

# Value added tax on cross border transactions in network energy

Energy Community  
5th Workshop  
25 May 2023



# REVERSE CHARGE MECHANISM



# DEFINITIONS



# Definition

## What is “reverse charge” (self-accounting)”?

- The reverse charge mechanism is a **measure that shifts liability for final VAT payment to the government budget from the vendor to the customer**. Under the **reverse charge mechanism**, the customer, rather than the supplier, is accountable for the VAT on the supply.
  - The reverse charge mechanism simplifies the VAT rules for businesses that operate across multiple EU member states and is designed specifically for cross-border sales in business-to-business (B2B) transactions.
  - The VAT domestic reverse charge procedure is an anti-fraud measure designed to counter criminal attacks on the VAT system by means of sophisticated fraud.

# Reverse charge mechanism

- **Obligatory reverse charge** (art. 195 to 198 of the VAT Directive)
- **Optional reverse charge for non-established suppliers** (art. 194 of the VAT Directive)
- **Optional reverse charge for specific transactions** (art. 199, art. 199a and 199b of the VAT Directive)

# How the reverse charge works

- The supplier issues a document to the recipient that includes all of the information required on a VAT invoice, except the VAT rate and the VAT amount. It should also state that it is the recipient who is accountable for the VAT and include the statement “Reverse charge.”
- Where the customer receiving a supply issues the invoice instead of the supplier, the mention ‘Self-billing’ is required.
- The customer does not pay the VAT to the supplier but instead accounts for it in the VAT return for the relevant period in section ‘VAT on sales’.
- The customer can claim a simultaneous input credit in ‘VAT on purchases’ for that VAT if s/he has valid documentation and would have been entitled to an input credit if that VAT had been charged by the supplier.

The image features a hand on the right side, pointing its index finger towards a glowing, circular icon on the left. The icon contains a large white question mark. The background is a dark blue gradient with some light streaks and a diagonal light blue stripe in the top right corner. The text 'Obligatory reverse charge' is overlaid in orange on the question mark icon.

**Obligatory  
reverse charge**

# Obligatory reverse charge(1)

- The VAT Directive provide, in the case of supplies of gas through the natural gas distribution system and of electricity, if the supplies are carried out by a taxable person not established within the Member State in which the tax is due, that the buyer is liable to pay the VAT through an obligatory reverse charge system.
- In the case of supplies of services referred to in Article 44 of the VAT Directive, if the services are supplied by a taxable person not established within the territory of the Member State, the VAT shall be payable by the taxable person, or non-taxable legal person identified for VAT purposes who received those services.



A hand in a dark suit sleeve points towards a glowing white question mark icon. The icon is surrounded by concentric white circles and a blue glow. The background is a dark blue gradient with light streaks and a teal geometric shape in the top right corner.

**Optional reverse charge  
for non-established suppliers**

# Optional reverse charge for non-established suppliers

- According to Article 194 VD Member States may determine that, in case a supplier is not established in their territory, the acquirer is liable for the payment of the VAT (‘reverse charge’). In such case the acquirer accounts for the VAT (instead of being charged by the supplier) and deducts in the same VAT return.
  - the simplification for call-off stock arrangements (from the date of accession)
  - an intra-Community triangular supply: Company C – the purchaser will manually calculate the VAT amount and report it as deductible and payable VAT (both) in the VAT return. The net result will be nil unless Company C does not have full right to deduct. (from the date of accession)

A hand in a dark suit sleeve points towards a glowing question mark icon. The icon is white and surrounded by concentric blue circles with a bright blue glow. The background is a dark blue gradient with light streaks and a teal diagonal stripe in the top right corner.

**Optional reverse charge for  
specific transactions**

# Domestic reverse charge (1)

## Examples of specified goods and services that the reverse charge applies to:

- the transfer of allowances to emit greenhouse gases as defined in Article 3 of Directive 2003/87/EC of the European Parliament and of the Council of 13 October 2003 establishing a scheme for greenhouse gas emission allowance trading within the Community, transferable in accordance with Article 12 of that Directive;
- the transfer of other units that may be used by operators for compliance with the same Directive;
- **supplies of gas and electricity to a taxable dealer as defined in Article 38(2) of the VAT Directive;**
- **supplies of gas and electricity certificates;**
- supplies of mobile telephones, being devices made or adapted for use in connection with a licensed network and operated on specified frequencies, whether or not they have any other use;
- supplies of integrated circuit devices such as microprocessors and central processing units in a state prior to integration into end user products;
- supplies of telecommunication services as defined in Article 24(2);
- supplies of game consoles, tablet PC's and laptops;
- supplies of cereals and industrial crops including oil seeds and sugar beet, that are not normally used in the unaltered state for final consumption;
- supplies of raw and semi-finished metals, including precious metals, where they are not otherwise covered by point (d) of Article 199(1), the special arrangements for second-hand goods, works of art, collector's items and antiques pursuant to Articles 311 to 343 or the special scheme for investment gold pursuant to Articles 344 to 356.

# Reverse charge – example (1)

## Examples of the EU Reverse Charge mechanism in practice:

Based on **the general rules**, the supplier includes VAT in their invoice for goods or services sold to a customer. For example, if a business supplies services for €1000 in Romania, where the VAT rate is 19%, the supplier would charge the customer €1190 (€1000 + €190 VAT), but as it has bought €476 worth of tools in the same accounting period, including €76 VAT, it is only required to pay €114 (€190 less €76) to the treasury - as according to the general rules, this is the supplier's responsibility - by including it as payable VAT in its VAT return.

Supply: €1000

VAT on supply: €190

VAT on purchases: €95

Net VAT to be paid: €114

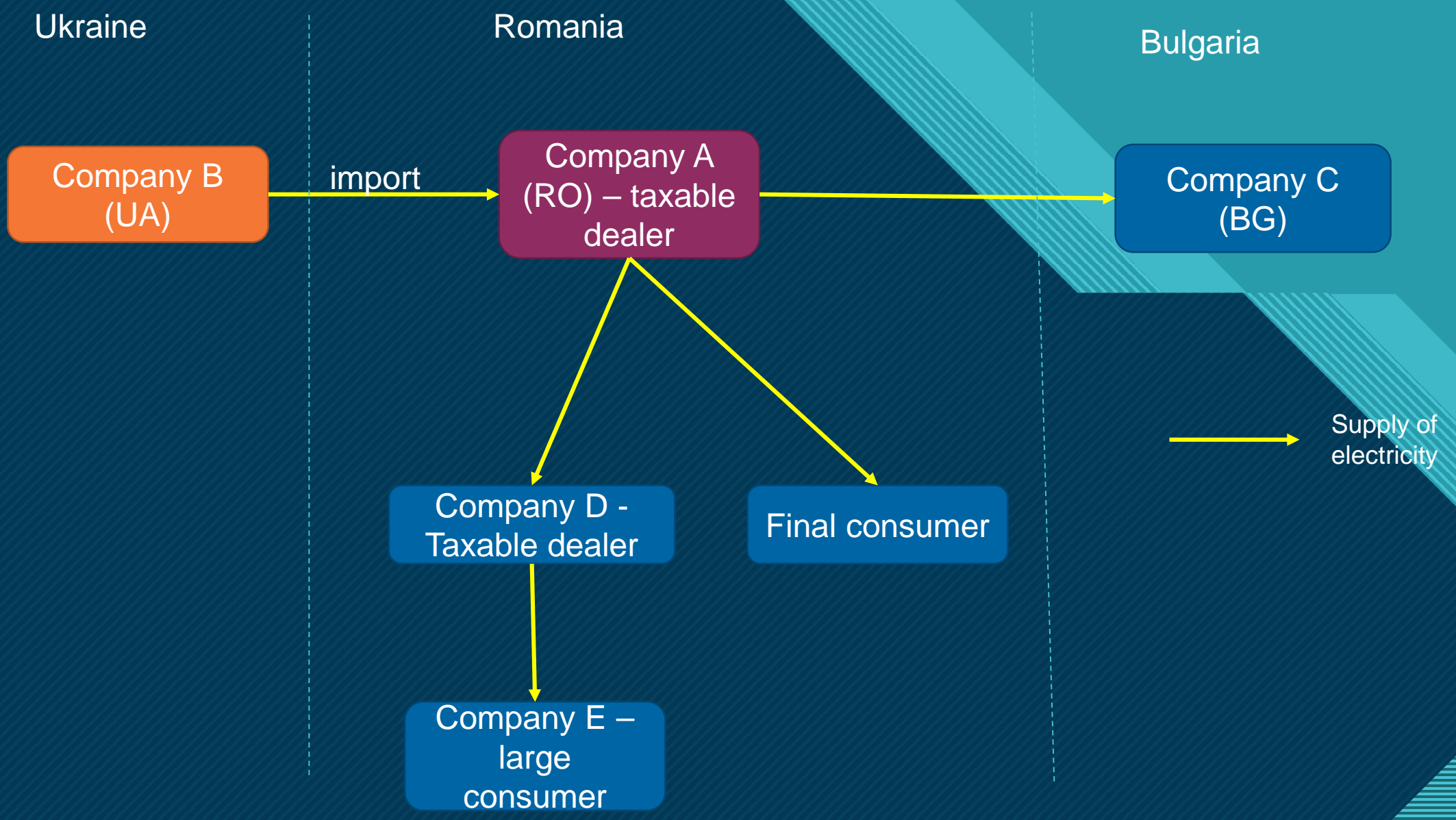
# Reverse charge – example (2)

## Examples of the EU Reverse Charge mechanism in practice:

- A cross-border EU supply of services between two businesses to which the reverse charge mechanism applies.
  - if company A issues an invoice with reverse charge to Company B for a value of 100€, company B will only pay 100€ to company A. When Company B starts preparing its VAT return, it will manually calculate VAT on the 100€, so 19% of 100€ equals 19€ (let's say we are in Romania: 19% VAT rate). These 19€ are reported under the sales section of Company B's VAT return (as output VAT) and under the purchases section of the same VAT return (input VAT). Since Company B are doing "a plus and a minus" , it will not pay any VAT to the tax authorities on this invoice .

# STUDY CASE ON IMPORTATION

- A Romanian company A (taxable dealer A), established in Romania and VAT registered, buys and resells electricity.
- Company A buys electricity from Ukrainian company B and sells to Romanian Company D, to Final consumer in Romania and to Bulgarian Company C
- Company D (taxable dealer), established in Romania and VAT registered sells electricity to Romanian large consumer – company E, registered for VAT purposes in Romania





# STUDY CASE SOLUTION

*Solution: B-A*

1. Taxable person: **YES**
2. Operation in the scope of VAT: **YES**  
(delivery of goods/electricity)
3. Place of delivery: **Romania** (Art. 60 VD)
4. Exemption: **YES** (art. 143(1)(I) VD)
5. Person liable to pay VAT: **N/A**

# STUDY CASE SOLUTION

*Solution: A-D*

1. Taxable person: **YES**
2. Operation in the scope of VAT: **YES** (supply of goods)
3. Place of delivery: **Romania**
4. Exemption: **NO**
5. Person liable to pay VAT: the **Romanian company D** – reverse charge mechanism (art. 199a VD)

# STUDY CASE SOLUTION

*Solution: A-Final consumer*

1. Taxable person: **YES**
2. Operation in the scope of VAT: **YES** (supply of goods)
3. Place of delivery: **Romania**
4. Exemption: **NO**
5. Person liable to pay VAT: the **Romanian company A** (art. 193 VD)

# STUDY CASE SOLUTION

*Solution: D-E*

1. Taxable person: **YES**
2. Operation in the scope of VAT: **YES** (supply of goods)
3. Place of delivery: **Romania**
4. Exemption: **NO**
5. Person liable to pay VAT: the **Romanian company D** (art. 193 VD)

# STUDY CASE SOLUTION

*Solution: A-C*

1. Taxable person: **YES**
2. Operation in the scope of VAT: **YES** (supply of goods/electricity)
3. Place of delivery: **Bulgaria**
4. Exemption: **N/A**
5. Person liable to pay VAT: **N/A** (but Company C is person liable to pay Bulgarian VAT through an obligatory reverse charge system in Bulgaria)

# STUDY CASE ON SUPPLY OF SERVICES

- A Romanian company A (TSO), established in Romania and VAT registered, carried out the provision of access to the electricity system
- Company A give access to the electricity system to a Moldavian Company B

# STUDY CASE SOLUTION

*Solution: A-B*

1. Taxable person: **YES**
2. Operation in the scope of VAT: **YES** (supply of services)
3. Place of delivery: **Moldavia (place where the customer is established** or or has his permanent address or usually resides- art. 59(h) VD)
4. Exemption: **N/A**
5. Person liable to pay VAT: **N/A**

# Thank you

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