied to farmers in Portugal clearly conflicts with the purpose of the scheme and is not in line with the VAT Directive.

The Commission sent a reasoned opinion to Portugal in June 2009 (IP/09/1015), but since the reply received in September 2009 was not satisfactory, the Commission decided to refer the case to the Court of Justice.

The Commission's case reference number is 2008/2082.

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[http://ec.europa.eu/taxation\\_customs/common/infringements/infringement\\_cases/index\\_en.htm](http://ec.europa.eu/taxation_customs/common/infringements/infringement_cases/index_en.htm)

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