



# 2020: strict 0% vat rate requirements for EU supplies

## Drastic reform of the VAT system

To modernise and to make it simpler and more businessfriendly for the benefit of both Member States and businesses, the European Union proposed a drastic reform of the VAT system.

### Current regulations

One of these 'quick fixes' is that the VAT numbers of clients will need to be checked continuously in order to qualify for the 0% VAT rate and mitigate risks as of 2020. Incorrect or missing VAT numbers can no longer be adjusted as of 2020 without special approval of the tax authorities.

Nowadays, more and more businesses, not only stock exchange listed companies, have a large proportion of their clients located cross-border. And legislation has developed alongside with this increasement. Over the years, VAT regulations have developed to the main rule that VAT is due in the country of the (business) client. In general, the client is responsible to make sure VAT due is paid. This means that the supplying business receives a net fee and thus without the amount of VAT. The current regulations require to mention on the invoice that the VAT is levied from the client as well as the clients VAT number. The VAT numbers are disclosed to tax authorities at a later moment in time, in order to have

the authorities being able to check whether the client pays the VAT due and still meets the requirements for the VAT exemption.

### Change as of January 2020

Within the EU VAT package with so-called 'quick fixes' the EU has tightened control on cross-border transactions in order to fight VAT fraud. As of 2020, regulations regarding the VAT number have become more strict when supplying goods cross-border in the EU. Where previously incorrect or missing VAT numbers could be adjusted in order to qualify for the 0% VAT rate (exemption), as of 2020 any missing VAT number for a cross border supply of goods are leading to VAT due, even when the client only paid the amount net of VAT. The risk for supplying goods to businesses that may not have a valid number is significant. The commercial risks are obvious when the business has only invoiced a net sum to its client. On average the supplier would lose as much as one sixth of its turnover on the client without the valid VAT number reported. One sixth of the turnover

corresponds to a VAT rate of 20%. The higher the local VAT rate applicable, the higher the risk. Standard VAT rates vary in the EU from 17% to 27%.

## Continuous check: vat numbers may change over time

As clients' business organisations change over time, VAT numbers may change as well. Mergers, restructuring, changes in VAT permit for cross-border transactions and defaults can all lead to a VAT number turning invalid over time, suddenly. This means that a single check upon onboarding the client in the CRM system does not suffice in order to properly meet VAT risks. It is essential to have a continuous check on the VAT position of EU clients, and make sure proof of this is obtained, for every cross-border transaction made.

## Mazars can help you with the check

The EU provides a comprehensive website to check VAT numbers in any EU member state ('VIES'). However, as the amount of EU clients increases, using this website is far too labor intensive for most businesses. Therefore, Mazars has developed a service that helps checking VAT numbers in bulk. Regardless of the amount of numbers, businesses can obtain a check of the validity including proof on a very short notice. The service is simple and effective: you send us the VAT numbers in an Excel file of CSV file; we reply with the validation overview and proof including time stamp of the VAT position of every VAT number. This way you can assure that you don't invoice a net fee, where you should invoice with VAT additionally.



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