

JUDGMENT OF THE COURT (Eighth Chamber)

2 June 2016 (*)

(Reference for a preliminary ruling — Taxation — Value added tax — Directive 2006/112/EC — Article 9(1) — Definition of ‘taxable person for the purposes of value added tax’ and ‘economic activity’ — Article 24(1) — Definition of ‘supply of services’ — Agricultural engineering works — Construction and operation of a water disposal system by a non-profit company — Effect of the works being funded by means of State and EU aid)

In Case C-263/15,

REQUEST for a preliminary ruling under Article 267 TFEU from the Kúria (Supreme Court, Hungary), made by decision of 14 May 2015, received at the Court on 3 June 2015, in the proceedings

Lajvér Meliorációs Nonprofit Kft.,

Lajvér Csapadékvízrendezési Nonprofit Kft.

v

Nemzeti Adó- és Vámhivatal Dél-dunántúli Regionális Adó Főigazgatósága (NAV),

THE COURT (Eighth Chamber),

composed of D. Šváby, President of the Chamber, J. Malenovský and M. Vilaras (Rapporteur),
Judges,

Advocate General: E. Sharpston,

Registrar: A. Calot Escobar,

having regard to the written procedure,

after considering the observations submitted on behalf of:

- the Hungarian Government, by M.Z. Fehér and G. Koós, acting as Agents,
- the European Commission, by K. Talabér-Ritz and M. Owsiany-Hornung, acting as Agents,

having decided, after hearing the Advocate General, to proceed to judgment without an Opinion,

gives the following

Judgment

1 This request for a preliminary ruling concerns the interpretation of Article 9(1) and Article 24(1) of Council Directive 2006/112/EC of 28 November 2006 on the common system of value added tax (OJ 2006 L 347, p. 1).

2 The request has been made in proceedings between, on the one hand, the non-profit

companies Lajvér Meliorációs Nonprofit Kft. and Lajvér Csapadékvízrendezési Nonprofit Kft. and, on the other, the Nemzeti Adó- és Vámhivatal Dél-dunántúli Regionális Adó Főigazgatósága (NAV) (Southern Transdanubia Regional Tax Directorate, Hungary) concerning the right of those non-profit companies to deduct the value added tax ('VAT') on the invoices issued by Recontír BPM Kft. for works carried out on their behalf.

Legal context

EU law

3 Article 2(1)(c) of Directive 2006/112 provides that the supply of services for consideration within the territory of a Member State by a taxable person acting as such is to be subject to VAT.

4 Article 9(1) of Directive 2006/112 provides:

“Taxable person” shall mean any person who, independently, carries out in any place any economic activity, whatever the purpose or results of that activity.

Any activity of producers, traders or persons supplying services, including mining and agricultural activities and activities of the professions, shall be regarded as “economic activity”. The exploitation of tangible or intangible property for the purposes of obtaining income therefrom on a continuing basis shall in particular be regarded as an economic activity.’

5 According to Article 24(1) of that directive:

“Supply of services” shall mean any transaction which does not constitute a supply of goods.’

Hungarian law

6 Paragraph 5(1) of Law CXXVII of 2007 on value added tax (az általános forgalmi adóról szóló 2007. évi CXXVII. törvény; ‘the Law on VAT’) provides:

“Taxable person” shall mean any person or body having legal capacity that, in their own name, carries out in any place any economic activity, whatever the purpose or results of that activity. ...’

7 Paragraph 6(1) of the Law on VAT states:

“Economic activity” shall mean any commercial activity carried out independently on a permanent or regular basis, for the purposes of obtaining consideration, or for which consideration is received.’

8 Paragraph 16 of the Law on VAT provides:

‘The supply of goods and services shall be treated equally irrespective of whether they are supplied under contract, pursuant to a legal regulation, pursuant to a judicial or administrative decision (including a decision not relating to substantive issues), or by means of auction.’

9 Pursuant to Paragraph 259(6) of the Law on VAT:

“Consideration” shall mean any financial advantage, including assets used in the remission of an existing debt, but excluding compensation for damage.’

10 Paragraph 4(1) of Law IV of 2006 on commercial companies (a gazdasági társaságokról szóló 2006. évi IV. törvény) provides:

‘Companies may be established to engage in joint economic activities which are not intended to make a profit (non-profit company). Non-profit companies may be established and operated in any corporate form. The designation ‘non-profit’ and the corporate form shall be indicated in the corporate name of such a company.’

The dispute in the main proceedings and the questions referred for a preliminary ruling

11 The applicants in the main proceedings are ‘non-profit companies’ which, as such, engage in economic activities that are not intended to make a profit and may only engage in a commercial activity on an ancillary basis. They were established with the aim of constructing, and later operating, agricultural engineering works, namely, a water disposal system, a reservoir and a rainwater collection system, on land belonging to members of the companies.

12 The works necessary for that project were financed through State and EU resources. In order to carry out the works, the applicants in the main proceedings have the administrative permits and the consent of the owners of the land concerned. It has also been agreed that the applicants in the main proceedings are to charge those owners an operating fee in relation to the agricultural engineering works for a period of eight years.

13 The applicants in the main proceedings entrusted the preparation and execution of the works to Recontír BPM. That company issued invoices including VAT for the work carried out, which the applicants have sought to deduct.

14 Nevertheless, the right to deduct VAT claimed by the applicants in the main proceedings was refused by the NAV on the grounds that the planned activity was not an ‘economic activity’ as defined in Paragraph 6 of the Law on VAT, either as regards the sections that form part of the road network, and can therefore be used by anyone, or the sections situated on private property. Accordingly, with regard to that activity, the applicants could not be classified as ‘taxable persons’. The NAV took the view that the applicant companies did not carry out any activity that could be regarded as a ‘supply of services’ for their partners or for third parties. It stated that the normal operation of agricultural engineering works, which consists in keeping the concrete road surface and surrounding areas clean and ensuring that the water is flowing, fell within the ambit of public highways and corresponded to an obligation imposed by a rule of law and not to a supply of services. The modest fees which the applicants in the main proceedings plan to charge for the operation of those agricultural engineering works do not correspond to the definition of ‘consideration’ within the meaning of the Law on VAT.

15 The action brought by the applicants in the main proceedings against that refusal was dismissed at first instance on the same grounds as those given by the NAV.

16 Consequently, the applicants in the main proceedings brought an appeal on a point of law before the Kúria (Supreme Court, Hungary), arguing that, as companies, they are ‘taxable persons’, liability to taxation being based on objective criteria. They claim that exercise of the right to deduct VAT depends on the classification of the activity engaged in and that to satisfy the definition of economic activity for the purposes of Paragraph 6(1) of the Law on VAT, it is sufficient to engage, on a permanent or regular basis, in an activity which results in consideration being received. There is no requirement for an activity to be profit-making in order for it to be regarded as an ‘economic activity’.

17 The referring court notes that the definition of ‘economic activity’ is very broad and that whether a profit is made or whether the investments are funded by means of State aid is irrelevant in that regard. It takes the view that, for the purposes of classifying an activity as a ‘supply of

services', it is irrelevant that the applicants in the main proceedings are fulfilling a maintenance obligation imposed by law. By contrast, the referring court expresses uncertainty as to whether the fee paid pursuant to the contract of operation and use must be regarded as consideration and whether there is a direct link between that consideration and the maintenance of the agricultural engineering works carried out as a result of the investments.

18 It was in those circumstances that the Kúria (Supreme Court) decided to stay the proceedings and to refer the following questions to the Court for a preliminary ruling:

- '1. In the circumstances of the present case, are the applicants [in the main proceedings] acting as taxable persons in view of the fact that the interpretation of Article 9(1) of Directive 2006/112 does not exclude activities carried out by companies from the scope of the term 'economic activity', even when those companies can engage in commercial activities only on an ancillary basis?
2. Is the fact that the applicants [in the main proceedings] receive a significant share of their funding from State aid and that, in the context of the management of their operation, they obtain income from charging modest fees, relevant for the purposes of considering whether the applicants are 'taxable persons'?
3. If the answer to Question 2 is in the negative, must it be considered that that 'fee' represents consideration for a service and that there is a direct link between the supply of the service and the payment of the consideration?
4. Does the management of the investment constitute a supply of services by the applicants [in the main proceedings], within the meaning of Article 24 of Directive 2006/112, as interpreted, or may that management not be regarded as a supply of services on account of the fact that its performance is a legal obligation?'

The questions referred for a preliminary ruling

19 By its four questions, which it is appropriate to examine together, the referring court asks, in essence, whether Article 9(1) of Directive 2006/112 must be interpreted as meaning that the operation of agricultural engineering works, such as those at issue in the main proceedings, by a non-profit company, constitutes an economic activity within the meaning of that provision, notwithstanding the fact that those works have in large part been financed by State aid and that their operation gives rise only to revenue from modest fees. It also asks whether Article 24 of Directive 2006/112 must be interpreted as meaning that that operation of agricultural engineering works constitutes a supply of services, and whether there is a direct link between that supply of services and the fee that may be regarded as the corresponding consideration, notwithstanding the fact that this is the performance of a legal obligation.

20 It must be recalled that, although Directive 2006/112 gives a very wide scope to VAT, only activities of an economic nature are covered by that tax (see, inter alia, judgments of 26 June 2003 in *MKG-Kraftfahrzeuge-Factoring*, C-305/01, EU:C:2003:377, paragraph 39; 26 June 2007 in *T-Mobile Austria and Others*, C-284/04, EU:C:2007:381, paragraph 34; and 29 October 2009 in *Commission v Finland*, C-246/08, EU:C:2009:671, paragraph 34).

21 According to Article 2 of Directive 2006/112 concerning taxable transactions, together with the importation of goods, the intra-Community acquisition of goods, the supply of goods and the supply of services effected for consideration within the territory of the country by a taxable person are subject to VAT. Furthermore, under Article 9 of that directive, 'taxable person' means any person who independently carries out an economic activity, whatever the purpose or results of that

activity (see, inter alia, judgments of 26 March 1987 in *Commission v Netherlands*, 235/85, EU:C:1987:161, paragraph 6; 16 September 2008 in *Isle of Wight Council and Others*, C?288/07, EU:C:2008:505, paragraphs 26 and 27; and 29 October 2009 in *Commission v Finland*, C?246/08, EU:C:2009:671, paragraph 35).

22 Likewise, the analysis of the terms 'supply of goods' and 'supply of services' shows that those terms, which define, in part, taxable transactions under Directive 2006/112, are objective in nature and apply without regard to the purpose or results of the transactions concerned (see, to that effect, judgment of 12 January 2006 in *Optigen and Others*, C?354/03, C?355/03 and C?484/03, EU:C:2006:16, paragraph 44).

23 'Economic activity' is defined in the second subparagraph of Article 9(1) of Directive 2006/112 as including all activities of producers, traders and persons supplying services, inter alia the exploitation of tangible or intangible property for the purpose of obtaining income therefrom on a continuing basis (see, inter alia, judgments of 26 June 2007 in *T-Mobile Austria and Others*, C?284/04, EU:C:2007:381, paragraph 33; 29 October 2009 in *Commission v Finland*, C?246/08, EU:C:2009:671, paragraph 36; and 20 June 2013 in *Finanzamt Freistadt Rohrbach Urfahr*, C?219/12, EU:C:2013:413, paragraph 16).

24 In that regard, it is important to point out that, under the second subparagraph of Article 9(1) of Directive 2006/112, in accordance with the requirements of the principle of neutrality of the common system of value added tax, the term 'exploitation' refers to all transactions, whatever may be their legal form, by which it is sought to obtain income from the goods in question on a continuing basis (see, to that effect, judgments of 26 June 2007 in *T-Mobile Austria and Others*, C?284/04, EU:C:2007:381, paragraph 38, and 13 December 2007 in *Götz*, EU:C:2007:789, paragraph 18).

25 Furthermore, according to Article 24 of Directive 2006/112, supply of services is to mean any transaction which does not constitute a supply of goods.

26 The basis of assessment for a supply of services is everything which makes up the consideration for the service provided and a supply of services is therefore taxable only if there is a direct link between the service supplied and the consideration received. It follows that a supply of services is effected 'for consideration' within the meaning of Article 2(1)(c) of Directive 2006/112, and hence is taxable, only if there is a legal relationship between the provider of the service and the recipient pursuant to which there is reciprocal performance, the remuneration received by the provider of the service constituting the value actually given in return for the service supplied to the recipient (judgments of 3 March 1994 in *Tolsma*, C?16/93, EU:C:1994:80, paragraphs 13 and 14; 21 March 2002 in *Kennemer Golf*, C?174/00, EU:C:2002:200, paragraph 39; and 6 October 2009 in *SPÖ Landesorganisation Kärnten*, C?267/08, EU:C:2009:619, paragraph 19).

27 It is in the light of those considerations that the questions referred must be answered.

28 In the first place, it is apparent from the order for reference that the activity at issue in the main proceedings is the operation of agricultural engineering works including a water disposal system, a reservoir and a rainwater collection system. Such an activity is to be regarded as falling within the concept of 'economic activity' as defined in the second subparagraph of Article 9(1) of Directive 2006/112 if it is engaged in for the purposes of obtaining income on a continuing basis.

29 The question whether that activity is designed to obtain income on a continuing basis is an issue of fact that must be assessed having regard to all the circumstances of the case, which include, inter alia, the nature of the property concerned (see judgments of 19 July 2012 in *R?dlihs*, C?263/11, EU:C:2012:497, paragraph 33, and 20 June 2013 in *Finanzamt Freistadt Rohrbach Urfahr*

, C?219/12, EU:C:2013:413, paragraph 19).

30 In the present case, the services provided or to be provided by the applicants in the main proceedings consist in operating agricultural engineering works and public roads (which also include certain private sections), inter alia by carrying out maintenance, with a view to ensuring that the water flows freely at all times. The provision of those services gives or will give rise to remuneration, the applicants in the main proceedings intending to charge the owners of the land concerned an operating fee in relation to the agricultural engineering works for a predetermined period of eight years.

31 In such circumstances, the Court considers that the operation of those works is engaged in for the purposes of obtaining income.

32 In that respect, although it is not certain that the applicants in the main proceedings had begun operating the agricultural engineering works on the date they claimed the right to deduct input VAT, it should be recalled that a person who has the intention, confirmed by objective evidence, of commencing independently an 'economic activity' within the meaning of Article 9 of Directive 2006/112 and incurs the first investment expenditure for those purposes must be regarded as a taxable person (see, by analogy, judgments of 21 March 2000 in *Gabalfrija and Others*, C?110/98 to C?147/98, EU:C:2000:145, paragraph 47, and 8 June 2000 in *Breitsohl*, C?400/98, EU:C:2000:304, paragraph 34).

33 In addition, since the prospective operating fee is planned to be charged for a period of eight years, it must be regarded as falling within the scope of 'a continuing basis' within the meaning of the case-law cited in paragraph 23 above.

34 The finding that the fee constitutes income on a continuing basis cannot be placed in doubt on the ground that the applicants in the main proceedings could engage in commercial activities only on an ancillary basis.

35 On the one hand, it should be noted that it is clear both from the wording of the second subparagraph of Article 9(1) of Directive 2006/112 and from the case-law of the Court that, for a finding that the exploitation of tangible or intangible property is carried out for the purpose of obtaining income therefrom, it is irrelevant whether or not that exploitation is intended to make a profit (see, inter alia, judgment of 20 June 2013 in *Finanzamt Freistadt Rohrbach Urfahr*, C?219/12, EU:C:2013:413, paragraph 25). Thus, the fact that, on account of their legal form, the applicants in the main proceedings may engage in commercial activities only on an ancillary basis is irrelevant to the finding that they are engaging in an economic activity designed to obtain income on a continuing basis.

36 On the other hand, the effect of the possible pursuit of the activity at issue in the main proceedings on an ancillary basis on the economic nature of that activity must be determined by examining all the circumstances in which the agricultural engineering works are operated in order to determine whether they are actually used for the purpose of obtaining income on a continuing basis (see, to that effect, judgments of 26 September 1996 in *Enkler*, C?230/94, EU:C:1996:352, paragraph 27, and 19 July 2012 in *R?dlihs*, C?263/11, EU:C:2012:497, paragraph 34).

37 Nevertheless, in the light of the facts provided by the referring court, set out in paragraphs 30 to 33 above, it is apparent that, on account of the length of time during which it is planned to charge the prospective operating fee, that fee must be regarded as having a 'continuing basis' which allows the operation of those works to be classed as an 'economic activity' within the meaning of the second subparagraph of Article 9(1) of Directive 2006/112.

38 Lastly, the fact that the investments were largely financed by aids granted by the Member State and the European Union cannot have a bearing on whether or not the activity pursued or planned by the applicants in the main proceedings is to be regarded as an economic activity, since the concept of 'economic activity' is objective in nature and applies not only without regard to the purpose or results of the transactions concerned but also without regard to the method of financing chosen by the operator concerned, which also holds true in relation to public subsidies (see, as regards the prohibition of limiting the right to deduct, judgments of 6 October 2005 in *Commission v France*, C-243/03, EU:C:2005:589, paragraphs 32 and 33, and 23 April 2009 in *PARAT Automotive Cabrio*, C-74/08, EU:C:2009:261, paragraphs 20 and 26).

39 In the second place, that operation of agricultural engineering works can be regarded as a supply of services effected for consideration only if (i) there is a direct link between the service supplied and the operating fee received or to be received by the applicants in the main proceedings and if (ii) that fee constitutes the value actually given in return for the service supplied to the recipient.

40 In the present case, the services provided or to be provided by the applicants in the main proceedings consist in operating agricultural engineering works and public roads (which also include certain private sections), inter alia by carrying out maintenance, with a view to ensuring that the water flows freely at all times, and thus constitute a supply of services within the meaning of Article 24 of Directive 2006/112.

41 The fact that, in the context of that activity, the maintenance of the public roads in order to ensure that the water flows freely constitutes a legal obligation can have no bearing on the assessment as to whether the activity at issue in the main proceedings is effected 'for consideration', such a fact not being liable to call into question the classification of such an activity as a 'supply of services' or the direct link between the service provided and the consideration given for it.

42 It has been held that the fact that the activity in question consists in the performance of duties conferred and regulated by law in the public interest is irrelevant for the purposes of determining whether that activity can be classified as a supply of services effected for consideration (see, to that effect, judgments of 12 September 2000 in *Commission v France*, C-276/97, EU:C:2000:424, paragraph 33, and 29 October 2009 in *Commission v Finland*, C-246/08, EU:C:2009:671, paragraph 40). Furthermore, it has also been held that even where the activity in question is designed to fulfil a constitutional obligation exclusively and directly incumbent upon the Member State concerned, the direct link between the supply of services and the consideration received cannot be called into question by this fact alone (see, to that effect, judgment of 29 October 2015 in *Saudaçor*, C-174/14, EU:C:2015:733, paragraph 39).

43 Similarly, none of the other facts provided by the national court is such as to affect the direct link between the services supplied or to be supplied and the consideration received or to be received.

44 This particularly applies to the modest amount of the operating fee which the applicants in the main proceedings plan to charge.

45 It should be noted that the fact that the price paid for an economic transaction is higher or lower than the cost price, and, therefore, higher or lower than the open market value, is irrelevant for the purpose of establishing whether it was a transaction effected for consideration (see, to that effect, judgments of 20 January 2005 in *Hotel Scandic Gåsabäck*, C-412/03, EU:C:2005:47, paragraph 22; 9 June 2011 in *Campsa Estaciones de Servicio*, C-285/10, EU:C:2011:381,

paragraph 25; and 27 March 2014 in *Le Rayon d'Or*, C-151/13, EU:C:2014:185, paragraphs 36 and 37).

46 Therefore, such a fact is not such as to affect the direct link between the services supplied or to be supplied and the consideration received or to be received, the amount of which is determined in advance on the basis of well-established criteria (see, to that effect, judgment of 29 October 2015 in *Saudaçor*, C-174/14, EU:C:2015:733, paragraph 36).

47 In addition, it is clear that the amount of that fee has been determined in advance, since the referring court, the Hungarian Government and the European Commission all consider the fee received or to be received to be of a modest amount. In that respect, it can also be accepted that that amount has been determined on the basis of well-established criteria. The maintenance carried out or to be carried out by the applicants in the main proceedings must reflect the existence of an obligation on them as operators of agricultural engineering works to ensure that the water flows freely. Such an obligation can be fulfilled by defined maintenance activities carried out at regular intervals which may give rise to remuneration determined in advance.

48 In such a context, the operating fee, even at a modest amount, can constitute remuneration for the service supplied by the applicants in the main proceedings to the owners of the land on which the works are situated, in accordance with the judgments of 3 March 1994 in *Tolsma* (C-16/93, EU:C:1994:80, paragraphs 13 and 14); 21 March 2002 in *Kennemer Golf* (C-174/00, EU:C:2002:200, paragraph 39); and 6 October 2009 in *SPÖ Landesorganisation Kärnten* (C-267/08, EU:C:2009:619, paragraph 19).

49 It will be for the referring court to determine whether the amount of the fee received or to be received, *qua* consideration, means that there is a direct link between the services supplied or to be supplied and that consideration, and consequently allows those services to be classified as being effected for consideration. In particular, the referring court will have to ascertain that the fee which the applicants in the main proceedings are planning to charge does not only partly remunerate the services supplied or to be supplied and that its amount has not been determined as a result of other possible factors that could, depending on the circumstances, call into question the direct link between the services supplied and the consideration.

50 In addition, it is, according to the circumstances, for that court to ensure that the transaction at issue in the main proceedings is not a wholly artificial arrangement which does not reflect economic reality and is set up with the sole aim of obtaining a tax advantage (see, to that effect, judgments of 27 October 2011 in *Tanoarch*, C-504/10, EU:C:2011:707, paragraph 51, and 12 July 2012 in *J.J. Komen en Zonen Beheer Heerhugowaard*, C-326/11, EU:C:2012:461, paragraph 35).

51 In the light of the foregoing considerations, the answer to the questions referred is that:

- Article 9(1) of Directive 2006/112 must be interpreted as meaning that the operation of agricultural engineering works, such as those at issue in the main proceedings, by a non-profit company which engages in such commercial activities only on an ancillary basis, constitutes an economic activity within the meaning of that provision, notwithstanding the fact that those works have in large part been financed by State aid and that their operation gives rise only to revenue from modest fees, provided that that fee can be regarded as having a 'continuing basis' on account of the period of time during which it is to be charged.
- Article 24 of Directive 2006/112 must be interpreted as meaning that the operation of agricultural engineering works, such as those at issue in the main proceedings, constitutes a supply of services for consideration, on the ground that the services rendered are directly linked to the fee received or to be received, provided that that modest fee constitutes remuneration for the

service supplied and notwithstanding the fact that performance of those services is a legal obligation. It will be for the referring court to determine whether the amount of the fee received or to be received, *qua* consideration, means that there exists a direct link between the services supplied or to be supplied and that consideration, and consequently allows those services to be classified as being effected for consideration. In particular, the referring court will have to ascertain that the fee which the applicants in the main proceedings are planning to charge does not only partly remunerate the services supplied or to be supplied and that its amount has not been determined as a result of other possible factors that could, depending on the circumstances, call into question the direct link between the services supplied and the consideration.

Costs

52 Since these proceedings are, for the parties to the main proceedings, a step in the action pending before the national court, the decision on costs is a matter for that court. Costs incurred in submitting observations to the Court, other than the costs of those parties, are not recoverable.

On those grounds, the Court (Eighth Chamber) hereby rules:

- 1. Article 9(1) of Council Directive 2006/112/EC of 28 November 2006 on the common system of value added tax must be interpreted as meaning that the operation of agricultural engineering works, such as those at issue in the main proceedings, by a non-profit company which engages in such commercial activities only on an ancillary basis, constitutes an economic activity within the meaning of that provision, notwithstanding the fact that those works have in large part been financed by State aid and that their operation gives rise only to revenue from modest fees, provided that that fee can be regarded as having a ‘continuing basis’ on account of the period of time during which it is to be charged.**
- 2. Article 24 of Directive 2006/112 must be interpreted as meaning that the operation of agricultural engineering works, such as those at issue in the main proceedings, constitutes a supply of services for consideration, on the ground that the services rendered are directly linked to the fee received or to be received, provided that that modest fee constitutes remuneration for the service supplied and notwithstanding the fact that performance of those services is a legal obligation. It is for the referring court to determine whether the amount of the fee received or to be received, *qua* consideration, means that there exists a direct link between the services supplied or to be supplied and that consideration, and consequently allows those services to be classified as being effected for consideration. In particular, the referring court will have to ascertain that the fee which the applicants in the main proceedings are planning to charge does not only partly remunerate the services supplied or to be supplied and that its amount has not been determined as a result of other possible factors that could, depending on the circumstances, call into question the direct link between the services supplied and the consideration.**

[Signatures]

** Language of the case: Hungarian.