

European Commission publishes proposal for authorisation of UK's reverse charge MTIC reverse charge

Summary

The EU Commission has published its proposal to authorise the UK's request for the introduction of a reverse charge on certain electronic goods, which is aimed at countering so called missing trader VAT fraud ("MTIC fraud"). HMRC expects to introduce the measure on 1 December 2006. Under the proposal, the derogation will apply until 31 December 2009.

Comments

The Commission's comments on the proposal recognise that the proposed change, (even if limited to a certain range of goods), means that taxable persons in the sectors concerned would have to deal with three different types of tax regime:

- the "classical" VAT system;
- the reverse charge system for business-to-business (B2B) supplies where certain criteria were fulfilled;
- and
- the intra-Community system.

The Commission recognises that this would add to the accounting burdens already faced by business and that additional compliance burdens (verifying the nature of customers and reporting transactions) would be imposed on all businesses, including honest traders, operating in these areas. The Commission also recognises that the application of a reverse charge would offer new fraud opportunities, particularly at the final consumption stage, so that there will need to be appropriate control measures to guarantee that final consumption will not escape taxation. Furthermore, because of the potential for the internal market to become complicated by similar requests from other Member States, the Commission states that the measure must be limited in time in order to allow for evaluation of the effectiveness of the measure. Nevertheless, the Commission believes that the request satisfies the test required by Article 27 of the EC Sixth Directive in that it is aimed at preventing specific (MTIC) fraud.

When, as now seems likely, the derogation is granted, the provisions will be able to come into effect in relation to supplies made on or after a date specified by HM Treasury by order.

[Link to EC website](#)