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Beyond Three Parties

Triangular Simplification in Quadrangular Transactions under Article 141 of the VAT Directive

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Contents

Abstract

This thesis examines the conditions under which the triangular simplification mechanism under Article 141 of the VAT Directive may apply to quadrangular chain transactions involving four taxable persons established or identified for VAT purposes across multiple Member States. The triangular simplification mechanism relieves the intermediary operator in a three-party chain transaction from registering for VAT in the Member State of destination by shifting the VAT liability to the final customer through the reverse charge mechanism. In December 2025, the General Court of the European Union confirmed in *MS KLJUČAROVCI* that this mechanism is not necessarily confined to three-party transactions, holding that the physical movement of goods is not decisive for the application of Article 141. However, that judgment concerned only one particular configuration, leaving open how Article 141 operates in other quadrangular structures. Employing a legal-dogmatic research method, this thesis extends the analysis to configurations not yet addressed in existing guidance and case law. The analysis demonstrates that the mechanism can in theory operate within quadrangular transactions, but that its practical scope is considerably more limited than existing guidance might suggest, as it operates exclusively within one triangular segment of the broader chain. The thesis further concludes that the current framework is not fully consistent with the principle of fiscal neutrality and that a dedicated legislative framework for multi-party chain transactions would better serve the objectives underlying Article 141.

Keywords: VAT, triangular simplification, quadrangular transactions, Article 141 VAT Directive, intra-Community chain transactions, fiscal neutrality, reverse charge

Abbreviations

AG	Advocate General
CJEU	Court of Justice of the European Union
EU	European Union
GC	General Court of the European Union
ICA	Intra-Community Acquisition
ICS	Intra-Community Supply
MS	Member State
VAT	Value Added Tax
VAT Directive	Council Directive 2006/112/EC

1 Introduction

1.1 Background

The value added tax ("VAT") treatment of cross-border movements of goods within the European Union ("EU") is primarily governed by the system of intra-Community supplies ("ICS") and intra-Community acquisitions ("ICA") laid down in Council Directive 2006/112/EC ("the VAT Directive")[1]. Although this system facilitates trade within the internal market, it also gives rise to complex VAT consequences in chain transactions involving multiple taxable persons established in different Member States. Such transactions may generate multiple reporting obligations and VAT registration requirements, thereby increasing the administrative burden for businesses engaged in cross-border trade.[2] To reduce these burdens in triangular transactions, Article 141 of the VAT Directive provides a simplification mechanism that relieves the intermediary operator from registering for VAT in the Member State of destination, provided that certain substantive and formal conditions are satisfied.[3]

In December 2025, the General Court of the European Union ("GC") delivered its judgment in the case *MS KLJUČAROVCI* (T-646/24)[4], holding that the triangular simplification mechanism under Article 141 is not necessarily confined to three-party chain transactions. Where the conditions of the provision are met, the simplification may equally apply to so-called quadrangular transactions, involving four taxable persons established or identified for VAT purposes in different Member States.[5] Prior to *MS KLJUČAROVCI*, the possibility of applying the simplification in quadrangular structures had been addressed in EU soft law instruments[6], but had not previously been confirmed at judicial level. However, the judgment in *MS KLJUČAROVCI* concerned only one particular quadrangular configuration and does not resolve how Article 141 should operate in other such structures. Against this background, this thesis examines the substantive and formal conditions under which the simplification mechanism under Article 141 may apply in quadrangular transactions beyond the configuration addressed in *MS KLJUČAROVCI*.

1.2 Purpose and research questions

This thesis seeks to determine under which substantive and formal conditions the simplification measure for triangular transactions, as provided for in Article 141 of

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[1] Council Directive 2006/112/EC of 28 November 2006 on the common system of value added tax [2006] OJ L347/1.

[2] Council Directive 92/111/EEC of 14 December 1992 amending Directive 77/388/EEC and introducing simplification measures with regard to value added tax [1992] OJ L384/47, recitals.

[3] Council Directive 2006/112/EC, art 141.

[4] Case T-646/24 *MS KLJUČAROVCI* [2025] ECLI:EU:T:2025:1081.

[5] *MS KLJUČAROVCI,* para 50.

[6] European Commission, '*Explanatory Notes on the EU VAT changes in respect of call-off stock arrangements, chain transactions and the exemption for intra-Community supplies of goods ("2020 Quick Fixes")'* (December 2019), 65-66; European Commission, VAT Committee, '*Working Paper No 968: Matters concerning the Implementation of Recently Adopted EU VAT Provisions*' (taxud.c.1(2019)3533969, 15 May 2019), 8-11.

the VAT Directive, may operate in the context of quadrangular chain transactions. To this end, the following research question will be addressed:

Under which conditions can the simplification measure for triangular transactions, as provided for in Article 141 of the VAT Directive, operate in the context of quadrangular transactions?

This thesis further examines whether and to what extent the application of the simplification mechanism to quadrangular transactions is consistent with the principle of VAT neutrality.

1.3 Delimitations

This thesis focuses on the interpretation and application of the triangular simplification mechanism under Article 141 of the VAT Directive. A number of matters fall outside its scope. First, a comparative analysis of the implementation and application of Article 141 in individual Member States is not undertaken. Second, the anti-abuse doctrine and the VAT fraud rules are not analysed in depth. Although *MS KLJUČAROVCI* also addressed the refusal of the simplification in fraud scenarios, this aspect falls outside the scope of the central research question and is not examined further. Finally, the allocation of transport in chain transactions is analysed only to the extent relevant for assessing the possible application of Article 141 VAT Directive in quadrangular structures.

1.4 Method and materials

This thesis employs a legal-dogmatic research method.[7] The analysis proceeds from the general rules governing intra-Community acquisitions and supplies to the triangular simplification scheme and the existing legal framework concerning quadrangular transactions. Based on this analysis, the thesis examines the conditions under which the triangular simplification mechanism may apply within quadrangular chain transactions and assesses the extent to which such application is consistent with the principle of fiscal neutrality. The research is primarily based on the relevant provisions of the VAT Directive and the related case law of the Court of Justice of the European Union ("CJEU") and the GC. The analysis is further supported by EU soft law instruments, including the Explanatory Notes on the 2020 "Quick Fixes" and European Commission Working Papers. In addition, textbooks and academic articles are used as secondary sources.

1.5 Outline

Chapter 2 outlines the legal framework governing intra-Community supplies and acquisitions of goods, including the allocation of transport in chain transactions and the general VAT treatment of triangular transactions. Chapter 3 examines the

[7] S C W Douma, *Legal Research in International and EU Tax Law* (Kluwer 2014), 17.

triangular simplification mechanism under Article 141 of the VAT Directive, focusing on its substantive and formal conditions and the relevant case law of the CJEU. Chapter 4 analyses the existing legal guidance concerning the application of the simplification mechanism in quadrangular transactions, with particular attention to the judgment in *MS KLJUČAROVCI* and the Explanatory Notes on the 2020 "Quick Fixes". Building on this foundation, Chapter 5 extends the analysis to configurations not yet addressed in existing guidance and case law and assesses their compatibility with the principle of fiscal neutrality. Finally, Chapter 6 sets out the conclusions of the thesis and answers the research question.

2 Intra-Community supplies and acquisitions of goods

Before turning to the triangular simplification mechanism under Article 141 of the VAT Directive, it is necessary to outline the general framework governing intra-Community supplies and acquisitions of goods. Particular attention is paid to the allocation of transport in chain transactions, as this question is central to determining the VAT treatment of triangular and, by extension, quadrangular transaction structures.

2.1 History: the transitional VAT system

The concepts of ICS and ICA were introduced in the context of the establishment of the EU internal market in 1993. Prior to this, cross-border trade between Member States was taxed through exportation and importation procedures, accompanied by fiscal controls at internal borders.[8] With the abolition of these fiscal frontiers, a new system was required to ensure the continued taxation of cross-border transactions. As no definitive VAT system could be agreed upon in time, the EU adopted a transitional VAT system for intra-Community transactions, which was intended to be temporary.[9]

It is this transitional VAT system that was implemented and has remained in place ever since. Although intended as a temporary solution, these arrangements have remained in force and are associated with significant drawbacks. Firstly, the system is characterised by considerable complexity, which is not conducive to cross-border trade. In addition, the exemption for intra-Community supplies creates opportunities for VAT fraud, particularly so-called "missing trader" or carousel fraud. Goods can be acquired VAT-free in one Member State and subsequently resold domestically, where VAT is charged but not remitted to the tax authorities, as the taxable person subsequently disappears in order to avoid payment of tax.[10][11]

In 2018, the European Commission proposed a definitive VAT system for intra-Union trade in response to the weaknesses of the transitional intra-Community trade rules. The proposal aimed to replace the current split between intra-Community supplies and intra-Community acquisitions with a single taxable cross-border

[8] Council Directive 91/680/EEC of 16 December 1991 supplementing the common system of value added tax and amending Directive 77/388/EEC with a view to the abolition of fiscal frontiers [1991] OJ L376/1.

[9] Council Directive 2006/112/EC, art 402. This article explicitly defines the current VAT arrangements for trade between Member States as transitional, pending the introduction of a definitive system.

[10] European Commission, 'Proposal for a Council Directive amending Directive 2006/112/EC as regards the introduction of the detailed technical measures for the operation of the definitive VAT system for the taxation of trade between Member States' COM(2018) 329 final, explanatory memorandum.

[11] For a more detailed explanation of the mechanics of VAT fraud, see European Court of Auditors, '*Tackling intra-Community VAT fraud: More action needed*' (Special Report no 24, 2015) paras 5-10.

supply. In this way, the reform sought to fully implement the destination principle by ensuring taxation in the Member State of destination.[12]

However, as this proposal has not yet been adopted, the existing transitional VAT system for intra-Community trade continues to apply. In order to address certain shortcomings within the system, the Council introduced a number of targeted amendments known as the "Quick Fixes", which became applicable in 2020. These measures focused on specific aspects of intra-Community trade, including call-off stock arrangements[13], chain transactions and the exemption for intra-Community supplies of goods.[14]

2.2 Legal framework governing intra-Community trade

2.2.1 Concepts of ICS and ICA

The current legal framework governing intra-Community supplies and acquisitions of goods is set out in the VAT Directive. Article 2 of the VAT Directive defines the taxable transactions falling within the scope of VAT, namely the supply of goods, the supply of services, intra-Community acquisitions of goods and the importation of goods.[15]

A cross-border supply of goods between Member States is, for VAT purposes, split into two linked transactions: an ICS in the Member State of departure and an ICA in the Member State of arrival. A supply of goods is defined in Article 14 of the VAT Directive as the transfer of the right to dispose of tangible property as owner.[16] Article 20 of the VAT Directive defines an intra-Community acquisition of goods as the acquisition of the right to dispose as owner of movable tangible property dispatched or transported to the person acquiring the goods, by or on behalf of the vendor or the person acquiring the goods, in a Member State other than that in which dispatch or transport of the goods began.[17]

2.2.2 Exemption for intra-Community supplies

The ICS is, in principle, exempt from VAT under Article 138 of the VAT Directive, provided that certain substantive and formal requirements are met.[18] The substantive requirements include:

- the right to dispose of the goods as owner has been transferred;
- the goods are dispatched or transported from one Member State to another;

[12] European Commission, COM(2018) 329 final, recitals 5-6.

[13] Call-off stock arrangements involve the transfer of goods by a supplier to a storage location in another Member State, while the right to dispose of those goods as owner is transferred to a predetermined customer only at a later stage. For an overview of the VAT treatment of call-off stock arrangements before and after the 2020 "Quick Fixes", see C Herbain, 'VAT: quick fixes 2020' (2020) 1 *British Tax Review* 22.

[14] Council Directive 2018/1910 of 4 December 2018 amending Directive 2006/112/EC as regards the harmonisation and simplification of certain rules in the value added tax system for the taxation of trade between Member States.

[15] Council Directive 2006/112/EC, art 2.

[16] Council Directive 2006/112/EC, art 14.

[17] Council Directive 2006/112/EC, art 20.

[18] Council Directive 2006/112/EC, art. 138.

- the goods physically leave the Member State of supply;
- the supply is made to a taxable person (or qualifying non-taxable legal person) acting as such in another Member State;

In addition, Article 138 requires that the purchaser is identified for VAT purposes in a Member State other than that of departure and has communicated a valid VAT identification number to the supplier. Following the "Quick Fixes", the VAT Directive formally treats this requirement as a substantive condition for the application of the exemption.[19] Nevertheless, it has been argued in the literature that this amendment did not fundamentally alter the CJEU's existing case law concerning the distinction between substantive and formal requirements in the context of intra-Community supplies. In particular, it remains debated to what extent the VAT identification number requirement should genuinely be regarded as substantive in nature.[20] The CJEU has consistently held, notably in *VSTR*[21], that the exemption for intra-Community supplies cannot be denied solely on the basis of formal deficiencies where the substantive conditions are fulfilled and there is no indication of fraud or abuse.[22] In *B2 Energy*, the Court confirmed that discrepancies relating to the identification of the recipient do not, in themselves, preclude the application of the exemption where the available evidence demonstrates that the goods were supplied to a taxable person in another Member State.[23] This line of case law reflects the broader doctrine of substance over form developed in the jurisprudence of the CJEU.

A further formal requirement consists of the obligation to submit a recapitulative statement in accordance with Articles 262 and 263 of the VAT Directive. Although the 2020 "Quick Fixes" strengthened the legal consequences attached to non-compliance with this obligation, the requirement remains primarily formal in nature. The VAT Committee has nevertheless acknowledged that compliance with this obligation can only be verified after the supply has taken place, meaning that the exemption may initially apply and only subsequently be revoked retroactively in cases of non-compliance.[24] While the CJEU generally adopts a substance-over-form approach in the context of exemptions for intra-Community supplies, greater significance appears to be attached to formal requirements in the case law concerning the triangular simplification scheme, as will be discussed further in section 3.3.2.

2.2.3 Place of taxation

As a general rule, intra-Community acquisitions are taxed in the Member State where the transport of the goods ends, in line with the destination principle.[25] However, where the VAT identification number used by the acquirer is issued by a Member

[19] VAT Committee, 'Guidelines Resulting from the 113th Meeting of 3 June 2019', Document E, taxud.c.1(2019)7900313 – 976.

[20] See, for M Papis-Almansa, 'When Principles Meet Practice: CJEU's 2024 Approach to VAT Exemptions' in Lang M et al (eds), *CJEU – Recent Developments in Value Added Tax 2024* (Linde 2024), 281-282.

[21] Case C-587/10 *VSTR* [2012] ECLI:EU:C:2012:592.

[22] M Merkx, 'Just a Fomality!: Substance over Form in EU VAT and the Right to Deduct Input VAT' (2022) 50(6-7) *Intertax* 556, 567.

[23] Case C-676/22 *B2 Energy* [2024] ECLI:EU:C:2024:186, paras 21, 24 and 37.

[24] VAT Committee, 'Guidelines Resulting from the 113th Meeting of 3 June 2019', Document E, taxud.c.1(2019)7900313 – 976.

[25] Council Directive 2006/112/EC, art 40.

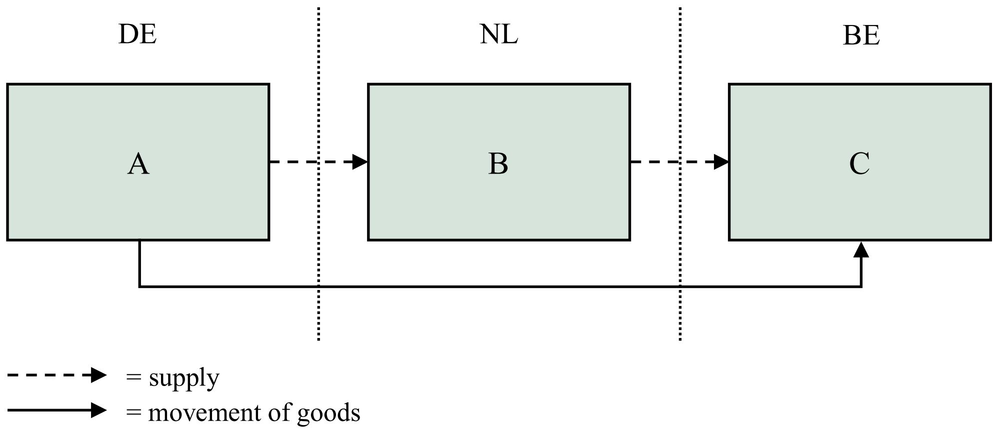
State other than the Member State of arrival, Article 41 of the Directive introduces a safety net provision. In such cases, the intra-Community acquisition is initially deemed to take place in the Member State that issued the VAT identification number under which the acquisition is made. This deeming rule applies unless the taxable person can demonstrate that VAT has properly been accounted for in the Member State of arrival in accordance with Article 40 of the VAT Directive.[26] As a result, Article 41 may lead to a situation in which both the Member State of identification and the Member State of arrival are, at least initially, connected to the same intra-Community acquisition.[27] To address this risk of double taxation, the VAT Directive provides a corrective mechanism, which will be discussed further in the context of the triangular simplification in section 3.3.1.1.

2.3 Triangular transactions

2.3.1 Concept of triangular transactions

While the definition of an ICA seems straightforward in a two-party transaction, where goods are simply dispatched from one Member State to another, complications arise when more than two parties located in different Member States are involved. This issue arises in chain transactions, including triangular or ABC-transactions, where goods are supplied successively between several parties while being transported only once.[28] For instance, a supplier in Germany (A) sells goods to an intermediary in the Netherlands (B), who in turn sells them to a customer in Belgium (C). The goods are dispatched directly from Germany to Belgium (see *Figure 2.1* below).

Figure 2.1 – example of a chain transaction



2.3.2 Allocation of transport

In such chain transactions, two supplies take place: a supply from A to B and a supply from B to C. However, the goods are transported only once. This raises the question

[26] Council Directive 2006/112/EC, art 41.

[27] Ad van Doesum, Herman van Kesteren, Simon Cornielje and Frank Nellen, *Fundamentals of EU VAT law* (2nd edn, Wolters Kluwer 2020), 568.

[28] Ben Terra and Julie Kajus, *Introduction to European VAT* (IBFD, accessed 3 April 2026) 11.3.1.

as to which of these supplies should be treated as the ICS, since only one supply in the chain may qualify as the exempt ICS, while the other supply must be treated as a domestic supply. This principle originates in the case law of the CJEU and was first established in *EMAG* (C-245/04*)*[29].

The *EMAG* case concerned a chain transaction in which the goods were transported directly from suppliers in Italy and the Netherlands to end customers in Austria, passing through an intermediary operator.[30] The CJEU held that a single intra-Community movement of goods can be attributed to only one supply in the chain, with the remaining supply necessarily qualifying as a domestic supply. Attributing the transport to both supplies would, in the Court's view, undermine the destination principle and create additional administrative burdens. [31]

In *Euro Tyre Holding* (C-430/09)[32], the CJEU further clarified the allocation of intra-Community transport in chain transactions. According to the Court, the allocation of the intra-Community transport depends on an overall assessment of the circumstances of the case, including the moment at which the right to dispose of the goods as owner is transferred. In particular, the transport may be attributed to the first supply where the intermediary purchaser expressed the intention to transport the goods to another Member State and communicated a VAT identification number issued by the Member State of destination. Furthermore, the right to dispose of the goods as owner must be transferred to the second acquirer only in the Member State of destination of the intra-Community transport. Where that right is transferred before the transport begins, the transport can no longer be attributed to the first supply.[33] This reflects the broader logic underlying chain transactions, namely that the intra-Community transport must be attributed to the supply with which it holds the strongest temporal and material link.[34]

In *Toridas* (C-386/16)[35], the CJEU clarified that this assessment is also dependent on the knowledge of the parties involved. Where party A is aware that the goods will be resold to party C before the intra-Community transport commences, it cannot apply the exemption to its own supply, as the transport must in that case be attributed to the second supply.[36] *Kreuzmayr* (C-628/16)[37] confirmed this approach.

2.3.2.1 Codification in Article 36a of the VAT Directive

The principles developed in the case law of the CJEU concerning the allocation of intra-Community transport in chain transactions were subsequently codified in Article 36a of the VAT Directive, as part of the "Quick Fixes". The European Commission explains in its Explanatory Notes that the VAT Directive previously

[29] Case C-245/04 *EMAG* [2006] ECLI:EU:C:2006:232.
[30] *EMAG*, paras 14-15.
[31] *EMAG*, paras 40-45 and 48-51.
[32] Case C-430/09 *Euro Tyre Holding* [2010] ECLI:EU:C:2010:786.
[33] *Euro Tyre Holding*, paras 27, 31-35 and 45.
[34] F J G Nellen, 'VAT information asymmetries in the context of intra-EU trade in goods' (2018) 7 *World Journal of VAT/GST Law* 22, 35.
[35] Case C-386/16 *Toridas* [2017] ECLI:EU:C:2017:599.
[36] *Toridas*, paras 21 and 37.
[37] Case C-628/16 *Kreuzmayr* [2018] ECLI:EU:C:2018:84.

did not contain a concrete rule for the allocation of intra-Community transport in chain transactions, which led to legal uncertainty and divergent approaches among Member States.[38] It has further been observed in doctrinal literature that taxable persons were therefore often required to undertake complex factual assessments on a case-by-case basis in order to determine to which supply the intra-Community transport should be attributed. This increased compliance burdens for businesses engaged in cross-border trade and reduced legal certainty in the internal market.[39]

Article 36a(1) VAT Directive provides that, where the same goods are supplied successively and are dispatched or transported directly from the first supplier to the last customer in the chain, the dispatch or transport is attributed to the supply made to the intermediary operator. By way of derogation, Article 36a(2) attributes the transport to the supply made by the intermediary operator where he communicated to his supplier the VAT identification number issued to him by the Member State from which the goods are dispatched or transported.[40]

The allocation of transport is of central importance for the analysis that follows, as it determines which supply in the chain qualifies as the ICS and which obligations arise for the parties involved. This question is equally relevant in the context of quadrangular transactions, as will be discussed in the chapters that follow.

2.3.3 General VAT treatment of triangular transactions

In the absence of a simplification mechanism, triangular transactions are treated under the general rules on intra-Community supplies and acquisitions. Where the intra-Community transport is allocated to the supply from A to B, the intermediary operator (B) is, in principle, deemed to make an exempt intra-Community acquisition in the Member State where the transport ends.[41] Following that acquisition, B subsequently supplies the goods to the final customer (C) within the same Member State. This supply is treated as a domestic supply subject to local VAT. As a result, B would be required to register for VAT purposes in that Member State and to account for VAT on the supply of C.

This results in additional administrative obligations, including the submission of VAT returns and recapitulative statements, as well as compliance with various national VAT requirements. It may also impose a significant economic burden on taxable persons, who often need to rely on external advisory or consulting services in order to comply with complex VAT rules. Such administrative and financial burdens do not facilitate intra-Community trade and may ultimately hinder the efficient functioning of the internal market and the broader European economy.[42] In order to mitigate these administrative and financial burdens, Article 141 VAT

[38] European Commission, '*Explanatory Notes on the EU VAT changes in respect of call-off stock arrangements, chain transactions and the exemption for intra-Community supplies of goods ("2020 Quick Fixes")'* (December 2019), 45.

[39] J Sol, '2020 Quick Fixes: Simplification or More Complexity for Businesses? – The Explanatory Notes' (2020) 31 *International VAT Monitor* 122, 126.

[40] Council Directive 2006/112/EC, art 36a.

[41] Council Directive 2006/112/EC, art 40.

[42] Eleni Detsaridou, 'Simplified Triangulation Scheme in the EU VAT System: Simplification or Increased Complexity for Businesses?' (2025) 36 *International VAT Monitor* 253, 254.

Directive introduces a triangular simplification mechanism intended to avoid VAT registration obligations in the Member State of destination. The following chapter examines the operation and conditions of that simplification mechanism.

3 The triangular simplification mechanism

This chapter examines the triangular simplification mechanism within the EU VAT system. In particular, it analyses the substantive and formal conditions governing the application of the simplification mechanism in intra-Community chain transactions. Attention is further paid to the interpretation of these requirements in the case law of the CJEU. This chapter thereby establishes the legal framework necessary for the analysis of more complex chain transaction structures in the following chapters.

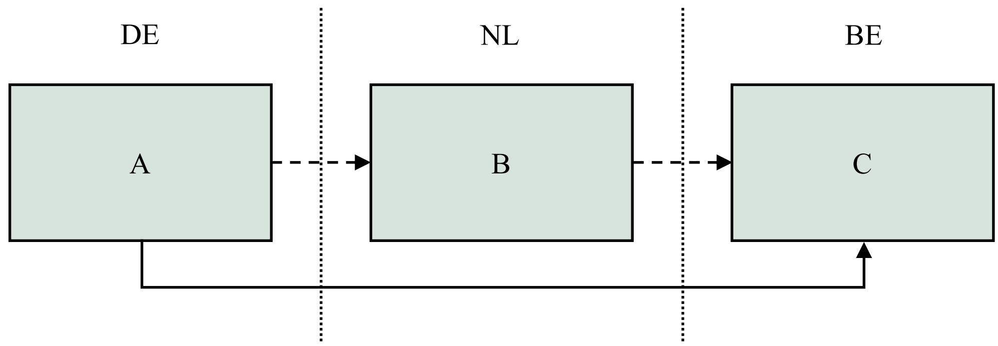
3.1 Functioning of Article 141 VAT Directive

As described in the previous chapter, triangular transactions under the general VAT rules may give rise to multiple registration and reporting obligations for the intermediary operator. In order to avoid this, Article 141 of the VAT Directive provides a simplification mechanism for triangular transactions.

Where the conditions of Article 141 are met, the intermediary operator is relieved from the obligation to register for VAT purposes in the Member State of arrival of the goods. Instead, the VAT liability for the subsequent domestic supply is shifted to the final customer through the reverse charge mechanism provided for in Article 197 of the VAT Directive.[43]

For the purpose of illustrating the application of Article 141, the following triangular transaction will be used as an example. Company A, established in Germany, supplies goods to Company B, established in the Netherlands. Company B operates as middleman and subsequently supplies the goods to Company C, established in Belgium. The goods are transported directly from Germany to Belgium (see *Figure 3.1* below).

Figure 3.1 – Example of a triangular transaction under Article 141



[43] Council Directive 2006/112/EC, art 141.

Where the conditions for application of the triangular simplification are met, the VAT treatment of the transaction is as follows. Company A makes an intra-Community supply in Germany, which is exempt from VAT provided that the conditions laid down in Article 138 of the VAT Directive are satisfied. Company B is deemed to make an intra-Community acquisition in Belgium, being the Member State of arrival of the goods. However, by virtue of Article 141, that acquisition is not subject to VAT in that Member State. Subsequently, B makes a domestic supply of the goods to Company C in Belgium. Under the simplification mechanism, C is designated as the person liable for payment of VAT on that supply pursuant to Article 197 of the VAT Directive. Article 197 thereby ensures that the VAT liability on the domestic supply is shifted from the intermediary operator to the final customer, provided that the conditions in Article 141 are met.[44]

Before examining the substantive and formal conditions governing the application of the triangular simplification mechanism, it is worth recalling that, while the CJEU generally adopts a substance-over-form approach in relation to intra-Community supplies, the case law on triangular transactions demonstrates that formal requirements may assume greater significance in this context, as will become apparent below.

3.2 Substantive conditions

3.2.1 Conditions in Article 141 VAT Directive

Article 141 of the VAT Directive lays down a number of cumulative substantive conditions that must be met in order for the simplification mechanism to apply. These conditions are the following:

a) B is a taxable person who is not established in the Member State of arrival of the goods and is identified for VAT purposes in another Member State;

b) the acquisition by B is carried out for the purpose of a subsequent supply of those goods in the Member State of arrival;

c) the goods are dispatched or transported directly from a Member State other than the one in which B is identified for VAT purposes to C;

d) C, to whom the subsequent supply is made, is a taxable person or a non-taxable legal person who is identified for VAT purposes in the Member State of arrival; and

e) pursuant to Article 197 VAT Directive, C has been designated as the person liable for payment of VAT on the supply made by B, who is not established in that Member State.

[44] Council Directive 2006/112/EC, art 197.

It is clear from conditions a) and e) that B cannot be established in the Member State of arrival of the goods. In addition, C must be established, or at least identified for VAT purposes, in that Member State, as required by condition d).

Condition (b) further presupposes that the intra-Community transport is allocated to the supply made to the intermediary operator in the meaning of Article 36a(1) VAT Directive. Only in that situation will the intermediary operator make the intra-Community acquisition in the Member State of arrival of the goods for the purpose of a subsequent domestic supply capable of falling within the scope of the triangular simplification mechanism. Where the transport is instead attributed to the subsequent supply made by the intermediary operator pursuant to Article 36a(2) VAT Directive, the intermediary operator does not make the relevant intra-Community acquisition in the Member State of destination and, in a standard triangular transaction, the simplification mechanism cannot apply.

The conditions laid down in Article 141 of the VAT Directive are based on a three-party structure (A, B and C) and do not address situations involving an additional party (D) in the supply chain. The implications of such extended chain transactions will therefore be examined in Chapter 4 and Chapter 5.

3.2.2 Case law on substantive requirements

3.2.2.1 *Hans Bühler* (C-580/16)

While several of the conditions laid down in Article 141 VAT Directive appear relatively straightforward, uncertainty existed regarding the interpretation of condition (c). In particular, divergent views emerged in doctrine and Member State practice as to whether the intermediary operator could rely on the triangular simplification mechanism where it was also identified for VAT purposes in the Member State of dispatch of the goods. Certain Member States adopted a restrictive interpretation, arguing that the simplification mechanism should not apply where the intermediary operator also held a VAT identification number in the Member State of dispatch. By contrast, a broader interpretation argued that Article 141(c) refers only to the VAT identification number actually used for the relevant triangular transaction.[45][46] This issue was clarified by the CJEU in *Hans Bühler* (C-580/16).[47]

Hans Bühler, a German taxable person also identified for VAT purposes in Austria, acquired goods from suppliers established in Germany using its Austrian VAT identification number. It subsequently resold those goods to a customer identified for VAT purposes in the Czech Republic, while the goods were transported directly from Germany to the Czech customer (see *Figure 3.2* below).[48]

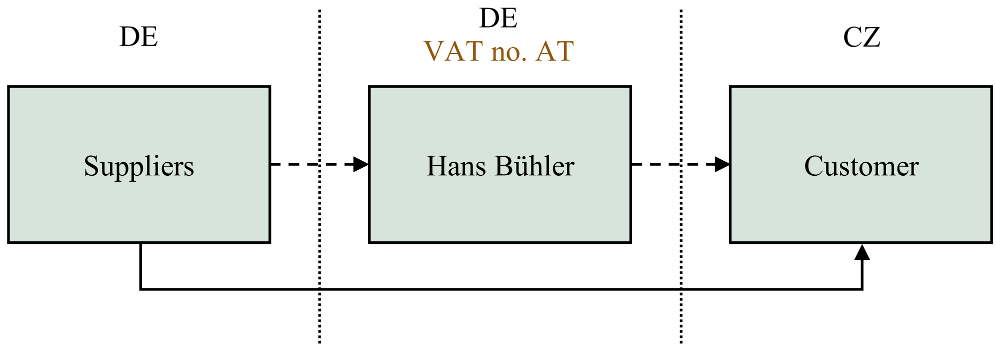
Figure 3.2 – chain transaction in Hans Bühler

[45] This interpretation has also been supported in the Opinion of Advocate General Bot in *Hans Bühler*, see Case C-580/16 *Hans Bühler* [2018] ECLI:EU:C:2017:930, Opinion of Advocate General Bot.

[46] Torres Pereira A, 'Squaring the Triangle – The Triangulation Simplification and the ECJ Decision in Hans Bühler' (2025) 36 *International VAT Monitor* 203.

[47] Case C-580/16 *Hans Bühler* [2018] ECLI:EU:C:2018:261.

[48] *Hans Bühler*, paras 18-19.



The German suppliers issued invoices to Hans Bühler referring to both its Austrian VAT identification number and their own German VAT numbers. Hans Bühler subsequently invoiced its Czech customer, using its Austrian VAT number and indicating the customer's Czech VAT identification number, while designating the transactions as intra-Community triangular transactions with the customer as the person liable for VAT.

The CJEU was asked to answer two preliminary questions. The first concerned whether Article 141(c) VAT Directive must be interpreted as precluding the application of the triangular simplification where the intermediary operator is established and VAT-identified in the Member State from which the goods are dispatched or transported, even if it uses the VAT identification number of another Member State for the purposes of the specific intra-Community acquisition. The second preliminary question, concerning the consequences of non-compliance with formal reporting obligations under Article 265 of the VAT Directive and the potential application of the safety net clause under Article 41 VAT Directive, relates to formal requirements and will therefore be examined separately in section 3.3.2.1.[49]

The Court noted that, on a literal reading, Article 141(c) could be understood as requiring that the goods are dispatched from a Member State other than that in which the intermediary operator is identified for VAT purposes, which could suggest that any VAT registration in the Member State of dispatch would prevent application of the simplification.[50] However, the Court emphasized that the provision must be interpreted in its context and in light of the objectives pursued by the simplification mechanism.[51] In this regard, it clarified that Article 141(c) refers to the Member State whose VAT identification number is actually used for the specific intra-Community acquisition, rather than to all VAT registrations held by the taxable person.[52][53]

The Court held that a contrary interpretation would undermine the objective of the simplification scheme, which is to avoid imposing additional VAT registration and compliance obligations on the intermediary operator in the Member State of destination.[54] It would also lead to unjustified differences in treatment between

[49] *Hans Bühler,* para 25.
[50] *Hans Bühler*, para 34.
[51] *Hans Bühler*, para 33.
[52] *Hans Bühler*, para 38.
[53] In this respect, the reasoning in Hans Bühler appears to be consistent with the allocation mechanism codified in Article 36a VAT Directive, under which the VAT identification number actually used by the intermediary operator may determine the allocation of the intra-Community transport.
[54] *Hans Bühler*, paras 40-41.

taxable persons depending on their VAT registration structure. Such an outcome undermines the principle of fiscal neutrality.[55] The judgment therefore reflects a purposive interpretation of Article 141(c), favouring the economic reality and objective of the simplification mechanism over a purely literal reading of the provision. In doctrinal literature this approach has been interpreted as confirming that the triangular simplification mechanism must be assessed in light of its objective of reducing unnecessary VAT registration and compliance burdens for intermediary operators.[56] Accordingly, the Court concluded that Article 141(c) VAT Directive must be interpreted as meaning that the requirement is satisfied where the intermediary operator is resident and VAT-identified in the Member State of dispatch, provided that it uses the VAT identification number of another Member State for the specific intra-Community acquisition.[57]

3.3 Formal requirements

3.3.1 Legal framework

Whereas section 3.2 addressed the substantive conditions for the application of the triangular simplification under Article 141 VAT Directive, the mechanism is also subject to a number of formal invoicing, reporting and compliance obligations laid down in Articles 42, 226 and 265 VAT Directive.

3.3.1.1 Article 42 VAT Directive

Article 42 of the VAT Directive provides that the first paragraph of Article 41 shall not apply, and that VAT shall instead be deemed to have been applied to the intra-Community acquisition in accordance with Article 40, where certain conditions are fulfilled. First, the taxable person acquiring the goods must establish that the intra-Community acquisition was made for the purposes of a subsequent supply within the Member State of arrival for which the customer has been designated as liable for payment of VAT under Article 197 VAT Directive. Secondly, the intermediary operator must have complied with the obligation to submit a recapitulative statement in accordance with Article 265 VAT Directive.[58]

3.3.1.2 Article 226 VAT Directive

Article 226 of the VAT Directive lays down the mandatory content for VAT invoices, including inter alia the identification details of the parties, the description and quantity of the goods supplied, and the taxable amount. In the context of triangular transactions, the invoice issued by the intermediary operator must further indicate that the reverse charge mechanism applies and that the customer is liable for payment of VAT in the Member State of destination.[59] In particular, Article 226(11a)

[55] *Hans Bühler*, para 42.

[56] Pozvek M, 'VAT Regime – Triangular Intra-Community Operations and Recent ECJ Case Law' (2018) 58 *European Taxation* 480, 483.

[57] *Hans Bühler*, para 43.

[58] Council Directive 2006/112/EC, art 42.

[59] Council Directive 2006/112/EC, art. 226.

VAT Directive requires the invoice to contain the indication 'reverse charge' where the customer is liable for payment of VAT. In triangular transactions, this wording informs the customer that the VAT liability has been shifted pursuant to the reverse charge mechanism and plays an important role in the functioning of the simplification scheme. The significance attached to this indication by the CJEU will be further examined in section 3.3.2.2.

3.3.1.3 Article 265 VAT Directive

Article 265 of the VAT Directive imposes a reporting obligation requiring the intermediary operator to include specific information in the recapitulative statement concerning intra-Community acquisitions falling within Article 42 VAT Directive. First, the VAT identification number under which the intermediary operator carries out the acquisition and subsequent supply. Second, the VAT identification number of the customer in the Member State of destination. Third, for each customer, the total value, exclusive of VAT, of the supplies made in that Member State.[60]

Under Article 262(a) of the VAT Directive, A is required to submit a recapitulative statement in its Member State, declaring the intra-Community supply made to B. Without a corresponding declaration in the Member State of destination, the simplification would create a mismatch between Member States: the Member State of A records an intra-Community supply, while the Member State of C would not necessarily record a corresponding taxable intra-Community acquisition by B due to the operation of the simplification mechanism. The special recapitulative statement required under Article 265 addresses this discrepancy by enabling tax authorities to match the transaction, thereby ensuring consistency of information between Member States.[61]

3.3.2 Case law on formal requirements

The application of the formal requirements laid down in the context of the triangular simplification has been further clarified in the case law of the CJEU. Unlike the substantive conditions of Article 141 VAT Directive, which have given rise to relatively limited judicial interpretation, the formal requirements of the simplification mechanism have generated more extensive litigation before the Court. Several important judgments and pending references concerning these formal requirements will therefore be discussed in this section.

3.3.2.1 *Hans Bühler* (C-580/16)

In addition to the substantive question discussed in section 3.2.3.1, the CJEU in *Hans Bühler* was also asked to address the consequences of non-compliance with the reporting obligations connected to the triangular simplification. This second preliminary question concerned whether the failure to submit the recapitulative statements correctly and within the required time limit constituted sufficient grounds

[60] Council Directive 2006/112/EC, art 265.

[61] E Detsaridou, 'Simplified Triangulation Scheme in the EU VAT System: Simplification or Increased Complexity for Businesses?' (2025) 36 *International VAT Monitor* 255.

for the application of the safety net clause under Article 41 VAT Directive, thereby precluding the application of the triangular simplification.[62]

Hans Bühler had submitted recapitulative statements to the Austrian tax authorities for the relevant transactions but failed to indicate that the transactions constituted triangular transactions. The relevant box in the recapitulative statements was left blank and was only corrected at a later stage by letter. The Austrian tax authorities considered that this failure to comply correctly and timely with the reporting obligations meant that the conditions for the triangular simplification were not fulfilled. As a result, they took the view that the intra-Community acquisition was deemed to take place not only in the Czech Republic, where the goods arrived, but also in Austria, since Hans Bühler had used an Austrian VAT identification number. On that basis, Austrian VAT was assessed on the acquisition.

In relation to the second preliminary question, the Court examined whether the late or initially incomplete submission of the recapitulative statement under Article 265 VAT Directive was sufficient to trigger the safety net clause of Article 41 VAT Directive and thereby exclude the triangular simplification. The Court first clarified that Article 42 VAT Directive contains two cumulative conditions. Article 42(a), requiring that the intermediary demonstrates that the acquisition was made for a subsequent supply in the Member State of destination and that the customer is designated as the person liable for VAT under Article 197, constitutes the substantive condition for excluding the application of Article 41.[63] By contrast, Article 42(b), which refers to compliance with the reporting obligations under Article 265 VAT Directive concerning the recapitulative statement, constitutes a formal requirement only.[64]

Relying on the principle of fiscal neutrality, the Court held that failure to comply with the formal requirement under Article 42(b) cannot, by itself, justify refusal of the triangular simplification where the substantive conditions under Article 42(a) are satisfied. Refusing the simplification solely on this basis could result in double taxation, since the intermediary would be taxed under Article 41 in the Member State of identification, while the final customer would still be liable for VAT in the Member State of destination under Articles 141(e) and 197 VAT Directive.[65]

The Court further held that neither the late submission of the recapitulative statement nor the fact that the VAT identification number was no longer valid at the time of submission precludes the application of Article 41, provided that the VAT number was valid at the time of the transaction and the substantive conditions were met.[66] Retroactive correction must remain possible, and Member States may impose proportionate penalties for formal non-compliance, but may not deny the simplification solely on that basis.[67] The Court identified only two exceptions where non-compliance with formal requirements may justify refusal of the simplification:

[62] *Hans Bühler,* para 25.
[63] Idem, paras. 45-46, 49.
[64] Idem, paras 47, 49.
[65] Idem, para. 50.
[66] Idem, paras 51, 54-55.
[67] Idem, para 52.

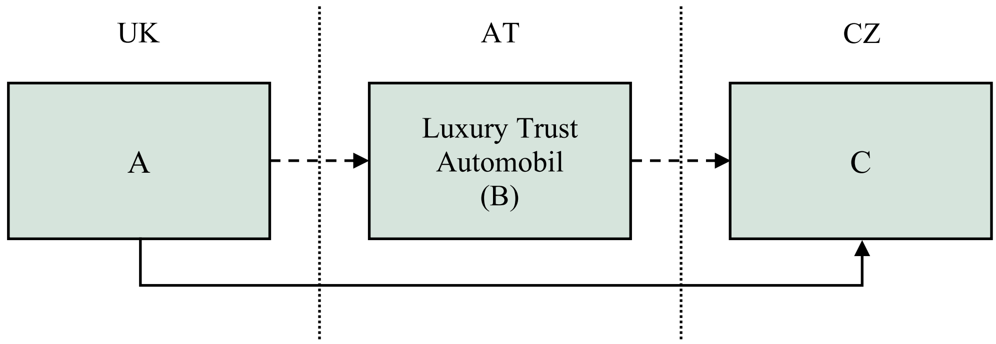
first, where the taxable person intentionally participated in VAT fraud; and second, where the formal defect prevents the tax authorities from establishing with certainty that the substantive conditions are fulfilled.[68]

3.3.2.2 *Luxury Trust Automobil* (C-247/21)

Unlike *Hans Bühler*, which concerned reporting obligations connected to the recapitulative statement, *Luxury Trust Automobil* (C-247/21)[69] concerned the significance of invoicing requirements for the application of the triangular simplification.

The Austrian intermediary purchased vehicles from a supplier established in the United Kingdom and resold them to a customer established in the Czech Republic, while the vehicles were transported directly from the United Kingdom to the Czech Republic (see *Figure 3.3* below).

Figure 3.3 – chain transaction in Luxury Trust Automobil



The invoices issued by B contained the VAT identification numbers used by the parties involved and referred to a 'VAT-exempt intra-Community triangular transaction'. Following a tax audit, however, the Austrian tax authorities concluded that the triangular simplification mechanism could not apply because the invoices did not state that the tax liability had been shifted to the final customer. As a result, the transaction was classified as a "failed triangular transaction", and the ICA was deemed to take place in Austria pursuant to Article 41 VAT Directive.

The referring court essentially asked whether the triangular simplification mechanism may still apply where the invoice issued by the intermediary does not contain the words "reverse charge" as required under Article 226(11a) VAT Directive. The Court first recalled that the triangular simplification constitutes a derogation from the general rules on intra-Community acquisitions and is therefore subject to strict compliance with its conditions.[70] Against that background, it held that the indication "reverse charge" performs a constitutive function within the simplification scheme, since it ensures legal certainty for the final customer regarding the transfer of VAT liability. Consequently, the final customer is not validly designated as liable for VAT where the invoice issued by the intermediary

[68] *Hans Bühler*, paras 56-60.
[69] Case C-247/21 *Luxury Trust Automobil* [2022] ECLI:EU:C:2022:966.
[70] *Luxury Trust Automobil*, para 42.

does not contain the words “reverse charge”, meaning that the conditions for the application of the triangular simplification are not satisfied.[71]

This approach contrasts with the more flexible substance-over-form approach reflected in *Barlis 06* (C-516/14)[72], where the CJEU held that formal invoice defects do not necessarily preclude the exercise of VAT rights where the substantive conditions are fulfilled and the tax authorities possess sufficient information to verify them. The Court further clarified that the tax authorities may not restrict their assessment to the invoice alone but must also take into account additional information provided by the taxable person.[73] Unlike *Barlis 06*, which concerned the exercise of the general right to deduct VAT, *Luxury Trust Automobil* concerned access to a specific simplification regime derogating from the ordinary VAT rules. Within that regime, the invoicing requirements perform a constitutive function for the allocation of VAT liability.[74] The judgment demonstrates that the CJEU applies the substance-over-form doctrine more restrictively within the triangular simplification scheme. Since the indication “reverse charge” is essential for ensuring that the final customer is aware of its VAT liability, the requirement may be regarded as performing a constitutive function within the simplification scheme. More generally, the judgment confirms that the CJEU assesses the relevance of formal requirements by reference to their object and purpose.[75]

By its second question, the Court was asked whether the omission of the words “reverse charge” on an invoice, may be corrected at a later stage by adding a statement indicating that the transaction falls under a triangular arrangement and that VAT liability is shifted to the customer. The Court recalled that, although VAT neutrality allows correction of certain formal errors where substantive conditions are met, this does not apply where a constitutive condition for a VAT regime is not fulfilled.[76] It held that the “reverse charge” wording is a mandatory requirement ensuring legal certainty and informing the customer of the VAT liability shift.[77] If omitted, the condition for applying the triangular simplification is not met. Therefore, the missing wording cannot be corrected retroactively; adding it later constitutes the first valid issuance of a compliant invoice rather than a correction with retroactive effect.[78] Advocate General (“AG”) Kokott adopted a more flexible approach, emphasising that formal requirements should be assessed by reference to their objective and function rather than on a purely formal basis.[79] Nevertheless, she

[71] *Luxury Trust Automobil*, paras 50-56.

[72] Case C-516/14 *Barlis 06* [2016] ECLI:EU:C:2016:690.

[73] *Barlis 06*, paras 42-44.

[74] See, however, criticism in the literature arguing that the broad substance-over-form approach adopted in *Barlis 06* risks undermining the function of the invoice as a key control mechanism within the VAT system. Marie Lamensch, ‘The principle of “substance over form” with respect to the exercise of the right to deduct input VAT’ – A critical analysis of the Barlis jurisprudence’ (2017) 6 *World Journal of VAT/GST Law* 129, 132-137.

[75] Kilian Posch, ‘Court of Justice of the European Union: Recent VAT Case Law 2024: Conference in Vienna: In Which Direction Does the CJEU Go?’ (2024) 3 *EC Tax Review* 136, 137.

[76] *Luxury Trust Automobil*, paras 58-60.

[77] Idem, paras 61-63.

[78] Idem, paras 64-66.

[79] Opinion of AG Kokott in *Luxury Trust Automobil*, paras 35-38.

likewise considered the indication of a reverse charge on the invoice to be essential, since it informs the customer that VAT liability has been transferred.[80]

3.3.2.3 Pending case: *Finanzamt für Großbetriebe* (T-773/25)

The pending preliminary reference in *Finanzamt für Großbetriebe* (T-773/25)[81] shows that the legal consequences of non-compliance with invoicing requirements in triangular transactions remain unsettled. The referring court asks whether the first issuance of a compliant invoice, made years after the supply, may still trigger the application of the triangular simplification scheme with ex nunc effect.

The case concerns an Austrian intermediary operator that issued invoices in relation to triangular transactions without including any references to the triangular simplification or the transfer of VAT liability to the final customer. Following a tax audit, the transactions were treated as failed triangular transactions. The intermediary operator subsequently issued corrected invoices containing the required references and updated the recapitulative statements accordingly.[82] While the national court accepted that the corrected invoices fulfilled the formal requirements of the triangular simplification scheme, it held that such corrections could not produce retroactive effects, but only legal effects ex nunc.[83]

The pending reference therefore raises the question whether a subsequently issued compliant invoice may still trigger the application of the triangular simplification from the moment of correction onwards. Whereas the tax authorities argued that allowing such effects years after the transaction would undermine legal certainty and the objective of administrative simplification, the intermediary operator relied on *Luxury Trust Automobil*, arguing that the later issuance of a compliant invoice should be regarded not as a retroactive correction, but as the first valid issuance of an invoice satisfying the conditions of the simplification scheme.[84]

The pending reference appears to lie at the intersection between the more flexible approach towards formal defects adopted in *Hans Bühler* and the stricter interpretation of constitutive invoicing requirements in *Luxury Trust Automobil.* While the latter judgment appears to preclude retroactive correction of missing invoice elements essential to the operation of the simplification scheme, this does not necessarily exclude the possibility that a subsequently issued compliant invoice may produce legal effects ex nunc. Such an approach would preserve the constitutive function of the invoicing requirements while avoiding disproportionate consequences once the customer has been properly informed of the transfer of VAT liability. It is submitted that the Court should accept ex nunc effect in such circumstances. Once a compliant invoice has been issued, the rationale underlying the constitutive function identified in *Luxury Trust Automobil* is fulfilled. Permanently denying the simplification at that point would, as *Hans Bühler* makes

[80] Opinion of AG Kokott in *Luxury Trust Automobil*, paras 44-52.

[81] Case T-773/25 *Finanzamt für Großbetriebe* (pending), request for a preliminary ruling from the Verwaltungsgerichtshof (Austria) on 15 October 2025.

[82] Verwaltungsgerichtshof (Austria), Order of 7 October 2025, EU 2025/0004-1 (Ro 2024/15/0007), paras 5-7.

[83] VwGH, EU 2025/0004-1, paras 9-10.

[84] Idem, paras 11-12.

clear, produce disproportionate consequences incompatible with the principle of fiscal neutrality, since Member States retain the power to impose proportionate penalties for the delay.[85]

3.4 Conclusion

This chapter examined the functioning of the triangular simplification mechanism and the substantive and formal conditions governing its application under the VAT Directive. The simplification mechanism provided for in Article 141 seeks to avoid unnecessary VAT registration obligations for the intermediary operator in cross-border triangular transactions, while ensuring that VAT is ultimately levied in the Member State of destination through the reverse charge mechanism of Article 197 VAT Directive. As the CJEU has repeatedly emphasised, the triangular simplification constitutes a derogation from the general VAT rules and is therefore subject to strict compliance with its conditions.

As regards the substantive conditions, *Hans Bühler* demonstrated that the CJEU favours a purposive interpretation of Article 141, focusing on the VAT identification number actually used for the relevant transaction rather than on the intermediary operator's broader registration status. The allocation of the intra-Community transport under Article 36a VAT Directive further determines whether the simplification can apply at all, since the intermediary operator must make the relevant ICA in the Member State of destination.

As regards the formal requirements, the case law reveals that the CJEU assesses their significance by reference to the function they perform within the simplification scheme. *Hans Bühler* reflects a flexible approach towards reporting defects, while *Luxury Trust Automobil* confirms that the indication "reverse charge" performs a constitutive function and cannot be dispensed with on substance-over-form grounds. The pending reference in *Finanzamt für Großbetriebe* illustrates that questions concerning the temporal effects of belated compliance remain unresolved.

The legal framework established in this chapter provides the foundation for the analysis of quadrangular transactions in the following chapters. In particular, the purposive interpretation of Article 141(c) adopted in *Hans Bühler* will prove relevant when assessing whether the simplification mechanism may operate within chain transactions involving more than three taxable persons.

[85] *Hans Bühler,* para 52.

4 Quadrangular transactions

Having examined the operation of the triangular simplification mechanism in the context of traditional triangular transactions, this chapter turns to its possible application in quadrangular chain transactions. The purpose of this chapter is to establish the current state of the law before assessing, in the following chapter, how the simplification mechanism may apply in more complex scenarios that extend beyond the situations expressly addressed in existing guidance and case law.

4.1 The definition of quadrangular transactions

In practice, supply chains are often more complex than the three-party structure underlying triangular transactions: goods are frequently resold several times before reaching the final customer. While triangular transactions traditionally involve three taxable persons established in three different Member States, quadrangular transactions extend this structure to four taxable persons engaged in successive supplies.[86] Different configurations are possible depending on the number of Member States involved and the place of establishment or VAT registration of the parties. This raises the question of how such transactions should be treated for VAT purposes and whether the triangular simplification mechanism under the VAT Directive may still apply in these circumstances.

Until recently, the treatment of quadrangular transactions under the simplification scheme has primarily been addressed in explanatory notes and VAT Committee working papers. Only recently did the GC rule on this issue in *MS KLJUČAROVCI*.[87] Both the soft law guidance and the Court's judgment will be discussed further in the remainder of this chapter.

4.2 MS KLJUČAROVCI

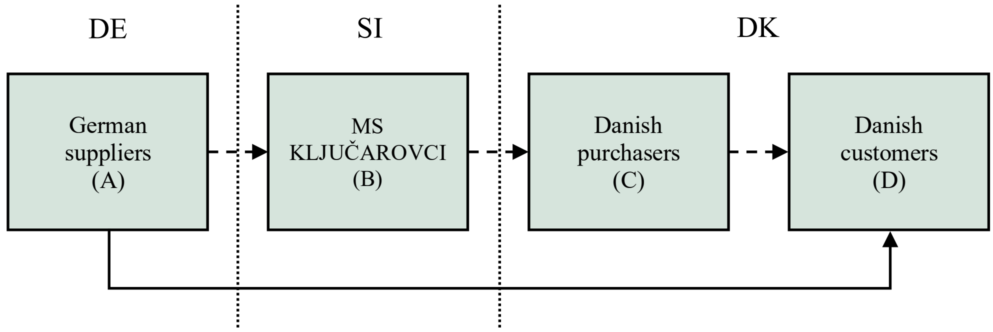
In *MS KLJUČAROVCI*, the GC was confronted with a chain transaction involving four taxable persons in three different Member States. The Slovenian intermediary, MS KLJUČAROVCI, purchased goods from German suppliers and resold them to Danish customers. The goods were transported directly from Germany to a fourth

[86] G Echevarría Zubeldia, 'Quadrangular Transactions: A Defined Regime at Last' (2025) 37 *International VAT Monitor* 5, 5.

[87] *MS KLJUČAROVCI* was decided under the reformed judicial architecture introduced by Regulation (EU, Euratom) 2024/2019, pursuant to which VAT preliminary rulings may now be handled by the General Court. Although decisions of the General Court in this capacity carry equal authority to those of the Court of Justice, further confirmation by the Court of Justice would be welcome to ensure full legal certainty. See E W Ros, 'Preliminary Procedures at the General Court: More than Meets the Eye?' (2024) 33 *EC Tax Review* 197, 203-204, noting that VAT cases are rarely purely technical and may raise questions of principle that would ordinarily fall within the jurisdiction of the Court of Justice, creating a risk of inconsistent case law.

party in Denmark, which was a customer of the Danish purchasers (see *Figure 4.1* below).[88]

Figure 4.1 – chain transaction in MS KLJUČAROVCI



MS KLJUČAROVCI applied the simplification scheme for triangular transactions under Article 141 of the VAT Directive and shifted the VAT liability to the Danish purchasers (C). Following a tax audit, it emerged that the Danish purchasers were missing traders who had failed to remit VAT. The Slovenian tax authorities subsequently held MS KLJUČAROVCI liable for the VAT, arguing that the simplification scheme was inapplicable due to the delivery to a fourth party and the undertaking's involvement in fraud.[89]

The referring court submitted preliminary questions concerning the interpretation of Articles 41, 42 and 141(c) of the VAT Directive. The central issue was whether the conditions for the application of the simplification scheme are satisfied where the goods are not physically transported to the third party in the chain (C), but directly to that party's customer (D) established in the same Member State.[90]

The Court held that Article 141(c) and (d) of the VAT Directive do not require the goods to be physically transported to or received by the intermediary purchaser. Referring to Article 14(1) VAT Directive and its settled case law[91], the Court reiterated that a supply of goods concerns the transfer of the right to dispose of goods as owner rather than physical possession.[92] Accordingly, the fact that the goods were transported directly to D did not preclude the application of the simplification scheme, nor was this affected by the intermediary operator's awareness of that downstream supply, since transactions must be assessed on the basis of their objective characteristics. The Court further observed that this interpretation is consistent with the objectives underlying Articles 41, 42 and 141 VAT Directive, namely to avoid multiple VAT registrations while ensuring taxation in the Member State of destination without creating double taxation.[93] Finally, the Court confirmed

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[88] *MS KLJUČAROVCI*, paras 17 and 21.
[89] Idem, paras 18-20 and 23.
[90] Idem, para 31.
[91] Case C-123/14 *Itales* [2015] ECLI:EU:C:2015:511, para 36 and *Euro Tyre Holding,* para 42.
[92] *MS KLJUČAROVCI*, paras 44-48.
[93] Idem, para 49.

that the benefit of the simplification scheme may be denied where the taxable person knew or should have known that it was participating in VAT fraud.[94]

The judgment in *MS KLJUČAROVCI* confirms a more flexible interpretation of the triangular simplification mechanism in complex chain transactions involving more than three taxable persons. By focusing on the objective characteristics of the transaction rather than the physical movement of goods, the Court implicitly endorses an approach grounded in economic reality: what matters is the economic structure of the supply chain, not its formal or physical manifestation. The conditions and limits governing the application of the simplification mechanism in quadrangular transactions will be analysed further in Chapter 5.

4.2.1 Technical VAT treatment of the transaction

Since the Court's reasoning turns on the transfer of the right to dispose of goods as owner under Article 14(1) VAT Directive rather than the physical movement of goods, C constituted the person to whom the subsequent supply was made within the meaning of Article 141(c) and (d) VAT Directive, notwithstanding the onward transport to D. Applying this reasoning to the facts, the transport was allocated to the supply from A to intermediary operator B pursuant to Article 36a(1) VAT Directive, with the result that B made the intra-Community acquisition in Denmark. The conditions of Article 141 VAT Directive were fulfilled within the triangular segment formed by A, B and C. B was not established in Denmark, acquired the goods for the purposes of a subsequent supply within that Member State, and used a VAT identification number issued by Slovenia rather than Germany, the Member State of dispatch, thereby satisfying Article 141(c) VAT Directive, and made a subsequent supply to customer C identified for VAT purposes in Denmark. The reverse charge mechanism under Article 197 VAT Directive could therefore apply, relieving B of a registration obligation in Denmark. The further supply made by C to D constituted a separate domestic supply within Denmark, falling outside the scope of the simplification.

4.3 Soft law guidance on quadrangular transactions

4.3.1 Explanatory Notes on the 2020 "Quick Fixes"

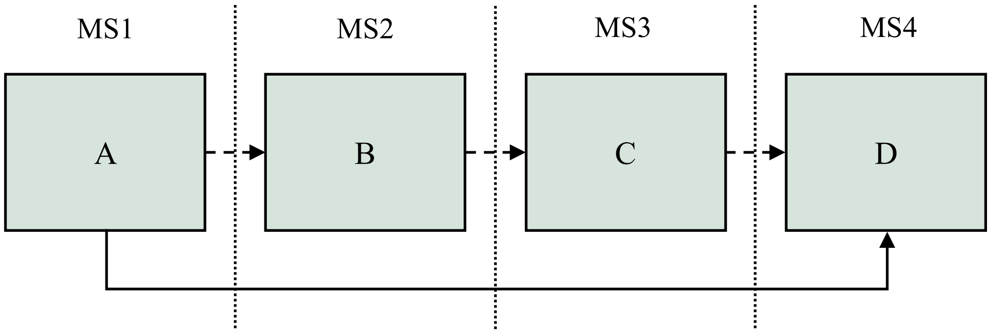
Prior to the judgment in *MS KLJUČAROVCI*, the possibility of applying the triangular simplification scheme in chain transactions involving more than three parties had already been addressed in soft law. In December 2019, the European Commission published Explanatory Notes on the "Quick Fixes". As discussed in section 2.3, one of the new provisions introduced by the "Quick Fixes" was Article 36a of the VAT Directive. The Explanatory Notes address a number of detailed issues arising from this provision. Among these issues, the Explanatory Notes briefly discuss the application of the triangular simplification scheme in chain transactions

[94] *MS KLJUČAROVCI*, paras 54-61.

involving more than three parties and describe a scenario in which the simplification may apply within a four-party chain transaction.[95]

The example concerns a chain of four taxable persons established or identified for VAT purposes in four different Member States: A in MS 1, B in MS 2, C in MS 3 and D in MS 4.[96] The goods are transported directly from MS 1 to MS 4 (see *Figure 4.2* below).

Figure 4.2 – chain transaction in the Explanatory Notes on the 2020 "Quick Fixes"



B, acting as the intermediary operator, communicates to A his VAT identification number issued by MS 1. Consequently, instead of the general rule in Article 36a(1) of the VAT Directive, Article 36a(2) applies, meaning that the transport is assigned to the supply made by B. The supply made by A to B therefore constitutes a domestic supply in MS 1 and the supply made by B to C qualifies as an intra-Community supply of goods, exempt in MS 1 provided that the conditions of Article 138 of the VAT Directive are fulfilled. The subsequent supply made by C to D consequently constitutes a domestic supply in MS 4. Accordingly, unlike in a standard triangular transaction, the taxable person ultimately relying on the triangular simplification mechanism is C rather than B.

The example then proceeds to assess whether the conditions of Article 141 of the VAT Directive are satisfied:

a) The intra-Community acquisition is made by C, who is registered in MS 3 and not in MS 4, the Member State in which the goods arrive. Condition (a) is therefore satisfied.

b) The goods are acquired by C for the purposes of a subsequent supply to D in MS 4, thereby satisfying condition (b).

c) The goods are transported directly from MS 1 to D in MS 4, while C is identified for VAT purposes in MS 3. Accordingly, the goods are transported from a Member State other than that in which C is identified for VAT

[95] European Commission, '*Explanatory Notes on the EU VAT changes in respect of call-off stock arrangements, chain transactions and the exemption for intra-Community supplies of goods ("2020 Quick Fixes")'* (December 2019), 66.

[96] For ease of reference, the parties and Member States in this example have been numbered as A, B, C, D and MS 1 through MS 4, corresponding to B, C, D, E and MS 2 through MS 5 as used in the Explanatory Notes.

purposes to the person for whom C carries out the subsequent supply. Therefore, condition (c) is fulfilled.

d) D, the person to whom the subsequent supply is made, is a taxable person identified for VAT purposes in MS 4, as required by condition (d).

e) Pursuant to Article 197 VAT Directive, D is designated as the person liable for payment of the VAT due on the supply carried out by C, who is not established in MS 4. Therefore, condition (e) is fulfilled.

As all conditions of Article 141 VAT Directive are fulfilled, no VAT is due on the intra-Community acquisition made by C in MS 4. Instead, D is liable for the VAT due on the supply made by C in MS 4 pursuant to Article 197 VAT Directive. Consequently, C is not required to register or account for VAT in MS 4. In addition, in order to avoid being taxed in MS 3 on account of an intra-Community acquisition, C must fulfil the conditions laid down in Article 42 VAT Directive.

The example is particularly significant because it demonstrates that the application of Article 36a(2) VAT Directive does not necessarily exclude the possibility of applying the triangular simplification mechanism in more complex chain transactions. In a standard triangular transaction, the attribution of the transport to the supply made by the intermediary operator would generally prevent that operator from making the intra-Community acquisition required for the application of Article 141 VAT Directive. In the four-party chain transaction described in the Explanatory Notes, however, the allocation of the transport to the supply made by B resulted in C making the intra-Community acquisition in MS 4 and subsequently carrying out a domestic supply to D capable of falling within the scope of the simplification mechanism.

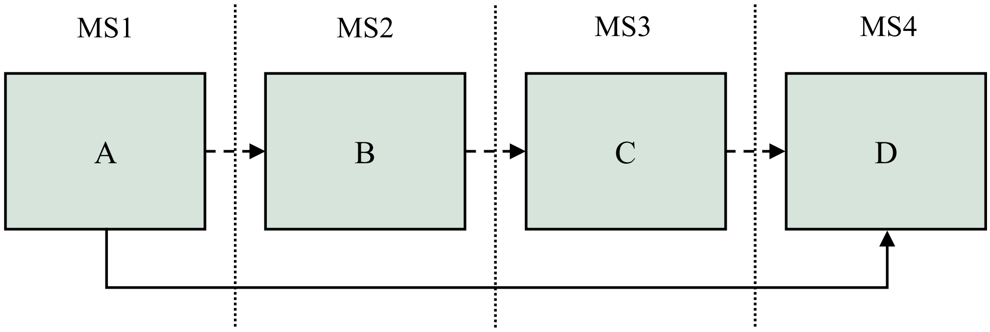
The example therefore demonstrates that quadrangular chain transactions may allow greater flexibility in the application of the triangular simplification mechanism than standard triangular transactions. Depending on the allocation of the intra-Community transport, different segments of the chain transaction may satisfy the conditions of Article 141 VAT Directive. In the structure described in the Explanatory Notes, the relevant triangular segment effectively consisted of the supplies between B, C and D, since customer C performed the intra-Community acquisition capable of falling within the scope of Article 141 VAT Directive. This differs from the structure examined in *MS KLJUČAROVCI*, where the relevant triangular segment consisted of the supplies between A, B and C, with intermediary operator B remaining the taxable person benefiting from the simplification mechanism despite the presence of a fourth party in the chain. Accordingly, both structures demonstrate that the application of the triangular simplification mechanism in quadrangular chain transactions depends primarily on which segment of the chain included the taxable person performing the intra-Community acquisition following the allocation of transport.

4.3.2 Working Paper No 968

Further guidance can be found in Working Paper No 968 of 15 May 2019 and the Guidelines resulting from the VAT Committee meeting of 3 June 2019.

The Working Paper addressed a chain transaction involving four taxable persons (A, B, C and D) established or identified for VAT purposes in four different Member States. The goods are transported directly from MS 1 to MS 4 (see Figure 4.3 below).[97]

Figure 4.3 – chain transaction in Working Paper No 968



Notably, Working Paper No 968 predates both the introduction of Article 36a VAT Directive and the judgment in *MS KLJUČAROVCI*, yet adopts a substantially similar reasoning. This demonstrates that the interpretation ultimately confirmed by the Court was already reflected in the position taken by the Commission services at an earlier stage, thereby illustrating the broader coherence of the current legal framework governing quadrangular transactions.

In the Working Paper, the Commission services emphasized that, from the perspective of intermediary operator B, it is irrelevant what customer C subsequently intends to do with the goods. According to the Commission services, intermediary operator B fulfils its obligations towards customer C by sending the goods to the place designated by C, regardless of whether that place consists of C's own premises, a third-party warehouse, or the premises of customer D further down the chain. Although the Working Paper did not expressly refer to Article 14 VAT Directive or to the transfer of the right to dispose of goods as owner, this reasoning is substantively equivalent to the approach later adopted by the Court. In both instances, the decisive consideration was that the intermediary purchaser (B) remained the person to whom the subsequent supply was made for the purposes of Article 141 VAT Directive, notwithstanding the fact that the goods were physically transported directly to a further customer downstream.

In the example discussed, B communicated to A its VAT identification number issued by MS 2, with the result that the transport was allocated to the supply made by A to B and B made an intra-Community acquisition in MS 4. Accordingly, the

[97] VAT Committee, '*Working Paper No 968: Matters Concerning the Implementation of Recently Adopted EU VAT Provisions*' (15 May 2019) taxud.c.1(2019)3533969, 8-11. For ease of reference, the parties and Member States in this example have been designated as A, B, C, D and MS 1 through MS 4, corresponding to B, C, D, E and MS 2 through MS 5 as used in Working Paper No 968.

triangular simplification mechanism was capable of applying to the triangular segment formed by A, B and C, while the further supply made by C to D constituted a separate domestic supply within MS 4. This differs from the structure described in the Explanatory Notes, where B communicated to A its VAT identification number issued by MS 1, thereby triggering Article 36a(2) VAT Directive and resulting in C rather than B making the intra-Community acquisition in the Member State of destination. Despite this structural difference in the allocation of transport, both instruments reach a substantially similar conclusion: the triangular simplification may operate within a specific three-party segment of a broader quadrangular chain transaction, provided that the conditions of Article 141 VAT Directive are fulfilled within that segment.

This interpretation is further supported by the VAT Committee in the Guidelines resulting from the VAT Committee meeting of 3 June 2019. The VAT Committee unanimously agreed that only the taxable person making the intra-Community acquisition may benefit from the triangular simplification. It further agreed almost unanimously that Article 141(c) VAT Directive is fulfilled where the goods are transported to the place designated by the recipient of the subsequent supply, and that any further supply made by that recipient downstream has no bearing on the application of the simplification, provided that all conditions of Article 141 VAT Directive remain fulfilled.[98]

4.4 Formal requirements in quadrangular transactions

The soft law guidance discussed above, as well as the judgment in *MS KLJUČAROVCI*, primarily concern the substantive conditions governing the application of the triangular simplification mechanism in quadrangular chain transactions. Relatively little attention is paid to the formal requirements applicable to the simplification mechanism in such transactions. This is understandable, since the configurations discussed above do not appear to establish a separate simplification regime for quadrangular transactions. Rather, the triangular simplification mechanism operates only in relation to a specific three-party segment within the broader chain transaction, meaning that the ordinary invoicing, reporting and recapitulative statement obligations discussed in Chapter 3 continue to apply in the same manner as in standard triangular transactions.

What is notable, however, is the broader interpretative approach adopted in both the soft law guidance and *MS KLJUČAROVCI*. As discussed in Chapter 3, the CJEU generally assesses the relevance of formal requirements by reference to the function they perform within the simplification scheme. In *Hans Bühler*, a flexible substance-over-form approach was applied to reporting defects, while *Luxury Trust Automobil* established that the "reverse charge" indication performs a constitutive function and cannot be dispensed with on substance-over-form grounds. The reasoning in *MS KLJUČAROVCI* reflects a similarly flexible and purposive interpretation, though in relation to the substantive conditions rather than formal requirements: the Court

[98] VAT Committee, 'Guidelines Resulting from the 113th Meeting of 3 June 2019', Document D, taxud.c.1(2019)7899573 – 975.

focused on the transfer of the right to dispose of goods as owner rather than the physical movement of goods, thereby departing from a strictly literal reading of Article 141 (c) and (d) VAT Directive.

This raises a question that neither the soft law guidance nor *MS KLJUČAROVCI* expressly addresses: whether the same flexibility extends to the formal requirements in the context of quadrangular transactions. It is submitted that it does not. The purposive approach adopted in *MS KLJUČAROVCI* concerned exclusively the substantive conditions of Article 141 VAT Directive and cannot be read as introducing greater flexibility in relation to formal requirements. The rationale underlying the strict approach in *Luxury Trust Automobil*, namely that the "reverse charge" indication performs a constitutive function by informing the final customer of the transfer of VAT liability, applies with equal force in quadrangular transactions, since the function of that requirement does not change with the complexity of the chain. Accordingly, the formal requirements under Articles 42, 226 and 265 VAT Directive must be complied with in the same manner in quadrangular transactions as in standard triangular transactions.

4.5 Conclusion

The foregoing analysis demonstrates that the triangular simplification mechanism is capable of operating within quadrangular chain transactions, though exclusively in relation to a specific three-party segment of the broader chain. Both the soft law guidance and the judgment in *MS KLJUČAROVCI* confirm that neither the presence of an additional party downstream nor the physical delivery of goods to that party's premises precludes the application of Article 141 VAT Directive, provided that its conditions are fulfilled within the relevant triangular segment. Against this background, Chapter 5 turns to the more complex configurations that remain unaddressed in existing guidance and case law and examines how the simplification may operate in those circumstances.

5 Scope of the simplification mechanism in quadrangular transactions

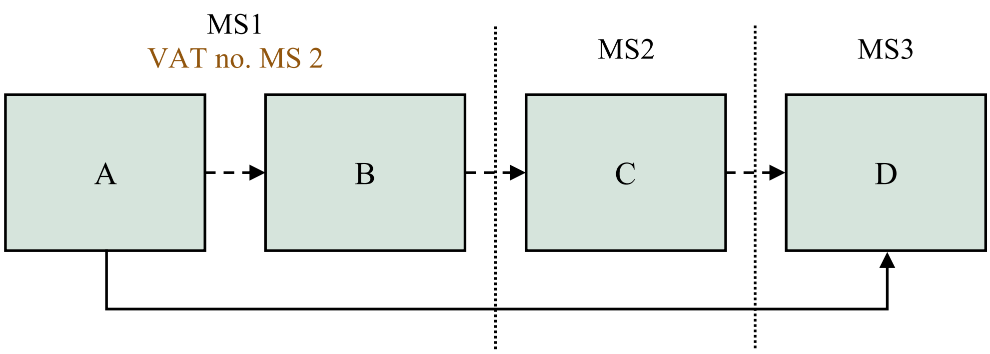
The configurations discussed in Chapter 4 do not necessarily exhaust the possible application of the simplification mechanism in quadrangular chain transactions. Quadrangular chain transactions may arise in multiple legal and factual configurations, depending on the allocation of transport, the number of Member States involved, the VAT registration numbers used by the parties, and the position of the intermediary operator within the chain. This chapter examines a number of such configurations and assesses whether and to what extent the triangular simplification mechanism may apply in each case.

5.1.1 Configuration I: A and B established in the same Member State

5.1.1.1 B uses a VAT identification number issued by MS 2

In this configuration, supplier A and intermediary operator B are both established in MS 1. B subsequently supplies the goods to C established in MS 2, who in turn supplies the goods to D established in MS 3. For the purposes of the transaction, intermediary operator B uses a VAT identification number issued by MS 2. The goods are transported directly from supplier A in MS 1 to customer D in MS 3 (see *Figure 5.1* below).

Figure 5.1 – quadrangular chain transaction involving supplier and intermediary operator established in the same Member State



In the present configuration, the conditions laid down in Article 141(a) and (b) VAT Directive are fulfilled, since intermediary operator B is not established in MS 3 and acquires the goods for the purposes of making a subsequent supply within that Member State.

In light of *Hans Bühler*, the mere fact that A and B are established in the same Member State should not necessarily preclude the application of the simplification mechanism. Since the CJEU clarified that Article 141(c) VAT Directive refers to the VAT identification number actually used for the relevant transaction, rather than to all VAT registrations held by the intermediary operator, the condition laid down in Article 141(c) VAT Directive is fulfilled where intermediary operator B uses a VAT identification number issued by MS 2 for the purposes of the relevant transaction. Consequently, pursuant to Article 36a(1) VAT Directive, the intra-Community transport would be attributed to the supply made by A to B. Accordingly, the supply from A to B would constitute the exempt intra-Community supply, while intermediary operator B would make the corresponding intra-Community acquisition in MS 3. The subsequent supplies made by B to C and by C to D would therefore, in principle, constitute domestic supplies within MS 3.

Following the judgment in *MS KLJUČAROVCI*, the mere fact that the goods are transported directly to a further customer downstream does not, in itself, preclude the application of the simplification mechanism. Accordingly, the relevant triangular segment for the purposes of Article 141 VAT Directive may still consist of the supplies between A, B and C, notwithstanding the subsequent downstream supply made by C to customer D.

Nevertheless, the triangular simplification mechanism no longer fulfils its underlying objective in the present configuration. Although the conditions of Article 141 VAT Directive are fulfilled, the mechanism does not relieve intermediary operator B from additional VAT registration obligations. Furthermore, customer C cannot qualify as the intermediary acquirer for the purposes of Article 141 VAT Directive, since the allocation of the transport to the supply made by A to B results in the corresponding ICA in MS 3 being made by B rather than C.

5.1.1.2 B uses a VAT identification number issued by MS 1

This situation concerns the same structure as used in the first situation. However, unlike that situation, intermediary operator B uses a VAT identification number issued by MS 1, namely the Member State of departure, for the purposes of the relevant transaction.

Consequently, Article 36a(2) VAT Directive would apply, allocating the intra-Community transport to the supply made by B to C, rather than to the supply made by A to B. Accordingly, the supply from A to B would constitute a domestic supply in MS 1, while the supply made by B to C would constitute the exempt intra-Community supply. C would consequently make the corresponding intra-Community acquisition in MS 3, while the subsequent supply made by C to D would, in principle, constitute a domestic supply taxable in MS 3.

In the present configuration, customer C would become the taxable person capable of applying the simplification mechanism. The conditions laid down in Article 141(a) and (b) VAT Directive would be fulfilled, since C is not established in MS 3 and acquires the goods for the purposes of making a subsequent supply within that Member State. Furthermore, the condition laid down in Article 141(c) VAT

Directive would likewise be fulfilled, since the goods are transported from MS 1, rather than from the Member State which issued the VAT identification number used by C, namely MS 2. In addition, the condition laid down in Article 141(d) VAT Directive would be fulfilled, since the subsequent supply is made to customer D identified for VAT purposes in MS 3. Consequently, the reverse charge mechanism provided for in Article 197 VAT Directive, as referred to in Article 141(e), could effectively apply within the present configuration.

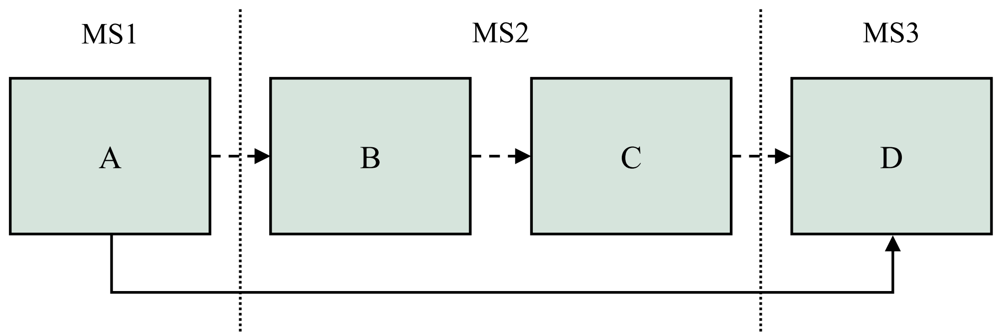
The present configuration is consistent with the broader reasoning adopted in *MS KLJUČAROVCI* and the soft law guidance discussed in Chapter 4. Although the transaction involves four taxable persons, the triangular simplification mechanism may nevertheless operate in relation to the triangular segment formed by B, C and D, provided that the conditions laid down in Article 141 VAT Directive are fulfilled within that segment.

5.1.2 Configuration II: B and C established in the same Member State

5.1.2.1 B uses a VAT identification number issued by MS 2

In this configuration, intermediary operators B and C are both established in MS 2. Supplier A is established in MS 1, while customer D is established in MS 3. The goods are transported directly from supplier A in MS 1 to customer D in MS 3 (see *Figure 5.2* below).

Figure 5.2 – quadrangular chain transaction involving intermediary operators established in the same Member State



In the present configuration, intermediary operator uses a VAT identification number issued by MS 2. Pursuant to Article 36a(1) VAT Directive, the intra-Community transport would therefore be attributed to the supply made by A to B. Accordingly, the supply from A to B would constitute the exempt intra-Community supply, while intermediary operator B would make the corresponding intra-Community acquisition in MS 3. The subsequent supplies made by B to C and by C to D would therefore, in principle, constitute domestic supplies within MS 3.

Following the reasoning adopted in *MS KLJUČAROVCI* and the soft law guidance discussed in Chapter 4, the application of the triangular simplification mechanism should be assessed by reference to the relevant triangular segment within the broader chain transaction. Since intermediary operator B performs the intra-Community acquisition in MS 3, the relevant triangular segment would consist of the supplies between A, B and C. However, similar difficulties arise as in section 5.1.1.1. Although intermediary operator B performs the intra-Community acquisition in MS 3, the relevant triangular segment formed by A, B and C involves intermediary operator B and customer C both being established and identified for VAT purposes in MS 2. Consequently, the present configuration no longer appears to correspond to the conventional triangular structure underlying Article 141 VAT Directive. Moreover, since intermediary operator B already holds and uses a VAT identification number issued by MS 2, the application of the triangular simplification mechanism would not appear to fulfil any meaningful simplification function within the present configuration.

5.1.2.2 B uses a VAT identification number issued by Member State 1

In this situation, the transport would be attributed to the supply made by B to C pursuant to Article 36a(2) VAT Directive, with customer C consequently making the intra-Community acquisition in MS 3. Accordingly, the supply by A to B would constitute a domestic supply within MS 1, while the supply made by B to C would constitute the exempt intra-Community supply. The subsequent supply made by C to D would therefore, in principle, constitute a domestic supply within MS 3.

Following the reasoning adopted *MS KLJUČAROVCI* and the soft law guidance discussed in Chapter 4, the application of the triangular simplification mechanism must again be assessed by reference to the relevant triangular segment within the broader chain transaction. Since customer C performs the intra-Community acquisition in MS 3 and subsequently carries out a domestic supply within that Member State, the relevant triangular segment would consist of the supplies between B, C and D. In the present configuration, customer C would therefore constitute the taxable person capable of applying the triangular simplification mechanism. Since the conditions laid down in Article 141 are fulfilled, he simplification mechanism may apply within the present configuration. Consequently, customer C would not be required to register for VAT purposes in MS 3.

5.2 Evaluation

The analysis of the configurations examined in this chapter demonstrates that the triangular simplification mechanism under Article 141 VAT Directive may, as already recognised in *MS KLJUČAROVCI* and the relevant soft law guidance, apply within certain quadrangular chain transactions. However, the foregoing analysis also reveals that the practical scope of such application is considerably more limited than the case law and soft law guidance might suggest at first sight. It has been suggested in the literature that the extension of the simplification mechanism to quadrangular transactions represents a valuable step forward that may alleviate administrative burdens for businesses engaged in complex cross-border chain transactions.[99]

[99] Echevarría Zubeldia G, 'From Triangular to Quadrangular Operations in EU VAT' (2024) 35 *International VAT Monitor* 101, 102-103.

However, the analyses undertaken above demonstrates that this assessment should be nuanced.

In each of the configurations examined, the triangular simplification mechanism operated exclusively in relation to a specific three-party segment of the broader chain transaction. The remaining supply within the chain fell entirely outside the scope of the simplification and was treated as an ordinary domestic supply. Where the fourth party is established in the same Member State as the third party, as in *MS KLJUČAROVCI,* this may not give rise to practical difficulties, since the downstream supply constitutes a straightforward domestic transaction. However, where all four parties are established in different Member States, the mechanism offers only partial relief: it eliminates a registration obligation within one triangular segment but leaves the broader quadrangular structure unaddressed. This means that the simplification mechanism does not genuinely address the VAT treatment of the quadrangular transaction as a whole. Rather, it merely displaces the problem: one taxable person within the chain may be relieved of a registration obligation in the Member State of destination, while the overall structure of the transaction remains subject to the ordinary rules. In that sense, the extension of the simplification mechanism to quadrangular transactions offers only partial relief and does not constitute a structural solution to the complexity of multi-party cross-border chain transactions.

The principle of fiscal neutrality requires that comparable transactions be treated in the same manner for VAT purposes, and that any difference in treatment be objectively justified. As has been observed in doctrinal literature, this principle is moreover closely linked to the broader principle of equal treatment, which prohibits treating comparable situations differently unless such treatment is objectively justified, irrespective of whether the transactions concerned are in direct competition with each other.[100] The foregoing analysis demonstrates that the availability of the simplification mechanism depends critically on which VAT identification number the intermediary operator chooses to use. Two quadrangular transactions that are economically identical, involving the same parties, the same goods, and the same movement of transport, may nonetheless lead to fundamentally different VAT outcomes depending exclusively on that administrative choice. In one configuration the simplification applies, and no registration obligation arises in the Member State of destination; in another it does not and a registration obligation remains. Since the choice of VAT identification number does not alter the economic substance of the transaction, the resulting difference in treatment is not objectively justified and is therefore difficult to reconcile with the principle of fiscal neutrality. This raises the question whether a structural legislative intervention, extending the simplification mechanism to quadrangular transactions as a whole, would better serve the objectives underlying Article 141 VAT Directive, namely to avoid multiple VAT registrations while ensuring taxation in the Member State of destination without creating double taxation.

[100] As the Court held in *Hans Bühler*, para 49: a contrary interpretation would lead to unjustified differences in treatment between taxable persons depending on their VAT registration structure, an outcome difficult to reconcile with the principle of fiscal neutrality. More generally, the principle of fiscal neutrality precludes comparable transactions from being treated differently for VAT purposes; see Joined Cases C-259/10 and C-260/10 *Rank Group* ECLI:EU:C:2011:719, para 36. See also M Papis, 'Chapter 16: The Principle of Neutrality in EU VAT' in Brokelind C (ed), *Principles of Law: Function, Status and Impact in EU Tax Law* (IBFD 2014).

Similar concerns have been expressed in doctrinal literature in relation to the triangular simplification mechanism more generally. It has been observed that the current framework operates through a fragmented combination of provisions dispersed throughout the VAT Directive and has been subject to divergent interpretations among Member States for many years.[101] The judgment in *MS KLJUČAROVCI* further illustrates that the existing legislative framework is increasingly required to accommodate transaction structures extending beyond the relatively straightforward triangular arrangements for which the simplification mechanism was originally designed. In this respect, the present analysis suggests that the current framework does not fully correspond to the economic reality of multi-party intra-Community supply chains. Further legislative clarification concerning the treatment of quadrangular chain transactions may therefore be desirable in order to enhance legal certainty and safeguard fiscal neutrality within the internal market.

[101] Torres Pereira A, 'Squaring the Triangle – The Triangulation Simplification and the ECJ Decision in Hans Bühler' (2025) 36 *International VAT Monitor* 203, 208.

6 Conclusion

This thesis has examined the conditions under which the triangular simplification mechanism under Article 141 of the VAT Directive may apply to quadrangular chain transactions and assessed the extent to which such application is consistent with the principle of fiscal neutrality. The analysis proceeded from the general framework governing intra-Community supplies and acquisitions, through the substantive and formal conditions of Article 141 and the relevant case law, to the existing guidance and case law on quadrangular transactions and finally to the specific configurations examined in Chapter 5 that remain unaddressed in existing guidance and case law.

In answer to the central research question of under which conditions the simplification mechanism under Article 141 can be applied to quadrangular transactions, the following can be concluded. The simplification mechanism may apply in a quadrangular chain transaction where the conditions of Article 141 are fulfilled within a specific three-party segment of the broader chain. The first step is to identify that segment, which is determined by the allocation of intra-Community transport under Article 36a of the VAT Directive. The VAT identification number used by the intermediary is decisive in this respect: where the intermediary uses a number issued by the Member State of departure, Article 36a(2) applies and the transport is allocated to the supply made by that operator, resulting in the next party in the chain making the intra-Community acquisition in the Member State of destination. Where the intermediary uses a number issued by a different Member State, Article 36a(1) applies and the transport is allocated to the supply made to the intermediary, who then makes the acquisition in the Member State of destination. Once the relevant segment has been identified, the ordinary substantive and formal conditions of Article 141 apply in full to that segment, without modification.

The analysis of the specific configurations examined in Chapter 5 demonstrates that this practical scope is considerably more limited than the case law and soft law guidance might suggest. In several configurations, notably where the intermediary operator and the supplier, or the two intermediary operators, are established in the same Member State, the conditions of Article 141 may technically be fulfilled within the relevant triangular segment, yet the mechanism fails to serve its underlying objective of avoiding VAT registration in the Member State of destination. Only where the VAT identification number used by the intermediary operator triggers Article 36a(2) and results in the next party making the intra-Community acquisition in the Member State of destination does the mechanism achieve its intended simplification function in the quadrangular context. In all other configurations examined, the mechanism either does not apply or operates within a triangular segment that leaves a registration obligation unaddressed elsewhere in the chain. The simplification thus provides only partial relief: it resolves the VAT position of one taxable person within the chain but leaves the broader quadrangular structure subject to the ordinary rules.

As regards the substantive conditions, both *MS KLJUČAROVCI* and *Hans Bühler* confirm a purposive interpretive approach under which the physical movement of goods is not decisive and a registration in the Member State of departure does not automatically preclude the application of Article 141. This flexibility does not, however, extend to the formal requirements. As established in *Luxury Trust Automobil*, the "reverse charge" indication on the invoice performs a constitutive function that cannot be displaced by substance-over-form reasoning. This asymmetry between the treatment of substantive and formal requirements applies with equal force in quadrangular transactions, since the function of the formal requirements does not change with the complexity of the chain. In addition, as confirmed in *MS KLJUČAROVCI*, the benefit of the simplification may be denied where the taxable person knew or should have known that it was participating in VAT fraud.

The application of the simplification mechanism to quadrangular transactions is, moreover, not fully consistent with the principle of fiscal neutrality. Where structurally similar quadrangular transactions lead to fundamentally different outcomes depending solely on the VAT identification number used by the intermediary operator, the resulting asymmetry is difficult to reconcile with the requirement that comparable transactions be treated in the same manner for VAT purposes. This concern is compounded by the fact that the choice of VAT identification number is, in principle, within the control of the intermediary operator, meaning that the availability of the simplification mechanism may vary not on the basis of the economic substance of the transaction, but on the basis of an administrative choice. The current framework does not adequately address this structural inconsistency. A dedicated legislative framework for multi-party chain transactions, extending the simplification mechanism to quadrangular and similar structures as a whole rather than to individual triangular segments within them, would better serve the objectives underlying Article 141 of ensuring taxation in the Member State of destination while avoiding unnecessary VAT registration obligations for taxable persons engaged in cross-border trade.

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