Council of the European Union

PRESS

EN

BACKGROUND[1]

Brussels, 28 September 2018

ECONOMIC AND FINANCIAL AFFAIRS COUNCIL

Tuesday 2 October in Luxembourg

Ministers will receive a presentation by the Commission of its proposal to further strengthen the supervision of EU financial institutions as regards money-laundering and terrorist financing threats.

Ministers may be called on to agree the so-called **"VAT generalised reverse charge mechanism"** proposal, as well as the set of adjustments **("quick-fixes")** to the EU's VAT rules aimed at fixing specific issues pending the introduction of a new VAT system. The Council is also expected to endorse a **political agreement on the VAT regime for e-publications** and adopt a regulation aimed at improving **administrative cooperation to fight VAT fraud**.

The Council is expected to make adjustments to the EU's list of **non-cooperative jurisdictions** in taxation matters.

Ministers will discuss the **lessons learnt from the 2018 European semester exercise** and prepare the **G20 finance and IMF meetings of October in Bali** (Indonesia).

* * * * *

Ministers will hold a breakfast meeting, starting at 9.00, to discuss the **economic situation**.

The Council is scheduled to start at 10.00.

The **Eurogroup** will hold two meetings on Monday. At the first, starting at 15:00, ministers will hold a thematic discussion on national automatic stabilisers and will prepare the G20 and IMF meetings that will take place in Bali in October.

The second Eurogroup is set to start at 16:30. Discussions will be devoted to the reform of the European Stability Mechanism, in preparation of the December Euro-Summit.

Press conferences:

- after the Eurogroup *(Monday evening)*;
- at the end of the Council *(Tuesday lunchtime).*

Eurogroup agenda highlights

Press conferences and public events by video streaming

Video coverage in broadcast quality (MPEG) and photo gallery

---

1 This note has been drawn up under the responsibility of the press office.

Press office − General Secretariat of the Council
Rue de la Loi 175 − B-1048 BRUSSELS − Tel.: +32 (0)2 281 6319
press.office@consilium.europa.eu − http://www.consilium.europa.eu/press

VAT system – Short-term fixes

The Council will be called on to agree on three short legislative acts aimed at adjusting some of the EU's VAT rules in order to fix four specific issues pending the introduction of a new VAT system.

Technical work on these adjustments has been completed and there is broad agreement on a text proposed by the presidency on all four issues, though some concerns remaining on the way forward are still to be resolved.

Discussions are ongoing on a definitive VAT system to replace the current 'transitional' VAT arrangements, applied since 1993. Pending introduction of the new system, four short-term 'quick fixes' are proposed.

These relate to:

- call-off stock. The proposals provide for a simplified and uniform treatment for call-off stock arrangements, where a vendor transfers stock to a warehouse at the disposal of a known acquirer in another member state;
- the VAT identification number. To benefit from a VAT exemption for the intra-EU supply of goods, the identification number of the customer would become an additional condition;
- chain transactions. To enhance legal certainty in determining the VAT treatment of chain transactions, the proposals establish uniform criteria;
- proof of intra-EU supply. A common framework is proposed for the documentary evidence required to claim a VAT exemption for intra-EU supplies.

These adjustments are due to apply from 1 January 2020.

Other issues are set to be addressed in the context of further work on the definitive VAT system, in particular:

- provisions on the key features and principles of the new VAT system;
- the concept of a 'certified taxable person', a category of trusted business – a reliable taxpayer – that would benefit from simpler, time-saving VAT rules.
- the treatment of independent groups of persons that pool their services and share costs between their members.

The Council needs unanimity to adopt the proposals, after consulting the European Parliament. (Legal basis: article 113 of the Treaty on the Functioning of the European Union and article 397 of regulation 282/2011.)

The Parliament's opinion is pending.

Commission page on the single VAT area

VAT fraud – Generalised 'reverse charge' mechanism

The Council will be called on to agree a proposal allowing member states that are most severely affected by VAT fraud to temporarily apply a generalised reversal of VAT liability.

The reverse charge mechanism can already be applied on a temporary basis, but not in a generalised manner. The use of the "VAT sectoral reverse charge mechanism" is currently restricted to a pre-determined list of sectors.

The aim of the generalised ‘reverse charge’ mechanism is to assist some member states facing endemic VAT fraud. This temporary measure would involve shifting liability for VAT payments from the supplier to the customer. The directive would address in particular a common fraud scheme, known as 'missing trader' or 'carousel' fraud, where supplies are purchased and resold without payment of VAT.

According to the proposed presidency compromise, a member state may use the generalised reverse charge mechanism, only for domestic supplies of goods and services above a threshold of €17 500 per transaction, only up until 30 June 2022, and under very strict technical conditions. In particular, in a member state that wishes to apply such measure, 25% of the VAT gap has to be due to carousel fraud. This member state will have to establish appropriate and effective electronic reporting obligations on all taxable persons, in particular those to which the mechanism would apply.

Under the proposed rules, the generalised reverse charge mechanism may only be used by a member state once it meets the eligibility criteria and its request has been authorised by the Council. The application of this measure is also subject to strict EU safeguards, so that VAT fraud does not spread to other member states.

These new rules are expected to offer a short-term solution for containing fraud by the most affected member states, pending ongoing negotiations on a new and definitive VAT system where supplies would be taxed in the country of destination. The Commission has recently tabled the proposals aimed at replacing the current ‘transitional’ VAT arrangements by a definitive system.

The directive on VAT generalised reverse charge mechanism was proposed in December 2016 at the request of member states particularly affected by VAT fraud and was discussed by the Council in June 2017, in May 2018 and in July 2018.

The Council needs unanimity to adopt the directive, after consulting the European Parliament. (Legal basis: article 113 of the Treaty on the Functioning of the European Union.) The Parliament hasn’t yet delivered its opinion.

[VAT reverse charge mechanism - Council webpage]

Anti-money laundering and prudential supervision

The Commission will present its proposal to further strengthen the supervision of EU financial institutions and to better address money-laundering and terrorist financing threats.

Recent scandals involving money laundering in some EU banks have raised concerns that anti money laundering (AML) rules are not always supervised and enforced effectively across the EU, creating risks for the integrity and reputation of the European financial sector, as well as for the financial stability of those banks.

The recent cases of breach or alleged breach of AML rules have prompted calls for action at the highest political level. In its letter of 25 June 2018 to the President of the European Council, the Eurogroup President highlighted the "importance of enhancing the current monitoring of the implementation of anti-money laundering measures". The issue was also taken up in the framework of the Franco-German Meseberg declaration.

In this context, the Commission presented on 12 September a proposal to reinforce the role of the European Banking Authority (EBA) in anti-money laundering supervision for financial institutions.

The text aims in particular at:

- ensuring consistent investigation of breaches of anti-money laundering rules;
- giving the EBA a last resort competence to address decisions directly to individual financial operators;
- enhancing the quality of supervision through common standards and coordination among national supervisory authorities.

In parallel, the Commission set up, in May 2018, a joint working group involving also the SSM and the European supervisory authorities with the aim to improve the current framework for cooperation between anti-money laundering and prudential supervisors. The joint working group is also to be seen in light of the Eurogroup President's call to prepare a report which would serve as a basis for further measures by end of 2018.

The European rules on anti money laundering and terrorist financing have been considerably strengthened in the past years, with two consecutive reforms being adopted since 2015. The latest revision of the AML directive, the fifth AMLD, was adopted in April 2018 and is due to be transposed at national level by January 2020.

Letter by Eurogroup President to the European Council President ahead of the Euro Summit, 25 June 2018

Commission's communication on strengthening the framework for AML supervision

Commission's proposed amendments to the ESAs review

Council page on fight against money laundering and terrorist financing

European Semester 2018 - Lessons learnt

The Council will assess challenges for the 'European Semester' policy monitoring process in the light of lessons learned from the 2018 exercise.

The chairman of the Economic and Financial Committee (EFC) will report on discussions in the EFC and the Economic Policy Committee.

Ministers will be called on to discuss how to improve the process and the outcome of the European Semester. More specifically:

- how to improve the degree of implementation of country-specific recommendations
- how to foster multilateral discussions, in the framework of Council preparatory bodies, to develop a common understanding on the country specific recommendations proposals.

The European Semester involves simultaneous monitoring of the member states' economic, fiscal and employment policies during a roughly six-month period every year.

Covering a broad range of policy areas, it involves several Council configurations and preparatory committees.

In the light of policy guidance from the European Council annually in March, the member states present each year:

- national reform programmes for their economic and employment policies;
- stability/convergence programmes for their fiscal policies.

The European Semester concludes in July with the adoption of country-specific recommendations.

The 2019 European Semester will start in November 2018 with the Commission's publication of its annual growth survey. The calendar for the next exercise is set to be very challenging due to the possible overlap of the European elections in May 2019.

G20 and IMF meetings in Bali

The Council will discuss preparations for international meetings to be held in Bali in October 2018, namely:

- a G20 finance ministers and central bank governors meeting on 11-12 October;
- IMF annual meetings, on 12-14 October.

The G20 meeting will feature discussion on the risks to the global economic outlook, the international financial architecture, as well as exchanges on the financing of infrastructure development and the G20 compact with Africa. It will be the last G20 ministerial meeting under the Argentinian presidency, with Japan taking over on 1 December 2018.

Other items

Financial services legislation

Under 'other business', the Council will be updated regarding work on legislative proposals. The Commission will also report on the implementation of adopted legislation.

[September 2018 progress report on financial services legislative proposals]

VAT fraud - administrative cooperation

The Council is expected to adopt, without discussion, measures to strengthen administrative cooperation in order to better prevent VAT fraud.

The regulation will improve the exchange and analysis of information shared by the member states' tax administrations and with law enforcement bodies. It will also strengthen Eurofisc, a network of national tax officials for the exchange of information on VAT fraud, jointly processing and analysing all relevant data.

A political agreement on the text was reached at the Council meeting of 22 June 2018. The Parliament issued a positive opinion on the text on 3 July 2018.

[Text of the regulation submitted for adoption]
[June 2018 press release on Council agreement regarding administration cooperation in the field of VAT fraud prevention]

VAT rates for electronic publications

The Council is expected to reach agreement on a proposal allowing member states to apply reduced, super-reduced or even zero VAT rates to electronic publications.

The proposed directive is aimed at aligning VAT rules for electronic and physical publications, thereby contributing to the EU's 'digital single market' plan. The new rules will apply temporarily, pending the introduction of a new, 'definitive' VAT system.

The Council needs unanimity to adopt the directive, after consulting the European Parliament. (Legal basis: article 113 of the Treaty on the Functioning of the European Union.) The Parliament delivered its opinion on 1 June 2017.

[May 2018 note on the draft directive on VAT rates applicable to electronic publications]

[Reduced VAT for e-publications - Council webpage]

Taxation - non-cooperative jurisdictions

The Council is due to approve, without discussion, a number of amendments to its conclusions of December 2017 on the EU's list of non-cooperative tax jurisdictions.

These include the removal of Palau from the list, which is contained in annex I of the conclusions. As Palau has made commitments at a high political level to remedy EU concerns, it will be moved to annex II of the conclusions and the implementation of the commitments will be carefully monitored.

In addition, Liechtenstein and Peru will be removed from annex II of the conclusions following the positive assessment of the reforms implemented by both jurisdictions.

[September 2018 note on changes to the EU list of non-cooperative jurisdictions]
[Council webpage on the EU list of non-cooperative jurisdictions]
[December 2017 Council conclusions on the EU list of non-cooperative jurisdictions]