

Andrej BABIŠ
First Deputy Prime Minister and Minister of Finance

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Dear Commissioner,

It has become well known over the last fifteen months that improving VAT collection in the Czech Republic and in the EU is the key element of my mission as the Minister of Finance. In this respect, I was very pleased to learn from the recent Commission press release "VAT revenue collection has failed to show significant improvement across EU Member States according to the latest figures released by the European Commission today" that this burning issue is on the Commission's agenda as well.

I talked about the solutions to VAT fraud in the EU at the ECOFIN Council of 20 June 2014 for the first time. Since then I have mentioned many times that a wider application of the reverse charge mechanism in the EU could be a solution to this problem. I have discussed this issue with a number of other Ministers of Finance and a few of them would be rather keen to explore this possibility as soon as possible.

It is often feared that a wider application of the reverse charge mechanism might be associated with various risks such as increase of VAT fraud at the end of business chain, distortion of the VAT system, potential effect on other Member States and internal market or increase of administrative burden. However, these risks can and need to be tackled so that persisting carousel fraud would not heavily burden on the budgets of the Member States. The

advantages of the reverse charge mechanism are as following. The VAT would be collected only once within each Member State, tax audits could be more efficient and fewer burdens would be put on businesses in longer term perspective. Tax administrations would be able to focus on the end of the business chain. This is my view and I am not isolated in it. Having discussed the issue on numerous occasions over last year I know that a number of Member States have an open mind concerning this solution. However, I am well aware of the fact that some European Commission Services officials do not share my point of view at all. I have always been very open to discuss the efficient alternatives, but there do not seem to be very many or at least none has been put on the table during the last fifteen months.

As you correctly stated, the 2013 VAT revenue collection has again failed to show significant improvement across the EU Member States and the total amount of VAT lost across the EU continues to exceed the annual EU budget. More precisely the VAT gap accounted to EUR 164.9bn in 2012 and EUR 167.7bn in 2013. This happened despite the fact that many conventional measures have recently been introduced in Member States.

I understand that there is a need for a "Robust, Resilient and Fraud-proof VAT System" in the EU in the long term. However, we have no proposal for a new definitive regime so far and it will take some time to adopt it when we have one. The fraud, on the other hand, is very fast and flexible. I am strongly convinced that it is high time we started solving this problem immediately. In the short term the procedure based on Article 395 of VAT Directive seems to be a suitable alternative designed specifically to combat the tax fraud. Therefore I together with three fellow Ministers of Finance asked for permission to apply this possibility and we hope that you will keep an open mind when assessing it.

The carousel frauds are often linked to the organized crime that goes not only beyond Member States' borders, but also beyond the field of taxation. This escalates the political urgency of the problem to the critical point. I understand that some other states may approach it differently. Nevertheless, the possibility of using the available measure should be discussed by all Member States. Otherwise an alternative must be proposed within the comparable time framework for implementation.

I am very grateful, Mr Commissioner, for having had the chance to share my profound concerns about more efficient VAT collection with you and I sincerely look forward to the European Commission actions in this particular area in near future.

Yours sincerely,



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