

# Taxation: Commission refers Germany to the Court for its failure to apply EU rules on VAT for farmers

Today the Commission has decided to refer Germany to the Court of Justice of the EU for not applying the EU Value Added Tax (VAT) scheme for farmers correctly.

Under current EU rules, Member States can apply a flat-rate VAT scheme ([Council Directive 2006/112/EC](#)) which allows farmers to charge their customers a standard amount – or ‘flat-rate compensation’ – on their agricultural products and services. In turn, those farmers cannot claim compensation for VAT they have already paid. The scheme is supposed to be used by farmers who are likely to experience administrative difficulties when following normal VAT rules or the simplified rules provided for small companies.

However, Germany applies the flat-rate scheme by default to all farmers, including owners of large farms, regardless of whether they encounter such administrative difficulties. The only farmers who cannot benefit from the scheme are commercial livestock breeders. In addition, according to figures from the German Supreme Audit Institution (*Bundesrechnungshof*), German farmers to whom the flat-rate scheme applies are also being overcompensated for the VAT they have paid. This is not allowed under EU rules and generates major distortions of competition in the internal market, in particular in favour of big farmers who do not encounter difficulties with the normal VAT arrangements.

## **Background**

On [8 March 2018](#), the European Commission opened an EU infringement procedure by sending a formal request to the German authorities to amend its VAT legislation. A reasoned opinion was sent in [January 2019](#) which Germany has not complied with.

## **For More Information**

- On the key decisions in the July 2019 infringements package, see a full MEMO: [INF/19/4251](#).
- On the general infringements procedures, see [MEMO/12/12](#).
- On the [EU infringement procedure](#).