



ECONOMIC and FINANCIAL AFFAIRS COUNCIL
Tuesday 21 March in Brussels

*The Council will debate proposals enabling a reduced VAT rate for **electronic publications** and a generalised reversal of VAT liability to prevent **VAT fraud**.*

*It will discuss country reports and macroeconomic imbalances under the 2017 'European Semester' **policy monitoring** process.*

*The Council also discuss the outcome of a **G20 meeting** in Baden-Baden.*

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*The **Eurogroup** will meet on Monday 20 March at 15.00. It will discuss the ongoing review of Greece's economic adjustment programme, implementation of the member states' draft budgetary plans for 2017 and the budgetary situation in the eurozone as a whole. It will also discuss member states' reporting on their annual debt issuance plans and the possible benchmarking of member states' pension systems.*

*On Tuesday 21 March at 9.00, ministers will hold a breakfast meeting to discuss the **economic situation**. The Commission will present a review of the EU's **fiscal compact** (Treaty on Stability, Coordination and Governance in the Economic and Monetary Union).*

The Council meeting is scheduled to start at 10.00.

Press conferences:

- after the Eurogroup meeting (*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 \(MPEG4\) and photo gallery](#)

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

VAT rates for electronic publications

The Council will discuss a proposal aimed at allowing member states that so wish to apply non-standard VAT rates to electronically supplied publications.

The debate will focus on the possibility of applying not just reduced VAT rates but also 'super-reduced' and 'zero' VAT rates to electronic publications. The guidance provided on this issue will enable further work on the proposal, so as to allow for an agreement at a later stage.

Under the current VAT rules (directive 2006/112/EC), electronically supplied services must be taxed at the standard VAT rate, i.e. minimum 15%, whereas publications on a physical support may benefit from non-standard rates.

For 'physical' publications, member states have the option of applying a reduced VAT rate, i.e. minimum 5%. Some have been authorised to apply VAT rates below 5% (super-reduced rates) or so-called zero rates, which involve VAT deductibility.

The proposed directive is aimed at aligning the rules, thus contributing to the EU's 'digital single market' plan. It would all allow member states to apply all types of non-standard VAT rates to both physical and electronic publications, but without creating an obligation to do so.

Broad support for the proposal has been expressed during technical discussions, though one member state is opposed and some others have reservations. Additionally, some are concerned at the idea of opening the sector to super-reduced or zero rates.

The directive requires unanimity for adoption by the Council, after consulting the European Parliament. (Legal basis: article 113 of the Treaty on the Functioning of the European Union.)

- [March 2017 note on VAT rates applied to books, newspapers and periodicals](#)
- [March 2017 draft directive on VAT rates applied to books, newspapers and periodicals](#)

VAT fraud - 'Reverse charge' mechanism

The Council will discuss a proposal that would allow member states that so wish to apply a generalised but temporary reversal of VAT liability, as a means of preventing VAT fraud.

The so-called reverse charge mechanism involves shifting liability for VAT payments from the supplier to the customer. It thereby derogates from the general principles of the EU's VAT system.

The proposal was issued in December 2016 following a request by member states particularly affected by VAT fraud.

Under the proposed directive, member states that wish to apply the reverse charge mechanism would be able to do so in a generalised but temporary manner for domestic supplies above a specified threshold.

The Council's debate will focus on the following issues:

- scope of the proposal;
- criteria for obtaining a derogation;
- procedure for repealing a derogation;
- duration of the derogation.

The guidance provided on these issues will enable further work on the proposal, so as to allow for an agreement at a later stage.

Weaknesses in the VAT system leave member states vulnerable to fraud, sometimes with serious consequences for government treasuries. This is particularly the case with cross-border transactions.

The problem can be assessed using the 'VAT gap', i.e. the difference between expected VAT revenue and the amount of VAT collected. A significant part of the VAT gap is attributable to fraud.

According to the Commission, the VAT gap has reached nearly €160 billion annually, of which cross-border fraud accounts for about €50 billion of lost revenue each year.

A common fraud scheme is 'missing trader' or 'carousel' fraud, where supplies are rapidly traded several times without payment of VAT.

The proposed directive would offer a short-term solution pending the preparation of a new VAT system where supplies would be taxed in the country of destination. This 'definitive' VAT system was announced by the Commission in an April 2016 VAT action plan.

Under the current rules, member states may apply the reverse charge mechanism on a temporary basis, but not in a generalised manner. They can only do so within a pre-determined list of sectors.

The proposal would allow for a generalised reverse charge mechanism until 30 June 2022. Member states would be able to apply it – on a voluntary basis and under certain conditions – to all supplies above an invoice threshold of €10 000.

Opinion is divided, however. Roughly as many member states are opposed, or at least sceptical, as those that support a generalised reverse charge mechanism. They cite concerns such as a possible shift in fraudulent activities to other member states, and the difficulties that would be created by two VAT systems coexisting.

In successive compromise proposals, the presidency has addressed concerns cited by member states both in favour and against the proposal.

The directive requires unanimity for adoption by the Council, after consulting the European Parliament. (Legal basis: article 113 of the Treaty on the Functioning of the European Union.)

- [March 2017 note on the proposed generalised VAT reverse charge mechanism](#)
- [March 2017 draft directive on a generalised VAT reverse charge mechanism](#)
- [VAT action plan, "Towards a single EU VAT area"](#)

Economic governance – Country reports and in-depth reviews

The Council will discuss the member states' economic, employment and fiscal policies, as well as macroeconomic imbalances under the 2017 'European Semester' policy monitoring process.

The Commission will present:

- 'country reports' on the economic situation in the member states;
- 'in-depth reviews' for 13 member states under the macroeconomic imbalances procedure.

The Council will assess implementation of its 2016 country-specific recommendations, with a specific focus on the business environment.

The 2017 European Semester will conclude with the adoption of new country-specific recommendations in July. The European Council provided policy guidance at its meeting on 9 and 10 March.

Country reports

The so-called country reports analyse the economic and social challenges faced by the member states and monitor their policy reforms. They also assess implementation of the Council's 2016 country-specific recommendations.

The findings are intended to feed into the member states' annual economic and fiscal policy programmes. They are due to submit these to the Commission in April 2017.

Macroeconomic imbalances

For the 13 member states subject to in-depth reviews¹, the Commission's findings are as follows:

- Bulgaria, Croatia, Cyprus, France, Italy and Portugal are experiencing excessive economic imbalances;
- Germany, Ireland, the Netherlands, Slovenia, Spain and Sweden are experiencing economic imbalances that are not considered excessive;
- Finland is not experiencing economic imbalances.

There is no country report or in-depth review for Greece, as it is subject to enhanced surveillance under its macroeconomic adjustment programme.

Macroeconomic imbalances risk hindering the smooth functioning of the European economy and the EU's monetary union. The macroeconomic imbalances procedure was introduced in 2011 as an annual process aimed at preventing and correcting such imbalances.

The 12 member states experiencing macroeconomic imbalances will continue to be subject to specific monitoring.

- [Press release on country reports and in-depth reviews under the 2017 European Semester](#)
- [March 2017 European Council conclusions](#)

G20 meeting in Baden-Baden

The presidency and the Commission will report on a meeting of G20 finance ministers and central bank governors held in Baden-Baden (Germany) on 17 and 18 March 2017.

The meeting will feature discussions on the global economy, a compact for Africa, international financial institutions, taxation and financial regulation.

Priorities under the finance track of Germany's G20 presidency include enhancing resilience against future crises, shaping digitalisation and supporting investment, particularly in Africa.

The 2017 G20 summit under German presidency will be held in Hamburg on 7 and 8 July.

- [2017 German presidency G20 website](#)

Economic governance – Recommendation to the euro area

The Council is due to adopt, without discussion, a recommendation on the economic policies of the euro area.

The recommendation covers fiscal policy, competitiveness and productivity, labour market and social issues, EU banking union and the further development of economic and monetary union. It is part of the 'European Semester', the EU's annual policy monitoring process.

The recommendation was prepared at an early stage of the European Semester so that account be taken of eurozone issues when approving country-specific recommendations in the spring. The European Council endorsed the draft at its meeting on 9 and 10 March 2017.

The 2017 European Semester will conclude with the adoption of new country-specific recommendations in July.

[March 2017 draft Council recommendation on the economic policies of the euro area](#)

Other business

The Council will discuss the following under 'other business':

- **Financial services:** the Council will be updated regarding work on legislative proposals and the Commission will report on the implementation of legislation;
 - [March 2017 secretariat note on progress on financial services legislative dossiers](#)
- **European defence fund:** the Commission will present an action plan for European defence, in particular as concerns the creation of a European defence fund.
 - [December 2016 European defence action plan](#)

ⁱ The in-depth reviews are included in the corresponding country reports.