Contact Committee
Working group on VAT

Recent developments concerning the split payment mechanism

Liaison Officers' Meeting, Bucharest, 9-10 April 2019

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AGENDA

- ✓ State of play: where we left off…
- ✓ Recent reforms and current debate in Italy
- ✓ The (Deloitte for) EU COM impact analysis: an inconclusive report?
- ✓ Next steps

Where we left off/1

- In the Warsaw meeting (September 19, 2018), while handling down the chair of the Working Group, we provided an outline of its activities so far, underlining and reasserting its aims and scope.
- We outlined, on a comparative basis, the then-existent framework(s) and experiences in different EU States concerning the VAT collection mechanisms of Reverse Charge and Split Payment.
- We focused on a presentation of the results and effects brought by the introduction of the Reverse Charge and Split Payment mechanisms in our (Italian) jurisdiction.

Where we left off/2

- An analysis of the Italian experience was, in our opinion, a matter of some common interest, especially with regard to the split payment, because of the peculiarities of our system: Italy was then the only example of long-lasting application of this mechanism in the EU. Its close study could, therefore, be useful in planning future policy courses, fostering a common approach and/or providing insights for the possible future implementation of the same scheme in single MSs.
- Empirical evidence collected by the Italian Revenue Agency provided a favorable outlook on the tool: the application of split payment was accounted for a 3.5 Bn. Euro boost in tax collection (on an annual basis).
- Therefore, Italy requested – and obtained – by EU COM and, later, the Council – the extension, by way of derogation to Articles 206 and 226, VAT Directive (2006/112/CE), of the mechanism of split payment which, via Decree Law no. 50/2017, was also made applicable to a larger number of subjects and cases than before.
- The extension was granted (Decision 784/2017 of the Council) until June 30, 2020, on the grounds that concerns about the VAT refund mechanism had been appropriately tackled by the Italian administration, with an average of 3 months elapsing to handle a refund request.

Recent reforms and current debate in Italy/1

- Notwithstanding a seemingly well-established legislative and administrative direction taken on this point during the past few years, recent changes in policy-making have affected also the strategies set up in Italy for tackling VAT fraud.
- Decree Law no. 87/2018, indeed, signalled a significant turn back on the extension of the split payment: it reduced the area of operations covered by the mechanism, excluding professional services and bringing back the application of split payment (only) to sales of goods
- The number of subjects who are charged with the direct obligation of split-paying VAT remains unchanged: among which, e.g., we find government (both local and central) and governmental agencies, chambers of commerce, universities, NHS entities, state- and local-government- owned companies, companies listed on some markets (namely, FTSE-MIB index).
- On the other hand, subjects in respect of which split payment applies are substantially limited, with the exclusion of professionals subject to withholding VAT regime.

CORTE DEI CONTI

Recent reforms and current debate in Italy/2

- Changes brought by Law Decree no. 87/2018 have been met with mixed reactions.
- The new set of rules was hailed by some as bringing down the end of a discriminating and unfavourable treatment, seen as the cause of a rise in effective tax burden for professionals who are also subject to withholding VAT.
- The reduction of split payment area, however, raised also concerns from many analysts who pointed out that the increase in VAT revenues by 3.5 Bn. Euro annually in 2015-2016 was faced with a rise in VAT refund requests only for 1.8 and 1.2 Bn. Euro respectively for the years 2015 and 2016.
- This meant that the difference (on an annual basis) had to be accounted for as regained tax evasion. Even if targeted data on professional services for the year of split payment application (2017-18) were still not available, the data collected could be seen as supporting the case for strenghthening the split payment mechanism as a way to counter VAT frauds, while a partial turn back could show a slackening in anti-tax evasion effort on the part of the Government.

The (Deloitte for) EU COM impact analysis: an inconclusive report?

- While Italy was expanding its split payment area, EU COM commissioned Deloitte an analysis on the impact of split payment mechanism as an alternative VAT collection method.
- The final report was made public in December, 2017.
- Deloitte concluded that «*The study found no strong evidence that the benefits of split payment would outweigh its costs. The main identified effects were that a wider scope of split payment would potentially provide a larger decrease of the VAT gap and hence have a positive impact on the Member States' budgets, but would also significantly increase the related administrative costs for businesses, especially when applied on broad scale*».
- However, they also stated that the results are «*highly dependent on the specific design of the policy options as well as on the assumptions that had to be made in order to carry out the quantitative analysis*».
- No final conclusion can therefore be reached based solely on the report, even if it's very useful in highlighting pros and cons of the mechanism.
- If we consider only the aim of countering VAT frauds, it must be in any case said that, to quote the report itself, split payment is «*very effective*».

Next steps

- If any conclusion can be drawn from the Deloitte report, it is in the direction of using the split payment mechanism as a targeted tool to counter evasion in specific, high-risk areas.
- While the actual regulation in Italy can be seen as a satisfying balance point overall, a complete abolition of the mechanism, as called for by some stakeholders, would produce significant drawbacks.
- Further investigation and study is necessary in order to establish a coherent approach, embodying a common view at EU level.

Thank you for your attention!