Worldwide VAT, GST and Sales Tax Guide

2019

EY

Building a better working world

Preface

While greatly accelerating the pace of all their tax legislation, the world's governments continue to rely heavily on indirect taxes as an invaluable source of revenue. As a result, there is increased risk that taxpayers will be caught unprepared, making a current, detailed guide like the *Worldwide VAT, GST and Sales Tax Guide* all the more valuable.

The book's organization is straightforward. Chapter by chapter, from Albania to Zimbabwe, we summarize indirect tax systems in 124 jurisdictions. All of the content is current on 1 January 2019 with more recent additions noted.

Each chapter begins with contact information for the key people in that jurisdiction's EY offices. We then answer the basic questions practitioners ask about indirect tax systems:

- At a glance, what are the basic features of the major indirect tax in this jurisdiction?
- What is the scope, and who is taxable?
- What are the rates, and how has the country defined the time of supply?
- When can taxpayers recover VAT they've paid on inputs?
- What are the rules on filing, payment and penalties?

For many years, the *Worldwide VAT, GST and Sales Tax Guide* has been published annually along with two companion guides on broad-based taxes: the *Worldwide Corporate Tax Guide* and the *Worldwide Personal Tax and Immigration Guide*. In recent years, those three have been joined by additional tax guides on more specific topics, including the *Worldwide Estate and Inheritance Tax Guide*, the *Transfer Pricing Global Reference Guide*, the *Global Oil and Gas Tax Guide*, the *Worldwide R&D Incentives Reference Guide* and the *Worldwide Digital Tax Guide*.

Each represents thousands of hours of tax research, and the entire suite is available free online along with timely *Global Tax Alerts* and other great publications on ey.com or in our EY Global Tax Guides app for tablets.

EY also publishes other indirect tax publications, including current *Tax Alerts*, articles and an interactive Worldwide Indirect Tax Developments Map summarizing recent and upcoming changes for VAT, GST, and other sales taxes, global trade and excise taxes, and other indirect taxes. Find them at ey.com/indirecttax.

You can sign up to receive EY Tax Alerts daily into your inbox at globaltaxnews.ey.com/register.

Please contact us if you need more copies of the *Worldwide VAT, GST and Sales Tax Guide*. You can also keep up with the latest updates at ey.com/GlobalTaxGuides and find out more about the app at ey.com/TaxGuidesApp.

EY
April 2019

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax or other professional advice. Please refer to your advisors for specific advice.

About EY's Tax Services

Your business will only succeed if you build it on a strong foundation and grow it in a sustainable way. At EY, we believe that managing your tax obligations responsibly and proactively can make a critical difference. Our 50,000 talented tax professionals, in more than 150 countries, give you technical knowledge, business experience, consistency and an unwavering commitment to quality service — wherever you are and whatever tax services you need.

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A. At a glance

Name of the tax	Value-added tax (VAT)
Local name	Tatimi mbi Vleren e Shtuar (TVSH)
Date introduced	27 April 1995
Trading bloc membership	Central European Free Trade Agreement
Administered by	General Directorate of Taxes of Albania
VAT rates	
Standard	20%
Other	6%, zero-rated (0%) and exempt
VAT number format	A23456789B
VAT return periods	Monthly
Registration thresholds	
Resident taxable persons	Annual turnover of ALL2 million
Exporters, importers, non-established businesses	Subject to registration regardless of turnover
Recovery of VAT by non-established businesses	No

B. Scope of the tax

VAT applies to the following transactions:

- The supply of goods and services performed by a taxable person in Albania
- Importation of goods into Albania, regardless of the status of the importer
- Services supplied to taxable persons in Albania by service providers whose place of business is outside Albania
- Certain supplies of services rendered to nontaxable persons in Albania by providers whose place of business is outside Albania, such as digital services and services related to an immovable property located in Albania

C. Who is liable

Any person (entity or individual) who makes supplies in the course of the person's independent economic activity is liable to VAT.

Taxable activities also include "the exploitation of tangible or intangible property for the purposes of obtaining income therefrom on a continuing basis."

Registration. A taxable person established in Albania is obliged to register for VAT purposes and charge VAT if the annual turnover in the previous twelve months exceeds ALL2 million. Once this threshold of ALL2 million is exceeded, any supply shall be subject to VAT, and the taxable person is required to apply for VAT registration within 15 days.

For agricultural producers, for which the compensation scheme for farmers applies (see further details under Section I. VAT returns and payments) and which operate as individual farmers, the minimum registration limit for VAT purposes is the turnover of ALL5 million in a calendar year.

Persons involved in import or export activities and taxpayers who supply professional services must register for VAT regardless of the amount of turnover.

Group registration. The Albanian VAT law does not allow group registration.

Non-established businesses. A "non-established business" is a business that does not have a fixed establishment in Albania.

No VAT registration threshold applies to taxable supplies made in Albania by a non-established business. A non-established business must register for VAT in Albania if it engages in any of the following supplies:

- Supply of goods located in Albania at the time of supply
- Certain supplies of services to nontaxable persons in Albania, such as digital services and services related to an immovable property located in Albania
- Import and export activities in Albania

VAT representatives. A non-established business must appoint a resident VAT representative to register for VAT purposes in Albania unless the reverse-charge mechanism applies. The VAT representative may act on behalf of the taxable person for all purposes related to VAT and is jointly liable for compliance with all VAT obligations of the non-established business.

Reverse charge. The reverse-charge mechanism applies to supplies of services made by a non-established business to taxable persons in Albania. A non-established business is not required to register for VAT if all its taxable supplies in Albania fall under the reverse-charge mechanism.

Digital economy. Albania follows the destination principle with regard to cross-border digital services supplied to nontaxable persons in Albania. The place of supply of cross-border digital services to nontaxable persons is the place where the nontaxable person is established or where he has his permanent address or usually resides. Thus, a foreign service supplier providing digital services to a nontaxable person in Albania should register for VAT purposes in Albania by appointing a VAT representative in the country to account for and pay the VAT liability.

Registration procedures. The application for registration can be performed online or at the National Center of Registration (NCR). A taxable person may personally or through an authorized person submit the registration form with the NRC. The registration procedure lasts three to four working days.

Late-registration penalties. Noncompliance with the requirement to register or to update registration data triggers a penalty that can range from ALL10,000 to ALL15,000.

Deregistration. Every taxable person registered for VAT may request to be deregistered if turnover fell below the VAT registration threshold during the previous 12 months. Such deregistration

becomes effective six months after the request. Taxable persons ceasing their economic activity must request deregistration within 15 days from the termination of their activity.

Exemption from registration. The VAT law in Albania does not contain any provision for exemption from registration.

Voluntary registration. Taxable persons with an annual turnover less than ALL2 million may voluntarily register for VAT, and that taxable person must remain registered for a minimum of two years.

D. VAT rates

The standard VAT rate for taxable supplies is 20% and applies to all taxable supplies of goods and services unless a ministerial decree introduces a reduced or zero rate for specific supplies. A supplier of zero-rated supplies may deduct the VAT paid on inputs.

The use of goods or services purchased or produced in the course of business activity for private purposes constitutes a taxable supply to the extent the VAT on those supplies was deducted.

Examples of goods and services taxable at 6%

- Supplies of accommodation services by the accommodation facilities
- Supplies made within five-stars accommodation structures of an internationally known trademark
- Supplies of accommodation and restaurant services, excluding beverages, by the certified structures operating in agritourism
- Supplies of advertising services by audiovisual media
- Supply of licensed public transport electric vehicles for passengers, with nine plus one places or more, by 31 December 2021 (starting from 1 January 2022, the rate of VAT rate for such supplies will be 10%)
- Supply of books of any type

Examples of zero-rated supplies of goods and services

- Exports of goods
- International transport
- Services relating to maritime activities
- Supplies under diplomatic arrangements
- Supply of gold to the Central Bank of Albania
- Intermediary services related to zero-rated supplies or services rendered abroad

Certain supplies are referred to as "exempt with credit," which means that no VAT is chargeable, but the supplier may recover the input VAT (effectively zero-rated). Exempt-with-credit supplies include exports of goods, supplies related to international transport, and other supplies of goods or services under diplomatic and consular arrangements or international bodies.

Examples of exempt supplies of goods and services

The term "exempt supplies" refers to supplies of goods and services that are not subject to VAT and that do not give rise to an input VAT deduction, such as the following:

- Hospital services and medical care
- Insurance and reinsurance services
- Supply and rent of land and buildings
- Financial services
- Postal services
- Education services
- Hydrocarbon exploration operations
- Printing and sale of publications
- Betting, lotteries and gambling

- Importation of machinery and equipment used for inward processing of goods or in the implementation of contracts of ALL50 million or more
- Importation of production machinery for small business
- Import of raw materials used for the manufacture of medicines, with the exception of dual-use substances, carried out by holders of production authorization
- Agricultural machinery
- Agricultural inputs, such as fertilizers, pesticides, seeds and seedlings
- Veterinary services, except veterinary services for domestic animals

Option to tax for exempt supplies. The Minister of Finance may grant through decree the right to opt for taxation for the following VAT exempt supplies:
- Financial transactions
- The supply of building and of the land on which the building stands
- The supply of land
- Leasing of immovable property

E. Time of supply

VAT becomes due at the "time of supply" unless otherwise provided in law. The time of supply is considered to occur when an invoice is required to be issued or when goods or services are delivered. The invoice should be issued at the moment the supply of goods or services takes place. If the payment is made before delivery of goods or services, the moment of supply is the moment when the payment is made.

The time of supply for a continuous supply of goods and services, including construction services, is considered to be the month when the invoice is issued. Invoices should be issued on a monthly basis.

Imported goods. The time of supply for imported goods is the date of importation or the date on which the goods exit a duty suspension regime.

Reverse-charge services. Invoices for reverse-charge services are required to be issued by the 14th day of the month following the month in which VAT becomes due.

Deposits and prepayments. Where a payment is to be made on account before the goods or services are supplied, VAT shall become chargeable on receipt of the payment and on the amount received.

In case of any amount paid or retained in the form of a guarantee deposit in relation to the performance of a supply of goods or service, VAT shall become chargeable at the moment the deposit is received. In case the amount of deposit is returned to the customer, then the necessary adjustment should be made for VAT purposes.

Exemption from the above is granted to the guarantees deposited in a bank deposit account or to a third party, without the right of use. In such case, VAT shall become chargeable at the moment the deposit guarantee is executed.

Goods sent on approval for sale or return. There are no special time of supply rules in Albania for supplies of goods sent on approval for sale or return. As such, the general time of supply rules apply (as outlined above).

Continuous supplies. Supplies of goods and services performed on a continuous basis, within a period of time (as prescribed in the supply agreement between the customer and supplier, for example invoices to be issued on a monthly basis), including construction operations, shall be deemed to have been made in the same month in which the invoice is issued.

Where payment is made in advance of the invoice being issued, there are no special time of supply rules in Albania for this scenario. As such, the general time of supply rule applies (as outlined above), which is when the payment is made.

Leased assets. In the case of leased assets, the VAT becomes due at the time when the periodic monthly payments are invoiced to the lessee. In the case of a financial lease, whereby the option to buy the leased assets is exercised, VAT becomes due on the sale of assets, at the moment the final invoice is issued to the customer.

F. Recovery of VAT by taxable persons

A taxable person may recover input tax, which is the VAT that the taxable person paid on the purchase of goods and services that were used to provide taxable goods and services in Albania. A taxable person may also recover VAT related to the overseas supply of services (outside the scope of Albanian VAT) that would have been taxable if made in Albania. A taxable person generally recovers input tax by deducting it from output tax, which is the VAT charged on supplies made.

Input tax includes VAT charged on goods and services supplied in Albania, VAT paid on imports of goods and VAT applied to reverse-charge services.

Examples of items for which input tax is deductible (if related to a taxable business use)

- Expenditure relating to publicity and promotional articles
- Expenditure relating to representative expenses up to the amount of expenses that are recognized as deductible for corporate income tax purposes
- Expenditure on fuel used solely for carrying on taxable economic activity up to the limit defined by a decree issued by the Minister of Finance

However, not all input tax is deductible.

Examples of items for which input tax is not deductible

- Expenditure on fuel unless the payer is a company that purchases the fuel for trading purposes
- Expenditure on trips and per diems and hotel accommodation
- Expenditure on cars, unless the business activity consists of the trading or renting of cars such as car rentals, taxi services and ambulances

Partial exemption. If a supply of a good or service is used partly for purposes of taxable supplies and partly for exempt supplies, the taxable person may not deduct input tax in full. This situation is known as "partial exemption." The calculation of the amount of input tax that may be recovered is made on a pro rata basis by using the following formula:

$$\text{Amount of relevant input VAT} \times \frac{\text{VAT creditable turnover}}{\text{total annual turnover}}$$

During the tax year, the pro rata VAT due may be calculated based on the preceding year's results. The calculation must be adjusted by 31 January of the following year to reflect the actual results of the tax year. The calculation does not include supplies of capital goods used by the taxable person for business purposes, nor does it include incidental real estate and financial transactions.

Capital goods. Capital goods are items of capital expenditure that are used in a business over several years. Input tax is generally deducted in the VAT year in which the goods are acquired. If the business comprises both taxable and exempt supplies and the capital goods do not only serve taxable supplies, the amount of input tax recovered depends on the taxable person's partial exemption recovery position in the VAT year of acquisition. The amount of input tax recovered is adjusted over time if during the adjustment period the taxable person's pro rata calculation changes or the capital good is transferred to an exempt activity with no right to deduction.

The capital goods adjustment period is as follows:
- Immovable capital assets: 10 years
- Movable capital assets: 5 years

In case of pro rata changes during the adjustment period, the adjustment is made to 1/5 for movable capital goods and 1/10 for immovable capital goods, while for transfer of capital goods to an exempt activity the adjustment is made for the remaining years of the adjustment period.

Write-off of bad debts. Taxable persons who have not received partial or total payment for a taxable supply may claim the VAT charged as input tax if all of the following conditions are satisfied:
- The debt has remained outstanding for more than six months.
- The amount has been written off.
- A court has recognized the debt as uncollectible because the debtor is insolvent.

Refunds. A taxpayer may claim a VAT refund if both of the following conditions are satisfied:
- The taxpayer carried forward the relevant amount as a VAT credit balance in the following three consecutive months.
- The amount claimed exceeds ALL400,000.

The taxpayer must file a "Request for Refund" form, prescribed in the VAT law, with the relevant tax office. The tax office must verify the fulfillment of the refund conditions and approve the refund within 60 days.

Preregistration costs. A taxable person cannot recover any input VAT incurred on goods or services supplied to it before VAT registration.

Noneconomic activities. To the extent they do not distort competition, payments received by not-for-profit organizations such as grants, donations and membership dues are considered to be noneconomic activities on which no VAT is due. The same applies to the performance of public services by the public authorities.

G. Recovery of VAT by non-established businesses

Non-established businesses not registered for VAT in Albania may not recover input VAT.

H. Invoicing

VAT invoices and credit notes. A taxable person must provide a VAT invoice for all taxable supplies made, including exports. The invoice must comply with the requirements set out in the VAT law. A VAT credit note may be used to reduce the VAT charged on a supply of goods or services; a debit note may be used to increase the amount of VAT. Tax credit and debit notes must be cross-referenced to the original VAT invoice.

Electronic issuance of invoicing. Electronic invoices are permitted, subject to acceptance by the recipient. The authenticity of the origin and the integrity of their content must be guaranteed by means of advanced electronic signature or by means of electronic data interchange (EDI).

Foreign-currency invoices. An Albanian VAT invoice must be issued in Albanian lek (ALL). If an invoice is received in a foreign currency, the amounts must be converted into lek. The exchange rate used for imports is determined by Customs, while the exchange rate for domestic VAT supplies is the rate published by the Central Bank of Albania for the date of the invoice.

Proof of exports. No VAT is chargeable on exported goods if exporters have documented their supplies with an official customs declaration.

B2C. Supplies made by a taxable person to a nontaxable person (private consumer), with a maximum value of up to ALL40,000 is not obliged to issue a fiscal invoice, unless the nontaxable person requests issuance of the fiscal invoice.

I. VAT returns and payments

The tax period is a calendar month. Purchase and sales ledgers must be submitted monthly by the fifth day of the following month. VAT returns must be submitted monthly by the 14th day of the month following the tax period. The deadline for VAT payment is the same as the deadline for the filing of VAT returns. For imports, VAT is payable upon importation.

Taxpayers with an annual turnover above the minimum VAT registration limit, but not more than ALL5 million, must submit VAT returns on a monthly basis, by the 14th day of the first month following the end of each quarter of the calendar year. Purchase and sales ledgers must be submitted on a monthly basis, by the 10th day of the first month following the end of each quarter of the calendar year.

For a taxpayer that is newly registered, the first tax period begins on the date of the registration, as stated in the certificate of registration, and ends on the last day of that month.

VAT payable by a taxpayer for a tax period equals the VAT on the total taxable value of supplies made during the tax period minus any input VAT allowed as a deduction.

Special schemes for travel agencies. This scheme applies to transactions where the travel agency deals with customers in its own name and uses the supplies of other taxable persons in the provision of travel services. In this case, the taxable amount for services supplied to customers is the travel agency's margin, i.e., the difference between the total amount charged to the customer and the actual purchase price the travel agency paid for the services. The input VAT incurred by travel agents may not be deducted.

The special scheme does not apply to travel agencies that act only as intermediary, in which case the supplies and services of other taxable persons can be treated as disbursements.

Special arrangements applicable to secondhand goods, works of art, collector's items and antiques. Profit margin schemes and tax simplification measures apply to sales by public auction by taxable dealers of secondhand goods, works of art, collectibles and antiques.

Compensation scheme for farmers. The taxable person (purchaser) of the agricultural services and goods is required to issue an invoice for purchases from farmers benefiting from this scheme for the taxable amount exclusive of VAT and then add VAT at the rate of 6%. The buyer pays the farmer the total price including the VAT calculated. The additional 6% is considered to be a compensation for the farmer for the input VAT that has been incurred. The taxable person (purchaser) must account for the VAT on the invoice but is entitled to recover the VAT subject to normal recovery rules.

Special scheme for investment gold. A special VAT scheme applies to investment gold.

Electronic filing and archiving. Taxpayers must electronically submit the purchase and sales ledgers and VAT returns.

Annual returns. Not applicable.

J. Penalties

The Albanian Tax Procedures Law (No. 9920, dated 19 May 2008), as amended, provides for the penalties described below.

Noncompliance with the requirement to register or to update the status of registration data triggers a penalty that can range from ALL10,000 to ALL15,000.

Each late tax filing is subject to a penalty that can range from ALL5,000 to ALL10,000. Late payment of a tax obligation triggers a penalty amounting to 0.06% of the tax due for each day

of delay, up to a maximum of 365 days (i.e., capped at 21.9%). In addition, default interest applies.

Erroneous completion of a tax filing or a tax refund claim is subject to a penalty of 0.06% of the tax due for each day of delay, up to a maximum of 365 days. In addition, default interest applies.

Concealment of tax obligations constitutes a fiscal evasion and is subject to a penalty of 100% of the tax amount evaded.

Improper administration of sales and purchases books and documentation is subject to a penalty that can range from ALL10,000 to ALL50,000.

The failure to issue a VAT fiscal invoice for the whole amount of the transaction is subject to a penalty of 100% of the undeclared and unpaid tax liability.

Criminal offenses carried out by taxpayers are penalized under the criminal code. These offenses relate to certain situations, including, but not limited to, the following:

- Taxpayers willfully engaging in fiscal evasion
- Taxpayer not paying taxes to the state budget
- Taxpayers destroying and concealing important tax documents and information

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A. At a glance

Name of the tax	Value-added tax (VAT) - EN Taxe sur la Valeur Ajoutée (TVA) - FR
Date introduced	April 1992
Administered by	Ministry of Finance
Trading bloc	Member of the Greater Arab Free Trade Area
VAT rates	
Standard	19% (effective 1 January 2018)
Reduced	9% (effective 1 January 2018)
Other	N/A
VAT number format	XXXXXXXXXXXXXXX (15 Digits) XXXXXX (+ 5 Digits for branches)
VAT return periods	Monthly
Thresholds	Turnover of DZD30 million for taxpayers subject to the "lump-sum taxation" regime
Registration	Declaration of existence acts as registration for all taxes, including VAT
Deregistration	Termination or discarding of the activity
Recovery of VAT by non-established businesses	Permanent establishments registered under the common law taxation regime

B. Scope of the tax

VAT applies to the following transactions:

- Sales transactions, construction works and services of industrial, commercial or artisanal nature, when they are carried out in Algeria on a usual or occasional basis
- Import operations

In respect of the Algerian VAT territoriality, a business is deemed performed in Algeria:
- Sales transactions: when they are carried out with conditions of delivery in Algeria
  Or
- Other operations: where the service rendered, the right assigned, the object rented or the carried-out studies are used or exploited in Algeria

C. Who is liable

A taxable person is any person carrying out transactions within the scope of VAT, whether such transactions give rise to the payment of VAT or are exempt. Persons liable for VAT in Algeria are:
- Producers, such as:
  - — Individuals or legal persons who, mainly or incidentally, extract or manufacture goods, fashion them or transform them as manufacturers or entrepreneurs of manufacturing activities to give them their final form or their commercial presentation under which they will be delivered for use or consumption by the consumer, whether the processing operations involve the use of other materials or not.
  - — Individuals or legal persons who replace the manufacturer to carry out, either in its factories or outside its factories, all operations relating to the manufacture or the definitive commercial form of products such as packaging or in receptacles, the shipments or deposits of such goods whether they are sold under the brand name or on behalf of those who carry out such operations.
  - — Persons or companies that have the operations referred to above, carried out by third parties.
- Wholesalers, performing the following:
  - — Deliveries relating to articles which, because of their nature or use, are not usually used by individuals
  - — Deliveries of quantities of goods of the same prices, performed in bulk or in detail
  - — Deliveries of products for resale regardless of the quantity delivered
- Subsidiaries, performing the following:
  - — A subsidiary company would be any company that ensures the operating part of one or more branches of another company, which is under the control or direction of the latter.

Exemption from registration. There are no VAT registration requirements applicable to non-established businesses that source cross-border supplies of goods or services.

For imported goods, there is no requirement for the nonresident supplier to collect the Algerian VAT. In practice, the VAT is paid by the Algerian importer when the goods are cleared at customs.

For imported intangibles (i.e., supplies that do not require payment of the VAT at customs), if the Algerian client is a business, it is required to reverse charge VAT.

Importers. The taxable base for VAT is constituted of the customs value of the goods, plus all customs duties and taxes, excluding VAT itself. The operative event is constituted by the customs clearance of the goods. The customs officer is in charge of calculating the VAT due related to the imported goods. The VAT is payable by the importer.

Voluntary registration. Taxpayers under the common law taxation regime may voluntarily register for VAT. It must be natural or legal persons whose activity is outside the scope of VAT, insofar as they deliver:
- Through exports
- To oil companies
- To other VAT liable taxpayers
- To companies benefiting from the VAT-free purchase option

Group registration. It is possible to consolidate VAT at the level of a group's head company. The group will be considered as a single entity for all VAT purposes. Nonetheless, no specific VAT registration of the group is required.

Non-established businesses. Nonresident companies that do not have a presence in Algeria may be subject to Algerian VAT if they carry out transactions deemed to be within the scope of Algerian VAT.

Tax representatives. A tax representative can be appointed for permanent establishment purposes. However, no specific tax representative can be appointed for VAT registration purposes only.

Reverse charge. The reverse-charge mechanism is applicable to the supply of services by taxable persons established outside Algeria, with no legal presence locally. The local customer must pay the due VAT on behalf of the foreign provider and declare it on monthly tax returns.

Registration procedures. Every individual who would practice an industrial, commercial or non-commercial profession, and every legal entity or permanent establishment must, before the initiation of the activity, file at the territorially competent tax authority a declaration of existence. The declaration of existence must be accompanied by:
- A copy of the Articles of Association for the legal entities
- A copy of the agreement or the administrative authorization if the activity or the place where the activity is performed is subject to a prior authorization

After filing the declaration of existence, the taxpayer is provided with a registration certificate which applies as a registration for all tax purposes (there is no specific registration for VAT). Afterwards, the taxpayer obtains a tax identification card, which includes the Tax Identification Number.

The application for registration must be submitted by the taxpayer itself or its legal representative or by any other person with a power of attorney to register a taxpayer. Accordingly, there is no specific online registration for VAT purposes.

Late-registration penalties. There is no a specific registration dedicated to VAT. Indeed, by performing a tax registration, this should cover all different taxes, notably VAT.

The taxpayer that did not fulfil an existence certificate request within 30 days following the beginning of its activities, is subject to a penalty of DZD30.000.

Digital economy. No special rules for the taxation of the digital economy in Algeria; however, internet access royalties are exempted from VAT.

Self-supplies. Self-supplies are subject to VAT. The taxable base is determined as follows:
- For self-supplies of movable assets: by the wholesale prices of similar goods or, otherwise by the price increased by the normal profit of the manufactured goods
- For self-supplies of immovable assets: by the cost price

Deregistration. There is no special procedure or form required to deregister. It should be part of the overall tax deregistration.

D. VAT rates

The term "taxable supplies" refers to supplies of goods and services that are liable to a rate of VAT.

The following are the two rates of VAT in Algeria:
- The standard rate at 19%
- The reduced rate at 9%

The standard rate of VAT applies to all supplies of goods or services, unless a specific provision allows a reduced rate or exemption.

Examples of 9% rated supplies of goods and services

- Supply of natural gas for a consumption of less than 2,500 thermal units per quarter
- Supply of electrical energy (TDA No. 27.16.00.00), for low-voltage electricity consumption of less than 250 kilowatt-hours (KWH) per quarter
- "Completely Knocked Down" (CKD) and "Semi Knocked Down" (SKD) kits (dedicated to the automobile industry)

The term "exempt supplies" refers to supplies of goods and services that are not liable to Algerian VAT and that do not give rise to a right of input tax deduction (see Section F).

Examples of exempted supplies of goods and services

- Constructions and services relating to the prospecting, research, exploitation, liquefaction or pipeline transport of liquid and gaseous hydrocarbons, carried out by or on behalf of the national hydrocarbon company SONATRACH
- Business activities performed by individuals or legal persons that realize a total turnover less than or equal to DZD30 million and are subject to the lump-sum taxation regime
- Exportations of goods and services

Option to tax for exempt supplies. Taxpayers making exempt supplies may opt to tax such supplies by request.

E. Time of supply

The VAT tax point rules depend on the nature of the transaction and the related sector:

Goods. The tax point for the sale of goods is at the earlier of when the goods are physically delivered or when the invoice is issued (i.e., the legal delivery) to the customer.

Construction works. The tax point for construction works is the time full or partial payment is made.

Services. The tax point for services is the time full or partial payment is made.

Imported goods. The tax point for imported goods is the date on which the goods clear customs.

Cash accounting. Small businesses in Algeria carrying out activities generating an annual turnover less than DZD30 million (EUR223,000) can apply for the 'lump sum tax regime' under which the VAT should not apply (should not be invoiced by these taxpayers).

Deposits and prepayments. Where the deposit is not considered as a part of the price nor as a part of a turnover, then no VAT is due on the deposit, except for a bank deposit which is considered as a service provided by the bank.

Where the prepayment is part of the total price and therefore subject to VAT two scenarios are to be considered:

- Goods: the tax point is normally the date of delivery of goods. However, in case of prepayment or advance payment the VAT will be applicable on the amount paid in advance.
- Services: prepayments are considered as partial payments of the price, thus the date the prepayment made is considered as the tax point.

Goods sent on approval for sale or return. The tax law does not explicitly refer to goods delivered for approval, the delivery is considered as completed once the propriety of the goods is transferred from the seller to the buyer, then the taxable event should be the approval of the client.

Leased assets. Leasing operations, services, studies and research as well as any operation other than sales and construction works are subject to VAT based on the date of collection or partial payment.

Continuous supplies of services. There is no time of supply rules for continuous supplies of services. These types of supplies are subject to the general rules (see above).

Deemed supplies. There is no time of supply rules for deemed supplies. These types of supplies are subject to the general rules (see above).

F. Recovery of VAT by taxable persons

A taxable person may recover input VAT charged on goods and services supplied to it, for business purposes. A taxable person generally recovers input tax by offsetting it against output VAT charged on supplies made. Input tax includes VAT charged on goods and services supplied in Algeria, VAT paid on imports of goods and VAT self-assessed by the taxable recipient under the reverse-charge mechanism.

A valid tax invoice or customs document is compulsory for a VAT refund claim.

Refunds. In case of a VAT credit, it is possible to ask for refund of VAT in the following four cases:
- Exempt supplies (including exports)
- Supplies to a sector or clients benefiting from VAT exemption purchase certificate
- Termination of taxable activities
- In case of a VAT rates differential between input and output VAT

Taxpayers must meet the following conditions for being eligible for a VAT refund:
- Hold regular and compliant bookkeeping
- Provide a copy of the tax role (no tax debts)
- The mention of the estimated deductible VAT amount on the monthly declarations subscribed by the beneficiary
- The VAT refund request must be made to the director of the competent tax authorities' office no later than the 20th of the month following the quarter for which the refund is requested

Non-deductible input tax. The right to deduct is not available where there is no conformity with the operating principles of VAT. Moreover, input tax is not recoverable on purchases of goods and services that are not used for business purposes (for example, goods acquired for private use).

Examples of items for which input tax is nondeductible
- Acquisition of passenger's cars that are not considered as the main tool of the company
- Restaurant meals and entertainment for employees and clients
- Hotel accommodation for clients
- Reception costs

Partial exemption. Input tax directly related to exempt supplies is not generally recoverable. If an Algerian taxable person performs both exempt and taxable supplies, it may only recover a portion of input tax. This situation is referred to as "partial exemption."

For the calculation of deductible VAT, partial taxpayers are subject to specific rules which have the effect of limiting the deduction to a fraction of the tax collected on their service and goods.

This fraction is equal to the amount of the said tax affected by a general percentage of deduction called "pro rata."

Capital goods. There are no specific regulations that apply to the refund of VAT for capital goods in Algeria.

Preregistration costs. Input tax incurred in relation to preregistration costs is not recoverable in Algeria.

Write-off of bad debts. A taxable person is entitled to recover any VAT already accounted to the tax authorities in respect of unpaid debts. VAT on a bad debt is recovered at the VAT rate that was applied to the original transaction.

Noneconomic activities. Noneconomic activities — supplies of goods or services not related to a business purpose — are not subject to Algerian VAT. Therefore, the recipients are not entitled to an input VAT deduction.

G. Recovery of VAT by non-established businesses

Non-established businesses have no tax registration in Algeria, and therefore do not fill refund conditions foreseen by law. Accordingly, no recovery is currently possible in Algeria for non-established businesses.

H. Invoicing

VAT invoices. Any person liable for VAT who supplies goods or services to another taxable person must issue to the latter an invoice or document serving as an invoice.

Invoices or documents serving as an invoice, drawn up by the taxable persons, must necessarily show, in a distinct manner, the following information:
- Name and information of the seller (corporate name, legal form of the taxpayer)
- Name and information of the customer (denomination, address, trade register number, tax ID)
- Date
- Unit price excluding taxes
- Total price excluding taxes
- Nature and rate of the applicable taxes, notably VAT
- The total amount of the invoice including VAT

Proof of exports. To benefit from VAT exemption on exports, the taxpayer must:
- Provide a document issued by the bank, proving the repatriation of export's payment in foreign currency
- Join the above document to the annual tax return in order to justify the exemption of the related profit from corporate income tax (before April 30 of the following year)

Foreign-currency invoices. Invoices related to import/export transactions are allowed to be in foreign currency, however, the applicable VAT is generally issued in a separate invoice in Algerian dinars.

Credit notes. A VAT credit note may be used to reduce the VAT charged and reclaimed on a supply. It is also possible to cancel an incorrect invoice and issue a revised one.

Summary invoices. Summary invoices are allowed for covering transactions with a customer, for a maximum period of one month. It must contain the prescribed information as outlined above for full VAT invoices.

Electronic invoicing. Electronic invoicing is allowed in Algeria. The invoice does not need to be verified by the tax authority before issuing. It is, however, recommended to print and store all invoices, in the event that any invoices are requested for inspection in the case of tax audit by the tax authority. The Algerian law provides some requirements for any issued electronic invoice, most notably to include the purchaser/the buyer information, the price excluding taxes, the VAT rate and the net amount. If the electronic invoice does not contain such required information, then the invoice may be rejected, notably by the tax authorities for the deduction of the related VAT.

B2C invoices. No special rules apply for supplies to non-VAT taxable customers. Full VAT invoice rules apply.

Simplified invoices. Authorization of simplified invoices is granted expressly to taxable persons by the administration in charge of the commerce, and can only be used for transactions that are repetitive and regular sales-related sales of goods to the same customer.

Records. Records of invoices must be kept for a period of 10 years.

I. VAT returns and payments

VAT returns. In principle, any person registered for VAT is required to file periodic returns and pay the relevant tax due to the Treasury. The said return is called G-50 form and is filed monthly to the competent tax authority (within the first 20 days following the end of the month). The form must state all information related to turnover, collected, payable and deductible VAT.

In the case of payments after the deadlines, penalties for late payment apply, counted from the date on which they should have been paid. However, when the electronic payments made within the given deadlines, suffer a delay not incumbent neither on the taxpayer nor on the financial institution provided that this delay does not exceed 10 days as from the date of the payment, the late penalties do not apply.

Payment. Payments are to be made alongside the monthly tax return filling and should be remitted to the tax authorities before the 20th of the following month.

Annual returns. No dedicated annual VAT return to be filed.

Special schemes. Small businesses in Algeria carrying out activities generating an annual turnover less than DZD30 million (EUR223,000) can apply for the "lump sum tax regime" under which the business is not in the scope of VAT and should not issue VAT invoices to their customers.

Electronic filing and archiving. VAT must be reported electronically on the monthly tax return (G50 form). If the taxpayer is registered at the "Direction of Large Companies" (DGE) which is the tax authority where large companies register, the monthly tax return should be submitted on DGE's online platform called "JIBAYA'TIC." It is recommended to print it afterward to keep it in the taxpayer's records.

If the taxpayer is registered at a regional tax inspection, the monthly tax return should be printed and remitted physically to the tax collector.

It is always recommended to keep physical copies at the level of the taxpayer, as they are required in case of a tax audit.

J. Penalties

The breach of the laws and regulations governing VAT are sanctioned by tax or correctional penalties depending on whether the alleged offenses have been committed in good faith and without fraudulent intent or, on the contrary, whether the offense is due to fraudulent acts committed knowingly.

Assessments. Tax authorities can proceed with internal assessments based on the information provided by the taxpayers, its clients and its suppliers.

Failure to register. Taxpayers who fail to subscribe their declaration of existence within the required time, are liable to a fiscal fine amounting at 30,000 DA.

Late fillings. The late filing of the turnover statement gives rise to the application of a penalty of 10%. The penalty is based on the amount of unpaid VAT due. This penalty is raised to 25% after the Administration has given notice to the person liable by registered letter with acknowledgment of receipt to regularize its situation within a period of one month. Finally, it is specified that the

date of the deposit to be held will be that of the "delivery" to the receiver, therefore the "reception" by the latter and not the sending by the taxable person.

Error in VAT return. When following an audit, it appears that the annual turnover declared by a taxpayer is insufficient or in the case of a deduction made in error, the amount of the evaded rights (i.e., the unpaid tax due to the error) is increased by:

- 10% when the amount of rights evaded, per year, is less than or equal to DZD50,000
- 15% when the amount of rights evaded, per exercise, is greater than DZD50,000, and less than or equal to DZD200,000
- 25% when the amount of duties established, per financial year, is greater than DZD200,000
- In case of fraudulent maneuvers, the penalty is set at 100% on all rights

Invoicing and accounting errors. When following an audit, it appears that the annual turnover declared by a taxpayer is insufficient or in the case of a deduction made in error, the amount of the evaded rights is recalled and increased by:

- 10% when the amount of rights evaded, per year, is less than or equal to DZD50,000
- 15% when the amount of rights evaded, per exercise, is greater than DZD50,000, and less than or equal to DZD200,000
- 25% when the amount of duties established, per financial year, is greater than DZD200,000

Rulings. Taxpayers registered with the DGE can submit a ruling to the tax authorities to be advised on the compliant way of proceeding. A ruling can be opposed to the tax administration to challenge its position.

Angola

ey.com/GlobalTaxGuides
ey.com/TaxGuidesApp

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At the end of 2017, the Angolan Government proposed the introduction of value-added tax (VAT) in the general state budget for 2019, which comes into force on 1 January 2019. Accordingly, VAT was to be introduced on 1 January 2019, replacing the exiting consumption tax of 10%. The latter is a nondeductible tax charged throughout the production chain, resulting in a compounding of the tax levy and discouraging internal manufacturing development. However, due to a delay in the readiness of the new e-invoice clearing system, the Angolan Government has announced that the introduction of VAT and elimination of the existing consumption tax will be delayed until 1 July 2019.

A. At a glance

Name of the tax	Value-added tax (VAT) – EN
Local name	Imposto sobre o valor acrescentado (IVA)
Date introduced	1 July 2019
Administered by	Administração Geral Tributária (AGT)
Trading bloc	Southern Africa Development Community
VAT rates	
Standard	14%
Other	Exempt
VAT number format	5 4 2 3 4 5 6 7 8 9
VAT return periods	Monthly Annual
Thresholds	
Registration	Not applicable
Deregistration	Not applicable
Recovery of VAT by non-established businesses	Not applicable

B. Scope of the tax

VAT applies to the following transactions:
- The supply of goods or services made in Angola by a taxable person
- The importation of goods

For VAT purposes, the territory of Angola includes the land and water as well as the subsoil in the terms prescribed in article 3. of the Republic of Angola's Constitution, as well as other territorial or international areas where law or international agreements recognize Angola's tax jurisdiction.

C. Who is liable

A taxable person is any business entity or individual that makes taxable supplies of goods or services or importation of goods in the course of a business in Angola. A taxable person that begins activity must notify the VAT authorities of its liability to register for VAT purposes.

Nevertheless, if the taxable person only incurs a one-off single taxable transaction it will not be required to notify the Tax Authorities regarding such matter.

From 1 July 2019 onwards, "large contributors" will be subject to VAT. "Large contributors" are taxpayers registered in the Large Taxpayers' Division and, on a voluntary basis, taxpayers who have a turnover or import volume of goods in Kwanzas over AOA50 million. For entities not treated as large contributors, there are two different tax regimes depending on the business revenue. There is the "transitory" regime and "not subject" regime. The "transitory" regime is for entities that exceed the threshold to the equivalent of USD250,000 is AOA. However, while the "transitory" regime is mandatory for such entities, they have the option of applying for the "large contributors" regime. The other regime is the "not subject" regime is for entities that are not considered taxpayers and will not be subject to VAT registration obligations (turnover less than USD250,000 in AOA).

Exemption from registration. Not applicable.

Importers. As a general rule, imports of goods are subject to VAT. The VAT taxable base is the customs value of the goods plus the following elements (assuming that are not previously included): customs duties and associated costs (packing, transport, insurance among others).

Voluntary registration. The Angolan VAT Code does not contain any provision for voluntary VAT registration.

Group registration (tax group). The Angolan VAT Code does not contain any provision for group registration.

Non-established businesses. A "non-established business" is a business that has no permanent establishment in the territory of Angola. Non-established businesses that perform taxable operations in Angola must nominate a representative who is a taxable person for VAT purposes. The representative must comply with all the obligations created under the VAT Code for taxable persons namely the declarative and registration obligations. The representative will be liable for the payment of the VAT due.

If no tax representative is nominated, the VAT due should be assessed and paid by the purchaser (if the purchaser is a taxable person for VAT purposes) and where the tax authorities understand that the risk of fraud or tax evasion is significant. Non-established businesses are not required to nominate a representative when they choose to be included in the simplified VAT regime.

Tax representatives, tax agents and appointed persons. As mentioned above, non-established businesses should nominate a tax representative for VAT purposes in Angola. In case of default (nonpayment of VAT due within the legal deadline), the representative and the non-established business are jointly liable for the payment of the VAT due.

Reverse charge. The reverse-charge mechanism is applicable to the following:
- Whenever a non-established entity fails to nominate a VAT representative
- When the taxable person acquires any of the following provision of goods or services:
  — Provision of services related with real estate properties established in Angola

— Accommodation and catering services occurred in Angola
— Provision of services connected with movable assets made (total or partially) in Angola
— Provision of services connected with the services relating to the access of cultural, artistic, sporting, scientific, educational and similar events, including the access of fairs and exhibitions (as well as the provision of services considered auxiliary so such activities) in Angola
— Leasing of motor vehicles, pleasure crafts, aircrafts or any other vehicles when are put at the disposal of the recipient in Angola
— Provision of services related with the transport of passengers in Angola

Registration procedures. Under the General Taxpayer Registration ("Registo Geral de Contribuintes") regime, all Angolan businesses or non-established entities that have a head office or other establishment in Angola must be registered. The submission should be made in the General Tax Payer Registry. The documentation needed would be the following: copy of the company´s deed; copy of the ID of the partners, directors and technicians of the company or passport/residence card (for foreign persons).

Late-registration penalties. If the taxable person fails to submit a VAT return or does so after the legal deadline has passed, the payment of a fine in the amount of AOA500,000 for each infraction will be due. At this point, if the situation is rectified in 30 days' time, the value of the fine is reduced by half.

Digital economy. There are no special VAT rules in Angola for digital supplies.

Deregistration. Individuals or companies subject to VAT must, within 30 days from the date of termination of activity, submit a Statement of Termination of Activity through electronic means.

The cessation of the activity (by the taxpayer) is treated as having occurred if one of the following conditions are met:
• The company is no longer in activity for a period exceeding two consecutive years (please note that in this situation AGT will presume that the goods of the entity that still exist were sold)
• Extinction of the assets of the company (the goods were sold or were used to private use of the titular, the staff or, more generally, for purposes different of the company´s business)
• Transfer of the property of the entity (e.g., a TOGC)
• AGT is able to declare, on their own authority, the termination of activity of a company assuming that are grounds to understand that the activity of the company is being used for fraudulent purposes

D. VAT rates

The term "taxable supplies" refers to supplies of goods and services that are liable to a rate of VAT. There is one VAT rate in Angola at 14%.

The standard rate of VAT applies to all supplies of goods or services, unless a specific provision allows an exemption. Exports are exempt but with the right to deduct. Other exempted supplies do not have the right to deduction.

Examples of exempted supplies of goods and services

The VAT Code draft establishes tax exemption, among others, for goods and services considered basic and essential, such as:
• Medication and other related products for therapeutic and prophylactic ends
• Milk
• Wheelchair and similar vehicles destined for people with disabilities as well as braille machines and other gadgets used to correct learing disabilities
• Books
• Leasing and letting of immovable property for housing purposes (excluding the accommodation services provided by hotels and entities with similar activity

- Operations subject to Real Estate Transfer Tax
- Gambling activities
- Collective public transportation services
- Banking and financial operations carried out by banking financial institutions and nonbanking financial institutions, including the financial leasing, apart from these activities if a tax, or a consideration is charged by the service provided
- Imports, covering:
  - — Goods that are exempt under customs regulation
  - — Offers to attenuate natural disaster
  - — Gold, coins or bank notes made by the National Bank of Angola
  - — Goods used only for the execution of petrol and mining operations according to the law (Customs procedure of Petrol and mining sector)
  - — Goods imported in the context of international treaties and agreements (if Angola will be involved)
  - — Goods imported in the context of diplomatic and consular agreements
- Insurance activities
- Supply of fuels according to Annex II of the VAT Code

Examples of zero-rated supplies of goods and services

- Exports:
  - — Dispatched to a foreign country by the seller or someone acting on their behalf
  - — Supply of goods that are put on board of ships which sail the high seas and ensure the transportation of passengers or develop other commercial, industrial or fishing activity, as well as warships destined for a foreign port and search and rescue ships
  - — Repair, maintenance lease and other operations relating to the ships identified above as well as for aircrafts used by companies that develop cross-border traffic activities
  - — Supplies of goods carried out on board salvage vessels, maritime assistance, inshore fishing and war vessels, when leaving the country to a port or anchorage located abroad
  - — Supply, conversion, repair, maintenance, freight and rental, including leasing, of vessels and aircraft affected to air and sea navigation companies which are principally engaged in international traffic, as well as the transmission of supply goods placed on board the referred vessels and aircrafts, as well as services rendered to meet their direct needs and those of its cargo
  - — Supplies of goods carried out in the context of diplomatic and consular relations whose exemption results from international agreements concluded by Angola
  - — Supplies of goods destined to international organizations recognized by Angola or to members of the same organisms within the limits and with the conditions established in international agreements concluded by Angola
  - — Supplies of goods carried out under international treaties and agreements to which the Republic of Angola is a party, when the exemption results from those same treaties and agreements
  - — Transport of passengers, cargo or mail proceeding from abroad
  - — "Basic basket" goods - supplies as identified in the Annex I to the VAT Code

Option to tax for exempt supplies. It is possible to waive for the VAT exemption related to the supplies of medication and other related products for therapeutic and prophylactic ends as well as the supplies of books. Taxpayers that want to waive for the VAT exemption of such situations should submit a declaration, by electronic means, near to the General Tax Authorities under certain conditions.

The AGT set a deadline of 30 days to accept such request (if AGT does not reply to the taxpayer during the legal deadline, 30 days, the required should be accepted). Once accepted, this waive should take effect from 1 January of the following calendar year (unless the taxpayer starts its activity during the year). If this situation occurred, such requirement delivered together with the

declaration of the beginning of the activity takes effect from the date of the beginning of the activity. It is mandatory to remain in this scheme for five years once granted approval.

E. Time of supply

The time when VAT becomes due is called the "time of supply" or "tax point." As a general rule, an invoice should be issued before the fifth business day following the basic time of supply. The actual tax point becomes the date on which the invoice is issued. However, if no invoice is issued, tax becomes due on the fifth business day after the basic tax point. If the payment occurs before the invoice is issued, even if only partially, VAT is due at that time on the amount paid. The same is applicable in case payment occurs or invoices are issued before the finalization of the taxable operations.

Goods. The basic time of supply for goods is when they are made available to the client or at the time the transaction was fully or partially settled (before the client has received the goods).

Construction works. There are no special time of supply rules in Angola for construction works.

Services. The basic time of supply for services is when they are performed, or at the time the referred provision of services was fully or partially settled (before the service has been provided).

Imported goods. The tax point for the importation of goods will be in the moment which the formalities of customs duties are completed.

Cash accounting. The VAT Cash Scheme is available only for companies that have a turnover equal or lower to the threshold defined for the small companies (companies with 10 employees and an annual turnover of less than USD250,000; companies with 10 to 100 employees and an annual turnover between USD250,000 until USD3 million; and companies with 100 to 200 employees with and an annual turnover between USD3 million and USD10 million), and not carried out any domestic exempt operations. This scheme could be also applicable for companies that have a business activity only related with the distribution of drinking water and electric power. In case the entities chose to apply for such regime, it must remain in it for three years and its bank account must be visible for the AGT (one of the special schemes mentioned).

Deposits and prepayments. For advance payments, the tax point is the date on which the advance payment is received. The supplier must issue an invoice as soon as an advance payment is received.

Goods sent on approval for sale or return. As a general rule, when goods are made available before the sale has taken place, a taxable supply of goods is deemed to have taken place when the underlying contract is finalized. Additionally, when goods are sent on a consignment basis, tax is due if after 180 days the acquirer does not return the goods.

Leased assets. Since leasing agreements are also considered a continuous supply of services, the time of supply occurs at the end of the period foreseen for each payment.

Reverse-charge services. The rules stated above also apply to reverse-charge services. However, the tax point rule is irrelevant for the supplier since no VAT is assessed by the supplier.

Continuous supplies of services. With regard to continuous supplies of services based on agreements foreseeing successive payments, the time of supply occurs at the end of the period concerning each payment. However, when the payment schedule is not defined or exceeds 12 months, the VAT is due at the end of each 12-month period.

Deemed supplies. There are no special time of supply rules in Angola for deemed supplies.

Other supplies. When company goods are permanently assigned to an employee for personal use the tax point occurs when the assignment takes place. The same rule is applicable when privately owned goods are assigned to company use.

F. Recovery of VAT by taxable persons

A taxable person may recover input VAT incurred with the acquisition of goods and services deemed indispensable for the maintenance of the business. A taxable person generally recovers input VAT by deducting it from output tax charged on the supplies of goods or services carried out as well as tax paid on the import of goods.

Input tax includes VAT charged on goods and services supplied in Angola, VAT paid on import of goods and VAT self-assessed on the reverse-charge services.

To deduct VAT, the taxpayer must be in possession of invoices or other equivalent documents.

Refunds. If the amount of input tax recoverable in a monthly period exceeds the amount of output tax payable in that period, the taxable person has an input tax credit that will be carried forward to the next taxable periods.

However, if the taxable person has been in a credit position for three consecutive months and the tax credit is equal or superior to AOA300,000, it could apply for a VAT refund.

A refund may also be requested (regardless the previous deadline) if any of the following circumstances exists:
- The taxable person has ceased operations.
- The taxable person makes supplies that are exempt from VAT (which confer the right to deduct VAT).
- The taxable person switches to the "non-subject VAT" scheme (see Section I below).

In order to claim for a refund, the taxable person will need to provide evidence of the documents originating the tax credit.

Nondeductible input tax. Input tax may not be recovered on the following purchases of goods and services:
- Expenses (acquisition, manufacturing or importing and leasing) relating to vehicles (including motorcycles and motorbikes), such as boats and airplanes, used for the development of tourism activities
- Expenses relating to housing, beverage and entertaining
- Expenses relating to acquisition or import of tobacco

The following items (and related costs of production) are nondeductible for oil companies only:
- Water consumption
- Electronic communication services
- Hotel services and activities connected
- Leasing of machines and other equipment, and one of the parties is obliged to give the other the temporary enjoyment of these goods, under a fee, except the leasing of machines that results in a royalty payment
- Advisory services (including legal advisory, tax, financial, economic, real estate, IT, among others)
- Security, IT, audit, legal accounts and law services
- Services related with management of commercial establishments, canteens, dormitories, buildings and condominiums
- Car rental
- Acquisition or importation of tobacco

Partial exemption. Input tax directly related to exempt supplies of goods or services is not generally recoverable. If an Angolan taxable person makes both exempt and taxable supplies, it may not recover input tax in full. This situation is referred to as "partial exemption."

The VAT Code draft provides two methods to recover VAT when a company makes both exempt and taxable supplies. The first is a pro rata method according to which VAT is only deductible in the same ratio as the annual amount of operations that originate deductibility versus the exempt operations that don't give rise to deductibility.

There is, however, a second method, referred to as the "direct allocation method," which prescribes the real allocation of all or part of the goods and services used.

Taxable persons may use both methods at the same time for different operations or for different sectors of activity. The Angolan VAT authorities may also impose the use of the direct allocation method to prevent distortions of competition.

Preregistration costs. The Angolan VAT Code does not contain any provision for the VAT recovery of input tax incurred on preregistration costs.

Capital goods. Taxpayers are obliged to record their purchases of capital goods to allow the monitoring of the input tax deductions made.

The records should contain, for all goods, the following elements (requirements):
- Data of the acquisition
- Value of the input tax
- Value of the input deducted

Such records should be made until the following deadlines:
- Output operations: until the last day of the following month to which the operations refer to
- Input operations: until the last day of the following month to which the operations refer to

The referred deadline should be counted from the earlier of the following:
- The date of the reception of the invoice or equivalent documents that proves the purchase of the good
- The date of the conclusion of the constructions works
- The date in which the rectifications should be processed

Write-off bad debts. Taxpayers may deduct the VAT amount related with bad debts revealed in its accounting records, as well the irrecoverable debts resulting from the process of execution and insolvency. A bad debt is considered to exist in case of debts that nonpayment risk is duly justified namely where the credit is overdue for more than 18 months and there are objective proofs of its impairment and actions performed regarding its payment, including the asset being recognized in the accounts.

Noneconomic activities. In principle, VAT may only be recovered if incurred in the course of an economic activity. If costs are incurred to acquire or maintain assets which are to be used for the purposes of an economic activity, the costs are potentially deductible. If assets are not used for such a purpose, the VAT will not be deductible.

G. Recovery of VAT by non-established businesses

Non-established businesses that have no tax registration in Angola, and therefore do not fill refund conditions planned by law. Accordingly, no recovery is currently possible in Angola for non-established businesses.

Refund of VAT to tourists. The Angolan VAT Code does not contain any provision for the VAT recovery of VAT incurred by tourists.

H. Invoicing

VAT invoices. Taxable persons must generally provide a VAT invoice for all taxable supplies made – including exports.

Non-established entities that are required to nominate a representative must issue invoices with the VAT number and address of the chosen representative additionally to the other ordinary requirements of any invoice.

Based on Article 11 (1) of the Angolan Legal Regime for Invoices and Equivalent Documents, invoices should contain the following requirements:

(a) Legal name, company name or commercial designation, VAT identification number and his head office or domicile address of the supplier, as well as the customer when he is in the exercise of his professional activity
(b) Sequential and chronological number per each type of document and economic years, and it may be used in one or more series, duly identified
(c) Description of goods and services, quantities or reference units
(d) Unit and total price on national currency
(e) VAT rate applied and VAT amount payable
(f) Mention of the reason for not assessing VAT (with a reference to the applicable legal provision)
(g) Date and local where the goods are delivered or the services rendered, as well as the date of anticipated payments
(h) Portuguese language writing
(i) Date of issuance
(j) Identification of the computer system used to issue the invoices or equivalent documents, as well as the corresponding certification number

Proof of exports. VAT is not chargeable on supplies of exported goods. However, to qualify as VAT-free, exports must be supported by evidence that confirms the goods have left Angola. However, the draft Code does not describe the required document information.

Foreign-currency invoices. A currency conversion requirement is in place, except when the invoices are related with import and export operations, which are subject to the international trade rules. As such, the invoices should be issued in Portuguese containing the unit price in local currency (AOA).

Credit notes. A VAT credit note may be issued to reduce the VAT charged and reclaimed on a supply (e.g., return of the goods or a discount). A credit note must be cross-referenced to the original invoice and contain the following phrase *"anulação ou rectificação"* (cancelation or correction). The supplier can make the reductions if it has in its possession the proof that the customer agreed and acknowledged with such procedure.

Summary invoices. Not applicable.

Electronic invoicing. Electronic invoicing is allowed according to the Angolan Legal Regime for Invoices and Equivalent Documents. However, it is mandatory to have a previous billing software certified by the AGT.

B2C invoices. Similar to the invoices issued to a taxpayer with the exception described in "Simplified invoices."

Simplified invoices. There are no simplified VAT invoices in Angola. However, and under certain conditions, it is possible to raise other types of documents (namely entrance tickets, tickets of transports and tolls; documents issued by automatic distribution electronic machines or electronic systems) instead of invoices if the acquirer of the goods is not a VATable person and these goods or services acquired are not linked or connected with any business activity.

These documents should contain the following information:
- Suppliers' VAT identification number, full name and address
- Quantity and nature of the goods supplied or the extent and nature of the services rendered
- The price and the amount of the VAT due (if applicable)

However, it is mandatory to produce an invoice for this type of operations if the client requires it.

Records. All invoices or equivalent documents must be kept, according to the legislation in place, by the taxable person for five years. (If the taxpayer is not able to provide such documents, they may have to pay a penalty equivalent to 1% of the value per each invoice or equivalent document).

Moreover, backup copies of the invoices or equivalent documents must be archived in digital format and be available for immediate consultation of the AGT (if needed).

I. VAT returns and payments

VAT returns. VAT returns must be submitted monthly. They must be filed together with full payment of VAT.

Monthly VAT returns must be submitted until the last day of the month following the one where the operations took place.

Payment. VAT amounts due should be paid in AOA – local currency. *At the time of preparing this chapter, no further information has been issued on how the payment of VAT should be made.*

Annual returns. No dedicated annual VAT return to be filed.

Special schemes. Taxpayers with an annual turnover higher than USD250,000 in the previous calendar year must apply for a transitory regime between 2019 and 2020. However, they could choose to apply for the normal VAT regime instead of the transitory regime.

Apart from that, the VAT Angolan draft Codes foresee two special schemes, namely the non-subject VAT scheme and the VAT cash scheme.

Non-subject VAT scheme: The non-subject VAT scheme will be applicable only for the entities with a turnover lower than the AOA equivalent to USD250,000 (during the previous 12 months). These taxpayers are also obliged to submit the declaration of the beginning of the activity as well as the declaration of cessation of the activity. They need to submit monthly, by electronic means, a report containing the information of the suppliers if the company acquired goods or services from suppliers under the VAT normal regime. Additionally, these taxpayers also need to issue invoices containing the following mention: "IVA – Regime de não sujeição, and store the documents related to the sales performed and the goods or services acquired.

VAT cash scheme: The VAT cash scheme will be applicable only for companies that have a turnover equal or lower to the threshold defined for the small companies (companies with 10 employees and an annual turnover of less than USD250,000; companies with 10 to 100 employees and an annual turnover between USD250,000 until USD3 million; and companies with 100 to 200 employees with an annual turnover between USD3 million and USD10 million), and not carried out any domestic exempt operations. This scheme could also be applicable for companies with business activity only related with the distribution of drinking water and electric power. In case the entities chose to apply for such regime, it must remain in it for three years and its bank account must be visible for the AGT.

Electronic filing and archiving. VAT returns should be submitted by electronic methods. *At the time of preparing this chapter, no further information has been issued on such "electronic methods."*

J. Penalties

Assessments. If the VAT returns are not submitted in time, the AGT will proceed with the tax assessment on its own authority. This assessment is based upon the VAT returns submitted in the previous months. If the taxable person fails to pay the VAT assessed by the AGT in the established deadline, proceedings aiming at the coercive collection of the tax due, plus legal costs, will ensue.

However, if the taxable person voluntarily submits the missing VAT return before the deadline of the AGT assessed tax expires, as a result, the tax assessed by the AGT will no longer be due. Notwithstanding, penalties for late submission may still be applicable.

Late filings and errors in VAT returns. Whenever the taxable person fails to submit a VAT return or does so after the legal deadline has passed, the payment of a fine in the amount of AOA500,000 for each infraction will be due.

However, if the situation is rectified in 30 days' time, the value of the fine is reduced by half.

The under-assessment of VAT is equal to the failure to deliver VAT.

Correction of returns. The AGT may proceed with corrections whenever it finds that the tax due on the return submitted is inferior or the deduction is superior to what is due. The inaccuracies may be assessed during the course of an inspection or simply from the confrontation of different returns submitted.

Invoicing and accounting errors. For the invoicing and accounting errors, the penalties are the following:

- 5% of the the invoice value if the requirements missing or incorrect are the following: price; ID number, address and name of the supplier, per each invoice issued
- 1% of the the invoice value for the remaining situations (per each invoice issued)

K. Transitional provisions

Taxpayers with an annual turnover higher than USD250,000 in the previous calendar year must apply for a transitory regime between 2019 and 2020. However, such taxpayers can choose to apply for the normal VAT regime instead of the transitory regime.

Argentina

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A. At a glance

Names of the taxes	Value-added tax (VAT) Turnover tax
Local names	Impuesto al valor agregado (IVA) Impuesto sobre los ingresos brutos (IIBB)
Date introduced	January 1975 (VAT), 1977 (IIBB)
Trading bloc membership	Mercosur member
Administered by	
VAT	Federal Administration for Public Revenues (http://www.afip.gov.ar)
IIBB	The revenue service of each province (Dirección General de Rentas)
VAT rates	
Standard	21%
Reduced	10.5%
Other	27%, 0% and exempt
IIBB rates (average)	
Industrial	1% to 4%
Commerce and services	3.5% to 5%
Commission and intermediation	4.9% to 8%
VAT number format	30-99999999-1 (CUIT number)
IIBB number format	30-99999999-1
VAT and IIBB return periods	Monthly
Thresholds for registration	
VAT	For corporations and other legal entities, commencement of activity For individuals, registration required if sales are the higher of the following: ARS1,344,065.86 for goods ARS896,043.90 for services
IIBB	Commencement of sales activity

Recovery of VAT or IIBB by non-established businesses No

B. Scope of the tax

VAT applies to the following transactions:
- Supply of goods or services made in Argentina by a taxable person
- Reverse-charge services received by a taxable person in Argentina
- The importation of goods from outside Argentina
- The supply of digital services rendered by foreign parties with effective use in Argentina to VAT non-registered taxpayers

IIBB applies to the supply of goods or services made in Argentina by a taxable person.

C. Who is liable

VAT. A registered VAT payer is a business entity or individual who makes taxable supplies of goods or services in the course of doing business in Argentina and who is required to register for VAT.

VAT registration is mandatory in the following circumstances:
- Corporations or other legal entities: on commencement of activities
- Individuals: if annual taxable turnover from supplies of goods exceeds ARS1,344,065.86 and annual taxable turnover from supplies of services exceeds ARS896,043.90

IIBB. A registered IIBB payer is a business entity or individual who makes taxable supplies of goods or services in the course of doing business in Argentina. Registration is required on commencement of activities. No turnover threshold applies.

Group registration. In general, grouping is not allowed under Argentine law for VAT or IIBB. Legal entities that are closely connected must register for VAT or IIBB individually. Exceptions apply for joint ventures.

Non-established businesses. A "non-established business" is a business that has no fixed establishment in Argentina. It must register as a taxpayer for VAT or IIBB (through a local legal vehicle if created) if it makes regular supplies of goods or services in Argentina and if it is required to account for VAT on its supplies.

If a non-established business carries out taxable activities in the Argentine territory and is not required to register a local legal vehicle, any beneficiaries, recipients, lessees, borrowers, agents and intermediaries of nonresidents acting as substitute taxpayers will pay the VAT (the general rate being 21%) and use the amounts paid as input VAT to offset their own output VAT. When it is not possible to withhold the VAT, the law states that the substitute taxpayer will be responsible for paying the VAT. Nevertheless, at present, there are no regulations implementing the necessary mechanism in order to remit this VAT payment. The implementation of this mechanism must be monitored.

AFIP registration. A corporation's legal representative is the chairman of the board. The request for registration before the national tax authorities (AFIP) must be filed by the legal representative of the legal entity, with the CUIT number and fiscal password (security level 3). The registration is filed through the application "MÓDULO INSCRIPCIÓN DE PERSONAS JURÍDICAS – F. 420/J — Versión 2.0" available on AFIP's website. To complete the registration, the legal representative must bring the signed 420/J form to the correct AFIP office with all other mandatory documentation.

Tax representatives. In the case of corporations or other legal entities, the tax representative is the natural person who uses a "fiscal password" provided by the tax authority (AFIP) to carry out various tasks before AFIP. The name for this role is "relationship manager." In order to file

the affidavits corresponding to those taxes for which the taxable person has been registered, the relationship manager must access AFIP's webpage (www.afip.gob.ar) and have a fiscal password with no less than security level 3, but he can delegate such activities to other individuals.

VAT registration. To register for VAT, the taxpayer or its legal representative must access AFIP's website and using the fiscal password, select the option F420/T Alta de Impuestos/Regimenes/ Alta de Impuestos.

IIBB registration. The IIBB is applicable for each of Argentina's 24 local jurisdictions, and the procedure for registering a taxable person varies by jurisdiction. Taxpayers that develop their activities in only one jurisdiction need only register there. For taxpayers that carry out activities in more than one jurisdiction, registration will be governed by the multilateral agreement regime. These taxpayers will register on AFIP's website, using the fiscal password to register in each jurisdiction in which activities will be carried out using the CM01 form. Additional documentation could be requested, depending on the local jurisdictions.

Late-registration penalties. A person that has not yet been registered for VAT and IIBB with tax authorities cannot perform commercial activities of any kind. Penalties and interest are assessed for late registration or payment, such as when a person developed a commercial activity before registering and paying. Penalties also apply to VAT or IIBB fraud.

Preregistration costs. Not applicable.

Reverse charge. Under the "reverse charge," the buyer must calculate and pay the VAT. This method applies to supplies made outside Argentina if the use or effective exploitation of the supply occurs within Argentina and if the supply is within the scope of VAT. If the reverse charge applies, a non-established supplier is not required to register for VAT. The reverse charge does not apply for IIBB purposes.

Credits for VAT and IIBB paid. The VAT payer pays monthly on the total amount invoiced, offset by the amount of input VAT invoiced to the taxpayer during the same period. If the VAT credit is higher than the amount of VAT debit during any tax period, such excess is only credited against future tax liabilities, not refunded, except in the case of exporters who may request a refund.

In addition, the reimbursement of VAT credits resulting from the purchase, manufacture, preparation or import of fixed assets (other than automobiles) that remain as a VAT credit for the taxpayer after six months may be requested, under certain conditions.

A taxable person that has paid too much VAT in a period in error may request a refund of the overpaid amount. Interest is paid by the VAT authorities on overpaid tax at the rate of 0.5% per month.

If the IIBB tax assessment shows an excess in favor of the taxpayer, it will be allocated and deducted in future filings.

Digital economy. As per current rules, digital services received by established VAT-registered taxpayers have to apply the reverse-charge mechanism. For digital services received by Argentine individuals (i.e., nontaxpayers), such services are subject to VAT in Argentina when rendered by foreign parties where the effective use of the services is conducted in Argentina.

The definition of digital services includes, among others: website provision and hosting; digitalized product provision; remote system management and online technical support; web services comprising data storage and online advertising; software as a service (SaaS); access or download of images, text, information, video, music, games (including gambling games), including the use of streaming technology without downloading those items to a storage device; dating websites; internet services provision; e-learning, and data handling and calculation through the internet or other networks.

The list of digital service providers for whom the collection agents must collect the VAT is published and updated by AFIP.

The responsible party for reporting and paying the VAT is the service recipient. If the recipient is VAT registered it will be responsible for the payment of the tax. However, if it is a private consumer (i.e., not VAT registered), the payment will be made by a resident intermediary (e.g., a credit card company or bank). They are required to act as a collection agent. If more than one intermediary is involved, the one required to act as a collection agent will be the agent with the closest commercial relationship with the digital service provider.

Deregistration. Taxpayers deregister from VAT through the AFIP webpage, with the taxable person or the tax representative using the fiscal password.

To deregister from IIBB, the taxable person should comply with the mechanisms established by the local jurisdiction. Taxpayers who wish to deregister from IIBB under the multilateral agreement regime need to file the request online on the AFIP website.

Exemption from registration. The VAT law in Argentina does not contain any provision for exemption from registration.

Voluntary registration. The VAT law in Argentina does not contain any provision for voluntary VAT registration, as there is no registration threshold (i.e., all entities that make taxable supplies are obliged to register for VAT).

D. Indirect tax rates

VAT. The term "taxable supplies" refers to supplies of goods and services that are liable to VAT, including supplies at the zero rate.

In Argentina, the following four rates of VAT apply:
- Standard rate: 21%
- Reduced rate: 10.5%
- Increased rate: 27%
- Zero rate (0%)
- Specific rates applicable to taxpayers engaged in certain publishing activities (not exceeding certain sales thresholds): 2.5%/5%

The standard rate of 21% applies to all supplies of goods or services, unless a specific measure imposes the higher rate or provides for a reduced rate, the zero rate or an exemption.

Examples of goods taxable under the VAT at 0%

- Exported goods
- Exported services

Examples of goods and services taxable under the VAT at 10.5%

- Interest and commissions on loans made by banks
- Sale, preparation, manufacturing or construction and final import of certain capital assets
- Long-distance passenger transportation (over 100 km)
- Sale or import of newspapers, magazines and similar periodic printed publications

Examples of goods and services taxable under the VAT at 27%

- Telecommunications not used exclusively in a dwelling
- Supply of gas, electric power and water not used exclusively in a dwelling
- Sewage disposal and drainage services

The term "exempt supplies" is used for supplies of goods and services that are not liable to tax. Exempt supplies do not generate a right of input tax deduction (see Section F).

Examples of VAT-exempt supplies of goods and services

- Education
- Rental of real estate under certain conditions
- Books
- Some staples, such as water and milk for specified buyers
- Local passenger transportation rendered by cabs (less than 100 km)
- International transportation
- Interest on preferred shares and equity securities, bonds and other securities issued by the federal government, provinces and municipalities

Option to tax for exempt supplies. Not applicable for VAT or IIBB.

IIBB. The term "taxable supplies" refers to supplies of goods and services that are liable for IIBB, including supplies at the zero rate.

In Argentina, numerous rates of IIBB currently apply. The standard rates between 1% and 4% apply to industrial activities, the medium rates between 3.5% and 5% apply to commercial activities, and the increased rates between 4.9% and 8% apply to commissions and intermediation services. A zero rate applies in some cases.

The following lists provide some examples of supplies that are taxed at various rates of IIBB or that are exempt in the Province of Buenos Aires.

Examples of goods and services taxable under the IIBB at 0%

- Exported goods
- Exports of services in some jurisdictions

Examples of goods and services taxable under the IIBB at a rate between 1% and 4%

- Other manufacturers (not included in exemptions)
- Ship constructions
- Agricultural products

Examples of goods and services taxable under the IIBB at a rate between 3.5% and 5%

- Repairs of engines, machines, locomotives, ships, aircraft, pumps and certain other items
- Electricity distribution
- Hotel services
- Restaurants
- Communications
- Equipment loans
- Sales of goods (in general)
- Sales of machines and equipment

Examples of goods and services taxable under the IIBB at 8%

- Sales of tobacco
- Commissions
- Banks and intermediation

The term "exempt supplies" is used for supplies of goods and services that are not liable for tax.

Examples of IIBB-exempt supplies of goods and services

- Education
- Rental of real estate under certain conditions
- Interest on bank accounts and fixed-term deposits, depending on the local jurisdiction
- Manufacturer activities under certain conditions
- Sales of fixed assets

Option to tax for exempt supplies. Not applicable for VAT or IIBB.

Partial exemption. When purchases of goods, final imports, leases and performance of services are used for both taxable and exempt activities, the taxable person will have to estimate the amount of tax credit.

E. Time of supply

The time when VAT or IIBB becomes due is called the "time of supply" or "tax point." The basic time of supply for goods is the earlier of when the goods are delivered or when the invoice is issued. The basic time of supply for services is the earlier of when the service is performed or completed, or when full or partial payment of the consideration is received.

Imported goods. The time of supply for imported goods is when the goods clear all customs procedures. At that time, VAT is due along with custom duties.

The VAT rate applies to the normal price defined according to import duties plus the taxes due to the import itself or deriving from it.

Reverse-charge services. The measures regarding reverse-charge services apply to VAT, not to IIBB. The time of supply for a reverse-charge service is the earlier of when the service is provided or when the consideration is paid in full or in part.

The recipient of the service must pay the tax within 10 days after the time of supply arises. The amount paid may be treated as input VAT (see Section F) in the tax period immediately following the tax period when the tax point arose.

Deposits and prepayments. The only provisions in Argentine VAT law concerning deposits and prepayments are those where a prepayment fixes the price payable. In these situations, the "time of supply" occurs at the moment in which the prepayment is made.

The time of supply rule for deposits and prepayments does not differ for supplies of goods or services.

There are no specific rules for where the deposits and prepayments are refundable or nonrefundable, or where the supply does not take place. Therefore, in practice these aspects do not normally change the time of supply rules outlined above.

Goods sent on approval for sale or return. Argentina does not have specific rules for these circumstances.

Continuous supplies. For continuous supplies, the time of supply is established by law on a monthly basis. This means that the time of supply is triggered on a monthly basis, i.e., on the last day of each month, such that there is a triggering event each month.

Leased assets. The time of supply would generally take place upon the due date or the collection of the rental, whichever occurs first.

F. Recovery of VAT by taxable persons

A taxable person may recover input tax (also known as credit VAT), which is VAT charged on goods and services supplied to it for business purposes. Input tax is generally recovered by being deducted from output tax (also known as debit VAT), which is VAT charged on supplies made.

Input tax includes VAT charged on goods and services supplied within Argentina, VAT paid on imports of goods and self-assessed VAT on reverse-charge services.

A valid tax invoice or customs document must generally accompany a claim for input tax.

Nondeductible input VAT. Input tax may not be recovered on purchases of goods and services that are not used for business purposes (for example, goods acquired for private use by entrepreneurs). In addition, input tax may not be recovered for some items of business expenditure.

The following lists provide some examples of items of expenditure for which input tax is not deductible and examples of expenditure related to a taxable business use for which input tax is deductible.

Examples of items for which input tax is nondeductible

- Accommodation
- Private use of business assets
- Parking

Examples of items for which input tax is deductible (if related to business use)

- Advertising
- Business gifts
- Purchase, lease or hire of a car, up to a threshold of ARS4,200 (except for cabs)
- Business entertainment
- Purchase, lease or hire of vans and trucks
- Mobile phones
- Travel expenses
- Taxis

G. Recovery of VAT by non-established businesses

Argentina does not refund VAT incurred by businesses that are neither established in Argentina nor registered for VAT there. However, a VAT refund system does apply to purchases made by foreign tourists.

H. Invoicing

Sales invoices and credit notes. A taxable person must generally provide a VAT sales invoice for all taxable supplies made, including exports. A VAT invoice is necessary to support a claim for input tax deduction.

A credit note may be used to reduce the VAT and IIBB charged and reclaimed on a supply of goods and services. A credit note must contain the same information as a sales invoice.

Electronic invoicing. Effective 1 July 2015, the issuance of electronic invoices has been extended to all VAT payers.

Exports. Argentine VAT and IIBB are not chargeable on supplies of exported goods. However, to qualify as VAT-free, exports must be supported by evidence that the goods have left Argentina. The related input VAT may be reimbursed by the federal government. Invoices for export transactions must be identified with the letter "E" to distinguish them from invoices for domestic supplies.

If services rendered in Argentina are invoiced to a foreign person and if the effective exploitation occurs abroad (export of services), the services are subject to IIBB in most jurisdictions, except the City of Buenos Aires, Córdoba, Entre Rios, Neuquén, Mendoza and the Province of Buenos Aires, under certain circumstances.

Foreign-currency invoices. If an invoice is issued in foreign currency, the values for VAT and IIBB purposes must be converted to Argentine pesos (ARS). If no authorized exchange rate applies, the conversion must be done using the selling exchange rate of the Argentine National Bank that applies at the end of the day immediately preceding the date of the tax point.

Proof of exports. The shipping permit issued for exports is the customs document that formally authorizes the exit of those goods.

B2C. Taxable persons are required to issue official invoices or receipts to private consumers. Typically, such invoices are identified by letter "B" and do not show the VAT amount breakdown from the net price (i.e., the "B" invoices only show the total amount including VAT).

I. VAT and IIBB returns and payment

Returns. VAT and IIBB returns are submitted for monthly periods. Certain entities qualifying as small or medium companies may apply for VAT submissions on a quarterly basis.

Returns and payment in full are due between the 12th to the 22nd day of the month following the end of the return period. The actual due date depends on the last figure of the taxpayer's identification number and the due date may vary from month to month.

Return liabilities must be paid in Argentine pesos. VAT payments may be offset by a credit balance arising from another tax collected by the Federal Administration for Public Revenues. This measure does not apply to IIBB.

In addition, VAT and IIBB payments may be offset with withholdings of these taxes. If the withholdings generate a credit in favor of the company, the company may ask for reimbursement from the local tax authorities. In the case of VAT, this credit may be used to offset other national taxes or sold to another company.

Special schemes. Not applicable.

Electronic filing and archiving. VAT and IIBB are submitted on the tax authority's webpage. In general, a copy of those electronically filed tax returns can be viewed and retrieved from the website, but it is highly recommended that taxpayers keep their own copies in secure storage.

Annual returns. Not applicable for VAT. For IIBB, taxpayers registered under the multilateral agreement regime must file an annual affidavit — form CM05 — due in June of the following year. For local taxpayers, some jurisdictions, such as the City of Buenos Aires, require an annual filing.

J. Penalties

Penalties are imposed for errors and omissions with respect to VAT or IIBB accounting.

VAT. Penalties may include:
- A penalty ranging from ARS200 to ARS400 for failure to file a tax return
- A penalty of up to 200% of the tax due for unpaid VAT
- Fines ranging from 2 to 6 times the amount of tax evaded

In addition, interest is assessed at a 3% monthly rate on unpaid amounts.

Criminal tax evasion may be punished by a term of imprisonment, depending on the severity of the case.

IIBB. Penalties similar to the VAT penalties outlined above are established in each local jurisdiction as part of IIBB enforcement.

Armenia

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A. At a glance

Name of the tax	Value-added tax (VAT)
Local name	Avelacvats arzheqi hark
Date introduced	1 January 2018
Trading bloc membership	None
Administered by	Ministry of Finance (http://www.minfin.am) State Revenue Committee (http://www.petekamutner.am)
VAT rates	
Standard	20%
Other	0%
VAT number format	Tax identification number/1
VAT return periods	Monthly
Thresholds	
Registration	AMD115 million for the preceding or current calendar year
Recovery of VAT by non-established businesses	No

B. Scope of the tax

VAT applies to the following transactions:

- Supply of goods if the place of supply of goods is considered to take place in the Republic of Armenia (the RA)
- Performance of works and (or) rendering of services in the Republic of Armenia
- Importation of goods under the customs procedure “Release for domestic consumption”
- Importation of goods with the status of European Union (EU) product to the territory of the RA from EU member countries

C. Who is liable

Legal entities, individual entrepreneurs and notaries registered as VAT payers with the tax authority from the moment they reach the VAT threshold (AMD115 million) calculated for the calendar year. All such entities whose turnover subject to VAT has not exceeded AMD115 million during the preceding or current calendar year are not considered VAT payers, with certain exceptions specified by the tax code of the RA. These entities may voluntarily become VAT payers by submitting an appropriate written statement to the tax authorities.

Group registration. The Armenian tax code does not provide for group reporting of VAT. Each group member company must report VAT individually.

Non-established businesses and tax representatives. A "non-established" business is a foreign business that does not have a fixed establishment in Armenia. Reverse-charge VAT generally applies to supplies of goods and services and imports made by non-established businesses in Armenia (see *Reverse charge*). The Armenian tax code does not provide rules for tax representatives.

Reverse charge. Special reverse-charge rules apply to non-established businesses conducting VAT taxable entrepreneurial activities in Armenia. Persons considered VAT payers that have contractual relations with foreign businesses are responsible for bearing any VAT liability instead of such non-established businesses according to the terms and procedures established by the tax code.

An Armenian-established VAT payer engaged in business activities with a non-established business may issue a tax invoice indicating its own tax identification number and VAT number on behalf of a foreign entity that is not registered in Armenia as a person supplying goods or services. This tax invoice shall be considered to be issued by the foreign supplier and accordingly shall allow that person to deduct the amount of VAT from output tax.

If non-established businesses are conducting VAT taxable entrepreneurial activities in Armenia, but Armenian persons that have contractual relations with them are not VAT payers, non-established businesses are responsible for bearing any VAT liability in Armenia according to the terms and procedures established by the tax code. Such businesses must register for VAT when making taxable supplies of goods and services in Armenia.

Late-registration penalties. Late-registration penalties are not applicable because late registration is not possible in Armenia.

Deregistration. No special rules are defined by the tax code for deregistration.

Digital economy. Business-to-business transactions will be subject to VAT according to Armenian domestic law. The customer is expected to self-assess (via issuing a self-invoice) Armenian VAT on the invoice amount payable to the principal. The self-assessed VAT is eligible for a credit to the extent that the customer's business allows the customer to take input VAT credits and the customer has performed all necessary steps defined by the law necessary for VAT credit.

Business-to-consumer transactions will be subject to VAT according to Armenian domestic law. If the customer is not considered to be a VAT payer, a nonresident business shall be obliged to calculate and pay VAT in Armenia.

Registration procedures. VAT registration is performed automatically if the conditions for considering a person to be a VAT payer are met. This is because in Armenia there are two cases, when the taxpayer is a turnover taxpayer, otherwise the company is a VAT payer. So if it falls under the conditions of turnover taxpayer, it submits an application to be a turnover taxpayer. If this application is not submitted (it has certain deadlines) then the taxpayer is automatically considered as a VAT payer. There is an online system of taxpayers where they submit their applications.

Exemption from registration. The tax code of Armenia does not contain any provision for exemption from registration.

Voluntary registration. It is possible for a taxable business that is not a VAT payer under the tax code of Armenia (because it makes supplies within the scope of VAT but its turnover is lower than the registration threshold) to register for VAT on a voluntary basis. Voluntary registration is conducted on the basis of application submitted to the tax authorities in a form established by the government of Armenia. The application can be submitted electronically. The electronic application is submitted through the taxpayer's online account.

D. VAT rates

The term "taxable supplies" refers to supply of goods, performance of works and provision of services that are subject to VAT.

The VAT rates are 20% (standard rate) and 0%. The 20% rate applies to supplies of goods and services unless a specific measure provides the zero rate or an exemption.

Examples of zero-rated transactions (taxed at a 0% rate)

- Export outside the customs border of Armenia
- Delivery of international transportation services for carriage of consignments, mail and (or) passengers
- For goods imported to the RA under the customs procedure "Customs Transit," delivery of works and (or) services directly related to transportation of these goods from the customs border of their import to customs border of their export in the Republic of Armenia
- Supply of fuel for airplanes on international flights and supply of goods for consumption during the flights for the staff and passengers of the airplanes
- Supply of goods for passengers of international routes in duty-free shops in the RA, as well as supply of those goods by other taxpayers to the organizer of the duty-free shop
- Supply of maintenance (including navigation, take-off and landing services), repair and re-equipment of the means of transport for international transportation, as well as supply of services for passengers, baggage, cargo and mail on international flights and supply of services to passengers during the flights
- Supply of services (including those provided by agencies and intermediaries) directly related to the provision of services described in the preceding item
- Performance of works and supply of services for which Armenia is not treated as the place of their delivery
- Supply of goods for the official use of diplomatic representations, consular institutions and international organizations deemed equal thereto, as well as performance of works and supply of services to them
- Transactions on the delivery of services by a telecommunication operator or postal communication operator duly registered in the Republic of Armenia to the respective foreign operators for which amounts payable against reciprocal services as part of international networking services are mutually cleared, pursuant to the bylaws of the International Telecommunication Union (ITU) or the World Postal Union accordingly

The term "exempt supplies" refers to supply of goods performance of works and provision of services that are within the scope of VAT taxation but are specifically exempted from VAT taxation. Such exempt transactions do not give rise to a right of input tax deductions (see Section F).

Examples of exempt supplies

- Supply of education at secondary schools, vocational schools for qualification and requalification and specialized secondary and higher educational institutions
- Supply of copy books and music books, albums for drawing, children's and school literature and school educational publications

- Sale of scientific and educational editions published by higher educational institutions, specialized scientific organizations and the National Academy of Sciences of Armenia
- Implementation of scientific and research programs, basic educational programs as well as organization of educational competitions, tournaments and Olympics organized in accordance with the standards established by the government of Armenia
- Supply of services related to the care of children in preschool institutions, care for persons in boarding schools, children's homes, institutions caring for disabled children and invalids and nursing homes, as well as supply of goods produced and services rendered by the persons living under the care of these institutions
- Supply of newspapers and magazines
- Gratuitous supply of goods by nongovernmental, charitable and religious organizations, gratuitous performance of works and (or) rendering of services
- Supply of insurance and reinsurance, including related services rendered by insurance mediators (third parties who establish insurance relationships between insurers or reinsurers and policyholders and support the implementation of organizational, legal and other activities) and agents
- Supply of pension insurance, including related services rendered by mediators and agents
- Supply of financial services by banks, persons participating in securities' markets, payment and settlement organizations and lending organizations (certain cases)
- Supply of prosthetic and orthopedic items, medical assistance services (including prophylactic diagnostic measures) and goods related to treatment that are prepared within the context of medical assistance by patients in prophylactic enterprises and organizations, and services rendered by them
- Sale of irrigation water by water user associations
- Sale of tobacco products by taxpayers who are not manufacturers and (or) importers of tobacco products
- Organization of casinos
- Organization of gambling (including gambling by internet)
- Supply of goods and services (according to the procedure established by the government of Armenia) financed by funds intended for the preparation of credit and grant programs of international financial organizations
- Supply of precious and semiprecious stones indicated in the list specified by the government of Armenia
- Supply of goods and services within humanitarian assistance and charitable projects by foreign states, international intergovernmental organizations, international, foreign, and Armenian public organizations (including charities), religious and similar organizations and individual donors, as well as supply of goods and services directly related and essential to the implementation of such projects by Armenian VAT payers
- Transfer of property (except for immovable property) into the share capital of legal entities by individuals except for sole entrepreneurs
- Transfer of property (except for immovable property) into the share capital of legal entities by individuals except for sole entrepreneurs, if individual's share corresponding to this investment was not alienated during the three years after the investment was made
- Supply of services to the organizer and operator of a free-economic zone and the supply of goods in the territory of a free-economic zone
- Transactions carried out within the scopes of subsidies, subventions and grant projects if these projects are awarded the endorsement of the professional commission formed by the government of the RA

Option to tax for exempt supplies. Not applicable.

E. Time of supply

The time when VAT becomes due is called the "tax point." The tax point is the moment when goods are delivered to or accepted by the customer or works or services are performed. For continuous supplies (for example, operating leases), the tax point is the last day of a reporting period.

Imported goods. The tax point for imported goods is the moment of importation of goods into Armenia.

Reverse-charge services. The time of supply for services subject to the reverse-charge rules is determined in accordance with rules that are similar to the standard rules described above.

Deposits and prepayments. There are no special time of supply rules in Armenia for deposits and prepayments. As such, the general time of supply rules (as outlined above) apply.

Goods sent on approval for sale or return. Time of supply of goods is the time foregoing:
- The moment when the goods are transferred to the buyer, except for cases when, according to supply contract, the ownership over the goods is transferred to the buyer in other point of time. The latter point will be considered as time of supply
- The moment when the goods are accepted by the buyer, except for cases when, according to the sales agreement, the ownership over the goods is transferred to the buyer at another point of time. The latter point will be considered as time of supply

Notably, in cases when the ownership right over the goods is subject to state registration, the time of supply will be considered the time of state registration.

Continuous supplies. In cases of continuous supply of goods, the same rules as mentioned above are applied. In cases of continuous supply of services, the last day of each month is considered to be the time of supply unless the service agreement stipulates other periods (phases) for provision of services (quarter, semester, year, etc.). In the latter case, the last day of respective period is considered to be the time of supply.

Leased assets. For assets lease services, the time of supply is considered the last day of each month.

F. Recovery of VAT by taxable persons

A taxable person that performs economic activities in Armenia may generally recover input tax by deducting it from output tax, which is VAT charged on supplies made. Input tax includes the following:
- Amounts of VAT indicated in tax invoices issued by the suppliers of goods, works and services purchased or received during the reporting period in Armenia
- Amounts of VAT paid to customs or tax bodies of Armenia for goods imported into Armenia under the customs procedure "Release for domestic consumption"

The excess of input VAT over output VAT in the reporting period may be carried forward and offset against output VAT in subsequent reporting periods.

Nondeductible input tax. Input VAT may not be deducted in the following circumstances:
- The person carrying out entrepreneurial activities is not considered to be a VAT payer.
- VAT was paid for transactions that are exempt from VAT (see Section D), not subject to VAT or referring to special tax systems.
- The tax invoice was issued without actual supply goods, works or services.
- VAT was paid for transactions that were recognized as invalid.
- VAT was paid on the purchase or import of passenger cars, except for the cars acquired for the purpose of resale or provision of car rent services.

Examples of items for which input tax is nondeductible

- Example 1. Taxpayer conducts one of the activities mentioned in Section D that is exempt from VAT. At the end of the month, the taxpayer receives a tax invoice for electricity. The taxpayer cannot deduct the amount of VAT indicated in the tax invoice as the activity that he/she conducts is exempt from VAT.
- Example 2. Taxpayer purchases a passenger car for office use. The taxpayer cannot deduct the VAT amount paid for the purchased car. The VAT amount is capitalized in the value of the car and is depreciated during the useful life of it.

Examples of items for which input tax is deductible (if related to a taxable business use)

- Example 1. Taxpayer conducts an activity that is subject to VAT. At the end of the month, the taxpayer receives a tax invoice for electricity, rent of office premises and purchased fixed assets. The taxpayer deducts the amount of VAT indicated in the invoices after all the requirements of the tax code are met (described in second paragraph of Section F).

Partial deduction. If a taxable person makes both taxable and nontaxable (exempt or not subject to VAT) transactions, it may not deduct input VAT in full from output VAT. It may deduct only the amount of input VAT related to the goods and services used in taxable transactions. For this purpose, VAT payers shall maintain separate accounts for taxable and nontaxable transactions, as well as for the services and goods purchased for conducting such transactions.

If it is impossible to maintain separate accounts, the amount of input VAT subject to deduction in each reporting period must be prorated based on the ratio of taxable turnover to total turnover (VAT exclusive) of the business in the reporting period.

Capital goods. Effective from 1 January 2012, a capital goods adjustment applies for input VAT related to the purchase, construction or importation of fixed assets.

An input tax adjustment is required if input VAT is deducted for the purchase, construction or importation of fixed assets in a reporting period and if the asset is used in a subsequent reporting period for making supplies of goods or services that are not subject to VAT. The adjustment applies to 20% of the amount of amortization calculated for the fixed asset.

An adjustment may also be made if no input tax is deductible in the reporting period in which the acquisition is made because, at the time of acquisition, the fixed asset is directly attributable to making non-VATable supplies and if the asset is subsequently used for making supplies that are subject to VAT. If the taxpayer makes both taxable and exempt supplies, the input tax recovery is based on 20% of the amount of amortization calculated for the fixed asset under the tax code and on the ratio of taxable to nontaxable supplies made.

Refunds. Under the Armenian tax code, refunds are available. In cases when a taxpayer has a recoverable VAT amount as of the 21st day of the month following each semester, this amount can be debited to the taxpayer's unified account based on the application of the taxpayer and after appropriate tax review made by tax authorities.

For zero-rated transactions, VAT can be refunded any time based on the application of the taxpayer and after appropriate tax review made by tax authorities.

Preregistration costs. Not applicable.

G. Recovery of VAT by non-established businesses

Non-established businesses cannot recover VAT in Armenia, because only VAT payers in Armenia may recover input tax.

H. Invoicing

VAT invoices and credit notes. VAT payers supplying goods, works and services to legal entities and individual entrepreneurs must issue tax invoices if these supplies are subject to the standard rate of VAT. VAT invoices are not issued for supplies that are subject to the zero rate of VAT. A tax invoice must be issued on delivery of goods to, or upon completion of supply of works or services to the customer. A VAT invoice is necessary to support a claim for input tax deduction. Tax invoices can be issued electronically only. Depending on the business carried out by the taxpayer, tax invoices may be issued in advance, provided that the goods are supplied or the works or services are rendered on the supply date mentioned in the tax invoice.

The tax code in Armenia does not contain any rules with respect to the issuance of credit notes. Instead, the tax code allows issuance of clarifying invoices.

Invoices issued in a foreign currency. In general, tax invoices are issued by VAT payers in Armenian currency (AMD) only. However, commercial invoices can be issued in foreign currencies for transactions carried out with non-established businesses. In such cases, the daily foreign currency exchange rates published by the Central Bank of Armenia are taken into consideration.

Proof of exports. For export purposes, appropriate declarations are filed with the customs authority by specialized brokers based on the invoice information issued by the exporter. The customs authority grants approval for export after confirming that the invoice data and declarations are consistent and that all necessary documents are presented.

B2C. Provision of works and/or services made within the retail industry from a supplier who is operating a cash machine does not need to issue a tax invoice unless requested by the purchaser.

Electronic invoicing. Electronic invoicing is mandatory for all VAT taxpayers.

I. VAT returns and payment

VAT returns and payment. VAT payers must file their VAT and excise tax unified returns monthly by the 20th day of the month following the reporting month. VAT due is payable to the state budget by the 20th day of the month following the reporting month.

For goods imported into Armenia from non-EU countries, VAT must be paid before release of the imported goods under customs regime "Release for domestic consumption."

For goods imported into Armenia from EU countries, VAT must be paid by the 20th day of the month following the month of importation.

VAT payment may be deferred on the importation of certain goods.

Special schemes. Not applicable.

Electronic filing and archiving. Starting in 2012, all VAT payers file all returns electronically through their accounts at https://file-online.taxservice.am. There are no special rules defined by the tax code for archiving. All tax returns are kept electronically in the taxpayers' accounts at https://file-online.taxservice.am.

Annual returns. Not applicable.

J. Penalties

The penalty for understatement of VAT payable equals 50% of the amount not declared. A penalty of 100% of the above amount is applied if a violation is repeated within one year.

The penalty for the violation of instructions established by the government of Armenia for the issuance of tax invoices (including adjusted tax invoices) equals double the amount of the remu-

neration with respect to the respective tax invoice (including the amount of VAT) but not less than AMD5 million.

The penalty for filing a VAT return late is 5% of the calculated tax for each 15-day period, up to a maximum penalty of the total tax amount.

In addition, interest is charged on late tax payments at a rate of 0.075% of the tax due for each day of delay (up to 365 days).

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A. At a glance

Name of the tax	Revenue tax (RT)
Local name	Belasting over bedrijfsomzetten – "BBO" Belasting additionele voorziening PPS-projecten – "BAVP"
Date introduced	1 January 2007 – BBO 1 July 2018 – BAVP
Name of the tax	Health tax (HT)
Local name	Bestemmingsheffing AZV – "BAZV"
Date introduced	1 December 2014
Trading bloc membership	None
Administered by	Departamento di Impuesto
RT rates	
Standard	3% (combined rate of BBO (1.5%) and BAVP (1.5%))
Other	Exempt
HT rates	
Standard	3%
Other	Exempt
RT and HT number format	XXXXXXX (7 digits)
RT and HT return periods	Monthly
Thresholds for RT and HT	None
Recovery of RT and HT by non-established businesses	No

B. Scope of the tax

Persons subject to RT and HT are entrepreneurs that in the course of their business supply goods or render services in Aruba. The tax base equals the gross revenue (in cash or in kind) realized from the supply of goods or the rendering of services in Aruba by entrepreneurs in the course of their business.

C. Who is liable

In principle, for RT and HT purposes, an entrepreneur is an individual or business entity that delivers goods or performs services (engages in taxable activities) in Aruba. An entrepreneur can also be regarded as anyone who exploits an asset in order to realize sustainable revenue. The entrepreneur that realizes the revenue is subject to RT and HT.

A legal entity is not regarded as an entrepreneur for RT and HT purposes if it does not participate in economic activities in Aruba and is in possession of a foreign-exchange license or is exempt from the requirement to hold one.

Small entrepreneur's facility for RT and HT. Individuals who are regarded as entrepreneurs and who expect to realize an annual turnover of up to AWG12,000, can in principle obtain a dispensation for RT and HT. The dispensation implies that on the realized turnover with the supply of goods or the rendering of services no RT or HT is due. The entrepreneur who exploits an asset in order to realize sustainable revenue cannot apply for this dispensation. In order to qualify for the dispensation, a request must be submitted no later than 1 October of the calendar year. If granted, the dispensation will be applicable as of 1 January of the following year.

Non-established business. A "non-established business" is a business that does not have a fixed place of business in Aruba. The Aruba RT law and HT law do not provide an explicit exception for non-established businesses. Consequently, foreign entrepreneurs are considered to be entrepreneurs for RT and HT purposes and are subject to RT and HT when performing taxable activities in Aruba.

Free zones. Free-zone companies are exempt from RT and HT with respect to the rendering of services or the supply of goods to nonresidents.

Oil and gas exploration and exploitation companies. The revenue of oil and gas exploration and exploitation companies is exempt from RT and HT to the extent that the revenue is made with the exploration and exploitation of oil and gas.

Group registration. If a parent company owns 100% of the shares in a subsidiary established in Aruba, on request a fiscal unity for RT and HT purposes is recognized and RT and HT are levied on the parent company as if one entrepreneur exists. Revenue generated by intercompany transactions is exempt from RT and HT.

Registration procedures. To register for RT and HT, an entrepreneur or an authorized representative has to submit a hard copy registration form to the tax authorities (Departamento di Impuesto). This registration form can be downloaded from the website of the Aruban tax authorities: http://www.impuesto.aw.

It takes an average of 10 working days for the tax authorities to complete the registration process.

Tax representatives. An entrepreneur can provide another party with a written power of attorney to conduct the taxpayer's business before the tax authorities with regard to the RT and HT. If the taxpayer is unable to look after his or her own interests, the Tax Inspector may appoint someone to act on behalf of the taxpayer.

Late-registration penalties. In general, an Aruba entrepreneur who begins taxable activities must register with the tax authorities. Since there is no specific deadline for registration, a penalty is not imposed for late registration. However, if the late registration results in the late payment of RT or HT or the late submission of RT or HT returns, administrative penalties may be imposed.

Reverse charge. As of 1 July 2018, the reverse-charge mechanism has been introduced on services designated by the Minister of Finance. *However, at the time of preparing this chapter, the Minister of Finance has not yet designated the affected services. Therefore, it is only after the Ministerial Decree in which the services are designated is published, that the reverse-charge*

mechanism will enter into effect. Once in effect, the RT and HT due on services rendered by non-resident entrepreneurs to entrepreneurs who are residents of Aruba, will be due from the resident entrepreneur as the consumer of those services.

Digital economy. Rules for digital supplies are the same as for other supplies. If services are rendered, the taxable event for RT is generally where the entrepreneur providing the service is established or has a fixed establishment from which the services are provided, although some exceptions apply.

Deregistration. To deregister for the RT or HT, a written application for deregistration has to be submitted to the tax authorities.

Exemption from registration. The RT law in Aruba does not contain any provision for exemption from registration.

Voluntary registration. The RT law in Aruba does not contain any provision for voluntary VAT registration.

D. RT and HT rates

The term "taxable supply" refers to a supply of goods or rendering of services that is subject to RT and HT. The term "revenue" refers to all remunerations (in cash or in kind) received by an entrepreneur for the supply of goods or the rendering of services in the course of its business.

The standard RT rate of 3% applies to revenue realized from performing taxable activities in Aruba, unless a specific measure provides for an exemption. Please note that this is a combined rate of BBO (1.5%) and BAVP (1.5%).

The HT rate of 3% (as of 1 July 2018) applies to revenue realized from performing taxable activities in Aruba, unless a specific measure provides for an exemption.

Examples of exempt supplies of goods and services

- Sale of real estate (to the extent that transfer tax is due)
- Prescription medicines, including certain medical aids
- Renting out of apartments or hotel rooms (to the extent that room tax is due)
- Providing opportunities to gamble (to the extent that gaming tax is due)
- International transportation of goods and persons by ships or airplanes
- Renting out of real estate that is used as the renter's own dwelling
- Investment income, such as interest, dividends and capital gains realized from the sale of shares and other stocks
- Services rendered by companies established in the free zone to customers outside Aruba

Exports. Revenue realized from the supply of exported goods is exempt from RT and HT. However, to qualify for this exemption, the exports must be supported by evidence that confirms that the goods have left Aruba. The Minister of Finance may issue additional regulations for the implementation of the export exemption mentioned above. However, currently no additional regulations have been adopted.

Option to tax for exempt supplies. Not applicable.

E. Time of supply

RT and HT are levied on a cash basis. However, on request, an entrepreneur may opt for an invoice (accrual) basis for RT and HT. The tax authorities need to approve this request.

Deposits and prepayments. The tax point for deposits and prepayments arises upon receipt of the payment for the goods or services.

Goods sent on approval for sale or return. There are no special time of supply rules in Aruba for supplies of goods sent on approval for sale or return. As such, the general time of supply rules apply (as outlined above).

Continuous supplies. The tax point arises upon receipt of each payment for the continuously supplied goods or services.

Leased assets. The tax point arises upon the payment of each lease installment for both operational and financial lease.

Reverse-charge services. As of 1 July 2018, the reverse-charge mechanism has been introduced on services designated by the Minister of Finance. *However, at the time of preparing this chapter, the Minister of Finance has not yet designated the affected services. Therefore, it is only after the Ministerial Decree in which the services are designated is published, that the reverse-charge mechanism will enter into effect. Once in effect, the RT and HT due on services rendered by nonresident entrepreneurs to entrepreneurs who are residents of Aruba, will be due from the resident entrepreneur as the consumer of those services.*

Imported goods. The import of goods is not a taxable event for RT or HT in Aruba. Hence the time of supply of imported goods is where the transport originates, i.e., outside of Aruba. However, the foreign supplier would not need to register of RT or HT in Aruba, as no RT or GHT is due on the goods upon importation.

F. Recovery of tax by taxable persons

Neither established nor non-established businesses may recover RT or HT in Aruba.

G. Recovery of tax by non-established businesses

Neither established nor non-established businesses may recover RT or HT in Aruba.

H. Invoicing

Invoices and credit notes. An entrepreneur must provide an invoice for all taxable supplies made, including exports.

Entrepreneurs subject to RT and HT must retain copies of invoices for 10 years.

An RT and HT credit note must be issued when the quantity or consideration shown on an invoice is altered. In general, credit notes must contain the same information as the original RT and HT invoice.

RT and HT on the invoice. As of 1 January 2019, entrepreneurs are prohibited to carry out the following:

- To state on their invoices and receipts that the RT and HT is levied on the (taxable) turnover
- To offer goods and services (which are taxable) against prices which do not include the RT and HT due

Entrepreneurs have until 30 June 2019 to implement this new invoice requirement. It is the intention to replace the RT and HT with one single indirect or turnover tax mid-2019.

Foreign-currency invoices. Not applicable.

Electronic invoices. Not applicable.

Proof of export. Goods destined for export are exempt from RT and HT. The entrepreneur must provide documents to prove the goods are destined for export.

B2C. There are no specific rules/distinction in the local law, and as such full tax invoices must be issued for all supplies.

I. RT and HT return and payment

RT and HT returns. RT and HT combined returns are generally submitted on a monthly basis. The RT and HT return must be filed within 15 days after the end of the month, and the RT and HT due must be paid within the same time period. The filing of the return and payment of the RT and HT amount can be done separately.

Special schemes. Not applicable.

Electronic filing and archiving. Not applicable.

Annual returns. Not applicable.

J. Penalties

Aruba's strict penalty system punishes the following two categories of infraction:
- Omissions
- Gross negligence or intent

The tax authorities can impose penalties for not filing the RT and HT return on time, for not paying the amount due on time, for not paying or partially paying the amount due and for non-compliance with the prohibition mentioned under Section H for RT and HT on the invoice. As to the latter penalty, it is our understanding that this penalty will not be imposed during the transitional period. These penalties can, however, accumulate. The following are the maximum penalties that can be applied, which vary depending on the number of omissions:
- Not filing return on time: maximum penalty of AWG250
- Not paying on time: maximum penalty of AWG10,000
- Not paying or partially paying: maximum penalty of AWG10,000
- Not including the RT and HT in the price of the (taxable) supply of goods and/or rendering of services: maximum penalty of AWG10,000
- Stating the RT and HT on the invoice: maximum penalty of AWG10,000

If the late payment is caused by gross negligence or intent, fines ranging from 25% to 100% of the RT and HT payable may be imposed.

Criminal penalties may also apply in certain circumstances, such as in cases of fraudulent conduct.

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A. At a glance

Name of the tax	Goods and services tax (GST)
Date introduced	1 July 2000
Trading bloc membership	None
Administered by	Australian Taxation Office (http://www.ato.gov.au)
GST rates	
Standard	10%
Other	GST-free (zero-rated) and input taxed (exempt without credit)
GST number format	ABN 12345678901
GST return periods	Monthly (turnover in excess of AUD20 million; optional for all other registered persons) Quarterly (turnover below AUD20 million) Annual with quarterly payments (turnover below AUD2 million) Annual (turnover below AUD75,000)
Thresholds	
Registration	AUD75,000 (AUD150,000 for nonprofit bodies)
Recovery of GST by non-established businesses	No

B. Scope of the tax

GST applies to the following transactions:

- Taxable supplies of goods and services, which are supplies connected with the "indirect tax zone" (i.e., Australia) and made for consideration in the course of a business enterprise by an entity that is registered or that is required to be registered for GST
- Reverse charge applies to offshore acquisitions made by a registered entity in Australia if the supply is not connected with Australia and if the recipient of the supply does not make the acquisition solely for a creditable purpose. Effective 1 July 2017, offshore intangibles supplied to Australian non-registered consumers (e.g., digital supplies and services) may be subject to GST with the offshore supplier liable to remit this GST.
- Taxable importations of goods into Australia, regardless of the status of the importer. Effective from 1 July 2018, importations of low value goods (e.g., AUD1,000 or less) are subject to GST with the nonresident suppliers, operators of online marketplaces (i.e., electronic distribution platforms) and/or re-deliverers to consumers in Australia liable to remit that GST to the Commissioner of Taxation.

C. Who is liable

The GST registration threshold is AUD75,000 (AUD150,000 for nonprofit bodies). The threshold applies, retrospectively and prospectively, based on either of the following:

- Current GST turnover, which is the value of all supplies made or likely to be made in the current month plus the preceding 11 months
- Projected GST turnover, which is the value of all supplies made or likely to be made in the current month plus the next 11 months

To calculate turnover for the above purposes, turnover from input-taxed (exempt) supplies, supplies that are not connected with Australia and certain other types of supplies are excluded.

Voluntary registration. An entity that has turnover below the registration threshold may apply to register for GST voluntarily if the entity is carrying on an enterprise.

Group registration. Subject to certain requirements, two or more entities that are closely related may form a GST group. The effect of GST grouping is to treat the group members as a single entity for certain purposes. In general, all GST liabilities and input tax credit entitlements for group members are attributed to a representative member of the group, and the group submits a single GST return (incorporated as part of the Business Activity Statement; see Section I). The representative member of the group must be an Australian resident. However, nonresidents may be included in a GST group as members. Transactions between group members are not considered taxable for GST purposes and consequently are effectively ignored.

Grouping is permitted for companies, partnerships and trusts. For companies to be included in a GST group, they must be connected by a 90% (or greater) share ownership relationship in terms of voting power, right to receive dividends and right to receive capital distributions. However, all eligible companies are not required to be included in a GST group. The rules for the grouping of trusts and partnerships with companies are complex.

Branch registration. An independent branch of a company may be registered separately as a GST branch, with its own GST number. Certain requirements must be met relating to the nature of the activities and accounting systems of proposed GST branches. In addition, a branch of a registered entity may not be registered as a GST branch if the entity is a member of a GST group.

Limited registration. Nonresident entities may register for GST in a "limited" capacity to reduce their compliance burden from 1 July 2017 if they have made one or more inbound intangible consumer supplies (effectively B2C supplies). This limited GST registration allows nonresidents to collect and remit GST on a quarterly basis without the ability to claim any input tax credits for GST included within associated expenses. Effective 1 July 2018, nonresident suppliers of low value goods to Australian consumers can also elect to obtain a limited registration.

Nonresident entities. GST applies to taxable supplies and to taxable importations made by nonresidents. In general, a nonresident entity is not required to appoint a tax or fiscal representative in Australia for GST purposes. However, GST payable on any taxable supply or taxable importation made by a nonresident through a resident agent is payable by the agent. The nonresident is still required to be registered for GST, but need not submit GST returns if all supplies or acquisitions are made through the agent.

As an alternative to registration, some nonresidents may agree with the recipient of the supply for the recipient to account for the GST liability under the voluntary reverse-charge procedure.

Since 1 October 2016, certain business-to-business transactions (other than supplies of goods or real property) between nonresident suppliers and Australian-based business recipients will no longer be "connected" with Australia. Subject to certain conditions and transitional rules being satisfied, GST will not apply to these supplies and consequently a nonresident supplier that may have previously been required to be registered for GST in Australia could deregister.

These rules do not apply where the nonresident supplier is carrying on an enterprise in Australia. The concept of an entity carrying on an enterprise is broadly consistent with Australia's current tax treaty approach for determining a permanent establishment, and incorporates the "183-day" and "fixed-place" rules.

Also see comments under the heading "Digital economy" for changes to the GST obligations of nonresidents making supplies to Australian consumers.

Voluntary reverse charge. GST on a taxable supply is payable by the recipient and not by the supplier if all the following conditions are met:

- The supplier is a nonresident.

- The supplier does not make the supply through an enterprise that it carries on in Australia.
- The recipient is registered (or is required to be registered) for GST.
- The supplier and recipient agree that the GST is payable by the recipient.

The voluntary reverse charge does not apply if either of the following circumstances exists:
- The compulsory reverse charge applies.
- The supply is made by the nonresident through a resident agent.

Compulsory reverse charge. A compulsory reverse charge applies in the following circumstances:

There is a supply of anything other than goods or real property (e.g., digital products, services, rights) that is either (a) not connected with Australia or (b) connected with Australia because it is a supply made through an enterprise carried on outside of Australia and it is a supply of a right or option to acquire something that would be connected with Australia.
- The recipient of the supply is registered (or required to be registered).
- The supply is for consideration.
- The recipient acquires the supply solely or partly for the purpose of a business enterprise carried on by it in Australia.
- The acquisition is not solely for a creditable purpose (that is, it is not eligible for full input tax credits), and the supply is not input taxed or GST-free.

Where a supply of low value goods (effective 1 July 2018), or a supply of anything other than goods or real property (effective 1 July 2017) was not subject to GST because the supplier incorrectly believed the recipient was not an Australian consumer, a compulsory reverse charge applies where the acquisition is not solely acquired for a creditable purpose and the supply is not input taxed or GST-free.

The compulsory reverse charge applies primarily to businesses that make input-taxed (exempt) supplies (for example, financial institutions) and to acquisitions made for a partly private or domestic purpose. The reverse charge does not apply to private consumers who are not registered or required to be registered for GST.

Australian-based business recipients that make acquisitions from nonresidents of Australia may have an increased reverse-charge liability from 1 October 2016 as a result of the changes to the GST rules.

Late-registration penalties. Penalties and interest may be imposed for late registration or for failure to register and for late submission of a GST return, as part of the Business Activity Statement (see Section I), or late payment of GST.

Tax representatives. Not applicable.

Digital economy. From 1 July 2017, the supply by nonresident suppliers of intangibles, including anything other than goods or real property (e.g., digital products, services, rights), to an Australian non-registered consumer will be taken to have the necessary connection with Australia and may be subject to GST unless otherwise exempted. The onus is on the supplier to determine that its customer is not an Australian consumer. A supplier must have sufficient evidence that would enable a person who is independent of the transaction to reasonably conclude that its customer is not an Australian consumer (e.g., customer residency and their GST registration status and purpose of acquisition)

In some circumstances, the responsibility for the GST liability that arises under the amendments may be shifted to the operator of an electronic distribution platform rather than the supplier of the intangible supply.

Effective 1 July 2017, the legislation now treats supplies of digital currency alike to supplies of money. GST is generally not payable on supplies and purchases of digital currency.

Low value goods. Effective from 1 July 2018, the supply of low-value imported goods of AUD1,000 or less, to an Australian non-registered consumer will be taken to have necessary connection with Australia and may be subject to GST unless otherwise exempted. Nonresident suppliers and/or redeliverers to consumers in Australia are liable to remit that GST to the Commissioner of Taxation.

Deregistration. An entity that ceases to carry on an enterprise must cancel its GST registration. The entity must notify the Commissioner of Taxation that it is no longer entitled to be registered within 21 days after ceasing operations. An entity that is no longer required to be registered may apply to cancel its registration. However, the Commissioner of Taxation is not required to cancel the registration if a business has been registered for less than 12 months.

Exemption from registration. The GST law in Australia does not contain any provision for exemption from registration.

Sales of residential property. From 1 July 2018, purchasers of new residential premises (or subdivisions) must pay the GST on the purchase price directly to the ATO as part of the settlement. Suppliers are required to provide the purchaser with a notification in writing before making the supply, providing the supplier's Australian Business Number (ABN) and the amount required to be withheld. Purchasers are required to provide the Australian Tax Office (ATO) with a notification through the submission of a form, which is completed and lodged online to the ATO prior to settlement. Once this form has been lodged, the ATO will provide the purchaser with a Payment Reference number and Lodgement Reference number. The final GST liability is to be resolved as part of the Business Activity Statement (BAS) cycle, whereby the supplier will be entitled to a credit for the amount of payment made to the ATO in the BAS for the tax period to which the supply is attributed.

Withholding by purchasers applies to supplies of new residential premises or subdivisions for which consideration (other than a deposit) is first provided on or after 1 July 2018. This is subject to an exception for pre-1 July 2018 contracts where consideration for the supply is provided before 1 July 2020, providing a two-year transitional period for pre-existing contracts.

D. GST rates

The terms "taxable supplies" and "taxable importations" refer to supplies of goods, real property, and services and importations that are liable to GST and which give rise to a right to claim input tax credits for GST included in acquisitions related to the supply. Taxable supplies are supplies subject to the standard rate of GST, which is 10%.

"GST-free supplies" are supplies not liable for GST but that nevertheless do give rise to a right to claim input tax credits for GST included in acquisitions related to the supply.

Examples of GST-free supplies of goods and services

- Basic foodstuffs
- Water, sewerage and drainage services
- Exports of goods and services performed for nonresidents of Australia who are not in Australia when the supply is made
- Health, education, religious and related supplies
- Child care
- Supplies of going concerns
- International transport and mail

"Input-taxed supplies" are supplies not liable for GST, but which do not give rise to a right to claim input tax credits for GST included in acquisitions related to the supply (see Section F).

Examples of input-taxed supplies of goods and services

- Financial supplies
- Rental of residential premises
- Sales (or long-term leases) of residential premises (except for new residential premises)
- Supplies of some precious metals
- Supplies in the course of fundraising events conducted by charitable institutions
- Supplies made through school "tuck shops" and cafeterias

Option to tax for exempt supplies (input-taxed supplies). Not applicable.

E. Time of supply

Australia does not have time of supply rules. Instead, it has attribution rules with respect to the timing of when GST is payable or an input tax credit is claimable. The time when GST is payable on a supply depends on whether the taxable person accounts for GST on a cash basis or on an accrual basis.

Cash accounting. Entities may choose to account on a cash basis only under limited circumstances, which involve, among other conditions, consideration as to whether an entity satisfies certain income tax definitions.

For entities that use cash accounting, GST is payable with respect to a taxable supply in the tax period in which the consideration is received. If only part of the consideration is received in a particular tax period, GST is payable only on that part.

Accrual basis. For businesses that account for GST on an accrual basis, GST is payable with respect to a taxable supply for the tax period in which the invoice is issued or when any of the consideration is received for the supply, whichever is earlier.

Prepayments. If a prepayment or a deposit is treated as part payment of the consideration for a supply, GST is payable in the period when the deposit is paid. For entities that use the accrual basis of accounting, the deposit triggers a liability to account for GST on the full value of the supply. For entities that use cash accounting, GST is payable on the amount of the deposit.

Security deposits are not considered to constitute payment of the consideration for a supply until the deposit is applied as partial payment toward the consideration for the supply. GST is payable on a security deposit that is forfeited.

Continuous supplies. If a supply is made continuously over a period of time for consideration that is either paid progressively or periodically, the supply is treated as if each component of the progressive or periodic supply is a separate supply.

Imported goods. GST is payable for imported goods at the time of importation. For an importer registered under the GST-deferral scheme, GST is payable on the due date for the importer's next Business Activity Statement (see Section I).

Goods sent on approval for sale or return. Australia does not have time of supply rules. In these circumstances, the general attribution rules should apply such that the supplier has a GST liability on the earlier of the invoice being issued or the receipt of any consideration.

Leased assets. Australia does not have time of supply rules. Refer to the *Continuous supplies* section above.

Reverse-charge services. Australia does not have time of supply rules. For reverse-charge supplies, the general attribution rules should apply such that the supplier has a GST liability on the earlier of the invoice being issued or the receipt of any consideration. Where reverse charge is

applied on supplies between associates for no consideration, GST is payable on the supply and the input tax credit on the acquisition is attributable in the tax period in which the thing supplied starts to be done.

F. Recovery of GST by registered entities

A registered entity may claim input tax credits for the GST included in the consideration for goods and services acquired within Australia, GST paid on importations of goods and GST paid under reverse-charge arrangements to the extent that the acquisition is a creditable acquisition. Input tax credits are generally recovered by being offset against GST payable on taxable supplies.

A valid tax invoice or customs document must generally be retained to support claims for input tax credits.

Nonresident entities registered for GST in a limited capacity do not have the ability to claim any input tax credits for GST incurred on Australian acquisitions.

Non-creditable acquisitions. "Non-creditable acquisitions" are purchases of goods and services used to make input-taxed supplies or acquisitions that are not used for business purposes (for example, goods acquired for private use by an entity). In addition, input tax credits are blocked or reduced for some items of business expenditure.

However, acquisitions related to making financial supplies remain creditable if the entity does not exceed the financial acquisitions threshold. An entity exceeds the financial acquisitions threshold if, in the current month and the preceding 11 months, or in the current month and the next 11 months, the GST on acquisitions related to financial supplies ("financial acquisitions") exceeds, or will exceed, either the lesser of AUD150,000 or 10% of the total input tax credits an entity incurs. In calculating the amount of GST on financial acquisitions, financial acquisitions related to borrowings and importations are excluded. Acquisitions related to borrowings (that are not used to make input-taxed supplies) and importations remain creditable. An entity that exceeds the financial acquisitions threshold may be entitled to reduced input tax credits (at a rate of 75% or 55%) in specific circumstances.

The following lists provide some examples of items of expenditure for which input tax credits are not available (non-creditable acquisitions) and examples of items for which input tax credits are available if the expenditure is related to the enterprise of an entity (creditable acquisitions).

Examples of non-creditable acquisitions

- Acquisitions used for nonbusiness purposes
- Entertainment acquisitions that are ineligible for income tax deductions
- Acquisitions related to input-taxed supplies (however, acquisitions related to making financial supplies that either do not exceed the financial acquisitions threshold, or relate to borrowings not used to make input-taxed supplies, remain creditable)

Examples of creditable acquisitions

- Advertising
- Purchase, lease and hire of a car, van or truck
- Maintenance and fuel for a car, van or truck
- Parking
- Mobile phones (GST may be payable on a recharge of costs to employees)

Partly creditable acquisitions (partial exemption). A creditable acquisition is an acquisition of goods or services used by a registered entity in its business enterprise. However, input tax credits are generally not available for GST included in acquisitions that are used for making input-taxed (exempt) supplies, subject to whether an entity exceeds the financial acquisitions threshold (see *Non-creditable acquisitions*).

In general, the amount of the input tax credit available for a creditable acquisition is the amount of GST payable on the supply. However, the amount of the input tax credit is reduced if the acquisition is only partly creditable. An acquisition is partly creditable if either of the following conditions applies:

- The acquisition is made only partly for a creditable purpose (for example, it partly relates to input-taxed supplies).
- The taxable person provides, or is liable to provide, part of the consideration for the acquisition.

The amount of the input tax credit for a partly creditable acquisition is based both on the extent to which the acquisition is made for a creditable purpose and on the amount of the total consideration that is provided, or liable to be provided, by the taxable person.

The Australian tax authorities require that the extent to which an acquisition is made for a creditable purpose is determined based on the planned use of the acquisition "on a reasonable basis." Direct allocation methods are preferred if possible. However, indirect allocation methods are acceptable if it is not feasible to use a direct method. Examples of common indirect methods include the following:

- A pro rata calculation, based on the cost of acquisitions used to make taxable supplies compared with the total cost of all acquisitions.
- A pro rata calculation, based on the total value of taxable supplies made compared with the total value of all supplies made.

Subsequent input tax credit adjustments may be required in later tax periods, depending on the actual use of the acquisition compared with its expected use.

Refunds. If the amount of input tax credits in a period exceeds the GST payable in the same period, the excess amount is applied against any other outstanding tax debts and any surplus is refunded. Any refunds of GST must be paid into an Australian bank account.

Preregistration costs. Not applicable.

G. Recovery of GST by non-established businesses

Only entities that are registered for GST may claim refunds of GST incurred on Australian acquisitions. In general, entities (including nonresidents) that make acquisitions in Australia for the purposes of their enterprises may register for GST if necessary. However, the nonresident entities electing "limited registration" are unable to recover any GST incurred on Australian acquisitions.

H. Invoicing

Tax invoices and adjustment notes. A registered person must generally provide a tax invoice for all taxable supplies made if requested to do so by the recipient of a supply. A tax invoice is not required for supplies with a GST-inclusive amount of AUD82.50 or less.

A tax invoice is generally necessary to support claims for input tax credits. Those nonresidents making supplies to Australian consumers and have "limited registration" for GST are not required to issue tax invoices.

An adjustment note (or credit or debit note) may be issued to reduce or increase the amount of GST payable on a supply if the amount of GST originally charged is incorrect (for example, as a result of an error or because of an agreed adjustment to the price). The adjustment note should be clearly marked either as an adjustment note or as a tax invoice (provided the amount of any credit is shown as a negative amount), and it must provide detailed particulars of the adjustment made.

Proof of exports. Exports of goods are GST-free. To qualify as GST-free, goods must generally be exported within 60 days. Exports must also be supported by evidence that indicates the goods

have left Australia within the allowable time limit. A supplier must have documents that would enable a person who is independent of the transaction to reasonably conclude that a supply of goods was made and that the supplier exported them within the specified time limits.

Foreign-currency invoices. If a tax invoice or adjustment note is issued in a foreign currency, the GST must be shown in Australian dollars (AUD) or the applicable exchange rate used must be shown. Registered persons may use the exchange rate issued by the Reserve Bank of Australia applicable at 4 p.m. on the day of the invoice or on the previous day, or any other rate that is acceptable to the Australian tax authorities.

Electronic invoicing. The GST law in Australia does not have mandatory rules regarding electronic invoicing. However, electronic invoicing is allowed in Australia. For electronic invoices, recipients need to be able to reproduce the tax invoice when requested by the Commissioner of Taxation in support of any input tax credit claims.

I. GST returns and payment

Business Activity Statement. GST liabilities are reported using a Business Activity Statement (BAS). Registered persons whose annual turnover equals or exceeds AUD20 million must complete a BAS each month, which must be filed electronically, and must pay any net GST liability. Monthly returns and payments are due by the 21st day of the month following the end of the return period.

Registered persons whose annual turnover for GST purposes does not exceed AUD20 million must submit a BAS each quarter or they may opt to submit monthly. These registered persons may also choose to report some information annually. Quarterly returns and payments are generally due by the 28th day of the month following the end of the relevant return period, but may be made by 28 February for the December quarter.

Registered persons whose turnover for GST purposes does not exceed AUD2 million may opt to file an annual BAS and pay GST in quarterly installments.

Persons whose turnover for GST purposes does not exceed AUD75,000 and who voluntarily opt to register for GST, may apply to file annual BASs and pay GST annually.

Entities that register for a "limited" registration must submit a BAS each quarter but will not have the ability to claim any input tax credits on the BAS. Therefore these returns only include GST liabilities.

GST liabilities must be paid in Australian dollars.

Special schemes. Not applicable.

Electronic filing. Registered persons whose annual turnover equals or exceeds AUD20 million must file their BAS electronically.

Annual returns. See *Business Activity Statement* above.

J. Penalties

A late lodgment penalty may be imposed for the late filing of a BAS. The penalty applies for each 28-day period, or part thereof, that the BAS remains overdue, up to a maximum of five periods. From 1 July 2017, the amount of the penalty is one penalty unit for each period (a penalty unit is currently AUD210) for every 28 days (or part thereof) that the BAS is late, up to a maximum of five (5) penalty units. But this may be increased depending on the size of the entity's business. For "significant global entities" (e.g., an entity or consolidated group with annual global turnover equal to or greater than AUD1 billion), failure to lodge penalties are increased by a factor of up to 500 (i.e., for BASs lodged more than 112 days after the due date, the penalty

is AUD525,000) General interest charges may be imposed on late payments of GST. The rate changes quarterly. It is around the range of 8% to 11% per year, compounded daily.

The Australian Government also announced its intention to consult on measures that would make directors personally liable for GST debts of a company they manage. At the time of preparing this chapter GST is not one of the taxes covered by the Director Penalty provisions that impose personal liability on directors. If implemented, the proposed measures would expand the Director Penalty provisions to include GST within their scope. It is likely that personal liability for unpaid GST would operate in a similar way to current Director Penalty Notices in affect.

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A. At a glance

Name of the tax	Value-added tax (VAT)
Local name	Umsatzsteuer
Date introduced	1 January 1973
Trading bloc membership	European Union (EU) Member State
Administered by	The Federal Ministry of Finance (http://www.bmf.gv.at)
VAT rates	
Standard	19%, 20%
Reduced	10%, 13%
Other	Exempt and exempt with credit
VAT identification number format	ATU 1 2 3 4 5 6 7 8
Tax number format	1 2 3 / 4 5 6 7
VAT return periods	Monthly (turnover in preceding year in excess of EUR100,000) Quarterly (turnover in preceding year below EUR100,000) Annually (all businesses)
Thresholds	
Registration	EUR30,000 (entities established in Austria) Nil (entities established outside Austria)
Distance selling	EUR35,000
Intra-Community acquisitions	EUR11,000 (acquirers that do not deduct input tax)
Recovery of VAT by non-established businesses	Yes

B. Scope of the tax

VAT applies to the following transactions:

- The supply of goods or services made in Austria by a taxable person
- The intra-Community acquisition of goods from another European Union (EU) Member State by a taxable person (see the chapter on the EU)
- Reverse-charge services received by a taxable person in Austria (that is, services for which the VAT liability shifts to the recipient of the service)

- Self supplies of goods and services used for nonbusiness purposes and supplies of goods without consideration
- The importation of goods from outside the EU, regardless of the status of the importer

C. Who is liable

A taxable person is any entity or individual that makes taxable supplies of goods or services, intra-Community acquisitions or distance sales, in the course of a business, in Austria.

Special rules apply to VAT registration for foreign (or non-established) taxable persons.

Exemption from registration. If a business that is established in Austria has annual turnover of EUR30,000 or less and does not have to pay VAT for the calendar year, it does not need to register for a tax number or file a VAT return.

Exempt supplies by small businesses. If an Austrian taxable person's annual turnover is not more than EUR30,000, its supplies are exempt from VAT (with no input tax credit; see Section F). However, a taxable person with an annual turnover of less than EUR30,000 may opt to charge VAT on its supplies and recover input tax on its purchases.

Group registration. In Austria, group registration may be granted to entities that are closely bound by financial, economic and organizational ties. A group consists of a controlling entity and one or more entities that it controls. The controlling entity may be any taxable person, but the controlled entities must all be corporate bodies. A controlled entity may also be a partnership where all partners, besides the controlling entity, are financially integrated into the controlling entity if the remaining conditions for VAT grouping are fulfilled. The effects of VAT grouping are restricted to the parts of the business that are located in Austria.

To form or join a VAT group, the group members must satisfy the following conditions:
- Financial integration: the controlling group member must own at least 75% of the shares of the controlled companies. If the share ownership is between 50% and 75%, the companies may be considered to satisfy the financial integration test if the other conditions are strongly met.
- Economic integration: the controlled company's activities support or complement the activities of the controlling entity, and they have a continuous business relationship.
- Organizational integration: the management of the controlled company is fully dependent on the will of the controlling company.

All controlled entities that fulfill the above criteria must be included in the VAT group.

The effect of group registration is to treat the members as a single taxable person. Only the controlling entity is registered at the VAT office. The group submits a single VAT return including all the members' taxable transactions. Transactions between the controlling entity and a controlled company are treated as transactions within a single legal entity and, consequently, they are not taxable.

Non-established businesses. A "non-established business" is a business that does not have a fixed establishment in Austria. No VAT registration threshold applies to taxable supplies made in Austria by a foreign or non-established business.

A non-established business must register for VAT in Austria if it makes any of the following supplies:
- Supplies of goods located in Austria at the time of supply
- Intra-Community acquisitions (see the chapter on the EU)
- Distance sales in excess of the threshold (EUR35,000)
- Supplies of services that are not covered by the reverse charge (for example, services supplied to private persons)

If the customer is a taxable person (regardless of where it is established) or a public body, it is required to withhold the Austrian VAT due on the supply. The customer must pay the withheld VAT on behalf of the supplier to the supplier's tax account at the tax office at Graz-Stadt. If the customer does not comply with this requirement, the customer may be held liable for the VAT due on the supply.

A non-established business is not required to register for VAT if all its supplies in Austria fall under the reverse-charge system (under which the customer accounts for the VAT due). If the reverse charge applies to supplies made by a non-established business, the business may recover VAT incurred in Austria under the EU 13th Directive or Directive 2008/9 refund provisions (see Section G), provided the business does not receive services in Austria that are subject to the reverse-charge system.

Supplies and import VAT refunds for non-established businesses in chain transactions. Under Prescript 2003/584 for chain transactions, the supply of goods to the last customer in Austria made by a non-established business is exempt from VAT.

If goods come from a non-EU Member State to Austria in the course of a chain transaction and if the last party in the chain owes the VAT payable on their importation, it is the last party who is entitled to deduct the import VAT and not the person that disposed of the goods at the time of import. This mechanism applies if the following conditions are met:

- The supply to the last party in the chain is made by a non-established business that is not registered for VAT purposes in Austria.
- The final customer has the right to deduct the full amount of input VAT.
- No VAT is shown on the invoice.

Any input VAT in connection with this type of supply is not deductible. In addition, no more than three parties may be involved in the chain transaction.

Reverse charge. The reverse-charge system applies to all supplies of services, except for road tolls and entrance fees for trade fairs, conventions and seminars in Austria that are organized by non-Austrian companies. It also applies to "work performance contracts" undertaken by a supplier neither operating its business in Austria nor having a fixed establishment in Austria that intervenes in the supply. Under the reverse-charge mechanism, the recipient of a supply is liable for the VAT due.

Supplies of services are all taxable transactions that are not supplies of goods. For purposes of the reverse-charge system, "work performance contracts" are supplies involving the installation of goods that are fixed to the customer's premises. The reverse-charge system also applies in the circumstances mentioned above if the customer is a non-established business (that is, the Austrian VAT liability may also shift from a non-established supplier to a non-established customer).

If a foreign business exclusively makes supplies in Austria subject to the reverse charge and does not receive services subject to the reverse charge, it may not register for VAT. In these circumstances, Austrian input VAT may only be claimed through the EU 13th Directive or Directive 2008/9 VAT refund schemes (see Section G). The input VAT must be reclaimed within six (nine) months (that is, by 30 June [30 September]) after the end of the calendar year in which the input VAT is incurred.

If the reverse-charge mechanism applies, invoices must be issued without VAT. The invoice must include a reference to the applicable reverse charge and the VAT identification numbers of the supplier and the customer.

Domestic reverse charge. A domestic reverse-charge mechanism applies in the following cases:

- If construction or building work is performed by a subcontractor to a general contractor, the liability to pay the VAT shifts from the supplier (subcontractor) to the customer (general contractor). To determine whether to apply the reverse-charge mechanism, the customer must provide

the supplier with a written notification that the VAT liability in such case will shift to the recipient of the construction service. If the construction work is performed for a building contractor or another business that typically performs construction or building works the VAT liability shifts automatically to the customer, without any notification.
- The domestic reverse charge for construction or building works also applies to charges for building cleaning services if the services are performed for a building contractor or other business that typically performs construction or building works or if the building cleaning services are performed by a subcontractor for a general contractor.
- The reverse charge applies to the supply of goods provided as security by one taxable person to another in execution of that security, the supply of goods following the cession of the reservation of ownership to an assignee and the exercise of this right by the assignee and the supply of immovable property in the course of the judicial sale.
- The reverse charge applies to supplies of used material, used material that cannot be reused in the same state, scrap, industrial and nonindustrial waste, recyclable waste, part processed waste and certain goods and services, as listed in Annex VI of Directive 2006/112/EC.
- The reverse charge applies to supplies of greenhouse-gas-emission certificates.
- The reverse charge applies to the supply of mobile radio units (for example, mobile phones) and integrated circuits, provided that the net consideration is at least EUR5,000. For purposes of this rule, the amount per invoice is decisive. The liability to pay VAT also shifts to the recipient if the supplier is an Austrian business. To avoid problems in defining relevant products, the definition of "mobile radio units" and "integrated circuits" is in accordance with the combined nomenclature of the customs tariff.

The reverse charge furthermore applies for:
- Supplies of video game consoles, laptops and tablet computers, where the amount of consideration shown on the invoice is at least EUR5,000
- Supplies of gas and electrical power to entrepreneurs whose primary business regarding the procurement of these items relates to the resale thereof and whose own use of these items is of secondary importance
- Transfer of gas and electricity certificates
- Certain supplies of metal
- Taxable supplies of investment gold

Tax representatives. A business established in a country outside the EU must appoint a tax representative to register for VAT in Austria, unless the customer is required to withhold Austrian VAT on the supplier's behalf. The tax representative must be resident in Austria.

A business established in another EU Member State is not required to appoint a tax representative in order to register for VAT.

For non-EU businesses, the Austrian tax authorities require a postal address in Austria to which correspondence may be sent. For EU businesses, it is not mandatory but it is recommended that an Austrian postal address be provided.

Registration procedures. Resident companies must complete the following documents and have them signed by the managing directors of the respective entity:
- Questionnaire
- Specimen signature document
- Power of attorney

The forms must in general be filled out in German; however, the questionnaire is available in English. In addition, the following documents are required:
- Excerpt from the register of companies
- Copy of the articles of association
- Opening balance sheet

- Proof that the business will make supplies or is doing so already, such as copies outgoing invoices
- Copy of each managing director's passport

All documents have to be filed with the competent tax office where the company is resident via regular mail. It generally takes from four to six weeks until the registration is completed by the Austrian tax authorities.

In order to register a foreign company without a seat or permanent establishment in Austria, the following documents have to be completed and signed by the managing directors of the respective entity:
- Questionnaire
- Specimen signature document
- Power of attorney

The forms must in general be filled out in German (the questionnaire is also available in English) and filed with the Finanzamt Graz-Stadt via regular mail together with the following:
- Excerpt from the register of companies
- Copy of the articles of association
- Confirmation by the local tax authorities that the company is registered for tax purposes in their country, in original and not older than one year

This process also takes approximately four to six weeks for the tax authorities to complete.

Late-registration penalties. Usually there is no special penalty for late VAT registration, but the penalties listed in Section J can be imposed. Furthermore, if the tax authorities notice that VAT was not declared and paid due to a non-registration, it could lead to fiscal criminal proceedings.

Digital economy. Apart from the Mini One-Stop Shop scheme, the general rules for supplies apply to digital supplies as well.

Mini One-Stop Shop. The regulations relating to the Mini One-Stop Shop (MOSS) cover telecommunication services, radio and television broadcasting services as well as electronically supplied services provided by taxable businesses to nontaxable persons.

All of these services are taxed at the place where the nontaxable person is established. The purpose is to reduce administrative burdens for taxable businesses that are operating in a number of different Member States resulting in various VAT obligations. Taxable businesses have to submit a single VAT return with regard to the mentioned services even though these are provided in different Member States. Nil returns have to be submitted.

As of 1 January 2019, the place of services provided by micro-businesses to EU nonbusiness entities (the total amount of the fees for these services does not exceed EUR10,000 in the past calendar year and has not yet exceeded this amount in the current calendar year), is the place where the service provider is established (under certain conditions).

The registration for MOSS has to be submitted via the respective online portal of the Austrian Federal Ministry of Finance.

Quarterly VAT returns and payment have to be submitted electronically in the country in which MOSS is applied by the 20th day following the end of the quarter. These VAT returns have to include the following:
- VAT ID number, provided for the mentioned services by the tax authorities
- Sum of the net amounts and the VAT amounts for the mentioned services for each Member State itemized by the applicable tax rate
- Total VAT amount payable

The revenues have to be recorded separately for each Member State. These records have to be kept for 10 years.

Businesses can decide to stop applying MOSS any time effective with the beginning of a new quarter. This decision has to be submitted to the tax authorities at least 15 days before the end of the previous quarter.

Deregistration. With regards to deregistration, no specific form has to be submitted to the Austrian tax authorities. A general application for deregistration can be sent to the Austrian tax authorities anytime during the year. However, all transactions have to be settled and all VAT returns have to be filed in order to proceed with the deregistration process. Basically, the annual VAT return should comprise the entire year, but as soon as all transactions are settled, the annual VAT return can be submitted earlier. Usually a tax clearance certification (issued by the tax authorities) is required. It is possible that a tax audit will be performed before issuing this certificate.

Voluntary registration. If a business that is established in Austria has an annual turnover of EUR30,000 or less and does not have to pay VAT for the calendar year, it does not need to register for a tax number or file a VAT return. However, voluntary registration (and opting for VAT, if applicable) is possible. The turnover of EUR30,000 represents the actual turnover of the respective current year and that no VAT needs to be paid in the current year.

For foreign companies, there is no registration threshold for VAT in Austria. If a foreign business makes no supplies or exclusively makes supplies in Austria subject to the reverse charge and does not receive services subject to the reverse charge, it may not register for VAT. In these circumstances, Austrian input VAT may only be claimed through the EU 13th Directive (for non-EU businesses) or Directive 2008/9 (for EU businesses) VAT refund schemes (see Section G). The input VAT must be reclaimed within six months for non-EU businesses (by 30 June) and nine months for EU businesses (by 30 September) after the end of the calendar year in which the input VAT is incurred.

D. VAT rates

The term "taxable supplies" refers to supplies of goods and services that are liable to a rate of VAT.

In Austria, the VAT rate depends on where the supply is made. In the regions of Jungholz and Mittelberg, the standard rate is 19%. In the rest of Austria, the standard rate is 20%. Reduced rates of 10% and 13% also apply. The standard VAT rate applies to all supplies of goods or services, unless a specific provision allows a reduced rate or exemption.

Examples of goods and services taxable at 10%

- Most foodstuffs
- Books
- Hotel accommodation (as of 1 November 2018; before that date such supplies were taxable at 13%)
- Restaurant meals
- Passenger transport
- Residential apartment rental
- Supplies made by private hospitals and charitable organizations
- Pharmaceuticals

Examples of goods and services taxable at 13%

- Entrance fees for sport events
- Entrance fees for cultural events

- Hotel accommodation (as of 1 April 2016; before that date, 10%. Further, services performed before 31 December 2017 that were booked and paid before 31 August 2015 are still subject to the reduced VAT rate of 10%.)
- Domestic flights
- Animal feed
- Seeds
- Supplies made by artists
- Certain wine sales made by the producer

The term "exempt supplies" is used for supplies of goods and services that are within the scope of VAT, but that are not liable to tax (see Section F). Exempt supplies do not give rise to a right of input tax deduction on related expenditure. Some supplies are classified as "exempt with credit." This means that no VAT is chargeable, but the supplier may recover related input tax. Exempt with credit supplies include exports of goods and related services to non-EU countries as well as intra-Community supplies of goods and related services to taxable persons established in the EU (see the chapter on the EU).

Examples of exempt supplies of goods and services

- Supplies by businesses with annual turnover of less than EUR30,000
- Certain postal services provided by universal postal services suppliers
- Most finance services
- Insurance
- Sales and rental of immovable property for commercial uses with some exceptions (The landlord may opt for taxation of the rent, with the restriction that the tenant must provide services that are eligible for the input VAT deduction. This restriction is only applicable on tenancies beginning on or after 1 September 2012. If the landlord constructed the building prior to 1 September 2012 or if construction by a providing entrepreneur started prior to 1 September 2012, the restriction is not applicable.)
- Medical services

Option to tax for exempt supplies. It is permitted to opt for regular taxation for some exempt supplies, such as the sale of immovable property, certain rentals of immovable property for commercial use (see also Section D), certain services in relation to the credit card business, and interest relating to installment purchases by small businesses.

E. Time of supply

The time when VAT becomes due is called the "time of supply" or "tax point." In general, the "time of supply" is the end of the calendar month in which goods are supplied or a service is performed. The time of supply may be postponed by one month by issuing the invoice for the supply after the end of the month in which the supply took place. Under Article 44 of EU Directive 2006/112 (general business-to-business rule), this postponement does not apply to services subject to reverse charge. Reverse-charge invoices under Article 196 of the EU Directive must be issued within 15 days of the month following the supply.

Prepayments. The time of supply for a deposit or prepayment is the end of the calendar month in which the prepayment is received.

Goods sent on approval or for sale or return. The time of supply for goods sent on approval or for sale or return is the date on which the customer adopts the goods. If the goods are sent on sale or return terms, the time of supply is the date on which the goods are sent. If the goods are returned, the supply is cancelled.

Intra-Community acquisitions. For intra-Community acquisitions of goods, the time of supply is the date on which the invoice is issued, or at the latest, the 15th day of the month following the

arrival of the goods. Invoices for the intra-Community supply of goods must be issued within 15 days of the month following the supply.

Imported goods. The time of supply for imported goods is either the date of importation, or when the goods leave a duty suspension regime.

Cash accounting. Austria operates a cash accounting scheme with a maximum threshold of EUR2 million. The threshold is not applicable for certain public utility companies. If the threshold is not exceeded, input VAT can only be deducted if the payment was made (in addition to a correct invoice). In cases in which the VAT is paid with a transfer of funds from one tax account to another tax account, the payment of the invoice amount is not required for input VAT deduction provided the business' revenues do not exceed EUR2 million.

Activities of free professions and activities of professionally recognized corporations and legally recognized associations that supply services typical of the free professions, and other businesses without bookkeeping obligations or transactions below a certain threshold, must account for VAT on the basis of the consideration received. Upon application, the local tax office may grant permission that the taxation is affected on the basis of the Sollbesteuerung. If the free professions account for VAT on the basis of the consideration received, they must do so in respect of all supplies affected by them, even if the particular supply is not related to the activity typical of the free profession (Hilfsgeschäfte).

Reverse-charge services. See *Reverse charge* in Section C.

Continuous supplies of services. In specific cases it is possible to determine the tax point according to the payments or invoices issued.

Intra-Community supplies. The time of supply for intra-Community supplies is the end of the calendar month in which goods are supplied or services performed. The time of supply may be postponed by one month by issuing the invoice for the supply after the end of the month in which the supply took place. However, invoices must be issued by the 15th day of the month following the supply.

Leased assets. General rules apply.

F. Recovery of VAT by taxable persons

A taxable person may recover input tax, which is VAT charged on goods and services supplied to it for business purposes. Input tax is generally recovered by being deducted from output tax, which is VAT charged on supplies made.

Input tax includes VAT charged on goods and services supplied within Austria, VAT paid on imports of goods and VAT self-assessed on intra-Community acquisitions of goods and reverse-charge services (see the chapter on the EU).

A valid VAT invoice or customs document is required for an input VAT deduction.

Nondeductible input tax. Input tax may not be recovered on purchases of goods and services that are not used for business purposes (for example, goods acquired for private use by entrepreneurs). In Austria, input VAT may be claimed in full for business assets that are used primarily for private purposes (minimum 10% business use), but the taxable person must account for output tax with respect to the private use of the assets. In addition, input tax may not be recovered for some items of business expenditure.

The following lists provide some examples of items of expenditure for which input tax is not deductible and examples of items for which input tax is deductible.

Examples of items for which input tax is nondeductible

- Expenditure on the purchase, lease, hire or maintenance of cars (except certain cars used for business purposes without CO_2 emission)
- Fuel expenses for a car (except certain cars used for business purposes without CO_2 emission)
- Private expenditure
- Business gifts disallowed for direct tax purposes
- Parking expenses for a car (except certain cars used for business purposes without CO_2 emission)

Examples of items for which input tax is deductible

- Accommodation
- Mobile phone costs
- Books
- Small business gifts, if allowed for direct tax purposes (but gifts are subject to output VAT if they exceed a value of EUR40)
- Purchase, lease, hire, maintenance and fuel for vans and trucks and certain cars used for business purposes without CO_2 emission
- Entertainment of business partners (restaurant expenses), if predominantly for marketing purposes
- Taxis
- Business travel

Partial exemption. Input tax directly related to the making of exempt supplies without credit is not recoverable. If an Austrian taxable person makes both exempt supplies without credit and taxable supplies it may not recover input tax in full. This situation is referred to as "partial exemption."

The general partial exemption calculation is performed in the following two stages:

- The first stage identifies the input VAT that may be directly allocated to exempt and to taxable supplies. Supplies that are exempt with credit are treated as taxable supplies for these purposes. Input tax directly allocated to exempt supplies without credit is not deductible, while input tax directly allocated to taxable supplies is deductible.
- The second stage prorates the remaining input tax that relates to both taxable and exempt supplies without credit and cannot be directly allocated, in order to allocate a portion to taxable supplies. For example, this treatment applies to the input tax related to general business overhead. In Austria, the pro rata calculation is based on the value of taxable supplies compared to the total value of supplies made. The pro rata recovery percentage is normally taken to two decimal places.

An alternative method is a simple pro rata calculation. A partially exempt taxable person may choose to use the pro rata method alone, provided it does not result in the recovery of an amount of input tax more than 5% higher than would be recoverable under the direct allocation method.

Capital goods. Capital goods are items of capital expenditure that are used in a business over several years. Input tax is deducted in the VAT year in which the goods are acquired. The amount of input tax recovered depends on the taxable person's partial exemption recovery position in the VAT year of acquisition. However, the amount of input tax recovered for capital goods must be adjusted over time if the taxable person's partial exemption recovery percentage changes during the adjustment period.

In Austria, the capital goods adjustment applies to the following assets for the number of years indicated, if the amount by which input VAT would be corrected exceeds EUR60 per annum and per asset:

- Land, buildings and additions to buildings, basic alterations and major repairs to buildings (adjustment period of 10 years)

- Immovable property used in capital assets for first time after 31 March 2012 (adjustment period of 20 years)
- Other fixed assets (adjustment period of five years)

The adjustment is applied each year following the acquisition, to a fraction of the total input tax (1/10 or 1/20, respectively, for land and buildings and 1/5 for other movable capital assets). The adjustment may result in either an increase or a decrease of deductible input VAT, depending on whether the ratio of taxable supplies made by the business has increased or decreased compared with the year in which the capital goods were acquired.

In Austria, the capital goods scheme also applies to current assets and services if the criteria for deducting input VAT changes. For example, the type of business carried on changes from fully taxable to exempt.

Refunds. If the amount of input tax recoverable in a monthly period exceeds the amount of output tax payable in that period, the taxable person has an input tax credit. The credit may be claimed as a refund by submitting the periodic VAT return and by sending a repayment claim letter (or filing a repayment claim via the electronic filing system) to the relevant tax office.

Preregistration costs. VAT invoiced for preregistration supplies can be deducted when the costs directly relate to subsequent taxable business activities.

Write-off of bad debts. If a customer is unable to pay a supplier for supplies on which the supplier has paid VAT, the supplier can claim bad debt relief, but the supplier must have exhausted all customary procedures for collecting the debt.

Noneconomic activities. Input VAT deduction is only allowed for purchases relating to business activities. In cases where both business and nonbusiness activities are performed, the input VAT has to be allocated, directly or via a pro rata rate, resulting in a calculation of what is deductible and what is nondeductible. Also, see introduction to Section F above and examples of deductible and nondeductible supplies.

G. Recovery of VAT by non-established businesses

Austria refunds VAT incurred by businesses that are neither established in Austria nor registered for VAT there. Non-established businesses may claim Austrian VAT refunds to the same extent as VAT-registered businesses.

For businesses established in the EU, refunds are made under the terms of EU Directive 2008/9. For businesses established outside the EU, refunds are made under the terms of the EU 13th Directive. Austria does not exclude any non-EU country from the refund scheme.

The VAT refund procedure under the EU 13th VAT Directive and under EU Directive 2008/9 may be used only if the business did not perform any taxable supplies in Austria during the refund period (excluding supplies covered by the reverse charge; see Section C).

Refund application. The deadline for non-EU claimants is 30 June of the year following the year in which the input VAT was incurred. The deadline for EU claimants is 30 September of the year following the year in which the input VAT was incurred. These deadlines may not be waived or extended.

Non-EU claimants. Claims must be submitted in German and must be accompanied by the appropriate documentation.

A non-EU company claimant must submit the following documents:
- The official form issued by the Austrian authorities (U5). The relevant invoices must be listed on the reverse of the form. Photocopied forms are accepted, provided the signature is original.
- The original invoices, which must be attached to the claim form.

- If the claimant appoints a fiscal representative, an original Power of Attorney appointing the representative.
- A certificate of the taxable status of the business, which must be obtained from the competent tax authority in the country in which the business is established.

The appointment of a fiscal representative in Austria for a VAT refund claim is not required. However, claimants from non-EU countries must provide an address in Austria to which the Austrian tax authorities may send correspondence.

The minimum claim period is three months. The maximum period is one year. The minimum claim for a period of less than a year is EUR400. For an annual claim, the minimum amount is EUR50.

Applications for refunds of Austrian VAT may be sent to the following address:

Finanzamt Graz-Stadt
Referat fuer auslaendische Unternehmer
Conrad-von-Hoetzendorfstr. 14-18
A-8010 Graz
Austria

EU claimants. EU claimants must file the refund application electronically in the EU Member State in which they are seated. The deadline for annual applications is 30 September of the following year.

EU claimants are not required to enclose any invoices or a certificate of the taxable status with the application. However, the Austrian tax authority may demand additional information, such as original ingoing invoices, in the course of the refund procedure.

The minimum claim period is three months and the maximum claim period is one year. The minimum claim amount for a claim for a period of less than one year is EUR400, while the minimum claim amount for an annual claim is EUR50.

For the general VAT refund rules applicable to non-established businesses, see the chapter on the EU.

H. Invoicing

VAT invoices and credit notes. An Austrian taxable person must generally provide a VAT invoice for all taxable supplies, including exports and intra-Community supplies. VAT invoices are not automatically required for retail transactions with private customers, unless requested by the customer.

Taxable businesses (specific exemptions can apply) are generally required to issue receipts to all customers for cash transactions at the time of the payment. The term "cash transactions" includes payments in cash, by bank cards, credit cards, debit cards, comparable electronic payments (e.g., payments via mobile phone), vouchers, tokens, etc. This obligation exists regardless of the turnover and is equally applicable to VAT exempt supplies.

Furthermore, an electronic cash register is mandatory for "business operations" (according to Austrian Income Tax Law) with a net annual turnover of EUR15,000 if their "cash transactions" exceed EUR7,500. The cash register has to be protected against manipulation by a tamperproof technical security device with electronic signature creation.

The threshold that applies for issuing a less detailed tax invoice is EUR400.

A VAT invoice is necessary for input VAT deduction or a refund under the EU 13th Directive or Directive 2008/9 refund schemes (see the chapter on the EU).

A VAT credit note may be used to cancel or amend a previous VAT invoice. A credit note must be cross-referenced to the original VAT invoice and must indicate why the original invoice needs correction.

Credit notes issued by self-billing recipients of a supply have to explicitly refer to the status of a self-billing invoice (e.g., "Gutschrift") on the invoicing document.

Proof of exports and intra-Community supplies. Austrian VAT is not chargeable on supplies of exported goods or on the intra-Community supply of goods (see the chapter on the EU). However, to qualify as VAT-free, exports and intra-Community supplies must be supported by evidence proving that the goods have left Austria. Acceptable proof includes the following documentation:

- For an export, the export document, officially validated by customs, showing the supplier as the exporter, freight documents, or the export advice according to Article 796e of the Commission Regulation 1875/2006 is required.
- For an intra-Community supply, a range of commercial documentation is needed, including an invoice indicating the supplier's and customer's EU VAT identification numbers and a statement that the transaction is an intra-Community supply that is exempt from VAT and freight documents (for example, proof of receipt of the goods by the customer). If the customer picks up the goods at the place of the supplier with the customer's own means of transport, additional documentation is required (for example, proof of identity of the person collecting the goods, power of attorney signed by the customer that this person is entitled to collect the goods and the original signed confirmation of the customer that the goods will be transported to another EU Member State).

In Austria, the supplier must maintain records of all transactions, including full details as to why a VAT exemption applies (for example, because the supply is an export or an intra-Community supply).

Electronic invoicing. In line with EU Directive 2010/45/EU, electronic invoices that are received in electronic format are valid for the deduction of input VAT, even without an electronic signature. The authenticity of the original electronic invoice, the intactness of its content and its readability must be ensured from the time of issue until the end of the applicable archiving period. Businesses can decide individually how to ensure the authenticity of the original invoice, the intactness of its content and the readability of the content, provided that a reliable audit trail between the invoice and the service is established.

Cross-border invoices. The obligation to issue an invoice is governed by the law of the country of the respective place of supply. The obligations of the home country have to be applied in cases in which a domestic service provider renders services with a place of supply in another EU state and the VAT liability for these services shifts to the recipient, unless the service provider invoices via credit notes. The same will apply for invoices of the intermediate supplier in intra-Community triangular transactions. Conversely, traders from another EU Member State who render reverse-charge services in Austria or perform triangular transactions must observe the financial reporting provisions from their home country. Domestic VAT invoicing rules will also apply for services provided by domestic traders with place of supply in a non-EU country.

Foreign-currency invoices. If a VAT invoice is issued in a foreign currency, the foreign currency used must be clearly indicated. All VAT and customs duty amounts must be converted to euros (EUR), either by using the current exchange rate (proof from the bank required) or the exchange rates issued monthly by the Austrian Ministry of Finance. If an invoice is issued in a foreign currency, the tax amount must be additionally stated in euros. In addition to the average rate published on the Austrian Ministry of Finance homepage, the most recent exchange rate published by the ECB can alternatively be used or the exchange rate proven using bank notifications or a stock exchange list. The same exchange rates apply to the deduction of input VAT by the recipient.

B2C. Specific rules apply to the place of supply for supplies of telecommunications, broadcasting and electronic services to non-VAT taxable customers. For further details of the VAT rules on electronic services in the EU, please refer to the European Union chapter.

I. VAT returns and payment

VAT returns. Austrian VAT returns are submitted monthly if taxable turnover exceeded EUR100,000 in the preceding year. If a business begins operations, it must submit monthly returns if its turnover will exceed EUR100,000 in the first year. If turnover is less than EUR100,000, VAT returns may be submitted quarterly. In addition, all taxable persons must submit an annual VAT return.

Monthly VAT returns must be submitted and full payment of the VAT due must be made by the 15th day of the second month following the return period. If this day is a Saturday, Sunday or public holiday, the due date shifts automatically to the next working day. If the taxable turnover in the preceding calendar year was less than EUR30,000 and if the payment is made on time, the VAT return form itself does not need to be submitted, unless the VAT authorities demand it. However, the monthly VAT return form must be submitted if a company that is in a repayment position wants to claim the repayment.

Quarterly VAT returns and full payment of the VAT due must be submitted by the 15th day (the next working day if this day is a Saturday, Sunday or public holiday) of the second month following the end of the VAT return period.

VAT returns and EU Sales Lists (see Section K) must be filed electronically, if the taxable person has the necessary technical means available to do so.

Special schemes. Not applicable.

Electronic filing and archiving. VAT returns have to be filed electronically via FinanzOnline (the online portal of the Austrian tax authorities). Companies can either apply for access codes to FinanzOnline to submit the VAT returns themselves or assign a tax representative in Austria to submit returns on their behalf.

Records can be stored on electronic devices if the complete, chronological, identical and true reproduction is guaranteed at any time. The Austrian tax authorities may request that supporting devices in order to make such electronically stored records readable are provided and that a permanent reproduction that is readable without a supporting device is provided. Such permanent reproductions shall be provided on electronic devices. The records have to be stored seven years or longer if they are relevant for pending proceedings regarding tax. Longer periods apply for real estate.

Records may be stored outside Austria. Taxable persons are, however, required to be able to produce any records the Austrian Tax Authorities require in a readable form, and within a reasonable period of time, at a mutually agreed place.

Annual returns. In Austria, it is required to submit an annual VAT return in addition to the monthly VAT returns. The due date for submission of the annual VAT return is generally 30 June of the following year if the annual return is filed electronically. This due date may be postponed if the business is represented by a tax representative. However, the tax authorities can request submission at any time after 30 June of the following year.

J. Penalties

A penalty equal to 2% of the VAT due applies to the late payment of VAT. If the VAT payment has not been made three months after the due date, an additional second penalty is assessed, equal to 1% of the VAT due. If the amount remains unpaid three months after the date that the second penalty was imposed, a third penalty is assessed, equal to 1% of the VAT due.

At the discretion of the VAT authorities, they may impose a penalty of up to 10% of the VAT due for the late submission of a VAT return.

If a taxable person continually fails to pay VAT, the VAT authorities may consider the late payment to be tax fraud, which is subject to much greater penalties.

The VAT law allows the VAT authorities to impose a penalty of EUR5,000 if the deadline for VAT registration is intentionally not observed. Further fiscal criminal law consequences need to be checked on a case-to-case basis.

In case of noncompliance with the obligations to issue receipts and/or to have a cash register, a business could expose itself to fiscal criminal investigations, which could lead to pecuniary penalties or financial criminal proceedings.

K. EU filings

An Austrian taxable person that trades with other EU countries must complete statistical reports, known as Intrastat, if the value of its intra-Community sales or purchases exceeds certain thresholds. Separate reports are required for intra-Community acquisitions (Intrastat Arrivals) and intra-Community supplies (Intrastat Dispatches).

Distance sellers registered for VAT purposes in Austria selling goods to customers in Austria have to file Intrastat Arrival returns if the respective threshold is exceeded.

The threshold for submitting Intrastat statistical reports for 2018 is EUR750,000 in annual value of intra-Community supplies or acquisitions.

Intrastat returns may be filed on paper or electronically. The returns must be completed in euros. The Intrastat return period is monthly after the threshold has been exceeded (that is, it is also necessary to file nil returns). The submission deadline is the 10th business day of the month following the return period.

Penalties may be incurred if Intrastat declarations are persistently late, missing or inaccurate.

EU Sales Lists. Under Article 44 of EU Directive 2006/112 (general business-to-business rule), if an Austrian taxable person makes intra-Community supplies of goods or performs intra-Community services for which the place of supply is located in another EU Member State, it must submit an EU Sales List (ESL) to the Austrian VAT authorities. An ESL is not required for any period in which intra-Community supplies are not made.

For businesses submitting VAT returns quarterly, ESLs are submitted monthly or quarterly. The due date is the last day of the month following the end of the ESL period.

Late submissions of ESLs may lead to a penalty of up to 1% of the amount of intra-Community supplies, determined at the discretion of the tax authorities. However, the penalty may not exceed EUR2,200 per ESL.

The failure to submit ESLs may be considered an offense against the law and may lead to a penalty of up to EUR5,000.

Azerbaijan

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A. At a glance

Name of the tax	Value-added tax (VAT)
Local name	Ə lavə Dəyər Vergisi (DV)
Date introduced	1 January 1992
Trading bloc membership	None
Administered by	Ministry of Taxes (http://www.taxes.gov.az)
Rates	
Standard	18%
Others	0% and exempt
Number format	Tax identification number (TIN) with 10 digits
Return period	Monthly
Thresholds	
Registration	Taxable turnover exceeding Manats (AZN) 200,000 for a period of 12 consecutive months
Recovery of VAT by non-established businesses	No

B. Scope of the tax

VAT applies to the following transactions:
- The supply of goods, works and services performed in Azerbaijan
- The importation of goods

Goods. The transfer of goods is deemed to occur at the place where they are made available. If the conditions for the supply involve lifting and transporting the goods, the transfer is deemed to occur where the lifting or transportation of the goods begins. However, if the supplier is to install the goods, the transfer is considered to occur at the place where the goods are installed.

Works and services. The following are the rules for determining the place where works are performed or services are rendered:
- The place where immovable property is located if the works (services) are directly connected with that property, such as construction, construction and assembly, repair, reconstruction works, agency and expert services with respect to real property, and similar works (services)

- The place where works (services) are actually rendered if they are connected with movable property
- The place where services are actually rendered if they are rendered in the areas of culture, arts, physical fitness or sports, or in similar areas
- The place where the transportation occurs if the works (services) are connected with such transportation
- The place where the purchaser of works or services is located or registered, established, or, if the services are directly associated with the permanent establishment of the purchaser, where the permanent establishment is located

The place of location, registration or establishment of the recipient of the following services:

- Transfer or assignment of patents, licenses, trademarks, copyrights and other similar rights
- Rendering of consulting, legal, accounting, engineering, advertisement, data processing and other similar services
- Services involving the providing of personnel
- Rental of movable property (except for vehicles belonging to transportation enterprises)
- Services rendered by an agent engaging a person to provide taxable services on behalf of a principal
- Provision of telecommunication services (receipt, distribution, transmission of signals, documents, pictures, sounds or any type of information through telegraph, radio, optical or other electromagnetic systems, including granting or acquisition of such transmission, receipt or distribution rights)
- Radio and television broadcasting, and provision of postal services
- Provision of services through computers, the internet and other electronic networks, email and other similar applications, or granting rights for the use of such networks or services;
- Provision of works and services by vendors (suppliers) of e-commerce, as well as conducting lotteries and other competitions organized electronically

The place of works or services that cannot be determined based on the above tests is deemed to be the place where the person performing a work or rendering a service conducts the activity.

C. Who is liable

Persons who are registering in Azerbaijan for tax purposes are either registered as a simplified tax payer or VAT payer. A simplified taxpayer is liable to pay a certain percentage of income tax from its total turnover and should not report VAT. A VAT payer is liable for ordinary corporate income tax and VAT. The basic rule for determination of whether the person should be registered for VAT purposes is the total turnover during the year.

Taxable persons that are engaged in an entrepreneurial activity and that have taxable turnover during a period of 12 consecutive months exceeding AZN200,000 must register with the tax authorities as VAT payers within 10 days following the end of the 12-month period.

Any persons registered or to be registered as VAT payers are considered VAT payers. Consequently, a taxpayer is any individual entrepreneur or legal entity that makes taxable supplies of goods (works or services) or that conveys goods across the customs border of Azerbaijan in an amount exceeding AZN200,000.

Moreover, if a taxpayer performs one single transaction in an amount exceeding AZN200,000, then the taxpayer is liable for VAT registration with the tax authorities before the transaction is performed.

Group registration. Any joint economic activity conducted without the formation of a separate legal entity is deemed to be performed by independent persons for VAT purposes. As a result, the Azerbaijan tax law does not provide for group registration.

Non-established businesses. The provision of services in Azerbaijan by a foreign legal entity that does not have a permanent establishment in Azerbaijan (a non-established business) and that is not registered for VAT in Azerbaijan to a person registered or to be registered for VAT purposes in Azerbaijan (tax agent) is subject to VAT based on a reverse-charge mechanism (RC VAT). In such a case, the tax agent must calculate and pay VAT from the amount to be paid to the non-established business. The tax agent should be able to recover the RC VAT paid on services/works purchased from nonresident suppliers if it is registered as a VAT payer and if the nature of the transaction is recoverable for VAT purposes.

Tax representatives. Not applicable.

Reverse charge. See "Non-established businesses" above.

Digital economy. Special rules have recently been developed and introduced in the law in respect of e-commerce. E-commerce is now defined as the provision of works/services and goods by means of global information network (including e-books, music, audio-video, images and graphics, games, software solutions, online advertisements and similar). As noted above, the place of supply of the e-commerce services should be considered the place where the customer is located. Therefore, VAT should be charged whenever services are purchased via e-commerce by customers in the territory of Azerbaijan.

A special reverse charge applies to the provision of e-commerce services supplied by nonresident businesses that are purchased online and via bank cards, by non-VAT-registered customers based in Azerbaijan. It is the responsibility of the bank coordinating the transaction (via the bank card purchase) to charge the customer the VAT and account to the tax authorities in Azerbaijan, on the behalf of the nonresident supplier.

Registration procedures. The application for VAT registration should be filed in the form stipulated by the tax authorities, and the registration process should be completed within five days upon the submission of the application. Electronic submission is permitted.

Late-registration penalties. If a taxpayer that is required to be VAT registered does not register for VAT purposes and carries out taxable activities, the taxpayer is subject to a financial sanction equaling 50% of the VAT amount payable to the state budget for the entire period during which the taxpayer carried out activities without VAT registration.

Deregistration. If a taxpayer ceases its activity in connection with VAT, then the taxpayer shall be obliged to place an application to terminate its VAT registration. The termination shall enter into force from the date VAT-related activities ceased.

Exemption from registration. In general, exemption from registration is not envisaged under the tax code. As outlined above, any persons that are engaged in an entrepreneurial activity with its taxable turnover exceeding AZN200,000 within a period of 12 consecutive months is obliged to register for VAT. Alternatively, in the case where a taxpayer ceases to conduct economic activity that is subject to VAT, it is obligated to cancel its VAT registration.

Voluntary registration. A person engaged in entrepreneurial activity who is not subject to mandatory registration and who is not obligated to be a payer of simplified tax as envisaged under the tax code may voluntarily register with the state tax authorities as a VAT payer. See the section above for more information on simplified tax.

D. VAT rates

The standard rate of VAT is 18%. Certain supplies are zero-rated or exempt from VAT.

Examples of zero-rated supplies

- Goods and services intended for the official use of the diplomatic and consular representative offices of international agencies and foreign states accredited in the Republic of Azerbaijan, as well as for the personal use of the diplomatic, administrative and technical personnel of these representative offices (including family members living with them), who are not citizens of the Republic of Azerbaijan
- Exportation of consulting, legal, accounting, engineering, advertisement and other services
- Importation of goods, supply of goods, and performance of works and provision of services to recipients under grants, with the proceeds of grants received from abroad
- International or transit transportation of cargo or passengers; provision of works or services that are directly connected with international or transit flights, except for international postal services

Examples of exempt supplies

- Provision of financial services
- Contribution of property to an enterprise's charter fund (capital) in the form of participation share, except for imported property (if the contribution of property in the form of a participation share is not directly connected to the acquisition of other property in exchange)
- Sale or purchase of all types of mass media products and the publishing of mass media products (except for advertising activities)
- Transportation of passengers by subway
- Production of textbooks for schools, literature for children and state publications funded by the state budget
- Provision of paid educational services (except for the provision of services in connection with other activities)

If it is stipulated that specific production needs cannot be met by local resources for a specific period, the relevant executive authority shall be entitled to grant a VAT exemption for imported goods and equipment to meet those needs.

Option to tax for exempt supplies. Not applicable.

E. Time of supply

The proper period to recognize VAT accrual is determined as follows:

- If the payment for goods, works or services is received within 30 days of the completion of the transaction, the date of payment is the time of a taxable operation.
- If the payment is not received within 30 days, a review of the electronic VAT (e-VAT) invoice date is required. Where the e-VAT invoice is issued within 5 days after the completion of the transaction, then the date of the taxable transaction is taken to be the date the e-VAT invoice is issued. Otherwise the date of the taxable transaction is the date the transaction is completed.
- In case of cancellation of registration, the date preceding the date of cancellation.

For advance payments, the taxable transaction is considered to occur at the time of payment. If two or more payments are made with respect to a taxable activity, each payment is deemed to be a separate transaction, up to the limits of the payment amounts.

For bartered goods and services, or for the provision of goods, works or services by a taxpayer to its employees or other individuals free of charge, the time of supply is the date of supply of such goods, works or services.

Continuous supply of services. If services are rendered on a regular or continuous basis, the time of rendering services is when an electronic VAT invoice is issued for any part of the operation. If payment has been made first, the time of rendering services is when payment is made for any part of the operation. There are currently no longstop dates in relation to the continuous supply of services.

Imported goods and services. For taxable importations, the time of a taxable operation is when the use or consumption of the imported goods or services begins.

Deposits and prepayments. Azerbaijani tax law does not differ in the treatment of deposits and prepayments for VAT purposes.

As indicated above (where referring to advance payments), for prepayments, the taxable transaction is considered to occur at the time of payment. As per refundable deposit/prepayment, it will not have any VAT effect for the recipient of goods/services who initially paid such amount to the supplier. Yet, the supplier would be obliged to adjust its taxable turnover accordingly. This is because when it is refunded to the customer, the amount should be refunded with VAT if it was accounted for VAT on the original payment. Moreover, where the prepayment or deposit was paid with VAT, the customer has no right to offset/recover the VAT until the performance of the services or delivery of goods.

Goods sent on approval for sale or return. There are no specific rules under the local legislation for goods sent on approval for sale or return. The VAT liability arises only when the actual sale of goods/services occurs.

Leased assets. Financial lease of assets, which implies transfer of ownership, is not subject to VAT both for local and foreign operations. Regarding operational leases, there are no special time of supply rules. Therefore, the general rules described above should apply.

Reverse-charge services. For reverse-charge services, the recipient of the services shall submit to the tax authority a VAT declaration in the format established by the relevant executive authority and make the respective payment no later than the 20th of the month following the month of payment made to the nonresident business.

There are no reverse-charge VAT implications for the separate sale of goods (i.e., when goods are not part of the service).

F. Recovery of VAT by taxable persons

If VAT is paid through an electronic transfer (no payments in cash) to a VAT deposit account directly from a deposit account or bank account of a payer in accordance with the eVAT invoices, the e-VAT invoices serve as the basis for a VAT credit. The VAT credit should be allowed only in case the principal amount for the supplies of goods or the provision of services is paid.

In addition, import documents issued by customs authorities that substantiate the amount of import VAT paid, regardless of the form of payment, serve as grounds for a VAT credit.

Non-recoverable input VAT. In general, no credit of input VAT paid is allowed with respect to entertainment and food expenses (except for expenses for healthful and dietary meals, milk and other similar products and for food expenses for ship personnel in sea transport within norms set by the relevant executive authority) or for expenses connected with the accommodation of employees and other expenses of a social nature.

Possible deduction for nonrecoverable VAT. VAT paid that is not recoverable may be deductible for profit tax purposes in cases where the nature of the transaction is deductible. Moreover, if the taxpayer qualifies for only a partial exemption (see below), the unrecoverable input VAT can be deductible for profit tax purposes in case the nature of the transaction is also deductible.

Partial exemption. If a taxpayer conducts both taxable operations and exempt operations in the same reporting period, the VAT credit is determined on the basis of the proportion between the taxable and total turnover. However, in case the companies keep separate accounting records for taxable and exempt operations, total amount of VAT paid on the taxable operations might be claimed from the budget.

Refunds. An excess of VAT credit amount over the output VAT amount charged during the accounting period may be carried forward for the following three months and applied against VAT due during that period. Any remaining balance after three months is refunded within 45 days after the expiration of that period on the basis of the taxpayer's application for a refund.

Preregistration costs. Not applicable.

G. Recovery of VAT by non-established businesses

Azerbaijan does not allow the recovery of input VAT incurred by businesses that are neither established in Azerbaijan nor registered for VAT there.

H. Invoicing

In general, persons registered as VAT payers and conducting taxable transactions must issue electronic VAT invoices to the persons to whom they provide goods or services. Persons not registered for VAT purposes may not issue VAT invoices. A taxpayer must prepare and issue to a purchaser of goods or services an electronic VAT invoice within five days after the delivery of goods or provision of services.

Foreign-currency invoices. For tax purposes, the payment to the supplier shall be recalculated in (AZN) at the exchange rate established by the Central Bank of the Azerbaijan Republic for the date when the operation was carried out.

Electronic invoices. As outlined above, electronic invoicing is mandatory for all VAT payers. The eVAT invoice as described by the tax authority is the only electronic invoice format allowed.

Proof of export. The invoice, delivery note and agreement serve as proof of export.

B2C. In the case of a supply of goods or provision of services from a VAT registered business to private consumers (that are not VAT payers), for retail supplies only, a cash receipt or electronic delivery note may be issued instead of a full electronic VAT invoice.

I. VAT returns and payments

VAT returns. Each taxpayer must file a VAT return on a monthly basis. The return must be filed by the 20th day of the month following the accounting month. The payment of VAT must be made by the same day.

VAT on imports must be calculated and collected by customs authorities at the time of importation.

Special schemes. Not applicable.

Electronic filing. Electronic filing is available.

Annual returns. Not applicable.

J. Penalties

Late submission of a VAT return is subject to a financial sanction in an amount of AZN40.

If the VAT amount indicated on a VAT return is understated or VAT payable to the state budget is evaded by failure to submit the VAT return, the taxpayer is subject to a fine equal to 50% of that understated or evaded tax. An additional amount may be calculated by the tax authorities as part of an audit.

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A. At a glance

Name of the tax	Value-added tax (VAT)
Date introduced	1 January 2015
Trading bloc membership	Member of CARICOM
Administered by	Department of Inland Revenue (DIR)
VAT rates	
Standard	7.5%
Other	Zero-rated (0%) and exempt
VAT number format	123456701
VAT return periods	Monthly and quarterly
Thresholds	BSD100,000 in annual turnover
Recovery of VAT by non-established businesses	No

B. Scope of the tax

VAT applies to the taxable supply of goods and services, including imported goods and services.

C. Who is liable?

VAT applies to goods or services supplied by a taxable person undertaking, by way of business, a "taxable activity." The supplies must also exceed the annual threshold of BSD100,000 in value.

Registration procedures. A person or business liable for VAT must apply to the VAT authorities for registration within 14 days of meeting the requirements. Failure to apply for registration can result in forcible registration by the comptroller and penalties.

Voluntary registration. For businesses that do not meet the VAT registration threshold but wish to legally charge and collect VAT, there is a voluntary registration mechanism. Taxpayers that register voluntarily have the same obligations as taxpayers that were required by law to register.

Exemption from registration. Exemption from registration is possible for certain zero-rated suppliers, mainly in the financial services industry. You need to apply to "opt out" of registering for VAT and this is assessed on a case-by-case basis. Where an exemption is granted, you cannot recover VAT on costs, as you will not be registered for VAT.

Group registration. Businesses that operate as a group or are managed as a group can apply for VAT group registration. Where the group registration is approved, the group will use the taxpayer identification number (TIN) of the taxpayer selected as the controller of the group. Members of the group are all jointly and severally liable for the VAT liabilities of the group.

Non-established businesses. If a company undertakes a business activity such as employing persons that work in the Bahamas or deriving income from activities undertaken in the Bahamas, it is likely that company is a resident in the Bahamas.

Even companies that do not undertake an activity in the Bahamas are resident if the majority of the shareholding is beneficially owned, directly or indirectly by residents in the Bahamas.

Typically, where goods and services are supplied to companies considered nonresident or non-established, they will be treated as the supply of international goods and services and subject to VAT at the zero rate.

Reverse charge. Under the reverse-charge mechanism (known as "self-account" under the Bahamas VAT Law), persons that import services, which would ordinarily be subject to VAT if supplied by a local business, generally must account for and pay VAT due. However, the place of supply rules would need to be examined. The VAT Act provides that in the case of imported services, both parties, the importer and the recipient, are jointly and severally liable for VAT arising on the transaction.

Tax representatives. An appointed representative, such as an external accountant or business advisor, is permitted to submit a VAT registration form on behalf of the taxpayer. It is also possible to delegate responsibility to manage certain aspects of the taxpayer's account.

Deregistration. One can apply to cancel the VAT registration where a number of conditions are met. Typically, a company will need to wait two years from the date of registering for VAT before applying to cancel the VAT registration. The conditions do not apply in circumstances where the business effectively ceases to exist.

Late-registration penalties. Section 16 of the VAT Act 2014 and the VAT amendment Bill 2018 provides that a taxable person that fails to apply for registration commits an offense, and is liable to a fixed penalty up to BSD150,000. Section 41 of the VAT Regulations 2014 and the VAT Amendment Regulations 2018 provides that a taxable person who fails to apply for registration commits an offense and is liable on conviction to a fixed penalty not exceeding BSD100,000 or to imprisonment for a term not exceeding 12 months or to both a fixed penalty and imprisonment.

Furthermore, the taxable person that did not register is liable for any VAT that should have been charged to customers but which, lacking registration, the taxable person did not charge and also 10% of the VAT due is charged as a penalty plus interest accrues on the late payment at a rate of prime plus 1%.

Digital economy. No special provisions apply to digital products.

D. VAT rates

The term "taxable supply" refers to a supply of goods and services that are liable to VAT, including a supply taxed at the zero rate. The term "exempt supply" refers to a supply of goods and services that are listed in the Second Schedule of the VAT Act and are not subject to VAT. Persons

that make exempt supplies are not required to register for VAT, and they are not permitted to recover any input tax incurred in making those exempt supplies (see Section F).

In the Bahamas, the following three rates of VAT apply:
- Standard – 7.5%
- Special Scheme – Flat Rate of 4.5% as discussed below
- Zero – 0%

There are also certain goods and services that are:
- Exempt from VAT
- Outside the Bahamas VAT system

Examples of goods and services taxable at 0%

- Services that relate to land and property situated outside of the Bahamas
- Goods physically removed from the Bahamas or outside the Bahamas at the time of supply
- Certain professional, financial and insurance services where the benefit is obtained outside the Bahamas
- The transfer of a business by one registrant to another where certain conditions are met
- Prescription medication and most over-the-counter medication.
- Breadbasket items, which include baby cereal, baby food, baby formula, bread, broths, soups, butter, canned fish, cheese, condensed milk, cooking oil, corned beef, evaporated milk, flour, fresh milk, grits, margarine, mayonnaise, mustard, powdered detergent, rice, soap and tomato paste.

Examples of exempt supplies of goods and services

- Domestic financial services, other than those provided for an explicit fee
- Certain insurance services
- Medical services where provided by a public health care facility to a public patient
- Sale of a residential building

Option to tax for exempt supplies. Not applicable.

E. Time of supply

The time of supply is the date when a sale is considered to take place for VAT purposes. The time of supply is the earliest of:
- The date an invoice is issued
- Receipt of payment
- The date goods are delivered or made available to the recipient
- The date the performance of service is completed

Deposits and prepayments. Where a deposit or prepayment is received, regulations provide that a tax point is created and VAT (in the form of output tax) will become due on the amount of the deposit or prepayment. The amount of VAT due is typically calculated using the VAT fraction. The VAT fraction is calculated in accordance with the formula (R/(1+R)) where R is the rate of VAT expressed as a percentage applicable to the price of the taxable supply.

If the deposit is held in an escrow account, i.e., one the taxpayer does not have access to, this is not considered a payment. The output tax does not need to be declared until the amount is released.

Where the deposit is nonrefundable and the customer does not buy the goods or services on which the deposit was paid, this is considered a payment subject to VAT at the applicable rate.

Finally, if the deposit is intended to be refunded, the legislation does not require the taxpayer to treat the payment as consideration and therefore, there is no need to declare VAT on the payment.

However, if at some later time, it is determined that the taxpayer is entitled to keep the deposit, then this is a supply and VAT must be declared.

Imported goods. Import VAT may apply to goods entering the Bahamas. The importer of a taxable importation must, on entry of the goods, submit an import declaration to the Comptroller of Customs and pay the VAT due.

Goods sent on approval or for sale or return. The tax point occurs when the title to the goods is transferred. Therefore, if a supplier transfers inventory to a customer with the agreement that the title is retained by the supplier until the customer sells or uses the inventory, a tax point is not created, and any unused inventory can be returned to the supplier and will not be subject to VAT.

Continuous supplies of services. Where there is a continuous contract for services and payment is required at certain stages, a VAT invoice should be issued when each payment is due. The invoice should detail the charge for that particular stage and the amount of VAT charged.

Reverse-charge services. See the "Reverse charge" subsection above, under "Section C. Who is liable?"

Cash accounting. Businesses are permitted to account for VAT on a cash basis in certain circumstances. Suppliers declare output tax on the VAT return in the same period during which customers pay. Similarly, you would only declare and reclaim input tax on the VAT return in the period when you paid your suppliers.

Leased assets. A lease of land principally used or intended for use as a dwelling is exempt from VAT. Generally, other leased assets will be subject to VAT.

F. Recovery of VAT by taxable persons

Generally, input tax can be reclaimed when the VAT was paid on purchases that relate to supplies liable to VAT at the standard rate or the zero rate, i.e., taxable supplies.

Nondeductible input tax. Input credit is unrecoverable if the VAT was paid on goods or services that are not used, or intended to be used, in the course or furtherance of a taxable activity. Where goods have a business and personal use, the taxpayer must apportion the VAT to the business and non-business uses, claiming input credit only for the business portion.

Examples of items for which input tax is nondeductible

- Fees or subscriptions for membership of any club, association or society of sporting, social or recreational nature.
- Petroleum and similar products that are used for non-business purposes.
- A passenger vehicle where the claimant does not carry on the taxable activity of providing transportation services. Even where the claimant does carry on this taxable activity, no input tax credit is allowed if the vehicle was not acquired for the purposes of this taxable activity.

Examples of items for which input tax is deductible (if related to a taxable business use)

- Entertainment expenses incurred wholly for an employee(s) as part of a reward for services provided
- Travel expenses

Partial exemption. A partial recovery calculation is required where costs incurred relate to both taxable and exempt supplies. Regulations provide a standard method of apportionment to calculate the amount of input tax the taxpayer is entitled to claim.

Capital goods. The sale, transfer, lease, rental or hire or any other supply of land or property located in the Bahamas is, in general, subject to VAT at the standard rate. The Bahamas does not

currently have a capital goods scheme in place that provides for input VAT recovery during the life of the asset.

Refunds. When the VAT paid on a taxpayer's purchases (input tax) is greater than the VAT charged on a taxpayer's sales (output tax), a refund may be due. You may also carry forward the excess and use it to offset any VAT due in the following tax period. Refund applications vary depending on the filing intervals of the taxpayer's VAT returns. All claims for a refund must exceed BSD500.

Preregistration costs. If goods or services were purchased during the 24 months before registration, and those are used to make supplies subject to VAT after registration, it is possible to reclaim input tax paid on those preregistration purchases.

Write-off of bad debts. A VAT registrant is entitled to claim an input tax deduction for sales made with respect to a taxable supply written off as a bad debt, i.e., when the amount owed is written off in accounting records, the taxpayer can make an adjustment by claiming as input tax the amount previously declared as output tax.

Noneconomic activities. VAT paid on purchases of goods or services that are used or intended to be used for nonbusiness purposes are not recoverable.

G. Recovery of VAT by non-established businesses

There is no provision for VAT to be recovered by non-established businesses.

H. Invoicing

VAT invoices and credit notes. For all taxable supplies, the supplier must provide the buyer, if they are VAT registered, a VAT invoice within 60 calendar days of the supply. In order for a VAT invoice to be valid, it must show certain information as outlined in VAT law.

A tax credit note is required to be issued by a registered supplier to a purchaser when a VAT invoice previously issued charged VAT in excess of the tax properly chargeable. The credit note must be in the form and contain the information as specified in VAT law.

Electronic invoicing. A VAT invoice must show the required information as outlined in VAT law and can be either in paper or electronic form.

Proof of exports. For zero rating to apply to exports out of the Bahamas, a VAT registrant must be able to meet the following conditions:

- The registered supplier, i.e., the entity registered for VAT, has entered the goods for export in accordance with the Customs Management Act, and the goods are, in fact, exported by the registered supplier.
- The comptroller is satisfied that the goods have been exported from the Bahamas and were not used after they were entered for export except such use as was necessary for, or incidental to, the export of the goods.
- The taxpayer must have the relevant documentation to prove that it is the exporter of record.

B2C. If a VAT-registered supplier makes retail sales, it can issue a simplified VAT invoice or a VAT sales receipt, whereby items subject to VAT (or not subject to VAT) can be identified on the receipt with a symbol such as an asterisk, provided the total amount of VAT is clearly shown on the receipt. The method of identification must be clearly displayed so that customers can determine what is subject to VAT and at what rate, before they pay for the goods. The unit price of each item may be VAT inclusive or exclusive.

Foreign currency. The VAT Act and Regulations do not specify which currency is to be stated on invoices. The official currency is the Bahamian dollar and the functional exchange rate to USD is 1:1. As per the VAT Act, invoices are to be denominated in money, which is defined as the

currency used or circulating in the Bahamas. In practice, within the Bahamas, it is permissible to issue invoices in any currency. However, the ability to retain foreign currencies in the Bahamas requires explicit permission from the Central Bank of the Bahamas.

I. VAT returns and payment

VAT returns. The time lines for filing VAT returns are as follows:

- Businesses whose annual turnover exceeds BSD5 million are required to submit a monthly VAT return.
- Businesses with an annual turnover of less than BSD5 million are required to file a quarterly VAT return.

The VAT return should show:
- The VAT charged on sales in the period (output tax)
- The VAT paid on purchases (input tax)

Where the amount of output tax is greater than the input tax, the difference must be paid to the comptroller. Effective 1 January 2017, VAT returns are due 21 days following the previous month. Further, should the filing due date fall on a weekend or public holiday, the VAT return is due on the following business day (which would typically be the Monday following the weekend, provided that the Monday is not observed as a public holiday).

Electronic filing. The Bahamas Online Tax Administration System (OTAS) was developed to assist taxpayers manage their VAT accounts. This system allows registered VAT payers to file electronically. Other services available online may include taxpayer inquiries, payments and refunds.

Payments on account. Where a customer makes regular payments to an account prior to ordering goods, this is not a supply for VAT purposes. It is considered to be merely funds held on the customer's behalf. Once the customer orders the taxable supply and funds are allocated from the account, a supply has been made for VAT purposes and the appropriate VAT should be declared.

Annual accounting. Reliable accounting records in the English language must be maintained within the Bahamas. A record of all supplies and purchases must be kept, i.e., a copy of all sales invoices, debit and credit notes, receipts, and all purchase invoices either in paper or electronic form. If a taxpayer does not possess a copy of an invoice on which VAT was paid or import documents showing the VAT amount, the VAT is not recoverable.

Records are required to be kept for five years.

Special schemes. There are two schemes that may be beneficial to some businesses. The first is the cash accounting scheme outlined above and the second is the flat rate scheme.

The flat rate scheme applies to businesses that make supplies of goods or services at the standard rate of VAT. It was developed to assist with the administrative burden for businesses and requires businesses to apply for permission from the comptroller to use the scheme. The flat rate scheme provides that VAT is charged and collected on supplies at the standard rate. However, rather than calculating the input tax each VAT period, the taxpayer applies the flat rate of 4.5% to net sales and pays this amount to the comptroller.

Annual returns. Not applicable.

J. Penalties

Penalties for late payment of VAT. Regulations impose heavy penalties for noncompliance. Under Section 40 of the VAT Regulations, an offense is committed when VAT is not paid when due for two or more consecutive or nonconsecutive tax periods. One can potentially be liable on conviction in court to a fine not exceeding BSD10,000 and imprisonment for a term not exceeding six

months or both. Under Section 13 of VAT Amendment Bill 2018, in case of nonpayment, or late payment, of tax pursuant to a VAT return or notice of assessment, shall be subject to 10% of the amount of tax owed. Interest in respect of the outstanding amount at a rate of prime plus 1%.

Penalties for errors made on VAT returns. Errors in the declared VAT amounts, whether input or output tax, can be adjusted on the next VAT return provided the error does not exceed BSD500. Where the error exceeds this amount, the taxpayer should notify the comptroller. If the error is not discovered promptly and is not considered deliberate, the taxpayer may only be charged interest on amounts owed and the associated fine may be waived.

Penalties for late filing of VAT returns. Under Section 13 of VAT Amendment Bill 2018, a registrant shall be subject to a fine in case of late filing of their VAT return. In case of the filing of a late VAT return, non-filing of a VAT return or failure to file a VAT return in the prescribed form, the fine imposed on the registrant shall be the greater of the sum of BSD100 or 2% of the tax payable.

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Effective 1 January 2019, the Bahrain government introduced value-added tax (VAT).

A. At a glance

Name of the tax	Value-added tax (VAT)
Date introduced	1 January 2019
Gulf Cooperation Council (GCC) Member State	Yes
Administered by	National Bureau for Taxation (NBT)
VAT rates	
Standard	5%
Other	Zero-rated (0%) and exempt
VAT number format	Numeric
VAT return periods	*For 2019, transitional tax return periods will be in place, with the frequency and deadlines dependent upon the annual supplies of a business and the effective date of registration. The tax period for registered taxpayers whose annual supplies exceed BHD5 million in 2019 will be quarterly, moving to monthly filing in 2020 for all taxpayers whose annual supplies exceed BHD3 million. All other tax-payers will file returns on a quarterly basis from 1 January 2020 onward.*
Thresholds	
Registration	
Mandatory	BHD37,500

Voluntary	BHD18,750 Transitional mandatory registration for residents applies, resulting in a phased implementation process. The phases are outlined in the chapter below. Nonresidents of Bahrain will be required to register for VAT in Bahrain, regardless of the business turnover, if they are obliged to pay VAT in Bahrain.
Deregistration	
Mandatory	BHD18,750
Voluntary	Between BHD18,750 and BHD37,500
Recovery of VAT by non-established businesses	Yes. *However, at the time of preparing this chapter, the actual process and conditions to obtain a refund have not been released.*

B. Scope of the taxes

VAT applies to the following transactions:
- The supply of goods and services made in Bahrain by a taxable person
- The receipt of goods and services by a taxable person in Bahrain from a non-established person
- The importation of goods from outside the GCC implementing states into Bahrain

Designated zones. Not applicable. There are no designated zones in Bahrain.

C. Who is liable

A "taxable person" in Bahrain is a person who conducts an economic activity independently for the purpose of generating income, and who is registered or obliged to register for VAT in Bahrain.

Every person who has a place of residence in Bahrain and conducts an economic activity, where the value of his taxable supplies made in the past 12 months or expected to be made in the next 12 months exceeds Bahraini Dinar (BHD) 37,500 must register for, collect and remit the VAT.

Non-established businesses. Every person that does not have a place of residence in Bahrain, but is obliged to pay VAT in Bahrain, must apply to the NBT for VAT registration regardless of the value of his supplies. Registration can be done directly with the NBT or through appointing a tax representative (which requires an approval from the NBT).

Registration procedures. Registration to be undertaken electronically via the NBT website. At time of preparing this chapter, the information that needs to be submitted to the NBT during the application process includes the following:
- Taxpayer details (legal name, legal form, address, contact details, date when required / requested to be VAT registered)
- Commercial registration information (commercial registration number, commercial registration date, subsidiary company details, sector classification)
- Financial information (annual value of supplies, expenses, imports and exports)
- Registrant details (names, identification number, date of birth, job description, contact details)

The length of time it takes to obtain a VAT registration number varies, although on average it tends to be between one to two weeks.

Transitional VAT registration phasing will take place in 2019. 2019 is a transitional year for VAT in Bahrain and specific rules are in place relating to VAT registration, whereby three phased mandatory VAT registration deadlines apply: 20 December 2018, 20 June 2019 and 20 December 2019.

Deadline for registration	20 December 2018	20 June 2019	20 December 2019
Effective date of registration	1 January 2019	1 July 2019	1 January 2020
Mandatory registration threshold	> BHD5 million	> BHD500,000	> BHD37,500

Voluntary registration. A person who has a place of residence in Bahrain, conducts an economic activity and is not obliged to register for VAT under the phased transitional deadlines, may apply for VAT registration if the value of his total taxable supplies or expenses in the past 12 months reaches BHD18,750, or is expected to exceed BHD18,750 in the next 12 months.

Exemption from registration. A taxable person whose value of taxable supplies exceeds BHD37,500 but are exclusively zero-rated, may apply for an exception from VAT registration. However, the NBT has the right to collect any VAT due, as well as administrative penalties, for the period of registration exception in case the taxable person was not entitled for such an exception.

Imports. The importer shall pay import VAT to Bahrain Customs Affairs where Bahrain is the first point of entry for goods coming from outside the GCC implementing states (unless the goods are zero-rated or exempted from import VAT in Bahrain). The NBT may allow the taxable person to defer the payment of import VAT until filing the VAT return.

Reverse charge. The reverse-charge mechanism must be applied when a taxable person receives a taxable supply of goods or services in Bahrain from a non-established person.

Domestic reverse charge (DRC). The VAT legislation provides for a reverse-charge mechanism to apply on certain domestic supplies. A taxpayer needs to apply and obtain approval from the NBT to use the DRC, and certain conditions need to be met, including:

- The applicant must be a taxable person.
- The applicant must evidence that the total amount of his intra-GCC supplies and exports exceeds 50% of the total value of his supplies.
- The applicant must provide reasonable grounds that he will be in a recurring net tax recoverable position and that this will have a material impact on his financial position.

Once the NBT approves the application, the supplier can apply the reverse-charge mechanism on the goods and services purchased from local suppliers that are specified in the approval, provided he can recover the related input tax in full. The NBT will issue a certificate to the taxpayer to evidence that the DRC can be used, and this certificate needs to be provide a copy the certificate to his suppliers in order for them not to charge VAT on supplies made.

Self-supplies. Transport of own goods by a taxable person to another GCC implementing state may be treated as a taxable supply. *However, the VAT treatment of self-supplies other than the aforementioned case is not clear yet at the time of preparing this chapter.*

Group registration (tax group). Group registration will be available at some point in 2019 (no actual date announced at the time of preparing this chapter). The conditions for two or more persons to apply and register as a tax group are as follows:

- Each taxable person must be a legal person.
- Each taxable person must be resident in Bahrain.
- Each taxable person must be conducting an economic activity in Bahrain.
- Each taxable person must be registered for tax purposes at the date of application.
- Each taxable person must be related by way of financial, economic and regulatory ties, and based on the following control conditions:
  - — Two or more taxable persons act in a formal partnership arrangement
    Or
  - — Each taxable person has any of the following
    - – A voting interest in those entities of at least 50% when added together
    - – A market value interest in each of those entities of at least 50% when added together
    - – Control by any other means

All members of the tax group shall be jointly and severally liable for the VAT related obligations of the tax group. The NBT may amend or deregister the tax group in some instances. Members

of the tax group shall not withdraw from the group before a period of at least 12 months has passed since joining the tax group.

Tax representatives, tax agents and appointed persons. The NBT may approve persons who wish to act as tax representatives or tax agents for the taxable persons in respect of their tax obligations in Bahrain. The NBT will grant such approval upon meeting certain rules and conditions, as well as the payment of certain license fees. The NBT will publish a list of the approved tax representatives and tax agents.

The tax representative shall have a joint liability for paying any VAT due from the taxable person until the date when the NBT announces that the tax representative ceases to act on behalf of that taxable person.

Deregistration. A taxable person must apply to the NBT for deregistration from VAT in any of the following cases:
- If the taxable person ceases to carry on an economic activity
- If the taxable person does not make taxable supplies during a 12-consecutive-months period
- If the value of taxable supplies made during the preceding 12 months falls below BHD18,750 and the taxable person does not expect the value of his supplies or expenses to exceed BHD18,750 in the upcoming 12 months

A taxable person also has the option to apply for deregistration if the value of his taxable supplies during the previous 12 months falls below BHD37,500, but exceeds BHD18,750.

Digital economy. Supplies of telecommunications (wired and wireless) and electronic services are subject to Bahrain VAT to the extent that the use and benefit of such services take place in Bahrain..

To determine the place of use and enjoyment of a given service, the supplier must follow the rules detailed below:
- If the customer is not a taxable person, the place of use and enjoyment is the place where the customer actually uses and enjoys the service. The place where the contract with the customer is executed and the place where the customer pays for the service are not relevant. The following rules should be used to identify the place of actual use and enjoyment of a service:
  - — If services are received through a fixed location (e.g., fixed or public telephone services, Wi-Fi services), the place of that fixed location will be the place of actual use and enjoyment.
  - — If services are received through a mobile network, the country corresponding to the country code of the SIM card used to receive the services will be the place of actual use and enjoyment.
  - — For international roaming services, the country in which the mobile network is located that the customer uses to receive the services will be the place of actual use and enjoyment.
- If the customer is a taxable person, the place of use and enjoyment is the place of residence of the customer. The following rules should be used to identify the place of residence of the customer taxable person:
  - — The customer's address as stated on a VAT invoice or other documents used for billing
  - — Details of the customer's bank account
  - — The internet protocol address used to receive the services
  - — The country code of the SIM card used to receive the services
  - — Any other information of a commercial nature

D. Tax rates

The term "taxable supplies" refers to the supply of goods and services that are subject to VAT. All goods and services supplied in, or imported into Bahrain, are subject to VAT unless otherwise specified as exempt.

In Bahrain, the following rates of VAT apply:
- Standard rate (5%)
- Zero rate (0%)

The standard rate VAT is the default rate applicable to all supplies of goods and services, unless specifically zero-rated or ex-empted from VAT.

Examples of zero-rated supplies of goods and services include:

- Export of goods to outside the GCC implementing states territory (note: *the supply of goods to other GCC implementing states shall be treated as an export, until the full integration of the Electronic Services System across all the GCC implementing states*)
- Supply of services from a resident taxable person in Bahrain to a customer residing outside the GCC implementing states and benefiting from such service outside the GCC implementing states
- Re-export of goods that were temporarily imported for repairs, renovation, modification or processing, and the service added to it
- The supply of goods to or under a customs duty suspension scheme
- Transportation services of passengers and goods to or from Bahrain, other services included with such transportation services, and the related means of transport
- Local transportation sector
- Oil, oil-derivatives and gas sector
- The supply of import of investment grade gold, silver and platinum with purity level of not less than 99% and can be traded on global bullion market, based on a certificate issued by the competent authority responsible for testing precious metals and gemstones in Bahrain
- The first supply after extraction of gold, silver and platinum for trading purposes
- Supply or import of pearls and precious gemstones after obtaining the certificate issued by the competent authority responsible for testing the pearls and gemstones to determine their nature
- Supply of preventive and basic health care services and related goods and services
- Supply or import of specific medicines and medical equipment
- Supply of educational services and related goods and services to nurseries, pre-elementary, elementary, secondary and higher education
- Supply and importation of foodstuff as per a GCC-wide agreed list
- Construction of new buildings

Examples of exempted supplies of goods and services

- Supply of specific financial services, except in cases where the consideration payable is by the way of an explicit fees, commission or commercial discounts
- Supply of bare land and buildings by way of sale or lease

Examples of exempted imports

Imported goods are exempt from import VAT in the following cases:
- Goods that are exempt from VAT or zero-rated
- Goods for diplomatic and military use that are exempt from customs duties
- Imports of personal effects and household appliances being moved into Bahrain that are exempt from customs duties
- Imports of returned goods that are exempt from customs duties
- Imports of personal items and gifts carried in the travelers' personal luggage
- Goods designed for people with special needs

E. Time of supply

The time at which VAT becomes due is called the "time of supply" or "tax point." The time of supply is the earliest of any of the following dates:
- The date when the transportation of goods commences (where the transportation of the goods is under the supervision of the supplier)
- The date when the goods are placed at the customer's disposal (where the goods are not transported under the supervision of the supplier)
- The date when the installation or assembly of goods was completed, for transactions involving assembly or installation
- The date the VAT invoice is issued
- The date that payment is received (to the extent of the amount received)

General time of supply rules for services. VAT becomes chargeable on supplies of services at the earlier of the following:
- The date when the service is completed
- The date the VAT invoice is issued
- The date that payment is received (to the extent of the amount received)

Imports. Import VAT is due at the same time when the customs duties become due.

Deposits and prepayments. A deposit for a supply designed to be paid by the customer as an advance payment will be considered as an initial payment for the consideration of the supply and will trigger a tax point to the extent of the amount received. Deposits that are refundable, and are not considered as an advance payment for the supply, are outside the scope.

Goods sent on approval for sale or return. Where goods are supplied on a trial basis, the tax due date is the earlier of:
- The date the buyer accepts the goods on a definitive basis
- The date the VAT invoice is issued

Leased assets. For an operating lease, the tax due date is the earlier of:
- The due date of each installment under the contract
- The date an installment is paid

For a finance lease, the tax due date is the date of the supply of goods.

Reverse-charge services. Bahrain does not have a specific time of supply rule for reverse-charge services, therefore the general time of supply rules apply.

Continuous supplies. The time of supply for supplies that are continuous in nature, is the earliest of any of the following dates, provided that it does not exceed a period of 12 months from the date of commencement of the supply:
- The date a VAT invoice is issued
- The due date of payment specified in the VAT invoice
- The date when the payment is received

Deemed supplies. The date of deemed supply of goods or services shall be the date when a deemed supply event is triggered.

Other supplies. *Voucher:* For single-purpose vouchers, the tax due date is the date of issue of the voucher. For multipurpose vouchers, the tax due date is the date on which the voucher is exchanged for the goods/services.

Vending machines. The date of supply in cases where payment is made through vending machines is the date on which funds are collected from the machine.

F. Recovery of VAT by taxable persons

A taxable person may deduct the total input tax paid or due on goods and services received or imported by them for the purpose of making the following:
- Taxable supplies
- Supplies treated as made outside of Bahrain that would have been taxable supplies had they been made in Bahrain

For a taxable person to deduct input tax incurred, the taxable person must receive and retain a VAT invoice or a customs document proving that he is the importer of the goods.

Refunds. When a taxable person submits his VAT return and he is in a VAT-receivable position, he should receive a VAT re-fund from the NBT, unless the taxable person requests the NBT to carry forward the receivable VAT to subsequent tax periods or the NBT offsets such VAT against any other payable taxes or administrative penalties.

Nondeductible input tax. Input tax may not be recovered in the below cases:
- If it is paid on goods and services used for purposes other than the taxable person's economic activity
- If it is paid on goods prohibited from trade in Bahrain
- If the VAT is paid on supplies or imports for the purposes of making exempt supplies in Bahrain

The list below outlines some examples of the goods and services upon which input tax cannot be recovered:
- Entertainment expenses incurred for staff and non-staff members (unless provided in the normal course of business)
- Accessing events or functions, and trips for recreational purposes
- Goods and services used by employees free of charge and for their personal use, unless there is an obligation to provide it under any other laws in Bahrain
- Vehicles (and related services) provided to employees, to the extent of nonbusiness use

Noneconomic activities. Bahrain does not have input tax recovery schemes for non-economic activities.

Partial exemption. In cases where the input tax relates to goods and services which are used for making both taxable supplies and exempt supplies, the input tax may be deducted partially and to the extent such input tax relates to making taxable supplies.

The default method of proportional deduction of input tax is calculated based on a turnover method, based on a fraction where:
- The numerator is the value of taxable supplies in Bahrain made by the taxable person in the tax period.
- The denominator is the total value of taxable supplies and exempt supplies in Bahrain made by the taxable person in the tax period.

The value of taxable supplies or exempt supplies made by the taxable person in the fraction include those supplies that do not take place in Bahrain, but that would have been either taxable or exempt supplies if they had taken place in Bahrain.

The fraction outlined above, shall not include:
- Supplies of capital assets by the taxable person
- Supplies that are incidental and do not constitute the core activity of taxable person
- Supplies taking place outside of Bahrain that are supplied from an establishment of the taxable person outside of Bahrain
- Supplies that are outside the scope of VAT

At the end of the calendar year, the taxable person should undertake an annual adjustment of the input tax that has been recovered throughout the year. The taxpayer should use the numerator and denominator values for the whole year to calculate a revised ratio of VAT proportional recovery, and apply that to the relevant input tax totals for the year. Any adjustment (increase or decrease in allowable recovery) should be reported in either the last tax period of the year, or the first tax period of the subsequent year.

A taxable person may submit an application to use an alternative (special) proportional deduction method to the default method, in cases where that alternative method more accurately reflects the use of goods and services supplied to that taxable person.

Capital assets. Capital assets are tangible and intangible assets that are allocated by the business for long-term use as a business instrument or as a means of investment. A change in use of capital assets is subject to an input tax adjustment, to reflect the increase/decrease in taxable use of the asset over its lifetime.

The adjustment period is 5 years in respect of moveable tangible or intangible capital assets and 10 years in respect of immovable tangible capital assets. The first year of the adjustment period corresponds to the tax year during which the capital asset was first used.

At the time a taxable person acquires a capital asset, input tax shall initially be deducted in accordance with the intended use of the goods (i.e., taxable, exempt or residual). During the adjustment period, an adjustment to the deduction must be made following any year in which the actual use of the capital asset differs from that initial intended use.

At the end of each 12-month period, a taxable person shall calculate the amount of input tax potentially subject to adjustment and shall report the adjustment in either the last tax period of the year, or the first tax period of the subsequent year.

In cases where there is a permanent change in the use of a capital asset due to the sale or disposal of the capital asset by a taxable person, the taxable person must adjust the input tax deduction for the remainder of the adjustment period. The adjustment should be reported in the last tax period of the year during which the capital asset was sold, or the first tax period of the subsequent year.

Preregistration costs. A taxable person is entitled to deduct input tax on goods and services received or imported by them prior to his date of VAT registration in the VAT return of the first tax period, provided that all the following conditions are met:

- The goods and services are received in the course of making taxable supplies.
- The taxable person is able to show an inventory of goods and capital assets that he had at the effective date of registration, and provide details as to the nature, quantity, purchase date and VAT incurred for such items.
- The goods were acquired or imported within a period of five years prior to the effective date of registration.
- In case of a service, it should have been received within a period of six months prior to the effective registration date.
- The goods and services are not of a type that are restricted from input tax deduction.

Bad debts. The taxable person may claim a VAT bad debt relief where consideration relating to a taxable supply has not been received from the customer. The adjustment allows a recovery of output VAT that has previously been declared by the taxable person.

In order to claim this relief, the following conditions must be met:

- The payment of the consideration due by the customer (in part or in full) must be outstanding for at least 12 months from the date of supply. This 12-month period does not apply where the customer has not paid due to bankruptcy.

- The taxable supplier must be able to prove that he has taken all necessary measures to collect the debt (this may include initiating legal proceedings against the customer).
- The taxable supplier has written off (partially or fully) the debt in his books.

The taxable supplier should adjust for the related amount of VAT in the tax return for the period during which the conditions are met. If the taxable supplier subsequently receives a payment (in part or in full) relating to this debt, he must make another adjustment of output tax. This should be reported in the tax return for the period during which the late payment was received.

Designated persons. The NBT may extend a VAT refund to foreign governments, international organizations, and diplomatic bodies and missions relating to VAT incurred on goods and services received by such persons in Bahrain.

G. Recovery of VAT by non-established businesses

Refund of VAT to taxable persons in other GCC Member States. There are no rules currently in place in Bahrain for the refund of VAT to taxable persons in other GCC Member States.

Refund of VAT to taxable persons nonresident in the GCC territory. There are no rules currently in place in Bahrain for the refund of VAT to nonresident taxable persons in the GCC territory.

Refund of VAT to tourists. The NBT may refund the VAT paid by tourists. However, at the time of preparing this chapter, there are currently no rules in place for such a refund scheme.

Designated charities. Not applicable. There are no designated charities in Bahrain, and as such normal refund rules apply.

H. Invoicing

VAT invoices. The taxable person must issue a VAT invoice when he makes a supply of goods or services, including zero-rated, exempt and deemed supplies, or when he receives full or part of the consideration prior to the date of supply. The taxable person must issue a VAT invoice no later than the 15th day of the month following the month in which the time of supply takes place.

Simplified VAT invoice. A simplified VAT invoice may be issued where:
- The customer is not registered for VAT purposes in Bahrain
  Or
- If the customer is registered and the total consideration does not exceed BHD500

Bank statements. A bank statement issued by a bank can be treated as a valid VAT invoice when it contains the following information:
- Bank name and address
- Bank VAT number
- Customer's name and address
- Date of issuance of the bank statement
- VAT rate applicable on each supply
- Amount of VAT in respect of each supply

Foreign-currency invoices. Amounts shown on VAT invoices should be converted to Bahraini Dinar in accordance with the exchange rates approved by the Central Bank of Bahrain on the date of supply.

Credit and debit notes. Where, after the issuance of the VAT invoice, the VAT amount is to be adjusted (upward or downward) then a VAT debit or credit note should be issued. The VAT debit or credit note shall be treated as a VAT invoice.

Self-billing and third party. A VAT registered customer may issue a VAT invoice on behalf of the taxable supplier, subject to fulfilling the below conditions:
- There is a written agreement between the parties for the issuance of VAT invoices by the customer.
- The supplier undertakes not to issue any VAT invoices in respect of the supplies made.
- A mechanism is put in place to enable the supplier to approve each VAT invoice issued by the customer on his behalf.
- The VAT invoice clearly shows that it is issued by the customer on behalf of the supplier.
- The customer retains a copy of each VAT invoice he issues on behalf of the supplier.
- The VAT invoice meets all the conditions and requirements stated in the law and the regulations relating to VAT invoices.

Summary invoices. Where a taxable person makes several supplies to the same customer over a period of time not exceeding one month, he may issue a summarized VAT invoice. The summarized VAT invoice will be treated as a valid VAT invoice provided that all the requirements of a VAT invoice are met.

Electronic invoicing. The VAT legislation states that approval is required from the NBT to issue tax invoices electronically. However, it has been communicated by the NBT that a taxpayer can issue electronic documents without prior approval if the conditions relating to valid VAT invoices are met and the taxpayer's computer systems are capable of accounting for VAT on such supplies. This also applies to credit and debit notes.

B2C invoices. There are no specific rules currently in place in for B2C invoicing.

Records. The taxable person shall maintain records, VAT invoices and accounting books relating to the imports and supply of goods and services in an organized manner. The taxable person shall provide the NBT with such records, invoices and accounting books upon its request. There is a specific requirement to maintain a photocopy of all tax invoices issued for a period of five years from the end of the calendar year during which the tax invoice was issued.

Proof of exports and intra-GCC supplies. Until the implementation of the Electronic Services System across all the GCC countries, supplies of goods shipped from Bahrain to other GCC implementing states will be treated as an export of goods, which should be subject to the zero-rate of VAT.

For an export to be subject to VAT at the rate of 0%, all of the following conditions must be met:
- The goods must be shipped from Bahrain to a destination outside of Bahrain within 90 days of their date of supply.
- The goods must not have been changed, used or sold to a third party before leaving Bahrain.
- The supplier must retain the commercial and official documents evidencing the shipment. These include documentation issued by the Customs Authority to confirm the export, commercial documentation (i.e., to identify the supplier, the customer, the place of delivery of the goods, etc.) and the transportation documents to evidence delivery of the goods outside of Bahrain.

I. VAT returns and payment

VAT returns. The taxable person shall submit to the NBT the VAT return for each respective tax period no later than the last day of the month following the end of the tax period. Taxable persons must keep their documents and records in good condition and free from any damage. The documents may be kept electronically, subject to the following conditions:
- The records and documents can be easily accessed from the computer system when requested by the NBT.
- The hard copies of the documentation that support these books and records can be obtained.
- The computer system has sufficient security to ensure the documents cannot be tampered with or manipulated.

Payment. Payment of tax on supplies: The taxable person shall pay the net VAT amount due to the NBT, along with the sub-mitted VAT return, by the due date.

Payment of tax due on imports. The importer should pay the tax due on imports to Bahrain Customs Affairs at the time of importation. However, there will be an import VAT deferral facility where the taxable person may defer the import VAT payment and declare it in the VAT return. The precise arrangement for this facility had not been confirmed at the time of preparing this chapter.

Special schemes. *Profit margin scheme:* The taxable person, upon obtaining an approval from the NBT, may account for VAT on the profit margin in respect of specific goods that are listed in the regulations.

Annual returns. There are no rules currently in place in Bahrain for annual returns.

J. Penalties

Assessments. The NBT may issue an assessment to the taxable person in cases where he does not submit the VAT return within the filing deadline, or where it is proved that the VAT has been incorrectly calculated by the taxable person. The NBT shall base the assessment on specific facts, documentations and records.

Statute of limitation. The statute of limitations is five years. Generally, no claim for additional tax due can be made by the NBT after five years from the end of the tax period to which the additional tax due relates or the tax was wrongfully recovered.

Administrative penalties

The NBT shall issue an administrative penalty assessment to the taxable person, in any of the following cases:

- Failure to register: failure to apply for VAT registration within 60 days from the date of expiry of the registration period, or from the date of reaching the mandatory registration threshold results in a fine not exceeding BHD10,000.
- Late filings and errors made on VAT returns: failure to submit the VAT return, or to pay the tax due, within a period no more than 60 days from the filing or payment deadline results in administrative penalty calculated at a rate between 5%-25% of the value of payable tax or the tax that should have been declared.
- Underpayment: in cases where a taxable person provides incorrect data resulting in declared VAT being less than it should be, a fine will be imposed that is calculated at a rate between 2.5%-5% of the value of the unpaid VAT for each month or part of.

At the time of preparing this chapter, no information is available as to the process of issuing the administrative fines or the timeframe in which the NBT has to issue the fine.

Other types of violation: a fine not exceeding BHD5,000 shall be imposed on any taxable person who:

- Prevents or obstructs the employees, or any one working for the NBT, from performing their duties and exercising their jurisdiction in supervising, inspecting, controlling, reviewing and requesting documents
- Fails to notify the NBT of any changes to the data and information relating to the registration application or the VAT return within the specified deadlines
- Refrains from displaying the tax inclusive prices of the goods and services
- Refrains from providing information or data requested by the NBT
- Fails to comply with the terms and procedures relating to the issuance of a VAT invoice
- Violating any other provision of the VAT legislations

Tax evasion. The below violations shall be regarded as tax evasion:
- Failure to apply for VAT registration, exceeding 60 days from the VAT registration deadline
- Failure to submit the VAT return or paying the due tax, exceeding 60 days from the relating deadline
- Unlawful deduction of input tax as well as the deliberate unlawful claim of VAT refund
- Submission of forged or unreal documents, records or invoices to avoid the payment of tax in full or in part
- Non-issuance of VAT invoices in respect of taxable supplies or imports of goods or services that are subject to VAT
- Issuing VAT invoices in respect of nontaxable supplies, that includes a VAT amount
- Failure to maintain records, VAT invoices and accounting books and records relating to imports or supplies of goods or services in an organized manner

Committing a tax evasion offense could result in imprisonment for a period of between three to five years, in addition to a fine not less than the tax due and not more than three times of such tax due. This penalty shall be doubled if the violation is repeated within three years from the date of issuing the final decision of conviction. The fine is also doubled in case the violation is committed in the name or for the benefit of a legal person.

Appeal process. The taxable person can appeal to the Committee of Examination of Tax Objections and Appeals (the Committee) against any assessment, penalty or a decision made by the NBT within 30 days from receiving the relating notification. The Committee issues its recommendation to the Minister of Finance (the Minister) or his delegate in respect of the appeal within 30 days from receiving the appeal from the appellant. The Minister or his delegate will then issue the decision to adopt the Committee's recommendation, amend or cancel it within 15 days from the date of receiving the recommendation.

The taxable person can appeal to the concerned court within 60 days from receiving the notification of the Minister's decision in respect of the appeal.

Rulings. A taxable person may seek a ruling from the NBT on how to interpret and apply VAT. There is no prescribed format for making such a request, but taxpayers should disclose full facts relating to the enquiry.

K. Transitional provisions

Voluntary registration. Transitional mandatory registration for residents applies, resulting in a phased implementation process. Phases outlined in the chapter below. The phases are as follows:
- VAT implementation from 1 January 2019 — applies if annual supplies exceed BHD5 million
- VAT implementation from 1 July 2019 — applies if annual supplies exceeds BHD500,000
- VAT implementation from 1 January 2020 — applies if annual supplies exceeds BHD37,500
- If annual supplies exceed the voluntary registration threshold of BHD18,750, a voluntary application can be made at any time

Nonresidents of Bahrain will be required to register for VAT in Bahrain, regardless of the business turnover, if they are obliged to pay VAT in Bahrain.

Time of supply and charging VAT. If an invoice is issued or payment is made prior to the VAT implementation date in respect of a supply of a good or service that takes place after the VAT implementation date, then such supply should be treated as made after the VAT implementation date and VAT should be charged in case the supply is subject to VAT.

The supply will be deemed as taking place after the VAT implementation date in the following cases:

- If the date of delivery of the goods is after the VAT implementation date
- If the date when the performance of services is completed occurs after the VAT implementation date

For continuous supplies, no VAT is due on the portion of the value of the supply performed prior to the VAT implementation date. However, VAT will be due on the portion of the value of supply that is performed on or after the VAT implementation date (unless exemption or zero-rating applies).

Implementation of VAT in other GCC Member States. GCC countries that implemented VAT shall be treated as non-implementing states if they do not treat Bahrain as an implementing state in their local tax legislation and they are not fully compliant with the provisions of the GCC VAT Agreement. The supply of goods and services from non-implementing states shall be considered as made from outside the GCC territory and the persons' resident in such countries shall be treated as non-GCC residents.

Electronic services system in all GCC Member States. Intra-GCC supplies involving the shipment of goods from Bahrain to another GCC Member State shall be considered as an export of goods until the establishment of the Electronic Services System in all GCC Member States.

Contracts silent on VAT. Contracts silent on VAT, that have been entered into prior to the VAT implementation date in Bahrain but straddle such date, should in general be treated as VAT-inclusive.

Contracts with the Government. An exception to the above is for contracts entered into with the Government (i.e., Bahrain Ministries, Government agencies, institutions and public bodies), where VAT at the zero-rate can be applied until the earlier of the contract expiry date, contract renewal date or 31 December 2023.

Barbados

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A. At a glance

Name of the tax	Value-added tax (VAT)
Date introduced	1 January 1997
Trading bloc membership	CARICOM
Administered by	Barbados Revenue Authority Value-Added Tax Division
VAT rates	
Standard	17.5%
Reduced	7.5%
Other	Zero-rated (0%) and exempt; an increased rate of 22% applies to the supply of mobile services of voice, data and text messaging
VAT number format	XXXXXXXXXXXXX (13 digits)
VAT return periods	Bimonthly and monthly
Thresholds	
Registration	BBD200,000
Recovery of VAT by non-established businesses	No

B. Scope of the tax

VAT applies to the supply of goods and services by a taxable person (registrant) in Barbados and to the importation of goods.

C. Who is liable

Barbados VAT law imposes a registration requirement on any person who makes taxable supplies in Barbados, other than a person whose annual turnover is less than BBD200,000 a year.

In general, any person that begins making taxable supplies in Barbados and expects to exceed the registration threshold above must apply to the VAT authorities for registration within 21 days after the date on which taxable supplies are first made.

Group registration. VAT grouping is not allowed under the Barbados VAT law. Legal entities that are closely connected must register for VAT individually.

Reverse charge. No reverse-charge mechanism applies in Barbados.

Non-established businesses. Non-established businesses, which in Barbados are referred to as nonresident, non-registrant businesses, are generally not liable to VAT, unless they are making taxable supplies in Barbados in excess of the registration threshold.

Tax representatives. Where a corporation fails to pay an amount of tax required, the persons who were directors at the time of the failure are jointly and severally liable, together with the corporation, to pay the amount and any interest or penalties attaching to such amount.

Registration procedures. Taxpayers must register through the Revenue Authority's Tax Administration Management Information System (TAMIS). This registration must be done online at https://tamis.bra.gov.bb.

Individual taxpayers are required to provide their Barbados identification card upon reregistering under the new system. Companies registering for the first time need to provide copies of their incorporation documents. Where a company was previously registered under the former VETAS system and is re-registering under the new TAMIS system, it will also need to provide the TIN from the previous system. Registrations can typically be approved within five business days.

Late-registration penalties. A person who fails to register is compulsorily registered and may be subject to a penalty not exceeding BBD1,000.

Digital economy. There are no specific rules in Barbados relating to the taxation of the digital economy. In practice, non-established businesses providing digital services would only be required to register for VAT and charge VAT on their supplies where the services are physically performed in Barbados.

However, the government of Barbados has announced an intention to apply VAT to certain online transactions in the near future, but no guidance has been issued on how this will be implemented.

Deregistration. An application to cancel registration can be made in writing when the VAT registrant is no longer required to be registered, such as when a company ceases to carry on a taxable activity or make taxable supplies.

VAT paid directly to the Barbados Revenue Authority. Where a registrant enters into a contract for the provision of goods or services to the Government of Barbados, the VAT payable to the registrant in respect of those supplies is paid directly to the Barbados Revenue Authority by the government accounting officer or authorized person that is making payment. In such instances, the registrant will receive payment exclusive of the VAT portion and will not be required to account for the VAT on that supply when filing their VAT returns for that period.

Exemption from registration. There are no formal rules that allow an entity that should be registered for VAT to request that it not be treated as a taxable person. However, in practice, certain types of entities that are established in Barbados and operate exclusively in the international sector (e.g. companies licensed under the International Business Companies Act) are not required to register for VAT.

Voluntary registration. Entities that carry on taxable activities valued below the VAT registration threshold (BBD200,000 annually), may apply to be voluntarily registered. However, such voluntary registration is at the discretion of the Revenue Commissioner.

D. VAT rates

The term "taxable supply" refers to a supply of goods and services that is liable to VAT, including a supply taxed at the zero rate.

In Barbados, the following three rates of VAT apply:
- Standard rate of 17.5%
- Reduced rate of 7.5%
- Zero rate (0%)
- Increased rate (22%)

The 17.5% standard rate applies to most supplies of goods or services. The 7.5% rate applies to the supply of accommodation in guest houses, hotels and inns or similar places, including a dwelling house normally let or rented for use as a vacation or holiday home, and to direct tourism services. The First Schedule of the VAT Act lists the goods and services that are zero-rated, and the Third Schedule of the Act lists the goods that are zero-rated on importation.

Effective 1 January 2016, an increased rate of 22% was introduced and applies to the supply of mobile services of voice, data and text messaging. This increased rate is generally applicable to telecommunication companies operating in Barbados and is payable at the time that the supply of such services is made by the VAT registrant.

Barbados Revenue Authority has published guidance on the conditions and procedures necessary for manufacturers, who export 40% or more of their total production, to qualify for the zero-rating of inputs (for example, machinery and equipment and raw materials) imported for use exclusively in manufacturing.

Examples of zero-rated supplies (taxable at 0%)

- Exported goods and services
- A small basket of staple food items
- Prescribed drugs
- Veterinary services
- International cruises
- Imported inputs for manufacturing

The term "exempt supply" refers to a supply of goods and services that is not liable to VAT and is listed in the Second Schedule of the VAT Act. Persons that make exempt supplies are not required to register for VAT, and they are not permitted to recover any input tax incurred in making those exempt supplies (see Section F).

Examples of exempt supplies

- Financial services
- Medical services
- Residential property sales
- Water and sewerage services
- Public postal services
- Transportation services

Option to tax for exempt supplies. Barbados offers no option to tax for exempt supplies.

E. Time of supply

The time when VAT becomes due is called the "time of supply." In general, the time of supply for goods and services supplied by a taxable person is the earliest of the following events:
- The date of issuance of the invoice by the supplier
- The date on which payment is received for the supply
- The date on which the goods are made available to the recipient or the services are performed

A taxable person must account for VAT in the VAT period in which the time of supply occurs, regardless of whether payment is received.

Imported goods. VAT is payable on the importation of taxable supplies. It is levied on the sum of the value of the goods imported and the amount of duties, fees or other charges that are payable upon the entry of the goods into Barbados.

Deposits and prepayments. There are no time of supply rules in respect of deposits and advance payment.

Goods sent on approval for sale or return. Where goods are provided on a sale or return basis, the time of supply is considered to be when the goods are sold. Goods returned to a supplier under such an arrangement are not considered to have been supplied and no VAT implications should arise.

Continuous supplies. Where goods are supplied under an agreement resulting in a change of ownership (e.g., a hire purchase agreement), the time of supply is deemed to be when the goods are made available to the recipient.

However, services that are provided against a periodic payment are deemed to be supplied at the earliest of the following events:
- When the particular periodic payment is made
- When the particular periodic payment becomes due
  Or
- When an invoice for the particular periodic payment is issued

Leased assets. The lease of assets is considered to be a supply of services and, as such, would be subject to the time of supply rules mentioned above in respect of continuous supplies.

Reverse-charge services. There is no reverse-charge mechanism in Barbados.

F. Recovery of VAT by taxable persons

VAT paid by a registrant is recoverable as input tax if it relates to goods and services acquired solely for the purposes of making taxable supplies. Input tax is recovered by offsetting it against output tax (that is, tax charged on supplies made) in the VAT return for each VAT period. If input tax exceeds output tax in a period, the excess is due to the registrant as a refund.

Goods or services are deemed to be for the purpose of making taxable supplies if the supplier acquired, imported or produced the goods or services for either of the following purposes:
- Their supply or resupply as a taxable supply
- Their consumption or use (whether directly or indirectly or wholly or partly) in producing goods or services for supply as a taxable supply

Non-deductible input tax. Input tax may not be recovered on purchases of goods and services that are not used for business purposes.

Examples of items for which input tax is deductible (if related to a taxable business use)

- Business entertainment
- Travel expenses
- Utilities
- Inventory purchases
- Occupancy costs

Examples of items for which input tax is nondeductible

- A personal vehicle
- A portion of the input tax for company vehicles

Partial recovery. The Barbados VAT law states that if all supplies made by a taxable person during a tax period are taxable supplies, the input tax incurred in the period is deductible in full. How-

ever, if some, but not all, of the supplies made by the person during the tax period are taxable supplies, a partial recovery calculation is required. This measure applies to persons making both taxable and exempt supplies. Input tax is recoverable on the following basis:

- If all of the input tax for the period is directly related to the making of taxable supplies, the VAT is recoverable in full.
- If none of the input tax for the period is directly related to the making of taxable supplies, no VAT is recoverable.

If part or all of the input tax for the period is related to the making of both taxable and exempt supplies, an apportionment calculation must be performed. The amount of recoverable input tax is calculated based on the ratio of the value of taxable supplies made during the period compared to the total value of supplies (taxable plus exempt) made during the period.

If a taxable person makes no taxable supplies during the tax period, the VAT authorities may limit the amount recoverable to the amount that they consider to be "fair and reasonable." However, this provision is generally not invoked.

Refunds. A refund arises when the amount of input VAT recoverable in a month exceeds the amount of output VAT payable. The VAT Act now provides that registrants may offset unpaid VAT refunds owed for a previous period against output tax due for the current period. Under prior law, refunds were generally paid by check after the submission of the VAT return. If the refund claim was submitted within the specified time (21 days after the end of the tax period) and the refund amount remained unpaid after 6 months, the tax authorities were required to pay interest on the outstanding balance at a prescribed rate of 1%.

Preregistration costs. There is no provision for persons to claim VAT incurred on costs prior to registration.

G. Recovery of VAT by non-established businesses

Non-established businesses, which in Barbados are referred to as nonresident non-registrant businesses, are not liable to VAT and do not recover input VAT, unless they are making taxable supplies in Barbados in excess of the registration threshold.

H. Invoicing

Sales invoices and credit and debit notes. A taxable person must provide a tax invoice for all taxable supplies made to registrants. A tax invoice is necessary to support a claim for input tax recovery.

A credit note or debit note must be issued if the quantity or consideration shown on a tax invoice is altered. Credit and debit notes must contain broadly the same information as a tax invoice.

Exports. VAT is charged at a rate of 0% on supplies of exported goods. However, to qualify as zero-rated, exports must be supported by evidence that confirms the goods have left Barbados.

Foreign-currency invoices. Invoices may be issued in a foreign currency.

Electronic invoices. Electronic invoices are accepted by the Barbados Revenue Authority. There are no separate requirements for the format of electronic invoices.

B2C. Where a registrant makes a supply to a consumer (i.e., a non-registrant), no VAT invoice is required unless requested by the purchaser.

I. VAT returns and payment

VAT returns. VAT reporting periods are generally two months. However, the tax authorities may require longer or shorter tax periods if they consider it appropriate. Returns must be filed by the

21st day of the month following the end of the tax period. Any tax due for the period must be remitted with the return. Returns must be filed online using the Barbados Revenue Authority's TAMIS system. Additionally, requests may be made to offset refunds from prior years against current VAT liability.

Special schemes. Entities such as international business companies (IBC) are not required to register for VAT or to file VAT returns. However, an IBC may reclaim any input VAT it has incurred on a monthly basis.

Electronic filing and archiving. VAT returns must be filed online at https://tamis.bra.gov.bb.

Annual returns. Not applicable.

J. Penalties

VAT penalties generally relate to VAT accounting. The following are some of the penalties associated with breaches of the VAT law:
- A penalty of BBD100 for the late submission of a VAT return
- A late payment penalty of 10% of any output tax due
- Interest at the rate of 1% of any outstanding tax and penalty

In addition, several other penalties may apply, including the following:
- Failure to display a certificate of registration: BBD1,000
- Failure to notify the tax authorities of changes relating to the registration: BBD1,000

Criminal penalties may also apply in certain circumstances, such as in cases of fraudulent conduct.

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A. At a glance

Name of the tax	Value-added tax (VAT)
Local name	Nalog na dobavlennuyu stoimost (NDS)
Date introduced	19 December 1991
Trading bloc membership	Eurasian Economic Union member
Administered by	Ministry of Taxes and Duties of the Republic of Belarus (http://www.nalog.gov.by)
VAT rates	
Standard	20%
Reduced	10%
Increased	25%
Other	Zero-rated (0%) and exempt
VAT number format	Tax identification number (TIN) with 9 digits
VAT return periods	Quarterly or monthly (at the choice of the taxpayer)
Thresholds	
Registration	No separate registration exists for VAT purposes; taxpayers register for all corporate taxes at the same time, but a VAT exemption is available for smaller businesses
Recovery of VAT by non-established businesses	No

B. Scope of the tax

VAT applies to the following transactions:
- Sales of goods (works and services) and property rights in Belarus (including exchanges of goods, gratuitous assignments, leases, transfer of goods under loan agreements)
- Importation of goods into Belarus

Goods are deemed to be sold in Belarus if either of the following circumstances exists:
- The goods are situated in Belarus and are not shipped or transported abroad.
- The goods are situated in Belarus at the time of the commencement of shipment or transportation.

Services (works) are deemed to be provided in Belarus if the activities of a private entrepreneur or organization that performs the works (renders services) are carried out in Belarus.

Under specific rules, services (works) are deemed to be provided in Belarus in the following circumstances:

- The services (works) are directly connected with immovable property situated in Belarus.
- The services (works) are connected with movable property situated in Belarus (except the rent and lease of movable property).
- The services (works) are rendered in Belarus in the areas of culture, art, education (except distance education), physical education, tourism, leisure or sport.
- The purchaser of the services (works) carries out activities in Belarus such as the following:
  - The transfer of property rights on intellectual property
  - The provision of audit, consulting, legal, accounting, advertising, marketing, engineering and information processing services
  - The provision of secondment services (if the staff works in Belarus)
  - The rent of movable property (except for transportation vehicles)
  - The provision of services related to the development of computer programs and databases (computer software and information products) as well as the adaptation and modification of these products

The place of supply of supplementary services is the same as for the main services.

C. Who is liable

In general, a taxpayer is any individual entrepreneur or legal entity (including a foreign legal entity) that performs taxable supplies of goods (works and services) and property rights in Belarus in the course of its business activities or that imports goods across the customs border of Belarus.

Exemption from VAT payment obligations. Private entrepreneurs and legal entities that are applying for the simplified taxation system without payment of VAT are exempt from VAT payment obligations with respect to sales of goods (work and services) and property rights in Belarus. To apply the simplified taxation system without VAT, the legal entities' annual revenue and average headcount should not exceed BYN1,337,415 and 50 employees respectively, private entrepreneurs' annual revenue should not exceed BYN420,000. Private entrepreneurs applying the general taxation system can also be exempted from VAT payment obligations with respect to sales of goods (work and services) and property rights in Belarus if their annual revenue does not exceed BYN420,000. Some business activities are subject to special taxation regimes (e.g., gambling tax, single tax on imputed income from provision of motor vehicle maintenance services) and income from such activities are exempt from VAT.

Group registration. Tax group registration is not allowed under Belarusian law. Legal entities that are closely connected must register for tax purposes separately.

Non-established businesses (foreign legal entities). A "non-established business" is a foreign company that does not have a permanent establishment in Belarus. Foreign legal entities that do not have a permanent establishment in Belarus are not subject to VAT when they sell goods (perform works, render services) in Belarus. In such cases, the Belarusian legal entities and individual entrepreneurs who purchase these goods (works, services) must calculate and pay VAT. A foreign legal entity or non-established business may be required to register for tax purposes in Belarus if it meets any of the following conditions:

- It plans to conduct business that leads to income generation.
- It owns immovable property in Belarus.
- It provides electronic services to individuals residing in Belarus.
- It operates entertainment facilities such as merry-go-rounds and Ferris wheels that are usually located in amusement parks.

• It puts on wild animal attractions.

The tax registration procedure for non-established businesses is generally the same as the procedure for Belarusian legal entities. A foreign legal entity should submit a standard application form for tax registration to the Belarusian tax authorities together with supporting information and documentation about the entity.

Registration procedures. There is no separate VAT registration in Belarus. Tax registration is carried out automatically five working days after the company's incorporation and covers all taxes paid by a company. Foreign companies shall apply for tax registration before carrying out activities in the territory of Belarus. The administrative procedure for tax registration of foreign companies takes two working days. Documents required for tax registration may be submitted by a duly authorized company official or the company's tax representative.

Late-registration penalties. Belarusian administrative law provides for several types of fines in the following amounts for tax registration violations:
• Delay in tax registration: penalty of not more than five basic units (one basic unit = BYN24.5).
• Non-registration: penalty of not more than 20 basic units. The amount of the penalty depends on the duration of the delay in tax registration. For legal entities, the penalty equals 20% of the amount of income generated during the period of unregistered business activity.

Tax representatives. Taxpayers may authorize any individual or legal entity to act as a representative of the taxpayer in transactions regulated by tax law, acting on the basis of a power of attorney. The tax advisor can also be a representative of the taxpayer on the basis of an agreement on the rendering of tax advisory services on a paid basis.

Reverse charge. Belarus has a tax mechanism similar to the commonly understood reverse-charge mechanism. Foreign legal entities that do not have a permanent establishment in Belarus are not subject to VAT when they provide a supply, i.e., sell goods, perform works or render services, transfer property rights in Belarus. In such cases, the Belarusian legal entities and individual entrepreneurs who purchase these supplies must calculate and pay VAT. Subsequently, VAT paid by Belarusian taxpayers may be credited in full against the output VAT or refunded from the budget.

Digital economy. Generally, indirect tax issues related to digital products are regulated by the common provisions of the Belarusian tax code. High-tech companies registered with certain organizations, e.g., the High-Tech Park, the Infopark Science and Technology Association, may apply to receive additional indirect tax benefits and exemptions.

From 1 January 2018, foreign companies are required to register with the tax authorities in Belarus and pay VAT (20%) and file returns on a quarterly basis if they provide electronic services to individuals residing in Belarus. Electronic services are services that are rendered via the internet using information technologies and include, but are not limited to:
• Granting rights to use software, computer games, databases, e-books, informational materials, graphics and music
• Online advertising services
• Granting of access to online search engines
• Providing trade platforms operating online in a real-time mode
• Web hosting services
• Some other services

Individuals/purchasers are regarded as residing in Belarus if their place of residence is Belarus, or a bank account that was used for a payment is opened in Belarus, or a network address used for purchase of services is registered in Belarus, or an international country code used for a payment/purchase is assigned for Belarus.

Deregistration. There is no separate VAT deregistration in Belarus. Generally, tax authorities deregister taxpayers in cases of liquidation, reorganization or closure of a permanent establishment in Belarus. Tax deregistration applies for all taxes paid by an entity simultaneously, and deregistration of foreign organizations has complications specified in the Belarusian tax code.

Voluntary registration. The VAT law in Belarus does not contain any provision for voluntary VAT registration, as there is no separate VAT registration. The VAT obligations in general depend on the tax system that the taxpayer applies (e.g., taxpayers applying for the general tax system are required to register for VAT and pay VAT on supplies, whereas taxpayers applying for the simplified tax system may not be required to register for VAT and not pay VAT on supplies).

D. VAT rates

The term "taxable supplies" refers to supplies of goods (works and services) and property rights that are liable to a rate of VAT, including the zero rate.

In Belarus, the following VAT rates are applied:
- Standard rate: 20%
- Reduced rate: 10%
- Increased rate: 25%
- Zero rate: 0%

Examples of supplies taxable at 10%

- Sales of crops (except flowers and ornamental plants)
- Sales of store cattle, i.e., sales of any products of animal origin such as pork, beef, animal fat, etc. The reduced rate applies to the sale of live animals in that industry as well but does not apply to the sale of animals to be farmed for fur, such as sheep, raccoon, sable, etc.
- Sales of fish and hive products produced in Belarus
- Sales and/or imports into Belarus of goods for children and food products as per the list established by the Belarusian President

Examples of supplies taxable at 25%

- Sales of telecommunications services (e.g., phone services, data transmission and telematics, TV broadcasting)

Examples of goods and services taxable at 0%

- Exports of goods, some works and services related to exports
- Exports of transport services, including transit carriage
- Exports of works on production of goods from raw materials supplied by customers under tolling agreements
- Repairs of aircraft and their engines, units of railway technics (e.g., passenger carriages, wagons, diesel trains) for foreign companies and individuals

The term "exempt supplies" refers to supplies of goods (works and services) and property rights not liable to tax.

Examples of exempt supplies of goods and services

- Provision of financial services (e.g., granting loans or bank credits, issue of a bank guarantee, bank account opening and keeping)
- Provision of insurance services (e.g., insurance premiums)
- Provision of educational services (e.g., education at college or university level)
- Provision of cultural services (e.g., services of museums, art galleries, cinema, theaters and libraries)
- Provision of housing services (e.g., utilities provided to individuals)
- Provision of medical services (e.g., diagnosis, therapy, surgery, dentistry)
- Provision of certain medical equipment, prosthetics and devices for disabled persons

Option to tax for exempt supplies. The taxpayer is entitled to apply or refuse to apply tax exemptions and other benefits provided by the Belarusian tax code. If the taxpayer refuses to apply any VAT exemption, it must submit an application on refusal to apply respective tax exemption to the tax authorities.

E. Time of supply

"Time of supply" is the moment when VAT becomes due.

Under Belarusian law, the time of supply is called the "date of actual realization."

The date of actual realization of goods, works and services, and property rights is determined as the date of dispatch of goods (performance of works or rendering services) or transfer of property rights disregarding the day of payment.

The date of dispatch of goods or services is the date of the following:
- For goods, the first day of shipment by the seller to the customer or to the company that carries out the transportation (if the seller does not provide the transportation of the goods or does not bear the costs of the transportation)
- For goods, the date is determined according to the accounting policy of the taxpayer but no later than the day when transportation of the goods began (in the other cases)
- For services, the day when the services are considered to be provided in accordance with executed documents, such as act of acceptance
- For transfer of property rights, the date of the transfer of property rights under a primary accounting document or the last day of each month to which the transfer of property rights applies (at the choice of the taxpayer)

Exemptions from this rule have been introduced, including but not limited to the following:
- The date of actual realization of goods, works and services, and property rights performed by foreign legal entities not registered with the Belarusian tax authorities is the day of payment, including advance payments (or other way of obligation fulfillment).
- The date of realization of electronic services provided by foreign companies to individuals residing in Belarus is the last day of the reporting period, on which the day of payment (including advance payment) or other way of customer's obligation fulfillment falls.

Imported goods. Imported goods are subject to import VAT in Belarus.

For goods imported from countries that are not members of the Eurasian Economic Union, VAT is collected by the customs authorities. For goods imported from countries that are members of the Eurasian Economic Union, VAT is collected by the tax authorities. VAT on imports is payable on the customs value of goods, including import duty and excise duty (if applicable).

Deposits and prepayments. Generally, the time of supply is the date of dispatch of goods (performance of works or rendering services, or transfer of property rights) disregarding the day of payment. By way of exception, the time of supply depends on the day of payment in some cases (see above).

Goods sent on approval for sale or return. There is no specific time of supply rule for these circumstances, and the general provisions for time of supply should apply. In case of return of goods, the seller should decrease its sales turnover by the relevant amount in the period, in which the buyer returns the goods.

Continuous supplies. In case of continuous supplies of goods, there is no specific time of supply rule for these circumstances, and the general provisions for time of supply should apply.

In case of continuous supplies of services, the time of supply depends on whether the customer can use the outcome of the services before the service is completed or not. If the customer can

use the outcomes of services in the course of the service provision, the time of supply is the last calendar day of each month and the last day of the service provision. If the customer cannot use the outcomes of services before the service completion, the time of supply is the day of completion or acceptance of the services under a primary accounting document (provided that the indication of either of the dates is specified by the service agreement) or the date of issuance of a primary accounting document.

Leased assets. The time of supply for rental payments is the last day of each month to which the rental payment applies, but not earlier than the date of actual transfer of the rented asset to the renter. The time of supply for financial and operating leases is the date of the actual transfer of the leased assets to the lessee (applicable for the first lease payment made prior to the actual transfer), or the last day of each month, to which the lease payment applies, but not earlier than the date of actual transfer (applicable for the other lease payments). The time of supply for finance leases with respect to the residual value of the leased asset, is the maturity date for redemption of the leased asset under the lease agreement providing for the right of redemption.

Reverse-charge services. The Belarus VAT law does not specify a reverse-charge mechanism for services as such. However, Belarus has a similar tax mechanism to the reverse-charge mechanism. This works such that where a non-established business makes supplies of goods or services (including land related services/property rights) to a Belarusian established business, the purchaser must pay the VAT due. For these types of supplies, the time of supply is the day of payment, which includes advance payments (or other similar payment obligations fulfilled by the purchaser).

F. Recovery of VAT by taxable persons

A taxable person may recover input VAT, which is VAT charged on goods (works and services) and property rights supplied for carrying out activities within the scope of VAT. A taxable person generally recovers input VAT by deducting it from output VAT, which is VAT charged on supplies made.

Examples of items for which input tax is deductible (if related to a taxable business use)

- VAT paid on purchases of goods, works and services, and property rights from resident legal entities
- VAT paid on imported goods
- VAT paid on goods, works and services, and property rights purchased from foreign legal entities that do not have a permanent establishment in Belarus

Input VAT paid on goods imported through 31 December 2018 may not be deducted during the first 60 days following the date of import if the goods are imported from countries that are not members of the Eurasian Economic Union. This rule applies only in the case of goods that will be sold in Belarus in unchanged condition. Packaging (bottling) in cans, bottles, flacons, sacks, boxes as well as grinding (cutting) for packaging and other simple operations aimed at packaging and repackaging that do not change the properties of goods are not regarded as a change of condition of the goods.

Nondeductible input tax. Input VAT cannot be recovered in the following circumstances:

- Where it was deducted as expenses for corporate profits tax purposes, because the acquired goods, work, services and property rights were used for activities exempted from VAT
- Where it was allocated to the value of goods, works and services and property rights (including fixed and intangible assets)
- Where it was not reflected in accounting records
- Where it was paid at the expense of donated budget funds
- Where it related to goods, which were lost or damaged except cases of emergencies
- Or in certain other cases

Partial exemption. If a taxpayer engages in both exempt and taxable activities, it may account for input VAT related to each activity separately. In this case, input VAT directly related to taxable activities is recoverable in accordance with the sequence of VAT deductions, and input VAT directly related to exempt activities is not recoverable and must be expensed for corporate profits tax purposes. If the taxpayer does not keep separate accounts of input VAT attributable to taxable and exempt activities, it must be apportioned. The statutory method of apportionment is a pro rata calculation, based on the revenue from taxable activities compared with the total turnover of the business. Percentages are calculated separately for activities subject to each VAT rate and for exempt activities. The amount of input VAT related to each kind of activity is determined by multiplying the total amount of input VAT and the relevant percentage.

The amount of input VAT is deducted in the following sequence:

- The amount of input VAT related to sales of goods, works and services, and property rights, except fixed assets and intangible assets (subject to VAT at 20% rate). The amount of input VAT is deductible up to the amount of output VAT calculated on the sales of goods, works and services, and property rights.
- The amount of input VAT on fixed and intangible assets. The amount of input VAT that may be deducted may not exceed the amount of output VAT calculated on sales of goods, works and services, and property rights and the amount of VAT deducted in accordance with the rules stated in the first item above.
- The amount of input VAT related to activities that are subject to VAT at 10%. In this case, the amount of deduction is not limited by the amount of output VAT calculated on sales of goods, works and services, and property rights.
- The amount of input VAT related to activities that are subject to VAT at 0%. In this case, the amount of deduction is not limited by the amount of output VAT calculated on sales of goods, works and services, and property rights.
- The amount of input VAT related to sales of goods that are produced by a Belarusian tax resident and sold to another Belarusian tax resident for the transfer of the goods in international leasing with redemption right outside Belarus. In this case, the amount of deduction is not limited by the amount of output VAT calculated on sales of goods, works and services, and property rights and expensed for corporate profit tax purposes. Sales of goods described in the preceding sentence are exempt from VAT.
- Amounts of VAT paid from purchased fixed assets and intangible assets that were not deducted in the last fiscal period and that the taxpayer decided to deduct in equal shares in each reporting period of the current fiscal year. In this case, the amount of deduction is not limited by the amount of output VAT calculated on sales of goods, works and services, and property rights (see *Capital goods*).
- Amounts of VAT related to sales of goods to foreign companies and/or individuals from the territory of foreign states (certain criteria should be met). In this case, the amount of deduction is not limited by the amount of output VAT calculated on sales of goods, works and services, and property rights.

Capital goods. A taxpayer may deduct input VAT paid on purchased fixed assets and intangible assets in accordance with the usual VAT deduction rules, or capitalize input VAT by increasing the value of a fixed or intangible asset by the amount of VAT.

For VAT deductions of the preceding fiscal period for fixed assets and intangible assets, a taxpayer may deduct them in equal shares in each reporting period of the current fiscal period (1/12 of the amount for a reporting period of a month or 1/4 of the amount for a reporting period of a quarter).

Refunds. If the amount of VAT deductions (input VAT) in a VAT return exceeds the amount of output VAT payable, the taxpayer need not pay VAT, and the difference between the amount of VAT deductions and total VAT calculated on sales of goods (works and services) and property

rights may be deducted on a priority basis from the total amount of VAT in the following fiscal period or, in certain cases, refunded to the taxpayer.

The decision about reimbursement of VAT must be issued by the tax authorities not later than two working days from the date on which the taxpayer submitted the VAT return and application for refund. The tax authorities may examine the reasonableness of the refund.

Refund of VAT from the budget is carried out by the tax authorities in the following order:
- Reimbursable VAT must be offset during 30 days against the following:
  - — Current payments for taxes, duties and other mandatory payments to the budget
  - — Debt repayments and fines with respect to taxes, duties and other mandatory payments to the budget
  - — Debt repayments of penalties imposed by the tax authorities
- The remaining amount of reimbursable VAT is refunded to a taxpayer not later than five working days from the closing date for offset.

Preregistration costs. Not applicable.

G. Recovery of VAT by non-established businesses

Only registered legal entities that engage in taxable activities in Belarus may obtain recovery of VAT.

If a foreign legal entity is registered with the Belarusian tax authorities as a permanent establishment, VAT incurred on purchases of goods (works and services), including imported goods, and property rights is generally recoverable in accordance with the usual rules (see Section F).

Refund application. The VAT refund application must be sent to the appropriate tax office. The application must be completed in Russian. The refund is made in Belarusian rubles (BYN) to a bank account held in Belarus. The Ministry of Taxes and Duties of the Republic of Belarus has approved a model form of refund application.

Interest on refunds. Refunds of differences between the amount of VAT deductions and total VAT with respect to sales of goods (works and services) and property rights are made without the payment of interest.

Tax-free system. When foreign individuals purchase a product in Belarus that costs more than BYN80 from a vendor that is a party to the tax refund services agreement, and then the individuals export the product to a destination outside the territory of the Eurasian Economic Union, they can receive a refund of the VAT they paid if they apply for the refund within six months of the date of purchase.

H. Invoicing

VAT invoices and credit notes. Taxable persons are required to issue electronic VAT invoices for each VAT-taxable transaction. Electronic invoices form a basis for VAT payments between sellers and buyers of goods, works, services and property rights, as well as basis for credit of input VAT.

The electronic VAT invoice flow is organized through the web portal of the Ministry of Taxes and Duties of the Republic of Belarus. In general, the taxpayer must issue an electronic VAT invoice with respect to each transaction involved no later than the 10th of the month following the month in which the goods or services were provided or property rights were transferred and either present this invoice to the purchaser or upload it to the web portal.

Proof of exports. Goods exported from Belarus, as well as some types of works and services related to exports, are subject to VAT at a rate of 0% in Belarus. To confirm the applicability of the 0% rate, the supplier must collect and provide to the tax authorities the supporting documents.

Foreign-currency invoices. If money liabilities in a contract are fixed in BYN as an equivalent to an amount in foreign currency, the VAT base is determined in BYN, using the foreign-currency rate published by the National Bank of the Republic of Belarus on the date of actual realization.

B2C. In case of exempt supplies made to private consumers, VAT invoices are not required to be issued. In case of taxable supplies made to private consumers, the supplier should issue a single VAT invoice for all supplies to the private consumer in the reporting period and upload it to the web portal.

Electronic invoicing. Electronic VAT invoicing is mandatory for all VAT taxpayers (except for foreign companies, which are not registered with the Belarusian tax authorities). At the same time, it is not required to issue VAT invoices with respect to some transactions (e.g., electronic services provided by foreign companies to individuals residing in Belarus). Electronic VAT invoices are managed electronically through the web portal of the Belarusian Ministry of Taxes and Duties and are stored there.

I. VAT returns and payment

VAT returns. Taxpayers must file VAT returns quarterly or monthly (at the choice of the taxpayer) with cumulative effect in the calendar year by the 20th day of the month following the reporting period. The reporting period for the taxpayers who provide telecommunication services is a calendar month, and for the foreign companies providing electronic services, it is a calendar quarter. Payments must be made by the 22nd day of the month following the reporting period. VAT returns shall be filed in the form of electronic document.

Special schemes. Import VAT related to the goods imported from the Eurasian Economic Union must be declared in the tax return by the 20th day of the month following the date of acceptance of these goods in accounting.

VAT returns in respect of turnovers related to a property trust must be submitted to the tax authorities separately from VAT returns related to other activities of the trust manager.

Electronic filing and archiving. VAT returns must be filed in the form of an electronic document signed by taxpayer's digital signature.

Annual returns. Instead of submitting annual tax returns, VAT taxpayers submit monthly VAT returns (for VAT on import from the Eurasian Economic Union and in cases when taxpayer chooses calendar month as a reporting period for VAT) or quarterly VAT returns (in cases when taxpayer chooses calendar quarter as a reporting period for VAT), both with cumulative effect in the calendar year.

J. Penalties

The Belarussian administrative law provides for the following fines with respect to the filing of VAT returns and nonpayment or partial payment of the amount of tax:

- Delay in tax return submission (delay of not more than three working days): penalty on the responsible official of up to one basic unit or warning
- Delay in tax return submission (delay of more than three working days): penalty on responsible official of two basic units plus 0.5 basic unit for each full month of delay but not more than 10 basic units
- Nonpayment or partial payment of tax: penalty on legal entity of 40% of the underpaid tax but not less than 10 basic units
- Nonpayment or partial payment of tax resulting from the negligence of company's officials: penalty on responsible official of 2 to 20 basic units
- Willful nonpayment or partial payment of tax: penalty on responsible official of 40 to 120 basic units

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A. At a glance

Name of the tax	Value-added tax (VAT)
Local names	Belasting over de toegevoegde waarde (BTW) Taxe sur la valeur ajoutée (TVA)
Date introduced	1 January 1971
Trading bloc membership	European Union Member State
Administered by	Belgian Ministry of Finance (http://www.minfin.fgov.be)
VAT rates	
Standard	21%
Reduced	6%, 12%
Other	Zero-rated, exempt and exempt with credit

VAT number format	From 1 January 2008, the taxable person should use: Prefix: BE 10 digits: ZNNN.NNN.NNN Z = 0 or 1 N = figure from 0 to 9
VAT return periods	Monthly for all VAT-registered persons but quarterly for those whose total annual turnover (VAT exclusive) does not exceed EUR2.5 million (EUR250,000 for specific business sector) and whose quarterly intra-EU supplies do not exceed EUR50,000
Thresholds	
Registration	None
Distance selling	EUR35,000
Intra-Community acquisitions	EUR11,200 (for exempt taxable persons)
Recovery of VAT by non-established businesses	Yes

B. Scope of the tax

VAT applies to the following transactions:
- The supply of goods or services made in Belgium by a taxable person
- The intra-Community acquisition of goods from another Member State by a taxable person (see the chapter on the EU)
- The importation of goods from outside the EU, regardless of the status of the importer

Special rules apply to intra-Community transactions involving new means of transport (see the chapter on the EU) and to the supply of new buildings and the surrounding building land.

C. Who is liable

A taxable person is any business entity or individual that makes taxable supplies of goods or services or intra-Community acquisitions or distance sales in Belgium.

No VAT registration threshold applies in Belgium. A taxable person that begins activity in Belgium must notify the Belgian VAT authorities by means of form 604A.

Special rules apply to foreign or "non-established businesses."

Group registration. Effective from 1 April 2007, VAT grouping is permitted under the Belgian VAT law. VAT grouping is an option for Belgian businesses and Belgian branch offices of foreign businesses. The option to create a VAT group is subject to various conditions. Businesses must be financially, economically and organizationally linked with each other in order to form a VAT group. Subsidiaries in which the parent company owns more than 50% of their share capital must normally be included in the VAT group if the parent is a member. Specific rules exist regarding VAT adjustments when creating a VAT group. Transactions within a VAT group are disregarded for VAT purposes. However, in certain cases, these intragroup transactions may still be subject to VAT. Members must remain part of the VAT group for at least three years.

Non-established businesses. A "non-established business" is a business that does not have a seat of business or a fixed establishment in Belgium. A non-established business that makes supplies of goods or services in Belgium must register for VAT purposes in one or more of the following situations:
- Taxable transactions in Belgium for which it is liable to pay the Belgian VAT due
- Intra-Community acquisitions of goods in Belgium
- Intra-Community supplies of goods from Belgium
- Imports of goods, followed by the supply of the same goods

- Certain transactions in connection with a VAT warehouse
- Distance sales in excess of the threshold

Under the reverse-charge mechanism, the Belgian recipient of goods or services receiving the supplies must account for the Belgian VAT due instead of the non-established supplier. If this reverse charge applies to all the transactions of a non-established business in Belgium, it is in principle not possible for the latter to be VAT registered in Belgium, except in specific cases (for example, an import followed by a local sale subject to the reverse-charge mechanism). In certain other situations and provided that the conditions are fulfilled, a non-established business can still opt to register for Belgian VAT purposes.

The reverse charge generally applies to supplies made by non-established businesses to the following:

- Taxable persons established in Belgium that file periodic VAT returns in Belgium
- Non-established businesses that are registered for VAT and have appointed a fiscal representative in Belgium

Tax representatives. Businesses that are established in the EU may register for VAT without appointing a tax representative. However, EU businesses may opt to directly register for VAT purposes or appoint a tax representative under certain conditions.

Businesses that are established outside the EU must appoint a resident tax representative to register for Belgian VAT. The tax representative is jointly and severally liable for VAT debts with the business that it represents.

All non-established businesses must register with the Central VAT Office for Foreign Taxpayers (in Dutch, Centraal BTW-kantoor voor Buitenlandse Belastingplichtigen; in French, Bureau central de TVA pour Assujettis Étrangers) at this address:

Centraal BTW-kantoor voor Buitenlandse Belastingplichtigen
Dienst btw registratie - Financietoren
Kruidtuinlaan 50 bus 3410
1000 Brussels
Belgium

If a complete file has been submitted and no additional questions are raised, it takes approximately one to four months for a Belgian VAT ID number to be granted to a foreign business.

Reverse charge. Under the reverse-charge mechanism, the Belgian recipient of goods or services must account for the Belgian VAT due instead of the non-established supplier. If this reverse charge applies to all the transactions of a non-established business in Belgium, it is in principle not possible for the latter to be VAT-registered in Belgium, except in specific cases (for example, an import followed by a local sale subject to the reverse-charge measure). In certain other situations and provided that the conditions are fulfilled, a non-established business can still opt to register for Belgian VAT purposes.

The reverse charge generally applies to supplies made by non-established businesses to the following:

- Taxable persons established in Belgium that file periodic VAT returns in Belgium
- Non-established businesses that are registered for VAT and have appointed a fiscal representative in Belgium

Registration procedures. A foreign EU business without any establishment in Belgium can choose to register directly with the Belgian VAT authorities, i.e., without having to appoint a fiscal representative. In order to do so they must file the following documents:

- Form 604A, Declaration of Commencement of Activity (in Dutch, Aangifte van aanvang van een werkzaamheid; in French, Declaration de commencement d'activité). This form, which

gives more details about the taxable activities that require a Belgian VAT ID number, must be filed within one month after the start of taxable activities in Belgium.
- Form RBI, Direct VAT registration (in Dutch, Rechtstreekse BTW-identificatie; in French, Identification à la TVA Directe), which requires general information about the foreign EU business.

Late-registration penalties. A penalty ranging from EUR100 to EUR500 is assessed for late VAT registration. If the late registration results in the late payment of VAT, an administrative fine of 10% to 20% calculated on the VAT due and late payment interest at a rate of 0.8% per month may be imposed.

These documents must be dated and signed by someone who is entitled to legally bind the EU business, and the originals should be filed either in Dutch, in French or in German. Furthermore, the VAT application file needs to be completed with the following documents:
- A copy of the company's articles of association and any modifications (if available)
- A copy of the registration in the trade register of the company in the Member State of establishment
- A copy of an order form, contracts (or correspondence) or invoices proving the taxable activities in Belgium and the liability to register for Belgian VAT purposes

However, a non-EU business liable to register for Belgian VAT purposes, without any establishment in Belgium, is still required to appoint a fiscal representative in Belgium. To do so they must file the following documents:
- Form 604A, Declaration of Commencement of Activity (in Dutch, Aangifte van aanvang van een werkzaamheid; in French, Declaration de commencement d'activité) which is described above
- Form 800N, Request for recognition as fiscal representative (in Dutch, Voorstel tot erkenning van een aansprakelijke vertegenwoordiger; in French, Proposition d'agrément d'un représentant responsable pour un assujetti non établi en Belgique); form completed by the foreign company to request a Belgian company to act as its fiscal representative toward the Belgian VAT authorities
- Form AVI, Fiscal representation VAT identification (in Dutch, Aansprakelijke vertegenwoordiging BTW-identificatie; in French, Représentation Fiscal Identification à la TVA), which provides more information about the business and the appointed fiscal representative

These documents must be dated and signed by someone who is entitled to legally bind the non-EU business, and the originals should be filed either in Dutch, in French or in German depending on where the fiscal representative is duly established (Dutch-, French- or German-speaking Community). Furthermore, the VAT application file needs to be completed with the following documents:
- Form 801, Acceptance of the Belgian VAT representative (in Dutch, Verbintenis van een aansprakelijke vertegenwoordiger van een niet in België gevestigde belastingplichtige; in French, Engagement d'un représentant responsable d'un assujetti non établi en Belgique) in which the fiscal representative agrees to act for the foreign company regarding VAT issues. The form must be completed and signed in the original by a person who is empowered to legally bind the Belgian company.
- A copy of the company's articles of association and any modifications (if available).
- A copy of the registration in the trade register of the company in the country of establishment.
- An original certificate issued by the local tax authorities evidencing that the company is registered for VAT purposes in the Member State of establishment (certificate cannot be older than one year at the time of filing of the application).
- A copy of an order form, contracts (or correspondence) or invoices proving the taxable activities in Belgium and the liability to register for Belgian VAT purposes.
- A bank guarantee in an amount of one-quarter of the (theoretical) VAT due in Belgium for a period of 12 consecutive calendar months, in favor of the Belgian VAT authorities, drawn up in duplicate by a Belgian bank or the Belgian branch of a foreign bank. The text of the guarantee

must be in accordance with the model agreement as provided by the VAT authorities, and differences in the text of this guarantee are in principle not allowed.
- A "personal guarantee" issued by the fiscal representative.

All documents must be sent to the Central VAT Office for Foreign Taxpayers (in Dutch, Centraal BTW-kantoor voor Buitenlandse Belastingplichtigen; in French, Bureau central de TVA pour Assujettis Étrangers) at the address above.

If a complete file has been submitted and no additional questions are raised, it takes approximately one to four months for a Belgian VAT ID number to be granted to a foreign business.

Digital economy. In case of digital services, telecom services or broadcasting services supplied in a B2B context, the place of supply is the place where the recipient is established. No Belgian VAT should be charged, and reverse charge applies unless supplier and customer are established in Belgium.

In case of digital services, telecom services or broadcasting services supplied in a B2C context, until the end of 2014 only Belgian businesses and foreign businesses that were not established in the EU were liable to charge Belgian VAT to the recipients that were established in Belgium. As from 2015, Belgian VAT is always due in case of supply to customers established in Belgium, disregarding whether the supplier is established inside or outside the EU. We refer to the section on the Mini One-Stop Shop below for more information.

Mini One-Stop Shop. For digital services, telecom services or broadcasting services supplied in a B2C context, the Mini One-Stop Shop (MOSS) is an optional system enabling the taxable persons to avoid a VAT registration in each Member State where VAT is due on those services.

The place of supply of the digital services, telecom services or broadcasting services supplied in a B2C context is where the recipient is established. In other words, if the recipient is established in Belgium, Belgian VAT is always due, regardless of where the supplier is established. As from January 2019, the regime will be amended as follows:
- Main rule: the place of supply is where the recipient is established (since 2015).
- Special rule: if the value of the digital services, telecom services or broadcasting services supplied by a taxable person in a B2C context is <EUR10,000 per year, the place of supply is where the supplier is established. On the basis of an option, the taxable persons can exclude the application of that specific location rule.

In order to avoid the VAT registration in each Member State where the VAT is due, Belgian taxable persons could apply for a MOSS VAT registration in Belgium. Taxable persons established in other EU Member States could do the same in their own Member State. Taxable persons established outside the EU with an establishment in the EU should register for MOSS in a Member State where they have an establishment. Taxable persons with no establishment in the EU are free to choose the EU Member State where they apply for a MOSS registration.

A Belgian MOSS VAT registration should be filed electronically (via www.eservices.minfin.fgov.be). Once registered, taxable persons should submit a MOSS VAT return quarterly in an electronic format, reporting the turnover and the VAT due per Member State. Furthermore, taxable persons applying for MOSS registration should make a single payment including the total amount of the VAT due in the different Member States concerned.

Only digital services, telecom services and broadcasting services in other Member States may be reported in the MOSS return. All other transactions in Belgium should still be reported in the normal VAT return.

Deregistration. When a taxable person stops its economic activities in Belgium and consequently wants to deregister its VAT number, this should be communicated to the VAT authorities within one month by submitting form 604C.

Exemption from registration. Taxable persons established in Belgium are not liable to register for VAT if they only perform exempted activities not giving rise to a right to deduct input VAT. Taxable persons not established in Belgium and liable to register for VAT on the basis of the Belgian VAT code can be exempted from registration, in some specific cases:

- In some cases, the exemption from VAT registration is mandatory. For example, exemption is based:
  - — Either on the nature of the transactions (performance of mere export supplies out of Belgium, some imports of goods; purchase of goods subject to the VAT-only warehouse regime; etc.)
  - — Or on the existence of a more favorable regime
  - — Or on the occasional nature of the operations carried out
- In some other situations, the exemption from VAT registration is not mandatory (e.g., for consignment stock in Belgium). In these situations, a taxable person not established in Belgium can still apply for a VAT registration in Belgium, if so desired.

Voluntary registration. In the following cases, a taxable person that is not established in Belgium can request a voluntary registration:

- A taxable person (established in the EU or outside EU) performs works in Belgium related to immovable property for which the Belgian VAT is due by the recipient of the service, in accordance with the general reverse-charge rule provided by Article 51, §2,5° of the Belgian VAT code.
- A taxable person (established in the EU) makes supplies of goods or services (other than immovable works) on a regular basis in Belgium for which the VAT is due by the recipient of the supply in accordance with the general reverse charge provided by Article 51, §2,5° of the Belgian VAT code. This voluntary registration can only be applied when the amount of deductible Belgian input VAT reaches or exceed EUR10,000 a year.

D. VAT rates

The term "taxable supplies" refers to supplies of goods and services that are liable to a rate of VAT, including the zero rate.

In Belgium, the following VAT rates apply:

- Standard rate at 21%
- Reduced rates at 6% and 12%
- Zero rate (0%)

The standard rate of VAT applies to all supplies of goods or services, unless a specific measure provides for a reduced rate, the zero rate or exemption.

Examples of goods and services taxable at 0%

- Waste products (hard-copy newspapers, metal waste, etc.)

Examples of goods and services taxable at 6%

- Under certain conditions, goods of basic necessity and social services
- Books and magazines
- Certain foodstuffs (milk, fish, meat, fats and oils)
- Drugs and medicines
- Water
- Accommodation
- Improvements and renovations to buildings older than 10 years (before 1 January 2016, 5 years)
- Original works of art

Examples of goods and services taxable at 12%

- Public housing
- Restaurant services (excluding drinks)

The term "exempt supplies" refers to supplies of goods and services that are not liable to tax. Exempt supplies do not give rise to a right of input tax deduction (see Section F). Certain supplies are classified as "exempt with credit," which means that no VAT is chargeable, but the supplier may recover related input tax.

Examples of exempt supplies of goods and services without right of input VAT deduction

- Real estate transactions (except "new buildings" and accompanying land)
- Services of doctors and dentists (except for the supply of aesthetical surgery by doctors)
- Finance
- Insurance
- Human organs

Examples of goods and services exempt with credit

- Exports of goods outside the EU and related services
- Intra-Community supplies of goods and intangible services supplied to another taxable person established in the EU, or to any recipient outside the EU (see the chapter on the EU)

Option to tax for exempt supplies. In Belgium, there is an option to tax transactions, including negotiation, concerning deposit and current accounts, payments, transfers, debts, checks and other negotiable instruments. Furthermore, persons other than professional contractors (i.e., any person or company for whom the regular business consists of sale and redevelopment of real estate) may opt for taxation in case of a transfer of a new building (either used for professional purposes or not).

Finally, as from January 2019, an option to tax for the rent of a building (or a part of a building) used for professional purposes (B2B) will be introduced in Belgium, where the following conditions are met:

- It must concern a building or a part thereof.
- The tenant must be a taxable person who uses the building (or part thereof) exclusively for his economic activity.
- It must concern a building for which no VAT on the construction/renovation works became due before 1 October 2018.
- Both parties (lessor and tenant) must jointly opt to tax the rent.

E. Time of supply

The time when VAT becomes due is called the "time of supply" or "tax point." In Belgium, different time-of-supply rules apply to goods and services.

The time of supply is one of the following:

- The moment of issuance of the invoice
- If no invoice is issued, the 15th day of the month following the month of the supply

The time of supply is set at an earlier date if a payment is received before the goods are put at the buyer's disposal or before the service is completed and the goods/services are clearly described.

Continuous supplies of services. For a continuous supply of services for which either periodic invoices are issued or periodic payments are made, the time of supply is at the end of each period for which each statement of account or payment relates.

If the recipient is liable to account for the VAT due for a continuous supply of services under the business-to-business (B2B) main rule and if no invoices are issued or payments are made, the time of supply is at the end of each year.

Intra-Community supplies and acquisitions of goods. VAT becomes due on the date the invoice is issued if the invoice is issued after the supply or on expiry of the 15th of the month following the month of the supply if no invoice has been issued by that time.

Intra-Community supplies of services. VAT becomes due at the time the services are supplied or at the time each prepayment is made.

Imported goods. The time of supply for imported goods is either the date of importation or when the goods leave a duty-suspension regime. However, the payment of import VAT may be deferred after the receipt of an individual deferment license.

Please note that the payment of import VAT can be deferred to the Belgian VAT return if the importer of record is in possession of an individual deferment license (a so-called E.T. 14.000 license). In order to obtain such a license, the taxable person must file a (specific) application but no longer needs to make an advance payment of 1/24th of the annual import VAT due.

Cash accounting. Belgian VAT law allows suppliers active in B2C transactions to postpone the payment of VAT on supplies of movable goods and services to reinstated private persons, where no obligation to issue an invoice exists, until and to the extent of receipt of the price.

The cash accounting regime has also been introduced for supplies made to public bodies acting as a government (according to article 6 of the Belgian VAT Code).

Reverse-charge services. The time of supply for reverse-charge services is when the invoice is issued. If no invoice is issued, the time of supply is the 15th day of the month following the month of the supply. The time of supply is set at an earlier date if a payment is received before the service is finished.

Prepayments. Regarding local supplies of goods or services, VAT is due on prepayments at the time each payment is received. There is also an obligation to issue an invoice no later than the 15th day of the month following the month of the (pre)payment.

With respect to intra-Community supplies of services, VAT is due on prepayments at the time each payment is received.

No VAT is due on prepayments that relate to intra-Community supplies of goods.

Leased assets. For leased assets, the VAT is due on the installments at the time the payment is made.

This rule is based on the fact that from a Belgian VAT point of view, there is no distinction between a financial lease agreement or an operational lease agreement. Therefore, where the transaction is considered as a use of goods, this would then mean it qualifies as a supply of services for consideration whereby each periodical remuneration is subject to Belgian VAT. In this context a lease agreement should include an option to acquire the goods at the end of the lease period.

The Belgian VAT administration sticks to a classic legal analysis by distinguishing between whether the contract provides for the automatic transfer of ownership or, on the contrary, whether the contract provides an option to acquire the goods at the end of the contract. That classic analysis implies that a financial lease may remain an ordinary rental under the VAT in Belgium.

If the option in the lease agreement is not set at fair market practices, the VAT treatment of the lease agreement may be challenged.

Similarly, to qualify as a real estate lease, the contract cannot include the firm obligation to acquire the property but must contain an option to acquire significant residual rights in the property.

Goods sent on approval. For goods sent for approval ("trial sale") or goods sent for sale or return (consignment shipment), special tax point rules apply. When goods are sent to a customer for trial, the supply of goods is regarded as performed when the customer confirms the effective purchase of the goods. When goods are sent to a customer for resale, the first supply of goods is regarded as performed when the goods are resold.

As a consequence:
- Belgian VAT is not due at the time when the goods are sent to the client or the reseller.
- Belgian VAT is not due if the goods are returned to the first supplier.

F. Recovery of VAT by taxable persons

In principle, every VAT-taxable person has the right to deduct the Belgian input VAT incurred. The right to recover input VAT depends mainly on the purpose for which the goods or services are purchased.

The goods or services bought must be used for taxable business purposes. VAT incurred on goods or services bought for private purposes cannot be recovered. In addition, input VAT cannot be recovered on purchases that are used to make exempt supplies (without credit for input tax). Where goods or services are bought for both business and private or exempt purposes, the input VAT can only be recovered to the extent that the goods or services are used for business purposes or taxable activities (calculated on a pro rata basis).

In this respect it is key to hold a valid tax invoice or customs document. Exceptions apply to supplies for which the recipient is liable for the VAT due (reverse charge). Belgian input VAT can only be deducted at the end of the third calendar year following the year in which the VAT became due.

Non-deductible input tax. Input tax may not be recovered on purchases of goods and services that are not used for business purposes (for example, goods acquired for private use by a business). In addition, input tax may not be recovered for some items of business expenditure.

The following lists provide some examples of items of expenditure for which input tax is not deductible and examples of items for which input tax is deductible if the expenditure is related to a taxable business use.

Examples of items for which input tax is nondeductible

- Purchase, lease, hire, maintenance or fuel for cars (except in certain specific cases, such as car dealers): VAT only deductible on expenses relating to the professional use (business use) of passenger cars with a maximum of 50%; the scope of this limitation is broadened to include the purchase or lease of a light truck, including all the costs, provided that there is a mixed use
- Private expenditure
- Business gifts (unless valued at less than EUR50, VAT excluded, per unit)
- Alcohol
- Tobacco
- Hotel accommodation, meals and beverages (exceptions may apply)
- Costs associated with hosting receptions and other entertainment costs (except reception costs that have an advertising purpose, which must be proven by way of flyers, advertising leaflets or similar evidence)

Examples of items for which input tax is deductible (if related to a taxable business use)

- Attending conferences, seminars and training courses
- Expenditure for the collective social benefit of employees
- Business use of home telephone
- Advertising
- Transport
- Books

Partial exemption. Input tax directly related to the making of exempt supplies (without input tax credit) is generally not recoverable. If a Belgian taxable person makes both exempt and taxable supplies it may not recover input tax in full. This situation is referred to as "partial exemption."

In Belgium, the amount of input tax that a partially exempt business may recover may be calculated using either of the following methods:

- The first method is a general pro rata calculation, based on the percentage of taxable and exempt turnover. The recovery percentage is rounded up to the nearest whole number (for example, a recovery percentage of 77.2% is rounded up to 78%).
- The second method is direct attribution, which is a two-stage calculation. The first stage identifies the input VAT that may be directly allocated to taxable and to exempt supplies. Input tax directly allocated to taxable supplies is deductible, while input tax directly related to exempt supplies is not deductible. Supplies that are exempt with credit are treated as taxable supplies for these purposes. The next stage identifies the amount of the remaining input tax (for example, input tax on general business overhead) that may be partially allocated to taxable supplies and consequently partially recovered. The calculation may be performed using the general pro rata calculation based on revenues (turnover) of supplies made, or it may be a special calculation agreed to with the VAT authorities.

Capital goods. The deduction of VAT paid on the acquisition of investment goods must be limited in the case of private use of those goods. In this respect, Belgium has transposed into Belgian law the amendments made by the Council Directive 2009/162/EU on 22 December 2009 for all capital goods (movable and immovable).

According to Article 45, §1 of the Belgian VAT Code, in the case of an acquisition of a capital good subject to mixed use, the deduction of VAT is disallowed for the part of private use, but there is no requirement to report a deemed supply for this part.

Capital goods are items of capital expenditure that are used in a business over several years. Input tax is deducted in the VAT year in which the goods are acquired. The amount of input tax recovered depends on the taxable person's partial exemption recovery position in the VAT year of acquisition (non-property purchases) or first use (property purposes). However, the amount of input tax recovered for capital goods must be adjusted over time if the taxable person's partial exemption recovery percentage changes during the adjustment period. It must also be adjusted if the use of the capital goods changes.

In Belgium, the capital goods adjustment applies to the following assets for the number of years indicated:

- Buildings (adjusted for a period of 15 years or 25 years if option to tax rent is levied – this period starts running as from the 1st January of first use of the building)
- Other movable capital assets (adjusted for a period of five years – this period starts running as from the 1st January of the acquisition of the movable capital assets)
- Effective from 7 January 2007, certain services, such as intellectual property rights (including patents, licenses and trademarks or immovable work undertaken by the tenant of a building) considered to be capital goods if amortized for accounting purposes over a period of five years or more

The adjustment is applied each year following the year of acquisition (non-property purchases) or first use (property purposes) to a fraction of the total input tax (1/15 for land and buildings and 1/5 for other movable capital assets or qualifying services). The adjustment may result in either an increase or a decrease of deductible input VAT, depending on whether the ratio of taxable supplies made by the business has increased or decreased compared with the year in which the capital goods were acquired (non-property purchases) or first used (property purposes).

Refunds. If the amount of input tax recoverable in a monthly period exceeds the amount of output tax payable in that period, the taxable person has an input tax credit. A taxable person may request a refund of the credit by marking the relevant box on the VAT return form. A refund may generally be requested only at the end of a quarter. However, a taxable person that meets certain conditions may receive permission to request monthly VAT refunds.

Preregistration costs. There is a tolerance regarding the preregistration costs made in the course of VAT registration. If the VAT registration and exploitation of the economic activity follows in an acceptable time period, the deduction will be accepted.

Write-off of bad debts. A taxable person is under certain conditions entitled to recover any VAT already paid to the VAT authorities in respect of bad debts via the VAT return. This adjustment must be supported by sufficient evidence that the customer will never pay the debt, such as the company's being declared bankrupt. No official statement from the liquidator is required. If subsequently, (part of) the debt can be recovered, the VAT should be equally repaid to the Belgian VAT authorities.

Noneconomic activities. Noneconomic activities do not create a right to deduct VAT.

G. Recovery of VAT by non-established businesses

Belgium refunds VAT incurred by businesses that are neither established in Belgium nor required to be registered for VAT there. A non-established business is allowed to claim Belgian VAT to the same extent as a VAT-registered business.

For businesses established in the EU, refund is made under the terms of the EU Council Directive 2008/9. For businesses established outside the EU, refund is made under the terms of the EU 13th Directive. Belgium does not exclude any non-EU country from the refund scheme.

VAT refund claims of EU businesses not established in Belgium can be filed through a portal website in the home country of the non-established entity. Original invoices do not need to be submitted with the refund claim.

For the general VAT refund rules applicable to the refund schemes for EU businesses and non-EU businesses, see the chapter on the EU.

Refund application. Claims must be filed through a portal website in the home country. In some cases, electronic copies of invoices must be added, depending on the type of cost and the taxable amount of the invoice.

The minimum claim period is three months, while the maximum period is one year. The minimum claim for a period of less than a year is EUR400. For an annual claim, the minimum amount is EUR50.

The statute of limitations for all refund claims is one year, and claims must be submitted before 30 September of the following year.

Repayment interest. If an EU refund is not made within four months, the Belgian VAT authorities pay interest to the claimant at a rate of 0.8% per month. However, interest applies only if the application is filed within six months after the end of the year in which the VAT became due. Interest is not paid to claimants that apply for refunds under the EU 13th Directive scheme.

H. Invoicing

VAT invoices and credit notes. A Belgian taxable person must generally provide a VAT invoice for all taxable supplies made, including exports and intra-Community supplies. Invoices are not automatically required for retail transactions, unless requested by the customer. Invoices may not be issued for supplies that are exempt from VAT (without input tax credit).

A VAT invoice is necessary to support a claim for input tax deduction or a refund under the EU 2008/9/EU or 13th Directive refund schemes (see the chapter on the EU).

A VAT credit note may be used to reduce the VAT charged and reclaimed on a supply of goods or services. The amount of VAT credited must be separately itemized on the credit note. It must be cross-referenced to the original VAT invoice and contain the same information. The following statement must appear on the credit note: "*VAT to be repaid to the Belgian State to the extent that it was initially deducted*."

Electronic invoicing. The VAT law permits electronic invoicing, in line with the EU Directive 2010/45/EU.

Proof of exports and intra-Community supplies. Belgian VAT is not chargeable on supplies of exported goods and on intra-Community supplies of goods (see the chapter on the EU). However, to qualify as VAT-free, exports and intra-Community supplies must be supported by evidence that the goods have left Belgium. Acceptable proof includes the following documentation:

- For an export, a copy of the export document, officially validated by Customs, must show the supplier as the exporter of record or should make a reference to the underlying invoice issued by the supplier.
- For an intra-Community supply, a range of commercial documentation (such as purchase orders, transport documentation, proof of payment and contracts) is required. Each document is permitted as evidence but each document in itself is not sufficient. The valid VAT number (issued by another Member State other than Belgium) of the customer should be mentioned on the invoice. In cases where the supplier does not have sufficient documents in order to substantiate the intra-Community transport of the goods from Belgium to another Member State, the transport could be certified by a "*destination document*"established by the supplier or by the purchaser. The use of this simplification measure is subject, *inter alia*, to the following conditions:
  - — The "*destination document*" confirms that the goods are in the possession of the purchaser in another Member State than Belgium.
  - — The "*destination document*" can include all the intra-Community supplies made in the profit of a client during a period of three consecutive calendar months.
  - — The "*destination document*" includes the following mentions:
    - — Name, address and VAT number of the supplier.
    - — Name, address and VAT number of the purchaser.
    - — Confirmation that the "*destination document*" relates to the arrival of intra-Community supply of goods.
    - — A description of the goods.
    - — A reference to the related invoice(s).
    - — Month(s) and year of the arrival of the goods.
    - — Place where the goods arrived.
    - — Price of the supplied goods.
  - — The "*destination document*" is signed by the purchaser or by a person who is entitled to sign for the purchaser (by reason of his function). The identity and the function of that person should be confirmed by the purchaser to the supplier by email, letter or other written document.
  - — The "*signed destination document*" can be sent by electronic means (email, etc.). However, the authenticity of the signature is guaranteed.
  - — The "*signed destination document*" is kept by the supplier.

A complete description of that simplification measure can be found in the Decision ET 129.460 dd. 01/07/2016 of the Belgian VAT authorities.

Foreign-currency invoices. Invoices may be issued in any currency, provided that the amount of VAT due is expressed in euros (EUR). If an invoice is issued in foreign currency, the amount of VAT due must be converted to euros using the latest exchange rate published by the European Central Bank or, if the European Central Bank has published no exchange rate, the latest exchange rate published by the National Bank of Belgium. However, a contractual exchange rate may be used instead if the exchange rate used is indicated in the contract and on the invoice and if it is actually used to determine payment between the parties.

There are no requirements with regard to the language of the invoice. However, for inspection purposes, the VAT authorities may ask for a translation if the invoice is issued in a language other than Dutch, French or German (the official languages in Belgium).

B2C. Effective 1 January 2015, there is no requirement to issue a VAT invoice (or any other document) for supplies by taxable persons of telecommunications, broadcasting and electronic services to non-VAT taxable customers (i.e., private consumers), irrespective of the use of the Mini One-Stop Shop scheme. Only when providing these services to nontaxable legal bodies or taxable persons, is there such a requirement to issue full VAT invoices. For further details of the VAT rules on electronic services in the EU, please refer to the EU chapter.

For other supplies made by taxable persons to nontaxable persons (i.e., private consumers), there is no obligation to issue full VAT invoices or receipts in Belgium. However, for specific sectors, such as hotels, catering, restaurants and car washing services, only receipts are required to be issued to private consumers.

I. VAT returns and payment

VAT returns. Belgian VAT returns are usually submitted for monthly periods, and for taxable persons with more than EUR50,000 of intra-Community supplies of goods per quarter, a monthly filing is required.

Taxable persons with a turnover of less than EUR2.5 million may opt to submit returns quarterly (for some supplies of goods, the threshold is EUR2.5 million). A taxable person who has chosen to file quarterly VAT returns can, during the calendar year, be obliged to start filing monthly VAT returns from the time the threshold of EUR2.5 million of annual turnover or EUR50,000 of intra-Community supplies of goods per quarter has been exceeded.

Taxable persons that file quarterly returns must prepay the VAT monthly based on the amount of VAT payable in the previous quarter. Return liabilities must be paid in euros.

Monthly VAT returns and payment are due the 20th day of the month following the return period. However, if that date falls on a Saturday, Sunday or public holiday, the due date will be postponed to the next working day. The payment of the VAT due needs to be made by the same date.

Quarterly VAT returns must be filed by the 20th day following the relevant calendar quarter. However, if that date falls on a Saturday, Sunday or public holiday, the due date will be postponed to the next working day. The payment of the VAT due needs to be made by the same date.

Monthly payments for the quarter must be made on the 20th day of the second and third months of the VAT quarter. The amount due is a prepayment that must equal 1/3 of the balance of VAT due for the previous quarter. The balancing payment is due with the VAT return.

Special schemes. A special regime is provided for professional dealers of secondhand cars. In particular, where the professional dealer has purchased secondhand cars on which no VAT was charged, the taxable person can account for VAT on the margin (difference between purchase and

sales price) on the sale of the secondhand goods. The same principles apply for, among others, art dealers.

Sale of assets previously used by a company. If the company has deducted the VAT paid on the purchase of the assets, then in principle VAT is due on the price of the goods at the moment the goods are sold. In this respect, please check the exceptions with regard to immovable property.

Electronic filing and archiving. All taxable persons are required to file their Belgian VAT returns electronically instead of in hard-copy format. The Belgian VAT returns should be electronically filed through the internet (via the INTERVAT-application). Only when the taxable person has demonstrated the impossibility of filing the VAT return by electronic means and obtained a written approval from the Belgian VAT authorities may it file the return in hard copy.

Annual returns. Annual VAT returns are not permitted in Belgium. However, every year an annual sales listing (form 725) has to be filed by 31 March of the next year. The annual sales listing is used to record all sales in excess of EUR250 made during the calendar year to customers that are VAT-registered in Belgium.

J. Penalties

A penalty is assessed for late submission of a VAT return in the amount of EUR100 per month, up to a maximum of EUR1,000.

Since July 2018, new detailed guidelines have been issued. The Belgian VAT legislation contains a detailed list of administrative penalties, both proportional and non-proportional, which the VAT authorities automatically impose when violations against Belgian VAT legislation are detected. The new guidelines classify all violations into different categories. For certain categories, the new penalty policy will apply, while other categories are subject to additional conditions or are explicitly excluded from the application of the new penalty policy.

For some categories, the penalties will automatically be cancelled if the below four conditions are fulfilled:

- It is the first violation of the same nature in a period of four years ("reference period").
- The taxable person committing the violation was deemed to act in good faith. It is important to note that from now on, good faith will be assumed. The Belgian administration has to prove the contrary.
- An individual and motivated request should be submitted, clearly indicating all reasons why the taxable person is applying for a waiver.
- Upon filing of the request, the taxable person has complied with the obligation for which a fine was imposed and has submitted all periodic VAT returns.

For violations identified at the occasion of an audit that have no impact on the VAT (payable or refundable) position, the new penalty policy will apply. This is for example relevant for incoming invoices for which the recipient does not apply erroneously the reverse-charge mechanism. In that situation the non-application of the reverse charge could lead in principle to (proportional) penalties. However, on basis on the new penalty policy, the penalties imposed for the first violation could be canceled.

For fines imposed relating to the second violation of the same nature in the reference period, the amount of the fine will be reduced to 2%. For fines imposed relating to the third and all subsequent violations of the same nature in the reference period, the fine will be reduced to 5%. These reductions are subject to the above conditions.

Certain categories of violations are explicitly excluded from the application of the above policy (e.g., nonpayment of VAT due, late submission of periodical VAT returns, fraud, etc.). It is important to note that even when the new fine policy does not apply, the VAT authorities may still allow

the application for a waiver or reduction of the fine on the grounds of force majeure or based on specific elements of the case.

The guidelines also reconfirm the substance-over-form principle, introduced by ECJ case-law in case of noncompliant purchase invoices. This implies that the mere observation that an invoice does not meet the applicable invoicing requirements no longer result in a rejection of input VAT deduction. Instead, it opens the possibility to provide corrective invoices or other supporting documents so that the VAT deduction can be safeguarded.

The Belgian administration will apply these new guidelines to all requests submitted after 1 April 2018, for fines which were imposed after 1 January 2018.

K. EU filings

Intrastat. A Belgian taxable person that trades with other EU countries must complete statistical reports, known as Intrastat if the value of either its sales or purchases of goods exceeds certain thresholds. Separate reports are required for intra-Community acquisitions (Intrastat Arrivals) and for intra-Community supplies (Intrastat Dispatches).

The threshold for Intrastat Arrivals for the 2018 calendar year is EUR1.5 million. The threshold for Intrastat Dispatches for the 2018 calendar year is EUR1 million.

Belgian taxable persons must complete Intrastat declarations in euros, rounded up to the nearest whole number.

From 2019, the Intrastat Dispatches return must refer to two new elements, as follows:
- Country of origin of the goods. If the country is known, the country is where the goods were produced or processed so that they constitute a new product under another commodity code. In the negative, use the code "QU".
- VAT number of the other party involved in the transaction.

These elements will come into force from the return for January 2019, due in February 2019.

The Intrastat return period is monthly. The submission deadline is the same as for the VAT return, which is the 20th day of the month following the return period.

A penalty, varying from EUR100 to EUR10,000, can be imposed if a person does not comply with the imposed obligations. No distinction is made according to the nature of the offense (e.g., late submission, missing or inaccurate declarations).

EU Sales Lists. If a Belgian taxable person makes intra-Community supplies in a return period, it must submit an EU Sales List (ESL) to the Belgian VAT authorities. An ESL is not required for a period in which the taxable person has not made any intra-Community supplies.

Supplies of goods are marked by the letter "L" and supplies of services by the letter "S." Intra-Community sales performed by party B in simplified triangulation schemes must continue to be marked by the letter "T."

Effective from 1 January 2010, ESLs are filed monthly by monthly VAT filers and quarterly by quarterly VAT filers.

Penalties may be imposed for late, missing or inaccurate ESLs.

Bolivia

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A. At a glance

Name of the tax	Value-added tax (VAT)
Local name	Impuesto al Valor Agregado (IVA)
Date introduced	July 1986
Trading bloc membership	None
Administered by	Internal Taxes Service (http://www.impuestos.gob.bo)
VAT rate	13% (nominal rate) 14.94% (effective rate)
VAT number format	9999999999 (taxpayer identification number [NIT])
VAT return period	Monthly
Thresholds Registration	Commencement of sales activity
Recovery of VAT by non-established businesses	No

B. Scope of the tax

VAT applies to the following transactions:
- Sales of movable goods placed in Bolivia by taxable persons
- All services rendered in Bolivia
- Importation of goods
- Leasing inside Bolivia

Taxation of digital services. Effective 20 December 2013, the Bolivian tax authorities published rules for the application of VAT on e-commerce. They include the following requirements:
- The sales price of goods, stated on a website, must include the VAT amount.
- The seller must deliver an invoice or an equivalent document issued electronically to the buyer.
- The seller must indicate its tax identification number on its website.

C. Who is liable

A registered VAT payer is a business entity or individual that performs the following actions:
- Sells movable goods
- Sells movable goods on behalf of others
- Renders any kind of services
- Makes definitive imports (these are products that are purchased in foreign countries and brought into Bolivia)
- Engages in the operational or financial leasing of movable or fixed goods

Group registration. Grouping for VAT purposes is not allowed under Bolivian law. Legal entities that are closely connected or are related parties must register for VAT individually.

Non-established businesses. A "non-established business" is a business that does not have a fixed establishment in Bolivia. A non-established business must register as a taxpayer if it makes "habitual" supplies of goods or services in Bolivia. Under the applicable regulation, "habitual" must be determined by weighing the nature, amount or frequency of the sales of movable goods and services.

A non-established business is not required to appoint a tax representative to register for VAT.

Reverse-charge services. In Bolivia, the reverse charge for services does not apply.

Tax representatives. The tax representative of a company is the legal representative resident in Bolivia and registered with the tax authority to act for the company in matters relating to VAT.

Registration procedures. A registration request should be submitted through the Virtual Office of the tax authority (http://ov.impuestos.gob.bo/RegistroPadron.aspx) by filing Form MASI-001 (Request for registration). Once submitted, the Virtual Office will assign a file number to this request. A legal representative must visit the tax authority in person and present the following documents in hard copy:
- Notarized incorporation deed
- The legal representative's valid identification document (ID)
- Notarized power of attorney for the legal representative to act with authority for the applicant
- Electric utility invoice for the branch domicile
- Electric utility invoice for the legal representative's domicile
- Map (drawing) of the domiciles of the branch and the legal representative

Registration can be processed in one week if all documents are presented in the correct form to the tax authority.

Late-registration penalties. Penalties for late VAT registration range from USD16 to USD1.645 approx. Subsequently the company is requested to register and obtain a Tax Identification Number (NIT). The penalties do not prevent the Revenue Authority to start a tax audit on the com-

pany and determinate a tax debt, for the periods where the company was performing business activity without being registered for VAT. Where the company refuses to pay the penalties and proceeds with the VAT registration, and continues performing business activity, the Revenue Authority's last action is to close the business until the situation is rectified.

Deregistration. In Bolivia, companies do not deregister. It is possible, however, to deactivate the Tax Identification Number.

Digital economy. Bolivia does not apply VAT on the importation of services that are performed outside of the country.

Exemption from registration. VAT law in Bolivia does not contain any provision for exemption from registration. In situations where services and sales are performed habitually in Bolivia, registration for accomplishment of local taxes must take place.

Voluntary registration. VAT law in Bolivia does not contain any provision for voluntary VAT registration, as there is no registration threshold (i.e., all entities that make taxable supplies are obliged to register for VAT).

D. VAT rates

In Bolivia, VAT applies at a rate of 13% to supplies of goods or services, unless a specific measure provides an exemption. The effective rate of VAT is 14.94%, because VAT must be included in the sales price. Exports are taxed at a zero rate.

The following supplies are exempt from VAT:
- Goods imported by members of diplomatic corps recognized in Bolivia
- "Bona fide" introduced merchandise, up to a limit of USD1,000
- Life insurance quotas (monthly payments with respect to a life insurance contract)
- For securities registered on the Bolivian Stock Exchange, capital gains generated by sales, results derived from the valuation processes determined by the Financial Supervisory Authority of Bolivia (Autoridad de Supervisión del Sistema Financiero, or ASFI) and results generated in the application of generally accepted accounting principles
- Transfers of goods or assets subject to the securitization process (*titularización*) administered by the securitization association, at the beginning and end of the process (under this process, the goods must be transferred to an independent fund [*patrimonio autonomo*] and, when the process is completed, the goods are returned to the original owner)
- Operations regarding sales or transfers of portfolios (financial intermediation, insurance and pension)
- Interest from loans received by financial entities
- Inbound tourism and lodging services for foreign tourists without a residence or address in Bolivia
- Artistic events focused on production, presentation and promotion of theater, dancing, national folklore, painting, sculpture and movies of Bolivian artists, if they are sponsored or developed in locations in Bolivia that are managed or owned by a municipal government or the Bolivian government
- Since 2013, the sale of books printed in Bolivia or those imported by or published by Bolivian institutions

Option to tax for exempt supplies. Not applicable.

E. Time of supply

The time when VAT becomes due is called the "time of supply" or "tax event." The tax event for goods is when the goods are delivered or when an act that implies the transfer of the ownership occurs. The tax event for services is the earlier of when the service is performed or completed, and when full or partial payment of the price is received.

Continuous supply of services. Continuous supplies of services (electricity, water, and gas that is delivered to homes) must be invoiced on a monthly basis.

Imported goods. The tax event for imported goods is when the goods clear all customs procedures.

Deposits and prepayments. VAT law in Bolivia does not contain any provisions about the time of supply rules for advanced payments. The only exception is for advanced payments for construction services for government entities, where the payments will not be subject to taxation until the work progress certificates are accomplished.

Goods sent on approval for sale or return. For goods, the time of supply occurs when the title to the goods is transferred. For services, the time of supply occurs when partial or total payments are performed or when the service is finalized, whichever occurs first.

Leased assets. For an operating lease (a normal rental without interest), the time of supply is on a monthly basis, and the total amount charged must be taxable.

For a financial lease (a rental with the possibility of purchase at the end of the rental period), which includes capital and interest amounts, the time of supply is at the end of each installment/quota (i.e., could be monthly, quarterly, biannual basis). In this situation only the capital amount is subject to VAT.

Reverse-charge services. In Bolivia, the reverse charge for services does not apply. As such there are no special time of supply rules.

F. Recovery of VAT by taxable persons

A taxable person may recover input VAT (also known as credit VAT), which is VAT charged on goods and services supplied to it for business purposes. A taxable person generally recovers input VAT by deducting it from output VAT (also known as debit VAT), which is VAT charged on supplies made.

Input VAT includes VAT charged on goods and services supplied in Bolivia and VAT paid on imports of goods.

A valid tax invoice or import statement must generally accompany a claim for input VAT.

Recovery of VAT on purchases of special gasoline, premium gasoline or diesel from service stations is limited to the VAT paid on 70% of the purchase value.

Nondeductible input VAT. Input VAT cannot be recovered on purchases of goods and services that are not used for business purposes (for example, goods acquired for private use by an entrepreneur).

For deducting VAT credit with respect to transactions in an amount of 50,000 Bolívianos (BOB) or more, payment supports (checks, vouchers or other documents) issued by a financial intermediation entity regulated by the ASFI are required. These documents must have the following information:
- Business name of the financial institution (issuer)
- Transaction or operation number
- Transaction date
- Transaction amount

Since 2016, payment supports for transactions of BOB50,000 or more must be reported on an annual basis, consolidating information from January through December regardless of ending fiscal year. The report is due between 5 and 9 February of the following year, depending on the last digit of the taxpayer's identification number (NIT).

If the report has errors or inconsistencies regarding the information submitted, a new report can be submitted without penalties until 30 days after the report's deadline.

Examples of items for which input tax is nondeductible

- Goods acquired that are not directly linked to obtaining taxable income, such as amusement activities for employees
- Goods or services that do not have original documents like invoices

Examples of items for which input tax is deductible (if related to a taxable business use)

- Acquisition cost of inventories
- Maintenance services of machinery

Refunds. If the amount of input VAT (credit VAT) recoverable in a month exceeds the amount of output VAT (debit VAT) payable, the excess credit may be carried forward to offset output VAT in the following tax period. The amount of input VAT is adjusted based on the variation of the Unidades de Fomento a la Vivienda (UFV), an index published by the Bolivian Central Bank that takes into account inflation.

A taxable person that overpaid VAT for a tax period because of an error may request a refund of the overpaid amount.

Partial exemption. Not applicable.

Preregistration costs. Not applicable.

G. Recovery of VAT by non-established businesses

Bolivia does not refund VAT incurred by businesses that are not established in Bolivia nor registered for tax purposes.

H. Invoicing

Sales invoices and credit notes. A taxable person must provide a VAT sales invoice for all taxable supplies made, including exports (subject to VAT at a zero rate). A VAT invoice is required to support a claim for input VAT deduction.

A credit note can be used to reduce the VAT charged and reclaimed on a supply of goods and services. A credit note must contain the same information as a sales invoice, and it can only be used with respect to the devolution of goods (total or partial) and the rescission of services.

Exports. Bolivian VAT is not chargeable on supplies of exported goods. However, to qualify as VAT-free, exports must be supported by evidence that the goods have left Bolivia. The related input VAT can be reimbursed through the issuance of tax devolution certificates (CEDEIMs) that can be negotiated as securities. Invoices for export transactions must be identified with the text "Commercial invoice for exports" (Factura comercial de exportación) and must be specifically authorized by the tax authorities.

Foreign-currency invoices. If an invoice is issued in foreign currency, for VAT purposes, the values must be converted to local currency (bolivianos). The value must be converted using the official exchange rate on the tax-event date published by the Bolivian Central Bank.

Electronic invoicing. Effective as of 1 January 2016, only invoices using the new virtual system are valid for tax purposes such as documenting VAT credits.

B2C. Issuing a VAT invoice is mandatory in any case, even if the purchaser (non-registrant) does not require the invoice.

In the case that the purchaser does not provide a name or a document number to consign in the invoice, the taxable person has to issue the invoice consigning 0 in the document number and "S/N" in the part of the name.

The types of invoices are:
- Manual invoice
- Pre-valued invoice
- Computerized invoice
- Virtual invoice
- Electronic web invoice
- Electronic cycle invoice

The type of invoice that any company can use will depend on the quantity of monthly invoices, the amounts, kind of company, etc.

There are some specific sectors in Bolivia that are allowed to not issue VAT invoices. These are the "Simplify Regime" (retail merchants, craftsmen with incomes less than USD19,000, approximately) and the "Integrated Regime" (transport services with people owner of no more than two vehicles).

I. VAT returns and payment

Returns. VAT returns are submitted for monthly periods. Returns and payment in full are due between the 13th and the 22nd day of the month following the end of the return period. The due date depends on the last digit of the taxpayer's identification number (NIT).

VAT liabilities must be paid in local currency (BOB) or in "Tax Refund Certificates."

Special schemes. Not applicable.

Electronic filing and archiving. VAT returns must be submitted through the tax authority's virtual platform.

Annual returns. Not applicable.

VAT purchases and sales book. VAT purchases and sales book must be submitted monthly through the tax authority virtual platform.

J. Penalties

Penalties are assessed for errors and omissions with respect to VAT reporting. The penalties include the following:
- A penalty of UFV50 for individuals and UFV100 for business entities for not filing a tax return
- A penalty of UFV500 for individuals and UFV1,000 for business entities for not submitting the VAT purchases and sales book
- A penalty of UFV500 for individuals and UFV1,000 for business entities for not submitting the report regarding transactions in amounts of BOB50,000 or more
- A penalty ranging from 20% to 100% of the tax due for unpaid VAT

In addition, interest and inflation adjustments based on changes to the UFV are assessed on unpaid VAT.

Criminal tax evasion may be punished by a term of imprisonment, depending on the severity of the case.

Bonaire, Sint Eustatius and Saba (BES Islands)

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Please direct all queries regarding the BES Islands to the persons listed below in the Curaçao office.

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Effective from 10 October 2010, the Netherlands Antilles (Bonaire, Curaçao, Saba, Sint Eustatius and Sint Maarten) was dissolved. Curaçao and Sint Maarten became autonomous countries within the Kingdom of the Netherlands (see individual chapters). Bonaire, Saba and Sint Eustatius (the BES Islands) are now extraordinary overseas municipalities of the Netherlands, but they have their own tax system including a simplified general expenditure tax regulation.

A. At a glance

Name of the tax	General expenditure tax (GET)
Local name	Algemene bestedingsbelasting
Date introduced	1 January 2011
Trading bloc membership	None
Administered by	Belastingdienst Caribisch Nederland
GET rates	
Bonaire	
Standard rate for services provided	6%
Standard rate for delivery of goods	8%
Standard rate for import of goods	8%
Other	0%, 7%, 25%
Sint Eustatius and Saba	
Standard rate of services provided	4%
Standard rate for delivery of goods	6%
Standard rate for import of goods	6%
Other	5%, 10%, 18%, 22%, 30%
GET number format	3XX.XXX.XXX (9 digits)
GET return periods	Quarterly
Thresholds	None
Recovery of GET by non-established businesses	No

B. Scope of the tax

GET applies to the following transactions:
- The delivery in the BES Islands of manufactured goods by a manufacturer in the course of its business
- Services provided in the BES Islands by an entrepreneur in the course of its business
- Importation of goods

C. Who is liable

A BES entrepreneur (which is a business entity or individual), including a manufacturer, that delivers goods, provides services or manages assets to obtain revenue from the assets on a permanent basis is liable for GET, unless an exemption or a reverse-charge mechanism (that is, the customer receiving the services is liable for GET) applies. A BES entrepreneur is an entrepreneur that resides in or is established in the BES Islands or that has a permanent establishment in the BES Islands from which it provides services.

A manufacturer is considered to be an entrepreneur in the BES Islands if it provides goods by using raw materials or intermediate goods.

Non-established business. A "non-established business" is a business that does not have a fixed establishment in the BES Islands. A non-established business may become liable for GET and accordingly become subject to registration if it is deemed to have a permanent establishment in the BES Islands. The GET law does not provide a definition of a permanent establishment.

Special rules apply to the lease of real estate to individuals (residents of the BES Islands) and provision of trading and services depots.

Lease of real estate. Lease of real estate that is equipped and designed to be used as a permanent residence and is permanently used by individual residents of the BES Islands is not subject to GET.

Trading and service depots. Specific services provided by entrepreneurs established in trading and service depots in the BES Islands are not subject to GET.

Services provided to entrepreneurs established in the trading and service depots in the BES Islands are not subject to GET solely to the extent that the services are provided for activities that are legally permitted in a depot. Moreover, services performed or goods delivered to entrepreneurs in the trading and service depots in the BES Islands are not subject to GET solely to the extent that the services are performed or goods are delivered in connection with goods or capital assets situated in such depot.

Small enterprises. A small enterprise is a resident individual entrepreneur who has a business or permanent establishment in the BES Islands and who realized revenue (excluding GET) in the preceding calendar year of USD20,000 or less. If a request filed with the Inspectorate of Taxes is granted, a small enterprise is not liable to GET. However, small enterprises must still declare the revenue for monthly periods. Social or cultural organizations may also be exempted from GET.

Group registration. The GET law does not allow grouping for GET purposes. Group entities that are closely connected must register for GET individually.

Tax representatives. A taxpayer may be represented by a third party based on a power of attorney.

Registration procedures. In general, a taxable person that begins taxable activities must register with the Inspectorate of Taxes by filing a hard copy form and providing some additional required documentation. In principle, completion of the registration process may take from one week up to a few weeks.

Late-registration penalties. In general, a BES entrepreneur, including a manufacturer that begins taxable activities must register with the tax authorities. Since there is no specific deadline for registration, a penalty is not imposed for late registration. However, if the late registration results in the late payment of GET or the late submission of GET returns, penalties may be imposed.

Reverse-charge mechanism. For certain goods delivered and services provided by non-established businesses to a resident entrepreneur on the BES Islands, the GET should be accounted for and paid by the BES Islands resident entrepreneur.

Digital economy. Specific rules apply with regard to certain electronic services, amended from 1 January 2015. Telecommunication services, radio and television services, or electronic services provided by a non-established entrepreneur to a nonbusiness customer that is established in, or resident of, the BES islands are in principle subject to GET.

Deregistration. Deregistration with the Inspectorate of Taxes should be completed once all tax filing and payment obligations have been met by the taxpayer. To deregister, a taxpayer should provide proof of deregistration as issued by the Chamber of Commerce to the Inspectorate of Taxes along with some additional documentation.

Exemption from registration. The BES GET legislation does not contain any provision for exemption from registration.

Voluntary registration. The BES GET legislation does not contain any provision for voluntary VAT registration.

D. GET rates

The term "taxable supply" refers to a supply of goods and services that is liable to GET.

In Bonaire, the following rates of GET apply:
- Standard GET rate for services provided: 6%
- Standard GET rate for delivery of goods: 8%
- Standard GET rate for import of goods: 8%
- Other: 0%, 7%, 25%

In Sint Eustatius and Saba, the following rates of GET apply:
- Standard GET rate for services provided: 4%
- Standard GET rate for delivery of goods: 6%
- Standard GET rate for import of goods: 6%
- Other: 5%, 10%, 18%, 22%, 30%

The above-mentioned standard rates of GET are applied to the payment for the delivery of goods or services provided or to the customs value of the goods imported, unless a specific measure provides for an exemption. The other GET rates of 7% and 5% apply to the supply of insurance through a broker.

The term "exempt supply" refers to a supply of goods and services that is not liable to GET.

Examples of exempt supplies of goods and services

- Medical services
- Basic necessities such as bread, cereal, potato, rice, vegetables, dairy products
- Water and electricity services
- Public transportation services
- Betting and gaming (casino)
- Services to a trading and services depot
- Postal services

Exports. Revenue realized from supplies of exported goods by an entrepreneur is exempt from GET.

Option to tax for exempt supplies. There are no specific rules providing for the option to tax for exempt supplies.

E. Time of supply

The time when GET becomes due is called the "time of supply." The basic time of supply for taxable supplies is in principle the date on which the invoice is issued or when an invoice should have been issued.

Imported goods. For imported goods the time of supply is considered to be the moment of importation.

Deposits and prepayments. There are no special time of supply rules in the BES Islands for deposits and prepayments. As such, the general time of supply rules apply (as outlined above). The tax point is the earlier of either the payment or issued invoice.

Goods sent on approval for sale or return. There are no special time of supply rules in the BES Islands for supplies of goods sent on approval for sale or return. As such, the general time of supply rules apply (as outline above). In the case of importation this would be the tax point. In the case of local supplies the tax point is the earlier of either the payment or issued invoice for the goods or services.

Leased assets. There are no special time of supply rules in the BES Islands for supplies of leased assets. As such, the general time of supply rules apply (as outlined above). The tax point arises at the time the invoice is issued or should have been issued for each instalment. In the case of prepayment for an instalment, the tax point arises at the moment of payment.

Reverse-charge services. There are no special time of supply rules in the BES Islands for supplies of reverse-charge services. As such, the general time of supply rules apply (as outlined above).

Continuous supplies. The tax point arises at the time the invoice is issued or should have been issued for each instalment. In the case of prepayment for an instalment, the tax point arises at the time of receipt of payment.

F. Recovery of GET by taxable persons

Manufacturers in the BES Islands may recover GET.

Nondeductible input tax. GET is nonrecoverable in all cases apart from the purchase of raw materials for manufacture.

Deductible input tax. GET on purchases is only recoverable on raw materials and nothing else. Refer to the nondeductible input tax section above.

Partial exemption. There are no specific rules providing for partial exemption.

Refunds. Refund of GET can be requested in writing if the entrepreneur is able to prove that:
- Entire or partial payment for the supplied goods or services will not be received by the entrepreneur.
- Payment is reimbursed by the entrepreneur following reduction of the amount due or in the event that the good has been returned unused.

Preregistration costs. Input GET incurred prior to reregistration is not recoverable.

G. Recovery of GET by non-established businesses

Non-established businesses may not recover GET in the BES Islands.

H. Invoicing

GET invoices and credit notes. In the BES Islands, an invoice must be issued by an entrepreneur within 15 days following the end of the month in which the supply or service takes place.

A GET credit note could be issued, upon request, if the BES entrepreneur can prove that one of the following circumstances has occurred:
- A part or the entire amount of the compensation has not been received.
- The fee has been refunded as a result of a price deduction or if the goods have been returned in their original state.

Foreign currency invoices. An invoice can also be issued in a foreign currency. However, the invoice should also state the local currency.

Electronic invoices. The issuance of electronic invoices is allowed.

Proof of export. When trade goods are exported, an electronic customs declaration or, on request, a written declaration should be submitted.

B2C. There are no specific rules, and as such, a GET invoice should always be issued for all supplies.

I. GET returns and payment

GET returns. GET returns are generally submitted for quarterly periods. However, on request of an entrepreneur, the Inspectorate of Taxes allow that GET due is remitted for monthly or annual periods (instead of quarterly periods). Returns must be filed and GET due must be paid by the 15th day of the month following the end of the reporting period. The GET due for the period must be remitted together with the return.

Special schemes. Besides the special regimes already mentioned in this, there are no significant other special schemes.

Trading and service depots. Specific services provided by entrepreneurs established in trading and service depots in the BES Islands are not subject to GET.

Services provided to entrepreneurs established in the trading and service depots in the BES Islands are not subject to GET solely to the extent that the services are provided for activities that are legally permitted in a depot. Moreover, services performed or goods delivered to entrepreneurs in the trading and service depots in the BES Islands are not subject to GET solely to the extent that the services are performed or goods are delivered in connection with goods or capital assets situated in such depot.

Electronic filing and archiving. Tax returns can be filed electronically with the Inspectorate of Taxes.

Annual returns. Following request and if certain conditions are met, the Inspectorate of Taxes may allow the filing of an annual GET return instead of quarterly GET returns.

J. Penalties

GET penalties are assessed for the late submission of a GET return or for the late payment of GET, in the following amounts:
- Late submission of a GET return: fine of up to USD1,400
- Late payment of GET: fine of up to USD5,600

If the late payment is caused by negligence or dishonest conduct, a fine equal to 100% of the GET payable may be imposed.

Criminal penalties may also apply in certain circumstances, such as in cases of fraudulent conduct.

Botswana

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A. At a glance

Name of the tax	Value-added tax (VAT)
Date introduced	1 July 2002
Trading bloc membership	Southern African Customs Union, Southern African Development Community
Administered by	Botswana Unified Revenue Service (http://www.burs.org.bw)
VAT rates	
Standard	12%
Other	Zero-rated and exempt
VAT number format	C01234567890 for companies I01234567890 for individuals P01234567890 for partnerships T01234567890 for trusts
VAT return periods	Monthly (annual taxable supplies in excess of BWP12 million) Bimonthly (annual taxable supplies below BWP12 million)
Registration threshold	BWP1 million
Recovery of VAT by non-established businesses	No

B. Scope of the tax

VAT applies to the following transactions:
- The supply of goods and services in Botswana by a taxable person
- Reverse-charge services received by a person making exempt supplies in Botswana
- The importation of goods from outside Botswana, regardless of the status of the importer

Goods that are imported from countries within the Southern African Customs Union (consisting of Botswana, Lesotho, Namibia, South Africa and Swaziland) are not subject to customs duty.

C. Who is liable

Any registered person that makes supplies of taxable goods and services in Botswana in the course of a business is liable for VAT. For this purpose, a person includes the state, a local authority, board, natural person, trust, company and partnership.

The VAT registration threshold is BWP1 million. A taxable person must notify the Botswana VAT authorities of its liability to register for VAT within 21 days after becoming liable.

Group registration. The Botswana VAT Act does not permit group registration.

Non-established businesses. A "non-established business" is a business that has no fixed establishment in Botswana. A non-established business that makes supplies of goods or services in Botswana must appoint a representative in order to register for VAT. The representative must be resident in Botswana.

Registration procedures. Application for registration is accomplished by manually completing form BURS1 and submitting it, stamped and signed by the local bankers, to the Revenue Authority with copies of the following documents:
- ID or passport for two directors
- ID or passport for public officer (tax representative, who should be a resident)
- Certificate of Incorporation
- Memorandum and Articles of Association (if available)
- Forms 2, 2A, B, C and D (list of directors)
- A list of assets (if any)
- Details of local bank accounts

Late-registration penalties. The following penalties apply if a person fails to register for VAT within 21 days after becoming liable:
- If the failure was due to recklessness or made knowingly, a fine not exceeding BWP10,000 or imprisonment for a period not exceeding two years, or both
- In all other cases, a fine not exceeding BWP5,000 or imprisonment for a period not exceeding one year, or both
- A penalty of twice the output tax payable from the time when the person became liable to the time when the person registered for VAT

Any offense committed by a corporate body is deemed to have been committed by a person acting as a representative officer, director, general manager, secretary or other similar officer of the company, or by any other person acting in such a capacity.

Tax representatives. In the case of a nonresident person, a tax representative is a public officer, director, trustee, partner, liquidator or other person who controls the nonresident person's affairs in Botswana. The Commissioner General may, if he considers it necessary, declare any person to be a representative of a registered person.

Reverse charge. Under the reverse-charge mechanism, VAT is payable by the importer on the importation of a service, if the service is imported for use in making exempt or nontaxable supplies. The VAT is payable within 30 days of the importation. The importer of the service in Botswana is required to complete form VAT 017 when making the VAT payment.

Digital economy. In a business-to-business supply of services, from a nonresident business, the customer is expected to self-assess VAT on the payment only if the customer imports the service to make nontaxable or exempt supplies (e.g., supplies by financial institutions such as banks or life insurance businesses). In that case, the customer is not allowed to claim the VAT as input tax, so the payment would not be VAT-neutral.

Where the customer is an individual, the customer is expected to self-assess VAT on the payment, as the individual will be importing the service to make nontaxable supplies.

Deregistration. A person who intends to deregister is required to complete application form IRD/DE-REG1. The process takes 3 to 12 months and may involve an audit.

Exemption from registration. The VAT law in Botswana does not contain any provision for exemption from registration.

Voluntary registration. The VAT law of Botswana provides for voluntary VAT registration where any person applies for voluntary registration where the person's turnover is below the BWP1 million threshold and meets the following criteria:
- The person has a fixed place of abode or business in Botswana
- The person is able to keep proper records
- Submits regular and reliable VAT returns, as required under the VAT Act

D. VAT rates

The term "taxable supplies" refers to supplies of goods and services that are liable to a rate of VAT, including the zero rate (0%).

In Botswana, the two rates of VAT are the standard rate of 12% and the zero rate (0%). The standard rate of VAT applies to all supplies of goods or services, unless a specific measure provides for the zero rate or an exemption.

Examples of goods and services taxable at 0%

- Exports of goods and services
- International transport
- Sale of a business as a going concern to a registered person
- Fuel for vehicles
- Illuminating paraffin
- Sorghum and maize meal for human consumption
- Bread flour, sugar, brown bread, fresh fruits, rice, milk and samp (coarsely ground corn)
- Intellectual property rights for use outside Botswana
- Household consumption of water up to 5,000 liters or 25 drums of 200 liters

The term "exempt supplies" refers to supplies of goods and services that are not liable to tax. Persons that make exempt supplies are not entitled to input tax deduction (see Section F).

Examples of exempt supplies of goods and services

- Medical services provided in a public medical facility
- Supply of prescription drugs
- Education
- Some agricultural farming implements
- Financial services (unless provided for a fee, charge or commission)

Option to tax for exempt supplies. Not applicable.

E. Time of supply

The time when VAT becomes due is called the "time of supply" or "tax point." In Botswana, the basic tax point is the earlier of the issuance of an invoice or the receipt of any payment.

Other tax points are used for a variety of situations.

The following is the tax point for supplies between related persons:
- For a supply of goods, either when the goods are removed or when they are made available to the purchaser or recipient of the goods
- For a supply of services, when the services are performed

The tax point for periodic supplies is the earlier of the date on which payment is due or the date on which payment is received.

The tax point for goods or services provided to a branch or principal business outside Botswana is when the goods are delivered or when the services are performed.

Imports. The tax point for imported goods depends on the customs regime that applies to the import. The following are the applicable rules:
- For imported goods that must be cleared through customs under the Customs and Excise Duty Act, when the goods are cleared
- For goods that are imported from the Southern African Customs Union, when the goods are brought into Botswana
- For goods imported and entered into a Customs and Excise bonded warehouse, when the goods are cleared from the warehouse

The tax point for imported services is 30 days from the date of importation.

VAT-registered persons may apply for a VAT-deferment account. The importer is authorized to pay VAT on imports 25 days after the end of the month in which the goods are imported. To qualify for a deferment account, the importer must place with the VAT office a bond equal to the greater of BWP20,000 or 20% of its estimated monthly imports. Input tax paid through the VAT-deferment account may be reclaimed only if it has actually been paid.

Deposits and prepayments. The tax point for the supply of goods or services on payment of a deposit (other than a deposit paid on a returnable basis) is when the supplier applies the deposit as consideration for the supply, or when the deposit is forfeited.

For deposits paid on a returnable basis, the time of supply is when the deposit is paid or invoiced, whichever is earlier.

The time of supply for supplies of goods or services on payment of a prepayment, is when the prepayment is received.

Goods sent on approval for sale or return. There is no special time of supply rule in Botswana for supplies of goods sent on approval for sale or return. The general time of supply rules applies, which as outlined above, is the earlier of the issuance of the invoice or the receipt of payment.

Leased assets. For operating leases, assets are treated as successively supplied for successive parts of the period of the agreement, and each of the successive supplies occurs when a payment becomes due or is received, whichever is the earlier.

For finance leases (i.e., credit agreements), the time of supply is when the goods are delivered or the time any payment for the supply is received, whichever is earlier.

Reverse-charge services. The recipient of imported services is required to self-assess for VAT within thirty (30) days of importation of the service. No reverse-charge mechanism applies in Botswana on the importation of goods.

Continuous supplies. As under operating leased assets, supplies are treated as successively supplied for successive parts of the period of the agreement, and each of the successive supplies occurs when a payment becomes due or is received, whichever is the earlier.

F. Recovery of VAT by taxable persons

A taxable person may recover input tax, which is VAT charged on goods and services supplied to it for business purposes. Input tax is claimed by deducting it from output tax, which is VAT charged on supplies made.

Input tax includes VAT charged on goods and services purchased within Botswana and VAT paid on imports of goods.

Nondeductible input tax. VAT may not be recovered on purchases of goods and services that are not used for business purposes (for example, goods acquired for private use by an entrepreneur). In addition, input tax may not be recovered on certain specified business expenses.

The following lists provide some examples of items of expenditure for which input tax is not deductible even if the expenditure is for purposes of making a taxable supply and examples of items for which input tax is deductible if related to a taxable business use.

Examples of items for which input tax is nondeductible

- Purchase and hire of passenger cars
- Entertainment including food, accommodation and hospitality of any form
- Sponsorship that constitutes entertainment subscriptions to sports and recreational clubs

Examples of items for which input tax is deductible (if related to a taxable business use)

- Purchase, hire and maintenance of non-passenger motor vehicles
- Maintenance of passenger motor vehicles
- Advertising
- Parking
- Mobile phones
- Business use of a home telephone (but an employer is liable to VAT if it pays for the private telephone bills of the employee)

Partial exemption (mixed supplies). VAT directly related to making exempt supplies is not recoverable. A registered person who makes both exempt and taxable supplies cannot recover input VAT tax in full. This situation is referred to as making "mixed supplies."

VAT that relates to making mixed supplies must be apportioned using a method acceptable to the tax authorities to allocate the VAT between taxable supplies and exempt supplies. Input tax related to taxable supplies may be deducted in full. VAT related to exempt supplies may not be deducted. If taxable supplies exceed 90% of the total supplies made by a registered person, all VAT incurred by the registered person may be claimed as input tax.

Refunds. A VAT-registered person is entitled to a refund of excess input tax if input tax exceeds output tax in a tax period. The VAT authorities must pay VAT refunds by the following deadlines:

- One calendar month following the due date of the return for exporters, operators of VAT manufacturing warehouses and international financial service center companies
- Two calendar months following the due date of the return for all other registered persons

Before any refund is paid, the input tax credit is applied against any tax, levy, interest or penalty payable by the registered person (under the terms of the VAT Act, the Customs and Excise Duty Act or the Income Tax Act).

Preregistration costs. Input tax deduction is allowed to a registered person in the first tax period in which the person is registered for VAT in respect of the following:

- Taxable supplies of goods, other than capital goods, made to the person

- Any imports of goods, other than capital goods, made by the person prior to becoming registered, to the extent that the goods are for use or resupply in a taxable activity carried on by the person after registration, provided the goods are not supplied or imported more than four months prior to the date of registration.

G. Recovery of VAT by non-established businesses

Nonresidents may claim refunds of VAT paid on goods bought in Botswana that are exported as "accompanied baggage" with the claimant if the VAT paid exceeds BWP500. Otherwise, only entities registered for VAT in Botswana may claim refunds of input tax.

H. Invoicing

VAT invoices and credit notes. Registered persons must provide VAT tax invoices for all taxable supplies made, including exports. A VAT tax credit note may be used to reduce the VAT charged on a supply of goods or services. Tax credit and debit notes must show the same information as tax invoices.

Proof of exports. Goods exported from Botswana are zero-rated. However, to qualify for a zero rating, exports must be supported by evidence that proves the goods left Botswana.

Foreign-currency invoices. A Botswana VAT tax invoice must be issued in pula (BWP). If an amount is expressed in a currency other than pula, the following are the rules for converting the VAT and value amounts to local currency:

- For imports, the amount must be converted at the exchange rate determined by the Customs and Excise Duty Act.
- For other supplies, the amount must be converted at the exchange rate when the amount is taken into account for VAT purposes.

B2C. No VAT tax invoices need to be issued for supplies with consideration that is below BWP20.

Electronic invoicing. Electronic invoicing is not mandatory, but it is allowed in Botswana. There are no rules restricting the use of electronic invoicing in Botswana.

I. VAT returns and payment

VAT returns. The VAT tax period is one month for registered persons with annual taxable supplies in excess of BWP12 million and two months for registered persons with annual taxable supplies of BWP12 million and below.

Returns must be filed on or before the 25th of the month following the end of the tax period. Payment is due in full by the same date. If the due date falls on a Saturday, Sunday or public holiday, the due date is the last business day before the holiday.

Special schemes. Not applicable.

Electronic filing and archiving. VAT returns can be filed electronically upon application for e-services, which enable taxpayers to view the VAT returns submitted and other tax information online.

Annual returns. Not applicable.

J. Penalties

The greater of the following penalties is imposed for the late payment of VAT:

- BWP50 per day
- 10% of the outstanding tax for each month

The penalty is limited to the amount of the tax due. In the case of nil VAT returns, the maximum penalty is BWP5,000.

Interest is charged on outstanding tax or penalties at a rate of 1.5% per month, compounded monthly.

Penalties may also apply to a range of other offenses, including making false statements and obstructing a VAT officer. In some cases, penalties may include imprisonment for offenses committed knowingly or recklessly.

Offenses by corporate bodies. Any offense committed by a corporate body is deemed to have been committed by a person acting in a responsible capacity, such as a representative officer, a director, a general manager, a company secretary or any similar officer of the company or any other person acting in such a capacity.

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A. At a glance

Names of the taxes	State value-added tax (ICMS) Federal value-added tax (IPI) Municipal service tax (ISS) Federal gross receipt contributions (PIS-PASEP/COFINS)
Local names	Imposto sobre circulação de mercadorias e serviços (ICMS) Imposto sobre produtos industrializados (IPI) Imposto sobre serviços (ISS) Contribuição para os programas de integração social e de formação do patrimônio público (PIS-PASEP) Contribuição para o financiamento da seguridade social (COFINS)
Date introduced	
ICMS	1989
IPI	1964
ISS	1968
PIS-PASEP	1970
COFINS	1991
Trading bloc membership	Mercosur Member
Administered by	Ministry of Finance (http://www.fazenda.gov.br) Internal Revenue Service (http://www.receita.fazenda.gov.br)
VAT rates	
ICMS	0% to 35% (for supplies in the same state) 4%, 7% or 12% (for supplies made to a taxable person in a different state)
IPI	0% to 300% (depending on the IPI tariff table classification for the goods)
ISS	0% to 5% (depending on municipality and nature of service)

PIS-PASEP	0.65% (for taxpayers taxed under the deemed corporate income tax method of calculation, under the cumulative system) 1.65% (for taxpayers taxed under the annual actual income tax method, under the noncumulative system)
COFINS	3% (for taxpayers taxed under the deemed corporate income tax method of calculation, under the cumulative system) 7.6% (for taxpayers taxed under the annual actual income tax method, under the noncumulative system)
VAT number format	nn.nnn.nnn/nnnn-nn (this ID serves in all tax matters)
ICMS, ISS, PIS-PASEP, COFINS	See section headings
Thresholds	
Registration	
ICMS, IPI and ISS	Commencement of taxable activity
PIS-PASEP/COFINS	Commencement of sales activity (including receipt of non-operational revenue, such as rent)
VAT return periods	
ICMS	Monthly
IPI	Monthly
ISS	Monthly (depending on the municipality where the taxpayer is located)
PIS-PASEP/COFINS	Monthly
Recovery of VAT by non-established businesses	No

B. Scope of the tax

In Brazil the following types of value-added tax (VAT) are in effect:
- State VAT (ICMS)
- Federal VAT (IPI)
- Municipal service tax (ISS)
- Gross receipt contributions (PIS-PASEP and COFINS)

State VAT. The State VAT (ICMS) is levied by the individual states in Brazil. The states set the level of taxation, but the Brazilian federal government may set the minimum rate.

ICMS applies to the following transactions carried out in Brazil, even if the transaction begins abroad:
- The circulation of goods
- The importation of goods
- The supply of transportation between states and between municipalities
- The supply of communication services
- The supply of electricity

Exports of manufactured goods and raw materials are exempt from ICMS.

Federal VAT. The Federal VAT (IPI) is charged by Brazil's federal government on national and foreign "finished goods." "Finished goods" are goods produced as a result of an industrial process, even if the process is incomplete, partial or intermediary. IPI applies to the following taxable events:
- The shipment of finished goods from an industrial establishment (or similar establishment) in Brazil
- The customs clearance of finished goods of foreign origin

The IPI law provides for several tax incentives if the shipment of goods is related to an export, a sale to a trading company or to plant expansion plans. IPI tax incentives include the exemption of operations and the granting of tax credits.

Municipal service tax. The municipal service tax (ISS) is a form of sales tax payable to municipalities in Brazil. It applies to the supply of any services that are not otherwise taxable by the state authorities (ICMS). The general list of taxable services is outlined in federal law (complementary law), with the specific services listed in each municipal law.

A foreign company providing services fully provided outside Brazil for the benefit of a Brazilian recipient may be subject to ISS (withheld by the Brazilian entity) even if a nonresident pays for the services.

ISS is a single-stage tax with no right of recovery for ISS previously paid. Consequently, regardless of status, the recipient of a service subject to ISS bears the tax paid as a cost.

In general, ISS is due to the municipality where the service provider is located. One of the exceptions applies to construction services. ISS is levied on construction services in the city where the construction takes place.

Gross receipt contributions. The gross receipt contributions (PIS-PASEP and COFINS) are social contributions based on turnover, which are levied on companies' gross revenue, on a monthly basis. Exports are not subject to PIS-PASEP and COFINS.

Import operations (of goods and services) are also subject to PIS-PASEP and COFINS.

PIS-PASEP and COFINS rates may vary depending on the company's activity and on the revenue received (see Section D).

C. Who is liable

ICMS taxpayer. An ICMS taxpayer is any person or legal entity that, on a regular basis, undertakes the shipment or importation of goods, or supplies communication and interstate and inter-municipal transport services. No turnover threshold applies. Any person or entity that intends to supply goods or services subject to ICMS must register in the roll of ICMS taxpayers before beginning activities.

Some companies and products are subject to special tax treatment for ICMS in which the payment is made on behalf of the whole supply chain. For example, the pharmaceutical industry pays the regular ICMS to the state where the seller is located based on the sales price and pays a complementary portion (named ICMS-ST) to the state where the customer is located based on the end consumer price list issued by this state, anticipating the wholesaler and the retailer liabilities. Other industries, such as cosmetics and electronics, also have this special treatment; however, the ICMS-ST is based on a value-added margin presumed by the state government.

IPI taxpayer. An IPI taxpayer is any person or legal entity that carries out industrial processing of goods on a regular basis or imports goods from abroad. No turnover threshold applies. Any person or entity that carries on activities subject to IPI must register in the roll of IPI taxpayers before beginning activities.

ISS taxpayer. An ISS taxpayer is any person or legal entity that supplies any services listed in the ISS law on a regular basis. No turnover threshold applies. Any person or entity that carries on activities subject to ISS must register in the roll of ISS taxpayers before beginning activities.

PIS-PASEP and COFINS. A PIS and COFINS taxpayer is any company that has business activities. Contributions are levied on companies' gross revenue on a monthly basis.

Group registration. VAT grouping is not allowed under Brazilian VAT laws.

Non-established businesses. A "non-established business" is a business that has no fixed establishment in Brazil. A non-established business is not permitted to register for VAT in Brazil. Only entities that are established under Brazilian law may become taxpayers for the purposes of ICMS, IPI, ISS, PIS-PASEP or COFINS.

Registration procedures. Companies must register before federal and state tax authorities if they intend to sell products on a commercial basis. Municipal registration is also required if the purpose is to provide services. Registration is mostly electronic and may take between 30 and 90 days.

Late-registration penalties. The penalty for late registration for ICMS is a fine, which may vary from 1% to 80% of the value of the transactions that occurred before registration. Penalties also relate to several IPI, PIS-PASEP, COFINS and ISS errors, including failure to register (see Section J).

Tax representatives. Tax representation is not allowed in Brazil.

Reverse charge. Reverse charge types of mechanism are present on imports of goods. The importer self-assesses IPI, PIS/COFINS and ICMS and takes the same amount as credit to be offset with future outputs of the products.

Digital economy. Business-to-business transactions — payments to a foreign business may be subject to the following transaction taxes depending on how the transaction is classified:

Withholding income tax (IRRF), Contribution on economic domain intervention (CIDE), social contributions on gross revenues (PIS/COFINS) and municipal tax on services (ISS). Remittances of funds to the principal would be subject to tax on financial operations (IOF/FX).

CIDE, PIS/COFINS and ISS may apply depending on the type of service provided and the municipality in which the customer is located. Remittances of funds to the principal would be subject to IOF/FX.

Business-to-customer transactions — payments to the business may be subject to IRRF, CIDE, PIS/COFINS and ISS, depending on how the transaction is classified. Remittances of funds to the principal would be subject to IOF/FX, CIDE, PIS/COFINS and ISS, depending on the type of service provided and on the municipality in which the customer is located. Remittances of funds to the principal would be subject to IOF/FX.

Deregistration. Upon termination of activities, companies can deregister before federal, state and municipal tax authorities.

Exemption from registration. In order to pay taxes in Brazil, the company should be registered for VAT in Brazil. However, depending on how the transaction is classified, the taxes should be collected by the local customers and/or the agent in Brazil. If this is the case, the foreign company would not be required to be registered in Brazil.

Voluntary registration. The VAT law in Brazil does not contain any provision for voluntary VAT registration.

D. VAT rates

ICMS. ICMS rates vary among Brazil's 27 states. For supplies made to a customer located in the same state as the supplier, rates typically range from 0% to 35%. The standard rate of ICMS is 17% (18% in São Paulo, Minas Gerais and Paraná and 19% in Rio de Janeiro).

Reduced rates generally apply to items of basic necessity, such as food.

The rate of ICMS that applies to imported goods is the same rate that applies to supplies of goods made within the state, except that the tax base for imported goods includes any IPI and import duty (II) payable at import. ICMS does not apply to exported goods.

The ICMS rate on a supply of goods or services made to an ICMS taxpayer resident in a different state from the state where the supplier is resident depends on where the customer is resident. The following are the rates:

- A rate of 7% generally applies to supplies of locally produced goods (with low content of imported inputs) made to taxpayers resident in states located in the northern, northeastern and central eastern regions of Brazil and in the state of Espírito Santo.
- A rate of 12% generally applies to supplies of domestic goods (with low content of imported inputs) made to taxpayers resident in the states in the southern and southeastern regions of Brazil (except in the state of Espírito Santo).
- A rate of 4% generally applies to supplies of imported goods or locally produced goods with low content of imported inputs made to taxpayers resident in all other states.

If the supply is made to a customer resident in another state who is not an ICMS taxpayer (including digital economy), the supply is taxed at the same rate as transactions made within the customer's state (internal rate) and VAT is to be assessed and collected in two portions, as follows:

- To the state where the seller is located in the amount equivalent to the interstate rate that would apply in a supply to a regular taxpayer
- To the state where the customer is located in the amount equivalent to the difference between the customer's state internal rate and the interstate rate

Some items, such as horticultural products and certain medicines, are exempt from ICMS.

IPI. IPI rates vary from a zero rate (0%) to 300%. The rate of IPI chargeable on a supply of finished goods depends on the classification of the goods under the IPI Tariff Table. The table contains 9,728 different classification codes. The IPI Tariff Table uses the same tariff classification system as the Brazilian External Tariff Code (TEC or BTEC).

The rate of IPI varies, depending on how essential the product is considered to be. For example, the zero rate of IPI applies to essential products such as rice and wheat flour, a low rate of IPI (8%) applies to certain products, such as pipes, and the highest rate of IPI (300%) applies to "superfluous" or luxury products. Some goods are exempt from IPI. In other cases, essential products may benefit from a reduced tax base (which reduces the effective rate of tax), or a deferral or suspension of the tax due.

ISS. The rate of ISS varies among Brazil's 5,564 municipalities. The ISS law sets the maximum rate at 5%. The rate of ISS is generally between 2% (the lowest rate) and 5% and depends on the type of service and the municipality where it is provided.

PIS-PASEP and COFINS. The PIS-PASEP rate is 0.65% for taxpayers taxed under the deemed corporate income tax method of calculation, under the cumulative system and 1.65% for taxpayers taxed under the annual actual income tax method, under the noncumulative system (without credit entitlement and with credit entitlement, respectively). For imports the PIS-PASEP rate is 2.1%.

The COFINS rate is 3% for taxpayers taxed under the deemed corporate income tax method of calculation, under the cumulative system and 7.6% for taxpayers taxed under the annual actual income tax method, under the noncumulative system, and for imports the rate of COFINS is 9.65%.

For certain types of goods, and depending on specific tariff code, an additional 1% of COFINS upon importation is levied.

Some companies and products are subject to special tax treatment for PIS-PASEP and COFINS, which apply different rates for some products. For example, the automotive industry pays PIS-PASEP at a rate of 2% and COFINS at a rate of 9.6% on specific products. Other industries, such as the pharmaceutical, cosmetics and the beverage industries, also have special treatment for PIS-PASEP and COFINS. In addition, for these companies and products, the rates on imports are also increased.

Financial revenues are taxable at a rate of 0.65% and 4% of PIS-PASEP and COFINS, respectively.

Some essential items, such as horticultural products and wheat flour, are PIS-PASEP and COFINS zero rated.

Option to tax for exempt supplies. Not applicable.

E. Time of supply

Imported goods. Goods are deemed to be supplied when they leave the seller's facilities.

Continuous supplies of services. There are no special time of supply rules in Brazil for continuous supplies of services.

Prepayments. The supplier that receives a prepayment must pay PIS-PASEP and COFINS only if it has the ordered product in stock. If the company does not have the goods ready for shipment, PIS-PASEP and COFINS must be taxed only at the time of delivery.

The IPI legislation allows the taxpayer to choose the tax point, that is, the time of prepayment or delivery of the products. For ICMS, taxation must occur only when the product is delivered.

Leased assets. Leased assets are not considered a sale, however certain states still demand ICMS collection on those transactions.

Goods sent on approval for sale or return. There are no special time of supply rules in Brazil for supplies of goods sent on approval for sale or return.

Reverse-charge services. Brazilian tax law determines that, depending on the type of services being contracted, the client is responsible for withholding IRPJ, CSLL, PIS, and/or COFINS, as the case may be, from the service fees being paid to the supplier of the service.

F. Recovery of VAT by taxable persons

ICMS. An ICMS taxpayer may recover input tax (that is, obtain a credit) for VAT charged on goods and services supplied to it that are subject to another taxable transaction. An ICMS taxpayer generally recovers input tax by deducting it from output tax, which is VAT charged on supplies made. ICMS may not be recovered before a taxpayer begins making taxable supplies.

A valid VAT invoice or customs document must generally accompany a claim for input tax.

No ICMS may be claimed before a business registers for ICMS. However, a business may register for ICMS as soon as it intends to carry out taxable activities. Input tax deduction is not granted until taxable activities begin. Before making taxable supplies, the taxpayer must record purchase invoices as a "Deferred Asset" account. After taxable supplies begin, the deferred ICMS may be recovered. No time limit applies to the period between registration and the beginning of an activity.

IPI. IPI taxpayers deduct IPI paid as input tax from IPI charged as output tax. The rules are similar to those for ICMS.

ISS. ISS taxpayers do not recover any ISS paid as input tax. Consequently, ISS paid is borne as a cost by all recipients of services subject to the tax.

PIS-PASEP and COFINS. PIS-PASEP and COFINS taxpayers who use the noncumulative system are entitled to calculate PIS-PASEP and COFINS credits to offset PIS-PASEP and COFINS payments. Credits are limited to certain costs.

Nondeductible input tax. For ICMS and IPI purposes, input tax may not be recovered on purchases of goods and services that are not used for business purposes (for example, goods acquired for private use by an entrepreneur or general overhead costs), or on goods acquired before registration as a taxpayer.

Refunds. If the amount of input tax recoverable exceeds the amount of output tax payable, the excess is generally not refunded. However, the excess may be used to offset tax payments in the following months or may be transferred in certain cases to a third party.

Preregistration costs. A company must be properly registered as a taxpayer in order to acquire assets and stock or inventory. Therefore, any such acquisitions will generate tax credits (when applicable), which will be recorded in the tax books and will be offset against the debts raised on the outbound supply of the goods/services. Before a company has the status of a taxpayer, it should not be able to acquire assets or inventory.

G. Recovery of VAT by non-established businesses

Brazil does not refund any form of VAT incurred by businesses that are neither established nor registered for VAT in Brazil.

H. Invoicing

VAT invoices and credit notes. An ICMS, IPI or ISS taxpayer must generally provide a VAT invoice for all taxable supplies made, including exports. A VAT invoice is necessary to support a claim for input tax deduction for ICMS and IPI. Effective June 2013, companies must specify on invoices and receipts the taxes charged that are part of the total amount of the product sale price. Companies must list the amount of municipal, state and federal taxes levied for each product described on the invoice or receipt. Alternatively, such information may be displayed in plain view at the business establishment. Companies that fail to comply with this requirement will be subject to penalties, such as monetary fines, or the suspension or revocation of the license to operate.

A credit note (input invoice) must contain the same information as a VAT invoice, but it is not valid in all situations.

Proof of exports for ICMS. ICMS is not chargeable on supplies of exported goods. However, to qualify as VAT-free, exports must be supported by evidence confirming that the goods have left Brazil. Suitable evidence includes an invoice, a customs certificate of origin and an export declaration.

Foreign-currency invoices. All VAT invoices must be issued in Brazilian reals (BRL).

B2C. Companies rendering services or selling products in Brazil must send each invoice electronically to the government for validation. In the case of goods trade, the invoice must be submitted before shipping the goods. There are no special invoicing rules for supplies made to private individuals.

Electronic invoicing. As previously mentioned, companies selling products or rendering services in Brazil must issue each invoice electronically. Please note that general information must be provided in the invoice, such as vendor address and telephone number, invoice number and series, nature of operation, invoice date, taxpayer registry number, etc.

I. VAT returns and payment

ICMS. ICMS returns must be submitted for monthly periods. The VAT return consists of the following two parts:
- A payment receipt (GARE)
- An ICMS declaration named Digital Tax Accounting (EFD-ICMS/IPI), which lists all invoice details, including ICMS credits and debits during the period

The specific date for submission depends on the taxpayer's business activities.

Return liabilities must be paid in Brazilian reals.

IPI. IPI is generally payable every month (depending on the type of products sold), using a payment receipt (DARF). Return liabilities must be paid in Brazilian reals.

For IPI, the following two different returns are required every month:
- The Declaration for Federal Taxes and Contributions (DCTF)
- The EFD-ICMS/IPI

ISS. ISS is due monthly. A specific payment and return form must be completed each month and must be retained for a period of five years.

ISS payments and returns are generally due monthly, but the rules differ between municipalities (Brazil has more than 5,500 municipalities). All documents must be retained for a period of five years.

PIS-PASEP and COFINS. PIS-PASEP and COFINS taxpayers must submit the DCTF to the federal tax authorities monthly. They must also submit the EFD-Contribuições, which (is a tax return related to PIS/PASEP and COFINS, where all the documents and transactions representing the revenues earned, as well as the costs, expenses, charges and purchases that generate credits must be reported, to the federal tax authorities on a monthly basis.

PIS-PASEP and COFINS are due monthly, using a DARF.

Electronic filing and archiving. Monthly electronic filing is required from companies where the detailed throughput of goods and services are to be reported to the authorities.

Annual returns. For specific tax books (e.g., inventory book named Block H embedded in the EFD-ICMS/IPI) there are certain annual electronic filing requirements.

Special schemes. Companies under the "Simples" tax regime are subject to special VAT calculation/returns. The "Simples" tax regime (Integrated Payment of Taxes and Contributions from Micro and Small Companies) is a simplified tax regime applicable to micro and small companies that meet specific gross revenue thresholds and other legal requirements. The "Simples" regime allows these companies to calculate taxes applying reduced rates and calculation bases, and it also provides them with the possibility of paying several taxes together, including federal (IRPJ, CSLL, PIS, COFINS, IPI, INSS), state (ICMS) and municipal (ISS) taxes using one single payment slip, and presenting VAT simplified returns.

J. Penalties

ICMS. For ICMS purposes, penalties are assessed for errors and omissions connected to the taxpayer's primary obligation (payment of tax) or secondary obligations (such as proper bookkeeping). These errors include the following:
- Late or omitted payment of tax: a fine of between 50% and 150% of the tax due
- Entitlement to a tax credit: a fine of between 10% and 100% of the tax credit
- Lack or fraudulent use of documents related to the shipping, transporting, receiving or warehousing of goods or inventory and to supplies of services: a fine of between 20% and 100% of the value of the transaction

- Incorrect tax documents or invoices and records: a fine of between 1% and 10% of the value of the transaction

For other ICMS errors or misstatements, the VAT authorities calculate the appropriate fine, using the official monthly index published by the State Revenue Secretariat.

Interest is charged in addition to any fine, depending on each ICMS State Ruling. The applicable rate varies monthly.

IPI and PIS-PASEP and COFINS. The penalty for an error connected with IPI and PIS-PASEP and COFINS is a fine of at least 75% of the tax due.

ISS. ISS penalties may vary depending on the municipality and on the type of irregularity. In the São Paulo municipality, the fine varies from 10% to 100% of the ISS due.

K. Other matters

Exclusion of ICMS from the PIS and COFINS calculation basis. For a long time, the national courts have discussed the exclusion of ICMS from the PIS and COFINS calculation basis levied on local transactions. On 15 March 2017, the Brazilian Federal Supreme Court (STF) ruled that the inclusion of ICMS in the social contributions (PIS and COFINS) tax basis is unconstitutional. Although there is no regulation regarding the effects of the decision yet, some taxpayers have already reversed the provisions (if any) and/or have already adjusted the calculation method.

Expansion of the raw materials concept for PIS and COFINS. PIS and COFINS legislation allow taxpayers to deduct credits on certain expenses, such as the purchase of raw materials. The concept of raw materials has been discussed over a number of years, but in 2018 a court decision ruled that all expenses that are connected to the production process and are considered relevant or essential to perform the manufacturing process shall be considered as expenses with the right to deduct the credits of PIS and COFINS.

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A. At a glance

Name of the tax	Value-added tax (VAT)
Local name	Danak varhu dobavenata stoinost (DDS)
Date introduced	1 April 1994
Trading bloc membership	European Union (EU) Member State
Administered by	Ministry of Finance (http://www.minfin.bg)
VAT rates	
Standard	20%
Reduced	9% for hotel accommodation
Other	Zero-rated and exempt
VAT number format	BG123456789 (BG + 9 digits) BG1234567890 (BG + 10 digits)
VAT return periods	Monthly
Thresholds	
Registration	BGN50,000
Distance selling	BGN70,000
Intra-Community acquisitions	BGN20,000
Recovery of VAT by non-established businesses	Yes

B. Scope of the tax

VAT applies to the following transactions:
- The taxable supply of goods or services in Bulgaria that is made for consideration
- Reverse-charge services received by a Bulgarian taxable person
- Intra-Community acquisitions
- The acquisition of new means of transport and excise goods by taxable or nontaxable persons
- The importation of goods into Bulgaria, regardless of the status of the importer

C. Who is liable

A taxable person is a business entity or individual that carries out an economic activity in Bulgaria, whatever the purpose or the result of that activity. This rule applies regardless of whether the supplier is a local or foreign entity or an individual.

The VAT registration threshold is taxable turnover of BGN50,000 in any 12 consecutive months or within two consecutive months, which includes turnover from taxable supplies chargeable at the standard rate of VAT (20%) or the reduced rate (9% for hotel accommodation), zero-rated supplies and financial and insurance services within the principal activity of the supplier.

A taxable person, established in Bulgaria, rendering services with a place of supply in another EU Member State should register in Bulgaria regardless of its taxable turnover.

A non-established, EU-based taxable person supplying goods to be assembled and/or installed in Bulgaria on their behalf, where the recipient is not registered for VAT in Bulgaria, must register for VAT purposes regardless of its generated turnover.

A taxable person receiving cross-border services subject to the reverse charge in Bulgaria must register for VAT purposes in Bulgaria regardless of its taxable turnover.

Voluntary registration. A taxable person may register for VAT voluntarily irrespective of its taxable turnover.

Partnerships. An unincorporated partnership is treated as a taxpayer, separate from the founding entities that constitute it. The unincorporated partnership is subject to all the general rules of the Bulgarian VAT law, including those relating to VAT registration, deregistration and reporting. The VAT registration of an unincorporated partnership does not result in the VAT registration of the entities that have entered into the contract for joint activity. However, VAT registration of the partners triggers VAT registration of the partnership. In such case, the partnership is obliged to apply for VAT registration in seven days after the date of its registration as a partnership, in a special partnership register in Bulgaria.

The VAT registration of a partner triggers the VAT registration of the partnership, if the partnership is not already registered for VAT on any other grounds. Where the VAT registration of the partnership is triggered, the application should be filed within seven days of the date of VAT registration of the partner.

Upon inheritance of a VAT-registered person (including a sole trader) and in case of continuation of the same independent economic activity, the successor is entitled to register for VAT by submitting an application within seven days of acceptance of the succession. The date of registration is the date of delivering of the registration act.

Non-established businesses. A "non-established business" is a business that has neither a place of management/seat in Bulgaria nor a fixed establishment in Bulgaria. A non-established business must register for VAT in Bulgaria if it makes taxable supplies of goods or services (unless the reverse charge applies), intra-Community acquisitions exceeding the statutory thresholds or receives services with a place of supply in Bulgaria from a non-established foreign supplier.

Tax representatives. A foreign person established in a non-EU country that has not entered into an agreement for mutual assistance with Bulgaria must appoint a resident tax representative to register for VAT purposes in Bulgaria. The representative assumes joint and unlimited liability for the VAT obligations of the non-established business. The tax representative must be appointed using a notarized VAT agency agreement.

Group registration. Not applicable.

Registration procedures. The VAT registration form should be completed in Bulgarian following a standard template and should be submitted in hard copy together with all supporting documents. If originating in a foreign language, they should be accompanied by an official translation into Bulgarian.

Online registration is also possible via a qualified electronic signature registered with the Bulgarian tax authorities on their web interface: https://inetdec.nra.bg/eservices.html.

The application should be submitted and the registration procedure completed within the following deadlines:

- Mandatory general VAT registration: not later than the 7th day of the month following the month when the turnover has been reached; if the turnover is reached within two consecutive calendar months, the application should be filed within seven days of the date on which the turnover has been reached
- VAT registration for rendering or receiving cross-border services subject to reverse charge: at least seven days prior to the date when the tax for the supply becomes due
- VAT registration for intra-Community acquisitions: at least seven days prior to the date of the taxable event for the acquisition by which the total value of taxable intra-Community acquisitions exceeds BGN20,000 in a calendar year
- VAT registration for distance sales: at least seven days prior to the date of the taxable event for the supply to nontaxable individuals by which the total value of distance sales exceeds BGN70,000 in a calendar year
- VAT registration as regards the delivery of goods to be assembled or installed in Bulgaria, performed by persons established in other EU Member States, where the recipients are not VAT registered in Bulgaria: not later than seven days before taxable event of the supply
- VAT registration for digital services provided to local nontaxable persons where the supplier is neither registered under the Mini One-Stop Shop (MOSS) scheme nor has a Bulgarian VAT ID number and the turnover of the sales in Bulgaria has exceeded BGN19,558 (EUR10,000) in a calendar year: by the 10th day of the month following the month when the taxable event for the first supply has occurred

Within seven days after submission of the application form and supporting documents for mandatory and voluntary VAT registration, the tax authorities verify the grounds for registration. Within seven days after completing this verification, the tax authorities issue a certificate of VAT registration or a notice of rejection.

Aside from the mandatory general VAT registration (the first item above), the VAT registration procedure should be completed by the tax authorities within three days after the application is submitted.

Voluntary deregistration. A registered person may deregister when it ceases to make taxable supplies and the conditions for mandatory VAT registration are no longer met.

Statutory VAT deregistration. VAT deregistration is mandatory on the winding up of a company or on the death of a taxable individual.

Late-registration penalties. The penalty for non-registration ranges from BGN500 to BGN5,000. An additional penalty equal to the amount of VAT that should have been charged may be imposed. A penalty ranging from BGN500 to BGN5,000 may be assessed for failure to deregister on time.

Reverse charge. Bulgarian taxable persons are obliged to charge VAT on the acquisition of goods or receipt of services when the supplier is not established in Bulgaria:

- Intra-Community acquisitions
- Services with a place of supply in Bulgaria where the recipient is a taxable person

- Supplies of natural gas through pipelines or electricity when the recipient is a VAT-registered person
- Supplies of goods assembled or installed by or for the account of the supplier when the recipient is a VAT-registered person in Bulgaria and the supplier is established in another Member State

Effective 1 July 2019, VAT-registered taxable persons can apply the reverse charge for importation of certain base metals, organic and inorganic chemicals and mineral products if the customs value of the goods per unit equals or exceeds BGN50,000.

A local reverse charge applies for domestic supplies to customers identified for VAT in Bulgaria on the acquisition of:
- Investment gold
- Waste and related services, such as scrap metal and similar supplies
- Cereals and industrial crops (until 30 June 2022)

Digital economy. As of 1 January 2019, supplies of telecommunication, broadcasting and electronic services to nontaxable persons are taxable where the customer is established, has its permanent address or usually reside once the total amount of the supplies exceeds BGN19,558 (EUR10,000) in a calendar year. If the total amount of supplies does not exceed this threshold, such supplies are taxable in the country of establishment of the supplier, unless the supplier opts to tax them in the country of establishment, permanent address or usual residence of the customer.

Mini One-Stop Shop. As of 1 January 2015, an optional VAT registration scheme called Mini One-Stop Shop (MOSS) entered into force. As regulated on the EU level, it allows taxable persons providing broadcasting, telecommunication and electronic services to nontaxable customers in other EU Member States in which they do not have an establishment to report VAT due on those supplies in the Member State in which they are identified for VAT purposes.

This regime is optional and is introduced to simplify VAT reporting after the changes in the place of supply of digital economy effective as of 2015.

There are two types of MOSS registrations:
- For EU established businesses (Union scheme)
- For non-EU established businesses (non-Union scheme)

Both registrations are processed electronically via the web-site of the National Revenue Agency (NRA). Registration for the non-Union scheme is available without the use of qualified electronic signature (QES) on the following link: http://nraapp03.nra.bg/voes/registration.jsp. A username and password is generated for the purposes of the registration and the online access.

Registration for the Union scheme is available only with QES. The online application for the Union scheme is available only after the QES is registered with the NRA. Both registration applications (for Union scheme and for non-Union scheme) are prepared, submitted and processed electronically. No special rules regarding representation before the tax authorities apply. The general rules on representation regarding VAT registrations apply.

The tax authorities perform a tax check within seven days for both types of MOSS registrations and should issue a decision on the VAT registration within seven days after completion of the tax check. The notification for registration is delivered electronically via electronic message.

The registration date is considered to be the first day of the quarter following the calendar quarter after submission of the registration application, unless the first supply is made before that and the supplier has applied for the registration by the 10th of the month following the date of the first supply.

Exemption from registration. Incidental taxable activities and supplies of fixed assets do not account toward the VAT registration threshold.

D. VAT rates

The term "taxable supplies" refers to supplies of goods and services that are subject to VAT.

The following are the applicable VAT rates in Bulgaria:
- Standard rate: 20%
- Reduced rate: 9% for hotel accommodation
- Zero rate (0%)

No VAT is chargeable on zero-rated supplies but the taxable person may deduct the related input tax.

Examples of supplies of goods and services taxable at 0%

- Exportation of goods
- International transport and related services
- Intra-Community supplies
- Services related to the international traffic of goods
- Inward processing of goods (under certain conditions)
- Supplies related to duty-free trade
- Intermediary services of agents, brokers or other intermediaries related to zero-rated supplies

"Exempt supplies" are supplies of goods and services that are not subject to VAT and that do not give rise to a VAT deduction.

Examples of exempt supplies of goods and services

- Certain real estate transactions
- Leasing of residential buildings to individuals
- Financial services
- Insurance and reinsurance services
- Medical care services
- Education, cultural and sports services
- Betting and gambling
- Intermediary services related to international adoption procedures under the Family Code in Bulgaria

Option to tax for exempt supplies. For certain supplies, such as the sales of old buildings, the taxable person may opt for taxable or exempt treatment. Suppliers may opt to tax the following exempt supplies:
- Certain real estate transactions
- The interest element on finance lease (hire-purchase) installments

E. Time of supply

The date when VAT becomes due is called the "date of supply" or "tax point." The tax point for goods is the transfer of ownership of the goods. The tax point for services is the date of completion of the service. VAT also becomes due on the date of the receipt of an advance payment for supplies of goods or services to the extent of the payment received.

If the transfer of ownership in goods is deferred until the fulfillment of certain conditions, the date of supply is the date the goods are handed over.

Leased assets. The time of supply for leased assets may vary in view of the type of lease and the specific contractual arrangements:

- Operational leases (rentals) are taxed for Bulgarian VAT purposes as supplies of services. VAT becomes chargeable proportionately on each installment and the time of supply follows the rules for periodic and continuous supplies (see below).
- Finance leases are taxed either as a supply of services (rentals) or as a supply of goods depending on the contractual arrangements. VAT becomes chargeable proportionately on each installment if the lease is considered a supply of rental service. A finance lease qualifies as a supply of goods and the time of supply is upon handing over of the leased asset if one of the following is true under the contract:
  — Legal title over the leased asset will transfer upon expiry of the lease term.
  — An option for transferring the title on the leased asset is envisaged, but the total amount of the lease instalments, less the interest payments, equals the fair value of the leased asset.

VAT on the total price of the goods received under financial leasing with option to transfer their legal title, concluded after 1 January 2014, would be chargeable upon handing over of the goods if the total amount of the lease installments is identical to the fair value of the leased goods upon inception of the lease.

Private use. Private use of services and goods by a taxable person for nonbusiness purposes is deemed supply for consideration. Effective 1 January 2016, the taxable event is the last day of each month in which services were deemed supplied. The taxable amount is the attributable direct cost for rendering the supply. If capital goods are used to provide deemed supplies of services, the taxable amount is determined proportionately for each tax period, taking into account a 5-year depreciation period (20 years for real estate) as of the date input VAT was deducted for the capital good.

Upon purchases of immovable property and other capital goods/services that will be used both for the purposes of the taxable person's business and for private use, input VAT should be deducted only up to the extent of their business use applying appropriate allocation methods.

If the purchases do not qualify as capital goods (taxable base of acquisition of less than BGN5,000), and the taxable person will use them for business and private purposes, only proportionate deduction up to the extent of the business use is allowed.

Taxable persons should annually adjust (increase or decrease) the input VAT deduction on their historical purchases of immovable property and capital goods depending on the actual annual business use. VAT credit should be adjusted within 20 years for immovable property and within 5 years for goods and services, which qualify as capital goods.

Continuous supplies. The time of supply for periodic or continuous supplies each period for which there is a payment agreed is considered as a separate supply and the tax event coincides with the date on which the payment becomes due. For supplies performed in stages, the tax event coincides with the date on which each stage is completed.

If a supply is rendered continuously for more than one year and if no payment is made or due during that period, the date of supply is considered the end of the calendar year.

The time of supply for continuous intra-Community supplies of goods that continue for more than one calendar month is the end of the calendar month in which the supplies have been performed.

Intra-Community acquisitions. The date of supply of intra-Community acquisitions follows the general rules. However, VAT on intra-Community acquisitions becomes chargeable on the 15th day of the month following the month in which the acquisition was made. If the supplier issues an invoice before this date, the date of supply is the date on which the invoice is issued, unless the invoice documents advance payments or unless the invoice is issued before the date of the tax event.

Reverse charge. If a non-established business makes certain supplies of services to a business established in Bulgaria, the reverse charge applies. Under the reverse-charge mechanism, the recipient must charge the Bulgarian VAT on the supply. The recipient of the service must account for and pay Bulgarian VAT on the supply, using a special form (protocol). The Bulgarian recipient of the service may fully or partially recover the self-assessed VAT if the recipient makes both taxable and exempt supplies (see Section F).

The date of supply for reverse-charge services is the date on which the service is completed, or the date when payment is made, whichever is earlier.

As of December 2013, the local reverse charge applies for supplies of certain cereal and industrial crops provided by agricultural producers. This is a temporary measure, applicable until 30 June 2022.

Imported goods. VAT for imported goods is chargeable when the goods are cleared for customs purposes.

A taxable person may postpone payment of import VAT on (i) goods imported for investment projects approved by the Ministry of Finance upon obtaining a special permission or (ii) importation of certain base metals, organic and inorganic chemicals and mineral products if the customs value of the goods per unit equals or exceeds BGN50,000 upon declaring the use of the reverse-charge mechanism in front of the customs office in Bulgaria.

Under the postponed accounting regime, the imported goods may be released from customs control without payment of VAT. Instead, the taxable person authorized to use the regime reverse-charges the import VAT. If the taxable person is able to recover the input tax in full, no actual payment is made.

Cash accounting. Under an optional cash accounting scheme for VAT effective as of 1 January 2014, VAT becomes chargeable when the payment is received by the supplier. The taxable person who opts to apply the cash accounting scheme has the right to deduct input VAT on the purchases only after transferring the payment to the supplier.

Prepayments. VAT becomes due on advance payments up to the amount of the payment made before the taxable event except for prepayments in relation to intra-Community acquisitions and intra-Community supplies. The prepayment is considered to be VAT inclusive. The VAT should be charged, and the invoice should be issued within five days after receipt of the advance payment, full or partial.

Intra-Community supplies of goods. The taxable event for intra-Community supplies of goods follows the general rules applicable to domestic supplies of goods. Intra-Community supplies of goods are subject to 0% VAT.

The VAT on intra-Community supplies and acquisitions becomes chargeable on the 15th day of the month following the month when the taxable event took place unless an invoice is issued before that. This does not apply if the invoice is for advance payment.

To substantiate the zero VAT rate on an intra-Community supply, the supplier should have an invoice indicating the EU VAT registration number of the customer. In addition, the supplier should have one of the following:

- Transport documents such as a bill of lading for road transportation under the Convention on the Contract for the International Carriage of Goods by Road (CMR), which verify the transportation of the goods outside Bulgaria to another EU Member State.
- If the customer is responsible for organizing the transportation, a written confirmation (реквизити на писменото потвърждение) from the customer for delivery of the goods, which should contain specific wording indicating the date and place of delivery, type and quantity of

the goods, type, model and registration number of the vehicle that transported the goods, names and positions of the persons delivering and receiving the goods.

If the supplier does not collect the above documents by the end of the month following the month when the 0% VAT became chargeable, he should apply 20% Bulgarian VAT on the supply. If the documents are collected later, the 20% VAT charged could be adjusted with specific documents.

Goods sent on approval for sale or return. The taxable event of supplies of goods on approval for sale occurs at the moment at which they are actually received by the customer.

Return of received goods back to the supplier qualifies as cancellation of the supply. Such transactions should be documented through credit notes issued by the supplier.

Vouchers. Effective 1 January 2019, special rules for VAT treatment of transactions with vouchers enter into force. The new rules introduce two types of VAT-taxable vouchers: single-purpose vouchers (SPV) and multipurpose vouchers (MPV). Supplies of SPV are subject to VAT upon each transfer of the vouchers. The actual handing over of the goods and services in return for the SPV is not subject to VAT. However, MPVs are taxable at the moment of the actual supply of the goods or services to which they relate. The transfers of the MPV before the actual handing over of the goods and services is not subject to VAT.

The new regime does not apply for discount vouchers; cinema/museum/travel and similar vouchers; and food vouchers issued by authorized persons in Bulgaria.

F. Recovery of VAT by taxable persons

A taxable person may recover input tax by offsetting it against output tax. Input tax includes VAT charged on goods and services received in Bulgaria, VAT paid on imports and VAT self-assessed on intra-Community acquisitions of goods and reverse-charge services received (see the chapter on the EU).

Input VAT is deductible from output VAT charged in the same VAT period or from VAT charged in the following 12 months. If VAT is due under the reverse-charge mechanism, no such time frame period applies.

The amount of VAT reclaimed must be detailed on one of the following:
- A valid VAT invoice or debit note
- A protocol for reverse-charge VAT
- A customs declaration

Special rules apply to the recovery of input tax incurred on assets and services acquired before VAT registration.

Nondeductible input VAT. Input VAT may not be recovered on purchases of goods and services that are not used for business purposes (for example, goods acquired for private use by an entrepreneur). In addition, input tax may not be recovered for some items of business expenditure.

The following lists provide some examples of items of expenditure for which input tax is not deductible and examples of items for which input tax is deductible if the expenditure is related to a taxable business use.

Examples of items for which input tax is nondeductible

- Nonbusiness expenditure
- Business entertainment
- Business gifts
- Purchase of passenger cars and parking and maintenance costs (unless the car is used for core business activities)
- Home telephone costs

Examples of items for which input tax is deductible (if related to a taxable business use)

- Purchase, lease and hire of vans and trucks and other vehicles, which do not qualify as passenger cars
- Lease and hire of cars
- Fuel for vans, trucks, leased and hired cars
- Mobile phones
- Conferences and seminars
- Advertising
- Donations of foodstuff to food banks subject to a number of specific conditions being met

Partial exemption. Input tax directly related to making exempt supplies is not recoverable. If a Bulgarian taxable person makes both exempt supplies and taxable supplies, it may not deduct input tax in full. This situation is referred to as partial exemption, i.e., when the purchases are allocated to both the taxable and exempt activity of the taxable person. Zero-rated supplies are treated as taxable supplies for these purposes.

The amount of the monthly input tax that may be deducted is calculated based on the percentage of supplies that qualifies for a tax credit compared to the total amount of supplies for the preceding calendar year. The monthly calculation is adjusted annually by calculating the ratio between the supplies with right to VAT credit and the total supplies performed by a person during a year. The adjustment is made in the VAT return for the last month of the year. The recovery percentage is rounded up to two decimal places.

Refunds. If the input tax recoverable exceeds the output tax chargeable for a tax period, a taxable person has a VAT credit balance. A taxable person may claim a refund of the VAT credit through the submission of its VAT return to the tax authorities.

Input VAT must be carried forward in the following two consecutive months and offset against VAT payables. If, at the end of the offsetting procedure, input VAT exceeds the output, it can be refunded within 30 days from submission of the last VAT return. A shorter 30-day term (without offsetting procedure) applies to persons such as those whose zero-rated supplies exceed 30% of the total value of supplies made in a 12-month period.

Preregistration costs. Input VAT incurred prior to the VAT registration of a taxable person in Bulgaria may be claimed with regard to:

- Goods that qualify as assets and are available to the taxable person at the time of the VAT registration
- Services incurred with connection to the incorporation of the taxable person in the form of a legal entity under the Bulgarian Trade Act

Capital goods. The period of adjustment for capital goods is 5 years and for real estate is 20 years. The input VAT may be deducted in the year when the goods are acquired if the intention is to use them for taxable supplies. If they are subsequently used for exempt or nontaxable supplies within 5 or 20 years, a pro rata adjustment should be made.

If the goods are acquired with the intention that they be used for nontaxable or exempt supplies but subsequently are used for taxable supplies, the VAT can be proportionally deducted (reverse application of the capital goods scheme).

Write-off of bad debts. No bad debt relief applies in Bulgaria.

Noneconomic activities. VAT credit is denied for nonbusiness related expenses.

G. Recovery of VAT by non-established businesses

The Bulgarian VAT authorities refund VAT incurred by businesses that are not established in Bulgaria and that are not registered for VAT in the country.

For businesses established in the EU, refunds are made under the terms of EU Directive 2008/9/EC. For businesses established outside the EU, refunds are made under the terms of Directive 86/560/EEC applying the principle of reciprocity; that is, the country where the claimant is established must also provide VAT refunds to Bulgarian businesses.

For foreign businesses established outside the EU, the principle of reciprocity applies; that is, the country where the claimant is established must also provide VAT refunds to Bulgarian businesses.

H. Invoicing

VAT invoices and credit notes. A Bulgarian taxable person must issue invoices for all taxable supplies made, including exports, intra-Community supplies and advance payments. Invoices are not required for retail transactions (B2C), unless requested by the customer. Invoices may not be issued for supplies made free of charge, for financial services and for certain other supplies. A document qualifies as a valid invoice if it complies with the requirements set out in the Bulgarian VAT Act.

A VAT invoice is necessary to support a claim for input tax deduction or a refund under EU Directive 2008/9/EC or Directive 86/560/EEC refund schemes.

Credit or debit notes are issued for reducing or increasing the tax base of previous supplies. They should explicitly indicate the invoices to which they refer and the reasons for the corrections.

Invoices and credit or debit notes can also be issued by recipients on behalf of suppliers, provided written agreements between the parties are concluded, for which the tax authorities should be notified.

A special tax document (protocol) is issued for transactions subject to reverse-charge by the recipient.

Summary invoices. As of 1 January 2013, taxable persons are allowed to issue summary invoices covering a number of separate supplies of goods and services provided that VAT on the supplies mentioned in the summary invoice becomes chargeable during the same calendar month. A summary invoice should be issued no later than the last day of the month to which it refers.

Simplified VAT invoices. A simplified VAT invoice has been introduced that contains less compulsory information. A simplified VAT invoice can be issued by taxable persons for supplies of goods and services if the amount of the invoice is less than EUR100 (including VAT). Simplified invoices may not be issued in the case of distance sales, intra-Community supplies of goods or supplies with a place of supply in the territory of another EU Member State.

Proof of exports and intra-Community supplies. VAT is not chargeable on supplies of exported goods or on intra-Community supplies of goods. However, to qualify as VAT-free, export and intra-Community supplies must be supported by evidence that the goods have left Bulgaria. Acceptable proof includes the following documentation:

- For exports, a copy of the export declaration verified by the customs office and indicating the supplier as exporter or another document certifying the export, where it is possible not to submit a customs document under the customs legislation; invoice, and transportation document (or a written confirmation by the recipient, if the goods are delivered to a third territory)
- For intra-Community supplies, an invoice for the supply containing the VAT number of the recipient as well as a document proving the dispatch of the goods to another EU Member State

(transportation document or written confirmation by the recipient depending on whether the transportation is organized by the supplier or the recipient)

Foreign-currency invoices. Invoices may be issued in any currency, provided that the tax base and the amount of VAT due are expressed in Bulgarian lev (BGN). Foreign-currency invoices must be converted into Bulgarian lev at the exchange rate of the Bulgarian National Bank or the European Central Bank on the date on which tax becomes due.

B2C. Effective 1 January 2019, new rules apply to the place of supply for supplies of telecommunications, broadcasting and electronic services to non-VAT taxable customers. For further details of the VAT rules on electronic services in the EU, please refer to the European Union chapter.

Electronic invoicing. Electronic invoicing is permitted for all Bulgarian VAT taxpayers. E-invoicing is feasible if it is accepted by the recipient in writing (formal or informal procedure) or through tacit acceptance (i.e., by processing or paying the invoices). Taxpayers should be able to guarantee the authenticity, the origin and the integrity of the content of the e-invoices through a reliable audit trail. An example is a qualified e-signature/EDI system, but this is not mandatory.

E-invoices should be kept within 10 years of 1 January of the year following the year in which the VAT obligation under the documents has to be paid. The database storing the e-invoices should be accessible by the revenue authorities during tax control procedures.

I. VAT returns and payment

VAT returns. Bulgarian taxable persons file VAT returns monthly. VAT returns must be filed by the 14th day of the month following the tax period. Payment in full is required by the same date. VAT liabilities are due in Bulgarian leva, but they may be paid in any currency, provided the amount remitted is equivalent to the VAT due in BGN currency.

Special schemes. The following special schemes are introduced in Bulgaria:

- Margin scheme for travel agents: VAT applies on the difference between the total amount paid by the traveler (exclusive of VAT) and the actual cost born by the travel agent for supply of goods and services provided by other taxable persons.
- Optional margin scheme for taxable dealers of second-hand goods, works of art, collectors' items and antiques.
- Cash accounting scheme for VAT: available for taxable persons with annual turnover in the previous 12 consecutive months not higher than the equivalent in Bulgarian currency of EUR500,000.
- Mini One-Stop Shop for taxable persons providing broadcasting, telecommunication and electronic services to nontaxable customers in other EU Member States.
- Special scheme for investment gold.
- Postponed accounting for investment projects.
- Postponed accounting for the importation of certain base metals, organic and inorganic chemicals and mineral products if the customs value of the goods per unit equals or exceeds BGN50,000.

Electronic filing and archiving. Effective 1 January 2018, VAT returns must be filed in electronic format only.

VIES returns (EC Sales List) and Intrastat returns should be filed only electronically.

Electronic archiving of documents is allowed in Bulgaria, as Directive 2010/45 EU has already been implemented in the local VAT rules. Electronic archiving should be organized by the taxable persons in such a way as to guarantee the authenticity of origin, the integrity of content and legibility of the electronic documents.

Minimum requirements for electronic archiving include:
- The taxable person has an obligation to guarantee during a tax audit an online access to the electronic archive.
- Reasonable business controls are required to create a reliable audit trail between the invoice and the supply. For electronic invoices examples of such technologies are EDI systems and qualified electronic signatures. Still, any other type of technology creating a reliable audit trail is accepted.

There are no restrictions on the location in which the electronic documents should be kept, i.e., the electronic archiving could be inland or abroad as long as an online access is guaranteed.

Annual returns. Not applicable.

J. Penalties

The penalty for failing to submit VAT returns or maintain VAT ledgers (sales and purchase ledgers) or for submitting inaccurate VAT information ranges from BGN500 to BGN10,000.

The penalty for failing to charge VAT is the amount of VAT not charged, but not less than BGN500. Effective 1 January 2016, penalties apply for delayed VAT charge — 5% of the VAT not charged, but not less than BGN200 (for a delay of up to 6 months), and 10% of the VAT not charged, but not less than BGN400 (for a delay between 7 and 18 months).

The penalty for persons who fail to self-charge VAT is the higher of 5% of the corresponding VAT and BGN50. In case the VAT amount is self-charged in the next period, the penalty is the higher of 2% of the corresponding VAT and BGN25. Penalty of 100% of the corresponding VAT applies if input VAT is nondeductible.

The penalty for a failure to issue VAT documents that results in the payment of less VAT is the amount of the VAT not charged but not less than BGN1,000.

K. EU filings

Intrastat. A Bulgarian taxable person trading goods with other EU countries must complete statistical reports, known as Intrastat if the value of the goods exceeds certain thresholds. Separate reports are required for Arrivals and Dispatches. The thresholds for declaration are determined by the National Statistics Institute by 12 October and apply for the following year.

The threshold for Intrastat Arrivals for 2019 is BGN460,000. The threshold for Intrastat Dispatches for 2019 is BGN280,000.

A taxable person is not required to report the statistical value of the goods (the value of the goods plus additional transport and insurance expenses) if its turnover from intra-Community trade in goods for 2019 does not exceed the following:
- Dispatches: BGN14.4 million
- Arrivals: BGN7.4 million

Bulgarian taxable persons must complete Intrastat declarations in Bulgarian currency, rounded up to the nearest whole number.

Intrastat returns are submitted monthly in electronic format by the 14th day of the month following the respective month.

The penalty for late submissions or for missing or inaccurate declarations ranges from BGN500 to BGN5,000.

EU Sales Lists (VIES Declarations). Bulgarian taxable persons that make intra-Community supplies, supplies as intermediaries in triangular operations or supplies of reverse-charge services must file EU Sales Lists (ESLs; called VIES Declarations) with the Bulgarian National Revenue Agency. An ESL is not required for any period in which the taxable person has not made any supplies required to be reported in an ESL.

Intra-Community acquisitions of goods are not reported in ESLs.

ESLs must be submitted monthly by the 14th day after the end of the respective month. Electronic filing of ESL returns is mandatory. Penalties may be imposed for late, missing or inaccurate ESLs.

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A. At a glance

Name of the tax	Goods and Services Tax (GST)
Date introduced	1 January 1991
Name of the tax	Harmonized Services Tax (HST)
Date introduced	1 April 1997
Trading bloc membership	United States–Mexico–Canada Agreement (USMCA) (*at the time of preparing this chapter, is due to be passed into law and signed by each country, to replace NAFTA*) Comprehensive and Progressive Agreement for Trans-Pacific Partnership (*at the time of preparing this chapter, is pending ratification*) Trade Agreement (CETA), between the European Union and Canada and currently provisionally in force
Administered by	Canada Revenue Agency (http://www.cra-arc.gc.ca)
Sales tax rates	
GST standard	5%
HST standard	
Ontario	13%
New Brunswick	15%
Newfoundland and Labrador	15%
Nova Scotia	15%
Prince Edward Island	15%
QST standard	
Quebec	9.975% (see Sections B and D)
Other	Zero-rated (0%) and exempt
Business number format	15 characters (9 numeric/2 alpha/4 numeric)
GST/HST return periods	Monthly (turnover in excess of CAD6 million, optional for other registrants) Quarterly (turnover between CAD1.5 million to CAD6 million, optional for other registrants) with turnover of CAD1.5 million or less) Annual (turnover of CAD1.5 million or less)
Thresholds	
Registration	CAD30,000
Recovery of GST or HST by non-established businesses	No

B. Scope of the tax

Canada's federal government imposes a 5% sales tax known as the Goods and Services Tax (GST). When a supply is made in a "participating province," the tax rate includes an additional provincial component of 8% or 10%, depending on the province. The combined 13% or 15% tax is known as the Harmonized Sales Tax (HST).

In implementing the HST, the participating provinces repealed their individual retail sales taxes and share in the revenues generated by the HST. HST applies to the same base of goods and services that are subject to GST.

Although the province of Quebec is not considered a "participating province," it replaced its own retail sales tax and harmonized with the GST (subject to some exceptions) when it implemented its own Quebec sales tax (QST) on 1 July 1992.

The provinces of Manitoba and Saskatchewan continue to impose their own retail sales tax, while the province of Alberta and Canada's three territories do not impose a retail sales tax.

GST/HST applies to taxable supplies of property and services made in Canada in the course of a business, and to imports of goods into Canada. Specific HST rules determine when a supply is made in a participating province and when property or services are brought into a participating province.

The term "property" includes all property, whether real or personal, movable or immovable, tangible or intangible, corporeal or incorporeal, any right or interest of any kind, and shares and *choses in action*. However, it does not include money. The term "tangible personal property" generally means goods.

The term "services" means anything other than property or money. It does not include services provided by an employee in the course of, or in relation to, an office or employment.

For the purposes of GST/HST, the territory of Canada includes the following areas:
- The seabed and subsoil of the submarine areas adjacent to the coast of Canada for which the government of Canada or of a province may grant rights to explore for, or exploit, any minerals (including petroleum, natural gas, related hydrocarbons, sand and gravel)
- The seas and airspace above those submarine areas with respect to any activities carried on in connection with the exploration for, or exploitation of, minerals

Place of supply rules.

- The legislation contains rules that determine whether a supply has been made in Canada for GST purposes. Once it is determined whether a supply is made inside Canada or outside Canada under these GST place-of-supply rules, there are a similar but separate set of rules (known as HST place-of-supply rules) that determine whether the supply is made in a particular province in Canada.
- Under the legislation, a sale of goods is deemed to be made in Canada if the tangible personal property (i.e., goods) is delivered or made available to the purchaser at a place in Canada. Any other supply of goods (otherwise than by way of sale), such as a lease, is deemed to be made either inside Canada or outside Canada depending on whether possession or use of the goods is given to the recipient or is made available to the recipient inside Canada or outside Canada.
- A service is deemed to be supplied in Canada if the service is performed in whole or in part in Canada. It is deemed to be supplied outside Canada only if the service is performed wholly outside Canada. A supply of intangible personal property is deemed to be made in Canada if the property may be used in whole or in part in Canada. Conversely, a supply is deemed to be made outside Canada if the property cannot be used in Canada.

C. Who is liable

Every person who makes taxable supplies of goods or services in Canada in the course of a commercial activity is required to register for GST/HST purposes, except in the following circumstances:
- The person qualifies as a "small supplier."
- The person's only commercial activity is the supply of real property by way of sale other than in the course of a business.
- The person is a nonresident who does not carry on any business in Canada.

"Commercial activity" means any of the following activities:
- Any business, except to the extent the business involves making exempt supplies

- An adventure in the nature of trade, except to the extent the activity involves making exempt supplies
- The supply of real property, other than an exempt supply

For individuals, personal trusts whose members are individuals and partnerships of individuals, the activity must also be carried on with a reasonable expectation of profit to constitute a commercial activity.

The definition of a "person" includes individuals, partnerships, corporations, trusts, estates of deceased individuals and bodies such as societies, unions, clubs, associations, commissions or other organizations of any kind.

A "registrant" is any person that is registered or is required to be registered for GST/HST.

Small supplier threshold. A "small supplier" is a person whose annual worldwide taxable and zero-rated supplies were less than CAD30,000 in the four preceding calendar quarters. The CAD30,000 threshold is determined by reference to the aggregate of taxable and zero-rated supplies made by the person and any associates of the person in the period.

A person whose activities exceed CAD30,000 must register for GST within one month after making the first supply that causes its turnover to exceed the threshold. However, if a person exceeds the CAD30,000 threshold in a single calendar quarter, it ceases to qualify as a small supplier beginning with the supply that causes it to exceed the threshold.

The small supplier threshold for a public service body (such as a charity, nonprofit organization, municipality, university, public college, school authority or hospital authority) is generally CAD50,000.

The small supplier rules do not apply to the following businesses:
- Persons who solicit orders for publications to be delivered in Canada by mail or courier
- Taxi operators (including commercial ride-sharing services)
- Nonresidents who sell taxable supplies of admissions in Canada for places of amusement, seminars, activities or events held in Canada

A small supplier is not required to register for GST/HST but may do so voluntarily provided that it is engaged in commercial activity in Canada.

Group registration. GST/HST group registration is not permitted. Legal entities that are closely connected must register for GST/HST individually.

However, "closely related" corporations and partnerships may elect to deem supplies made between members of the group as being made for no consideration if the members are engaged exclusively in making taxable and zero-rated supplies. This provision effectively makes sales between group members subject to the zero rate. Taxable sales of real property and any supply that is not acquired by the recipient exclusively for use in a commercial activity are not eligible for relief under the election.

In addition to closely related corporations, the election is also available to groups that include partnerships, referred to as "Canadian partnerships." A "Canadian partnership" is defined as a partnership in which each member is a corporation or partnership and is resident in Canada.

Special rules apply if a closely related group includes a financial institution.

Closely related corporations and Canadian partnerships are required to file prescribed election form RC4616 with the CRA. Form RC4616 replaced form GST25, which was not required to be filed with the CRA.

All new elections are required to be made using the form RC4616 and the form must be filed with the CRA. All elections under section 156 that were in place prior to 2015 were required to

be refiled with the CRA prior to 1 January 2016, using the new election form, but carrying the effective date used in the original election. If the new filing requirements are not respected, elections will be considered invalid, which could lead to significant tax consequences in the event of an audit.

Important changes to the definition of a "qualifying member" were introduced, resulting in a general increase in the availability of the election for new members of a qualifying group. In addition, the parties to the election are jointly and severally (or solidarily) liable for tax that may apply in relation to supplies made among them on or after 1 January 2015.

Similar filing obligations for the election under section 334 of the Act respecting the Quebec sales tax apply as of 1 January 2015. The new prescribed form for the election in Quebec is numbered FP-4616-V.

Bill C-29, which received royal assent on 15 December 2016, implemented further legislative amendments to the closely related test that were proposed in the 2016 federal budget. The amendments ensure the test applies only in situations where the parent has nearly complete voting control over the subsidiary and are generally applicable as of 22 March 2017, subject to transitional rules. The previous rules required the parent to own 90% or more of the value and number of voting shares of the subsidiary. Under the amendments, in addition to meeting the 90% ownership test, in order for the parent and the subsidiary to be considered to be closely related, the parent corporation or partnership must also hold and control 90% or more of the votes in respect of every corporate matter ("qualifying voting control") of the subsidiary corporation.

Nonresident businesses. A nonresident business that does not carry on business in Canada but solicits orders for the supply of goods in Canada, or enters into an agreement to supply certain goods, services or intangible property in Canada, may register on a voluntary basis to claim input tax credits (see Section F). A nonresident business is not required to appoint a tax representative in Canada to register for GST/HST. However, a nonresident business with no permanent establishment in Canada must provide a security deposit to the GST/HST authorities to obtain registration.

In general, the amount of security is 50% of the estimated net tax (either positive or negative) for the first year of operations in Canada. The minimum acceptable amount of security is CAD5,000, and the maximum is CAD1 million. Security may be in the form of cash, certified check, money order or bond. All security deposits are payable in Canadian dollars (CAD).

A nonresident business may apply in writing to have the security requirement waived if it satisfies both of the following conditions:
- Its taxable supplies in Canada do not exceed CAD100,000 annually.
- Its net GST remittance or refund does not exceed CAD3,000 annually.

Where a nonresident person has a permanent establishment in Canada, the person is deemed to be resident in Canada in respect of the activities carried on through that particular establishment. A permanent establishment is defined as a fixed place of business of the person. It could also include the fixed place of business of another person (other than a broker, general commission agent, or other independent agent) making supplies on behalf of the person in the ordinary course of business.

Imported taxable supplies. Goods imported into Canada are subject to the GST or the federal part of the HST, except for goods that would be zero-rated if supplied in Canada, which are also zero-rated upon importation. In some cases, recipients of imported services and imported intangible property are required to self-assess GST/HST. The Canadian recipient must self-assess and remit the tax if these supplies are for use in Canada, unless they will be used exclusively (i.e., 90% or more) in a commercial activity. Special rules apply to financial institutions.

Tax representatives. Form RC59 is used to authorize the Canada Revenue Agency to deal with an individual representative (such as an accountant, lawyer or employee) or a firm as a representative for business account-related GST/HST information (as well as payroll, corporation income taxes, excise taxes, excise duties and other levy accounts). After 15 May 2017, a representative is required to complete the authorization request in "Represent a Client" at https://www.canada.ca/en/revenue-agency/services/e-services/represent-a-client.html to obtain online access to tax information for a business. Form RC59, Business Consent, can no longer be used to authorize online access.

Reverse charge. Self-assessment of the GST or federal component of the HST is required on importations of intangible personal property and services that are acquired from unregistered, nonresident persons outside Canada and not used at least 90% in commercial activities (100% in the case of financial institutions). The tax is calculated on the amount charged for the service or intangible personal property in Canadian dollars, and the tax is payable in the reporting period in which the amount for the service or the intangible personal property was paid or became payable. Registered purchasers of real property are also required to self-assess and remit applicable tax on the consideration paid for the property.

Registration procedures. Persons required to register under the legislation must apply to the Canada Revenue Agency within 30 days following the first taxable supply made in Canada. Before registering for GST/HST, a business must obtain a Business Number (BN) from the Canada Revenue Agency by using its online service at http://www.businessregistration.gc.ca, by sending in a completed Form RC1, Request for a Business Number (BN), or by calling 1-800-959-5525.

The Agency will then assign a registration number to the registrant and provide notification in writing of the registration number and the effective date of registration. Organizations can generally expect to receive confirmation of their registration and their nine-digit registration number by mail within two weeks after submitting their completed registration forms. GST/HST registrants who are based in the province of Quebec are required to register with Revenu Quebec using the online service at http://www.revenuquebec.ca/en/sepf/services/sgp_inscription/default.aspx, by sending in completed form LM-1-V or by calling 1-800-567-4692.

Late-registration penalties. Every person who is engaged in a commercial activity in Canada (other than a small supplier, a person whose only commercial activity is the making of supplies of real property by way of sale other than in the course of a business, or a nonresident person who does not carry on any business in Canada) is required to apply to be registered for the GST/HST before the 30th day after the day the person first makes a taxable supply in Canada otherwise than as a small supplier.

A person who is required to apply to be registered is also required to collect and remit the GST/HST on taxable sales whether or not the person is actually registered. Interest is payable at the prescribed rate where a person fails to remit or pay an amount on account of tax when required under the GST/HST legislation.

Digital economy. In the 2018–19 budget, Quebec announced it will implement a mandatory specified registration system for suppliers with no physical or significant presence in Quebec (nonresident suppliers) to ensure the QST is collected and remitted in the context of the digital economy. Suppliers with no physical or significant presence in Quebec will be required to collect and remit the QST on taxable incorporeal movable property and services they supply in Quebec to specified Quebec consumers.

In addition to the supplies in relation to the digital economy, nonresident suppliers located in Canada will be required to collect and remit the QST on taxable corporeal movable property they supply in Quebec to specified Quebec consumers. This mandatory registration will apply to non-

resident suppliers if the value of the consideration for all taxable supplies made by the supplier in Quebec to consumers exceeds CAD30,000. Mandatory registration will also apply to digital property and services distribution platforms with respect to taxable supplies of incorporeal movable property or services received by specified Quebec consumers, where the digital platform controls the key elements of transactions with such consumers, such as billing, transaction terms and conditions, and delivery terms. The specified registration system will take effect on:

- 1 January 2019, for nonresident suppliers outside Canada, and for digital platforms enabling these suppliers to make taxable supplies of incorporeal movable property or services in Quebec to specified Quebec consumers
- 1 September 2019, for nonresident suppliers located in Canada, and for digital platforms enabling these suppliers to make taxable supplies of incorporeal movable property or services in Quebec to specified Quebec consumers

There is no indication that the federal government shares this same intention as Quebec, as the federal government entered into an agreement with Netflix on 28 September 2017 that does not require Netflix to charge and collect GST from its Canadian customers.

Deregistration. Where a person ceases to carry on a commercial activity or becomes a small supplier and, as a result, ceases to be a registrant, the person's GST/HST registration may be cancelled by the Canada Revenue Agency on its own initiative or on request. In these circumstances, the person is deemed to have sold all its assets at fair market value upon deregistration. The non-registrant is subsequently required to account for the GST/HST on this deemed disposition in the last GST/HST return as a registrant. The person must also repay any input tax credits claimed on prepaid rent and services to the extent the prepayments relate to a period after deregistration.

Conversely, tax that becomes payable by a person to suppliers after deregistration continues to qualify as a valid input tax credit where it relates to services rendered to the person before deregistration or to rental payments attributable to a period before deregistration.

Exemption from registration. The VAT law in Canada does not contain any provision for exemption from registration.

Voluntary registration. In addition to mandatory registration requirements, other persons engaged in commercial activities in Canada may apply for registration even if not required to do so under the legislation.

Persons who may wish to apply for registration include small suppliers making taxable supplies to other registrants. These persons may be able to benefit from registration, particularly where most of their sales are to other registrants. Persons engaged in selling real property (under taxable conditions) otherwise than in the course of a business may also register, though they are not required to do so under the legislation. Registration permits these persons to claim input tax credits on land purchases at the time of purchase instead of at the time of sale, resulting in significant cash-flow advantages.

Voluntary registration may also benefit new businesses that incur significant start-up costs before they begin to make taxable supplies. While these new businesses need not register until they begin to make taxable supplies, early registration will allow them to accelerate the recovery of the tax paid on their purchases through the input tax credit mechanism.

Nonresidents who, in the ordinary course of carrying on business outside Canada, regularly solicit orders for the supply of tangible personal property for export to or delivery in Canada may apply for registration. As well, voluntary registration is available to nonresidents who have entered into an agreement to supply

- Services to be performed in Canada

  Or

- Intangible personal property to be used in Canada or that relates to:
  - — Real property situated in Canada
  - — Tangible personal property ordinarily situated in Canada
    Or
  - — Services to be performed in Canada

Listed financial institutions resident in Canada are also permitted to apply for registration.

Registration is also permitted in the case of a resident parent corporation that has no commercial activity but holds a related corporation's shares or debt deemed to be property that was last acquired or imported by the parent for use exclusively in the course of commercial activities. Also permitted is the registration of resident corporations that are acquiring or propose to acquire all or substantially all of the capital stock of another corporation.

Voluntary registration is also available to foreign banks in certain circumstances, as part of measures introduced to assist foreign banks to restructure under the foreign bank branching regime in the Bank Act. These measures provide transitional GST/HST relief for the initial transfer of assets from a foreign bank's existing Canadian subsidiary to its newly established Canadian branch.

A corporation may also register for GST/HST purposes in certain circumstances, in contemplation of a distribution made in the course of a reorganization described in subparagraph 55(3)(b)(i) of the Income Tax Act (a butterfly transaction).

The minister of national revenue is not required to register every person who applies for registration, and is authorized to deny registration in appropriate cases.

D. GST/HST rates

The term "taxable supplies" refers to supplies of goods and services that are subject to GST/HST. The HST rate of 15% applies in Nova Scotia, in New Brunswick, Newfoundland and Labrador, and in Prince Edward Island. QST (see Section B) at a rate of 9.975% applies in the province of Quebec. The effective combined GST/QST rate is 14.975%.

The 5% GST rate applies to supplies of property and services made elsewhere in Canada: in the provinces of British Columbia, Alberta, Saskatchewan and Manitoba and in the Yukon, Northwest and Nunavut Territories. A zero rate (0%) applies to a limited range of supplies of property and services. Although tax does not apply to zero-rated supplies, a registrant may claim input tax credits with respect to these supplies. As a result, zero-rated supplies bear no tax.

Examples of zero-rated supplies

- Exports of goods and services
- Basic foodstuffs
- International transportation
- Prescription drugs
- Medical devices
- Certain inputs used in agriculture and fishing

Certain supplies of goods and services, referred to as "exempt supplies," are within the scope of GST, but are not liable to tax. However, these exempt supplies do not give rise to input tax credits.

Examples of exempt supplies

- Supplies of used residential property
- Financial transactions
- Most supplies by charities and public sector bodies
- Health care
- Education

Option to tax for exempt supplies. In some cases, the GST/HST legislation permits parties to a transaction to elect to treat particular exempt supplies as taxable. Elections are available, for example, in respect of the supply of a residential complex by a person other than a builder, particular sales of real property by an individual where made in the course of an adventure or concern in the nature of trade, certain supplies of instruction or examinations by a professional or trade association, government, vocational school, university, public college or regulatory body, certain memberships in a public service body or professional organization and some supplies of real property by public service bodies. In most cases, conditions must be satisfied before the election can be made.

E. Time of supply

In general, tax on a taxable supply becomes payable on the earlier of the date on which the consideration for the supply is paid or the date on which the consideration becomes due. The consideration is considered to be paid when the supplier receives the money (or other form of agreed consideration) for the supply. The consideration for a taxable supply is deemed to become due on the earliest of the following dates:

- The date on which the supplier issues an invoice with respect to the supply
- The date of the invoice
- The date on which the consideration falls due under a written agreement
- If an undue delay occurs in the issuance of an invoice for services, the date on which the supplier would have issued an invoice with respect to the supply, but for the delay

Tax may also become due when the supply is completed in specific circumstances. For example, tax on a sale of real property generally becomes due on closing. Similarly, if goods are sold, any tax on the supply that has not previously become due becomes due at the end of the month following the month when the goods are delivered to the purchaser.

Imported goods. Tax on imported goods becomes due when the goods are released by the Canada Border Services Agency for entry into Canada. Specific HST rules apply when property or services are brought into a participating province.

Deposits and prepayments. A deposit may be defined as money placed with a person as security or a guarantee for the due performance of a contract. Most deposits are not treated as consideration under the legislation, but are regarded as pools of money that become taxable only when applied as consideration for a supply or when forfeited for failure to carry out the agreement under which the supply is made. However, a prepayment of the purchase price is taxable when it is paid or becomes due. In practice, the distinction between a deposit and a prepayment is often difficult to draw because the consequences of a default by the person paying the deposit or making the prepayment can be the same.

As a general rule, there is no difference between goods or services regarding the time of supply rules for deposits and prepayments.

Goods sent on approval for sale or return. Goods are often delivered to prospective purchasers on approval, sale or return, consignment or other similar terms. Under these arrangements, title to the goods generally does not pass to the purchaser until the purchaser notifies the seller of its approval or acceptance of the goods, or the purchaser commits some act or default that indicates its adoption of the sale. For example, a consumer might retain goods on approval beyond the time agreed to for their return, or a retailer might resell goods that it holds on a sale-or-return basis. In these circumstances, the legislation requires that tax be paid no later than the end of the calendar month following the month in which the goods are resold or title to the goods passes to the purchaser.

Leased assets. The legislation provides that where a written lease has been entered into, each lease payment is regarded as becoming due on the day on which the lease requires the payment

to be made, even if an invoice for the payment is issued before the payment becomes due. Thus, tax applies to each payment of rent under the lease as it becomes due or, where rent is prepaid, on the day the prepayment is made. This rule applies to leases of both real property and tangible personal property, but not to other agreements.

Reverse-charge services. Generally, tax is applied to imported services or intangible property (or to commercial imports made by importers who are not entitled to input tax credits, as well as on specified motor vehicles) where the supply is made outside Canada to a person who is resident in Canada, unless the supply is exempt or zero-rated, or the Canadian resident is acquiring the property or service for use exclusively in the course of commercial activities.

Continuous supplies. Special rules apply to water, electricity, natural gas, steam, or any other property where it is delivered or made available to the purchaser on a continuous basis by means of a wire, pipeline or other conduit, provided invoices are issued to the purchaser on a regular or continuous basis. Thus, most sales by utilities are taxable when invoiced. However, some industrial products that are delivered to commercial and industrial purchasers by pipeline are invoiced irregularly on an as-needed basis. In these circumstances, the vendor must collect tax by the end of the month following the month of delivery.

F. Recovery of GST/HST by taxable persons (registrants)

A registrant (taxable person) may recover the GST/HST payable on property and services that it acquires or imports for consumption or for use or supply in its commercial activities. This is accomplished by claiming input tax credits as a deduction on the registrant's GST/HST return.

A valid tax invoice or customs document must generally be obtained before an input tax credit may be claimed.

A registrant generally claims its input tax credits in the GST/HST return for the reporting period in which the tax becomes payable. However, a registrant may claim an input tax credit at a later date. Recovery is generally possible in any return filed within four years after the end of the reporting period in which the tax became payable. The recovery period is reduced to two years for certain large businesses (more than CAD6 million in annual taxable supplies) and listed financial institutions.

Restrictions on input tax credits. Input tax credits may not be recovered to the extent that an input is used in making exempt supplies.

The amount of input tax credits that may be recovered is based on the extent to which the input is used for consumption or for use or supply in commercial activities. Special rules apply to capital goods and capital real property. Input tax credits may not be claimed for purchases of property and services that are not used for business purposes (for example, goods acquired for private use by an entrepreneur or an officer or shareholder of a company). If an item is used less than 10% for business purposes, no recovery is permitted. In addition, input tax may not be recovered for some items of business expenditure.

The following lists provide some examples of items of expenditure for which input tax credits may not be claimed and examples of items for which input tax credits are available if the expenditure is related to use in commercial activities.

Examples of items ineligible for input tax credits

- Purchases used less than 10% in commercial activities
- Membership fees for social clubs
- 50% of business meals and entertainment costs
- Gifts to employees (subject to exceptions)

Examples of items eligible for input tax credits (if related to commercial activities)

- Hotel accommodation
- Attending conferences and seminars
- Purchase, lease or hire of cars, vans or trucks, subject to certain limits
- Maintenance and fuel for cars, vans or trucks
- Parking
- Mobile phones

Nondeductible (temporary recapture of) input tax credits. The provinces of British Columbia and Ontario, both adopted temporary restrictions on certain input tax credits for large businesses, similar to those in place under the QST regime. As British Columbia exited the HST system effective 1 April 2013, these temporary restrictions no longer apply in that province. When Prince Edward Island implemented the HST effective 1 April 2013, it also adopted temporary restrictions on certain input tax credits for large businesses.

A person is generally deemed to be a large business if either of the following conditions is met:

- The total amount of the value of the consideration for taxable supplies (including zero-rated supplies) made annually in Canada (other than supplies of financial services and supplies arising from the sale of real properties that are capital properties of the person) by the person and its associated persons exceeds CAD10 million in the last fiscal year that ended before a recapture period.
- The person is, or is related to, a bank, a trust company, a credit union, an insurer, a segregated fund of insurers or an investment plan.

It was originally announced that, during the initial eight-year period of the HST in British Columbia and Ontario, large businesses would be required to recapture (repay) a portion of the 7% or 8% provincial component of their total input tax credits calculated for HST paid or payable on specified property or services acquired in, or brought into, British Columbia or Ontario for use by that business in those provinces. These recapture requirements were to be phased out over this eight-year period. For the first five years, beginning on 1 July 2010, large businesses were to recapture 100% of the provincial component of their British Columbia and Ontario HST input tax credits; the recapture rate was then to be reduced by 25% over each of the following three years. As of 1 July 2018, large businesses were no longer to be subject to these recapture rules.

The above approach continues to apply in Ontario. Effective 1 July 2015, the phase-out of recaptured input tax credits in Ontario began, and the recapture rate was reduced to 75%. It was gradually phased out as the recapture rate was reduced by 25% per year. The recapture rate was eliminated effective 1 July 2018. As discussed in Section B, British Columbia exited the federally administered HST system and reinstated a PST system effective 1 April 2013. As a result, these temporary restrictions in British Columbia no longer had application.

During the initial eight-year period of the HST in Prince Edward Island, effective 1 April 2013, large businesses are also required to recapture (repay) a portion of the 9% provincial component of their total input tax credits calculated for HST paid or payable on specified property or services acquired in, or brought into Prince Edward Island for use by that business in the province. These recapture requirements are to be phased out over this eight-year period. For the first five years, large businesses were required to recapture 100% of the provincial component of their Prince Edward Island HST input tax credits; the recapture rate is to be reduced by 25% over each of the following three years. The first reduction was effective 1 April 2018 when the recapture rate was reduced to 75%. As of 1 April 2021, large businesses will no longer be subject to these recapture rules.

For purposes of the temporary recapture rules, specified property or services generally include the following, with minor differences among the provinces:
- Specified energy
- Specified telecommunication services
- Specified road vehicles
- Specified fuel (other than diesel)
- Specified food, beverages, and entertainment

Under the Canada-Quebec CITCA (see Section B), the restrictions on input tax credits for large businesses in Quebec will be eliminated gradually, beginning in 2018.

The elimination in Quebec is effected by reducing the restriction rate by 25% per year over a three-year period commencing 1 January 2018. Large businesses will be able to claim input tax refunds with respect to property and services to which restrictions currently apply, at the rate of 25% in 2018, 50% in 2019, 75% in 2020, and 100% as of 2021.

Partial exemption. Tax paid on inputs related to making exempt supplies is generally not recoverable as an input tax credit. A GST/HST registrant that makes both exempt and taxable supplies may be limited to claiming a partial input tax credit.

The amount of input tax credits that a business engaged partially in exempt activities may claim is calculated in the following two stages:
- The first stage identifies the tax on inputs that may be directly and exclusively allocated to taxable supplies and the tax on inputs that may be directly and exclusively (90% or more) allocated to exempt supplies. Tax on inputs exclusively attributable to taxable supplies is eligible for full input tax credits. Tax on inputs exclusively related to exempt supplies is generally not recoverable.
- The second stage apportions tax on other inputs between taxable and exempt supplies, based on any method that is fair and reasonable in the circumstances and consistently used. The proportion that relates to commercial activities may be claimed as an input tax credit.

Financial institutions are subject to special rules for calculating input tax credits. Charities, qualifying nonprofit organizations and public service bodies, including municipalities, universities, schools and hospitals, may claim a rebate to recover all or a portion of the tax paid on inputs used to make exempt supplies.

Holding corporation rules. The legislation provides that where a registered Canadian corporation (the parent corporation) holds shares or debt of a related corporation that is exclusively (90% or more) engaged in commercial activities at the time GST/HST becomes payable on costs incurred in holding or administering the shares or debt, the parent corporation is deemed to have incurred those costs in the course of its commercial activities. Therefore, the parent may recover the tax as an input tax credit.

On 27 July 2018, the Department of Finance released draft amendments to the holding corporation rules. These amendments would broaden the "commercial operating corporation property test" that an operating corporation must meet for the parent to benefit from the holding corporation rules and also specify certain circumstances under which the parent can claim an input tax credit.

On the same date, the government released a consultation paper on two potential changes to the holding corporation rules: namely, tightening the "common ownership" benchmark by requiring a parent corporation and an operating corporation to be closely related rather than related, and extending the application of the holding corporation rules to include partnerships and trusts.

Interested parties were invited to provide comments on the legislative proposals relating to holding corporations by 10 September 2018, and on the consultation paper by 28 September 2018.

Refunds. If the input tax credits claimed in a period exceed the amount of GST/HST collected or collectible in the same period, the registrant may claim a refund.

Preregistration costs. When a person who was formerly a small supplier, i.e., with annual sales of taxable and zero-rated supplies below CAD30,000, becomes a registrant for GST/HST purposes, it can claim an input tax credit for the GST/HST it paid on property that was previously acquired but still on hand for use in commercial activities. This property can include capital property, real property, goods for resale and inventory. The GST/HST that can be claimed as an input tax credit at that time is equal to the basic tax content of the property.

An input tax credit may also be claimed for GST/HST that became payable before a person became a GST/HST registrant, on services to be rendered after the person becomes a registrant or on any rent, royalty or other similar payment relating to property that is attributable to a period after the person becomes a registrant. The input tax credit is available only to the extent that the service or rental is for consumption, use or supply in the course of a commercial activity. No input tax credit is allowed to the extent that the payment is for services provided before registration.

G. Recovery of GST/HST by nonresident businesses

Canada does not refund GST/HST incurred by businesses that are not registered for GST/HST. Refunds are no longer available to nonresidents for tax paid on short-term accommodation included in a tour package. However, refunds are available for certain expenditures related to conventions held in Canada if at least 75% of the attendees are nonresidents.

H. Invoicing

GST/HST invoices and credit notes. Strict documentary requirements must be satisfied before a claim can be made to recover tax that has been paid or become payable. Suppliers are required to provide this information on request.

An invoice or other supporting document containing prescribed information is necessary to support a claim for an input tax credit, refund or rebate.

If a registrant has collected an excess amount of tax, it may refund or credit the excess amount to the customer. A registered supplier has up to two years after the day on which it was charged or collected to refund or credit the excess tax. If the supplier chooses to take this action, the supplier must, within a reasonable time, issue a credit note to the recipient for the amount of the refund or credit.

If the supplier has already accounted for GST/HST on the supply, the supplier may use the credit note to reduce its tax liability in the period in which the credit note is issued. Conversely, if the recipient of the supply has already recovered the tax by claiming an input tax credit or rebate, the recipient must repay the credit or rebate to the Canada Revenue Agency.

Similar tax adjustment measures also apply if tax has been charged or collected correctly by the supplier but the consideration is subsequently reduced for any reason. Both volume discounts and returns are treated as price adjustments for GST purposes.

Exports. In general, GST/HST does not apply to exported goods. If the supplier delivers the goods outside Canada, the transaction is treated as a supply outside Canada and is generally not

taxable. If the supplier delivers the goods in Canada, the export sale is zero-rated if all of the following conditions are satisfied:

- The property must be exported by the recipient as soon after delivery as is reasonable in the circumstances.
- The property must not be acquired for consumption, use or supply in Canada before exportation.
- The recipient must not further process, transform or alter the property, before exportation.
- The supplier of the property must maintain satisfactory evidence of the exportation by the recipient.

Most services supplied to nonresidents qualify for the zero rate. However, several exceptions apply. For example, the zero rate generally does not apply if the service relates to property located in Canada or if it is rendered to an individual in Canada.

Foreign-currency invoices. Suppliers may invoice in foreign currency and recipients may make payments to suppliers in foreign currency.

If an invoice is issued in a foreign currency, it must be converted to Canadian dollars (CAD) for reporting purposes. In general, the Canadian currency equivalent may be determined by using the exchange rate in effect on the date on which the consideration for the supply is paid, the date on which the foreign currency was acquired or the average rate of exchange for the month in which tax became payable. Acceptable foreign currency exchange rates include those established by a Canadian chartered bank, the Bank of Canada or the Canada Border Services Agency. The method of conversion chosen by a registrant must be applied on a consistent basis.

B2C. GST-registered suppliers are not required to issue full GST invoices to private (non-GST registered) customers. The documentary requirements are only in place for supplies made to GST-registered customers, for them to be allowed the input GST recovery.

Electronic invoicing. Electronic invoicing is allowed in Canada. However, it is currently not mandatory. If electronic invoicing is used, the general rules pertaining to invoices under the legislation must be followed.

I. GST/HST returns and payment

GST/HST returns. Reporting periods are monthly, quarterly or annual, depending on the level of taxable and zero-rated supplies made by the registrant.

Registrants whose turnover exceeds CAD6 million a year must file returns monthly.

Registrants whose turnover is between CAD1.5 million and CAD6 million a year must file returns quarterly (with an option of filing monthly). Registrants whose turnover does not exceed CAD1.5 million must file annually (with an option of filing monthly or quarterly).

Any net tax due for the period must be remitted with the return. Payments must be made in Canadian dollars.

Annual returns and payment by installment. If a registrant is eligible to file annual returns, it may have to pay four GST/HST installments each year. If the total net tax remittable for the current or preceding year is less than CAD3,000, quarterly installments are not required.

Installments are based on an estimate of the net tax due for the current year or the amount of net tax remitted in the preceding year, whichever is the lower amount. Interest applies to underpaid installments. The GST/HST return filed at the end of the year reconciles the installments paid with the amount of net tax actually owed for the year. Any additional tax due must be remitted with the return.

Special schemes. The Streamlined Accounting (GST/HST) Regulations set out several methods that eligible small businesses as well as eligible public service bodies may elect to use for calculating their net tax liability. The methods, which are intended to simplify the calculation of net tax, are:

- The quick method
- The special quick method for public service bodies
- The streamlined input tax credit method

Charities that are registered or required to be registered for GST/HST purposes are required to use the special net tax calculation for charities method.

Electronic filing and archiving. The legislation allows a person who is required to file a GST/HST return to file returns electronically if the person meets the criteria specified in writing by the minister, which are outlined in GST/HST Memoranda Series, Chapter 7.5: Electronic Filing and Remitting by the Canada Revenue Agency. As well, certain persons are specifically required to file their returns electronically using the media specified in writing by the minister in the memorandum.

Every person who carries on business or engages in a commercial activity in Canada is required to maintain records and books of account for GST/HST audit purposes. The records must generally be kept in French or English at the person's place of business in Canada. The Agency may permit a registrant to keep his or her records outside Canada in certain cases. Persons using electronic records must retain all business records in an electronically readable format, and the data must be capable of relating back to the supporting source documents.

Generally, electronic and other records must be retained for six years from the end of the calendar year to which they relate, or for such longer period as may be prescribed by the regulations. However, the minister may authorize a person to dispose of his or her records before the normal retention period has expired or demand that he or she keep them for a longer period. The authorization or demand must be made in writing.

Administrative monetary penalties and criminal offenses apply where electronic suppression of sales (ESS) or "zapper" software is used by businesses to modify or delete transaction records with a view to hiding sales and evading GST/HST and income taxes.

Annual returns. As discussed above, persons filing on an annual basis are required to pay quarterly installments and file their annual return within three months following the end of their reporting period. Registrants whose annual revenues from taxable and zero-rated supplies in Canada, including those made by associated persons, do not exceed CAD1.5 million have the option of filing annual returns (rather than quarterly) and making quarterly installment payments of tax during the year. Any registrant has the option of filing returns monthly, even if revenue from taxable and zero-rated supplies is less than CAD6 million.

Financial institutions are required to file an annual information schedule, Form GST111, Financial Institution GST/HST Annual Information Return.

J. Penalties

If a person fails to pay or remit an amount of tax when due, interest (at a rate prescribed by law) is payable on the amount unpaid or not remitted. Interest is compounded daily.

A person who fails to file a return when required is liable to pay a penalty equal to 1% of the outstanding balance plus 0.25% per month for each complete month the return is outstanding, up to a maximum of 12 months.

A person who fails to comply with a demand to file a return for a period or transaction is liable to a penalty equal to CAD250.

A person who knowingly, or under circumstances amounting to gross negligence, makes or participates in making a false statement or an omission in a return or other document is liable to a penalty equal to the greater of the following:

- CAD250
- 25% of the amount of tax owing underdeclared or overclaimed rebate

Other administrative penalties may also apply. In addition, tax advisors may be subject to penalties for false statements made for tax purposes. These penalties are often referred to as third-party civil penalties and, depending on the circumstances, can be substantial.

Criminal offenses may also apply in certain circumstances.

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A. At a glance

Name of the tax	Value-added tax (VAT)
Local name	Impuesto al Valor Agregado (IVA)
Date introduced	31 December 1974
Trading bloc membership	None
Administered by	Internal Revenue Service (Servicio de Impuestos Internos, or SII: http://www.sii.cl)
VAT rates	
Standard	19%
Other	Exempt and additional taxes (ranging from 15% to 50%)
VAT number format	Tax identification number (RUT), which is used for VAT and other tax purposes (for example, 12.345.678-0)
VAT return periods	Monthly
Thresholds	
Registration	None
Recovery of VAT by non-established businesses	No

B. Scope of the tax

In general, VAT is imposed on the sale of tangible goods located in Chile, and on the provision of services rendered or utilized in Chile. The following are significant aspects of the VAT rules in Chile:

- For VAT purposes, the law provides that sales are all transactions that result in the transfer of movable and immovable tangible goods (excluding land). A seller is any person that habitually carries out this kind of operation.
- Services are all actions that any person does for another for consideration (payment) if the service rendered arises from the exercise of one of the activities mentioned in Section 20 of the Income Tax Law, Subsections 3 and 4 (Subsection 3 provides rules regarding income that arises from commercial and industrial activities, and Subsection 4 governs income obtained by agents and commissioners in general).

- VAT also applies to the importation of goods into Chile.
- Other taxable transactions specified by law include, among others, withdrawals of inventory, contributions in kind and leasing of movable goods.

As of 1 January 2016, the "recurrent or habitual sale" of real estate is a taxable event (regardless of whether the seller is a construction company or another entity or individual). The law establishes certain situations in which it presumes the transaction is habitual, such as when the time elapsed between the purchase and sale of the real estate is less than one year, or when condominiums are sold by floors or units. However, the sale of land is still exempt, so in calculating the taxable base, the value of the land must be subtracted.

C. Who is liable

A VAT taxpayer is an individual, business or entity that performs VAT taxable transactions (that is, the habitual transfer of goods or the rendering of listed services) in the course of doing business in Chile. No VAT registration threshold applies. All business entities must file a business initiation application on commencement of operations and an application for a taxpayer identification number (RUT). These measures also apply to permanent establishments of foreign entities in Chile.

Group registration. VAT grouping is not allowed under the Chilean VAT law. Legal entities that are closely connected must register for VAT purposes individually.

Non-established businesses. A "non-established business" is a business that has no fixed establishment in Chile. If a non-established business intends to carry out transactions in Chile that are subject to VAT (such as the transfer of goods or the provision of listed services), it is required to be registered for VAT purposes. Consequently, the non-established business must submit an application for an RUT number and a business initiation application, and must appoint a representative in Chile to act on its behalf. However, taking these actions may result in the conclusion that the non-established business has become a permanent establishment (PE) in Chile.

Tax representatives. A tax representative must be provided with the power to represent the business in its dealings with the tax authorities and must also register an address in Chile for this purpose. If a foreign individual is appointed as the tax representative, in addition to the obligation to register an address in Chile, he or she must also be in possession of a valid visa that allows him or her to act in this capacity.

Registration procedures. Every legal entity or individual that performs activities subject to income tax must register and obtain a tax identification number (RUT). Form 4415 must be completed, signed and filed before the IRS, electronically (www.sii.cl) or by hard copy.

In general terms, a legal entity must fulfill the following requirements: prove it is legally incorporated by means of the public deed, and prove it has one or more legal representatives domiciled or resident in Chile. If the taxpayer is acting through an agent or representative, it must also show the power of attorney — dully apostilled or authorized before a Notary Public (depending the case) — that grants him such powers.

For VAT purposes, the IRS will always have to check the domicile and activities described in Form 4415 before stamping of documents (invoices, etc.).

Late-registration penalties. Penalties and interest are assessed for late registration for VAT purposes. Penalties also apply for VAT fraud.

Reverse charge. The reverse-charge mechanism is not legally established in Chile. However, in certain circumstances (i.e., if the supplier is a foreign taxpayer and does not have any PE or established business in Chile), and the transaction is subject to VAT, then the VAT law states that the obligation to withhold such tax turns to the purchaser, issuing a "purchase invoice" and

collecting the VAT on behalf of the foreign supplier. However, in these cases, the foreign supplier will not be able to recover input VAT, since it is not a VAT taxpayer for Chilean purposes.

Digital economy. For business-to-business (B2B) and business-to-consumer (B2C) transactions (where the content is granted as a license), VAT is applicable following the filing and payment procedure above. If the content is granted as a service, 19% VAT may apply if the following requirements are met:

(i) The services are rendered in Chile
(ii) The payment is not subject to withholding tax
(iii) The nature of the payment corresponds to services subject to VAT, for example, the provision of advertising, data processing and telecommunication services is subject to VAT

Services supplied online by a non-established service provider to a Chilean resident are deemed to be utilized in Chile. As VAT applies to services rendered or utilized in Chile, the non-established business is required to register for VAT in Chile (see the *Non-established businesses* subsection above).

Services subject to withholding tax, are VAT exempted. However, in order to determine if withholding tax applies to a certain service a detailed analysis is required.

Deregistration. As the tax identification number (RUT) is for VAT and other tax purposes, there are no specific deregistration rules for VAT.

Exemption from registration. The VAT law in Chile does not contain any provision regarding exemption from registration.

Voluntary registration. The VAT law in Chile does not contain any provision for voluntary VAT registration, as there is no registration threshold (i.e., all entities that make taxable supplies are obliged to register for VAT). All persons subject to any Chilean tax must obtain a tax ID.

D. VAT rates

The terms "taxable transfer" and "taxable services" refer to the transfer of goods and the provision of services that are liable to VAT.

In Chile, the VAT rate is 19%. No reduced or higher rates apply. However, additional taxes ranging from 10% to 50% may be imposed under the VAT law on the provision of specific items. Under the amendments introduced by the tax reform in October 2014, some of the taxed items and applicable rates are jewelry (15%); alcoholic beverages (from 20.5% for fermented to 31.5% for distilled); soft drinks with high sugar content (18%); other natural or artificial soft drinks, including energy or hypertonic drinks (10%); and 50% over the first sale or import of pyrotechnic items. In addition, transactions made by certain entities are exempt from VAT.

Exempt supplies are those supplies of goods and services that are not liable to VAT. Exempt supplies do not give rise to a right of an input tax deduction.

Examples of exempt transfers of goods and supply of services

- Used motorized vehicles
- Importation of goods by the National Ministry of Defense
- Certain real estate transactions
- Admission to artistic, scientific or cultural events, sponsored by the Public Education Ministry
- Premiums for or payments from life insurance contracts
- Exports of goods
- Entrance to sporting events
- Importation of cultural or sporting awards and trophies

- Services provided by independent workers
- Freight from other countries to Chile and vice versa
- Importation of capital assets incorporated to investment projects in Chile, under certain circumstances

Option to tax for exempt supplies. The VAT law in Chile does not contain any option for a taxable person to treat a VAT exempt supply as taxable.

E. Time of supply

The time when VAT becomes due is called the "time of supply" or "tax point." The basic tax point for the transfer of goods is the earlier of the following:
- The time when the goods are delivered
- The time when the invoice is issued

The basic tax point for the provision of services is the earlier of the following:
- The time when the related invoice is issued
- The time when a full or partial payment of the consideration is received

Imported goods. For imports, VAT is due when the goods clear all customs procedures. In this case, the Customs Service is responsible for collecting the VAT triggered by the import.

Deposits and prepayments. The VAT law in Chile does not contain any provision for advance payments or deposits, therefore the general time of supply rules apply in these circumstances. According to several rulings issued by the Chilean tax authority, if an invoice relates to an advance payment paid prior to the time when the goods are delivered, the VAT associated to that advance payment is due when the invoice is issued.

Goods sent on approval for sale or return. The VAT law in Chile does not contain any provision for goods sent on approval for sale or return, therefore the general time of supply rules apply in these circumstances (if the goods have been delivered, VAT is due when the buyer gives his approval and the sale is legally perfected).

Leased assets. For leasing contracts without a purchase option for movable tangible assets, furnished immovable property and immovable property equipped with installed goods necessary to conducting a commercial or industrial activity, VAT is due when the invoice is issued or the payment is received. For leasing of immovable tangible assets with a purchase option, VAT is due when the respective invoice or invoices are issued.

Reverse-charge services. The VAT law in Chile does not contain any provision for reverse-charge services, therefore the general time of supply rules apply in these circumstances.

Continuous supplies. For continuous supply of services, VAT is due at the final date of the payment period if this event occurs before the invoice is issued or the payment is received.

F. Recovery of VAT by taxable persons

A VAT taxpayer may recover input tax (also known as VAT credit), which has been charged on the goods acquired by it and the services provided to it, if these acquisitions are directly related to the performance of activities that are taxable for VAT purposes. VAT taxpayers generally recover input tax by deducting it from output tax (also known as VAT debit), which is VAT charged on sales made and services provided.

Input tax includes VAT charged on the goods acquired and the services provided in Chile, and VAT charged on imports of goods. In general, for input tax to be recoverable, it must arise from the

acquisition of current or fixed assets or from general expenses, if these acquisitions are directly related to the performance of activities that are taxable for VAT purposes. If the taxpayer performs activities that are taxable for VAT purposes, together with VAT-exempt activities or nontaxed activities, the common VAT credits can only be proportionally recovered, consistent with the proportion that the income from activities subject to VAT represents in the taxpayer's total income.

Exporters also may recover the VAT paid with respect to their export activities. However, because exports are exempt from VAT, VAT credits are recovered through cash reimbursements to exporters rather than under an input-output mechanism.

A valid tax invoice or customs document must always support a claim for input tax recovery.

Nondeductible input tax. Input tax may not be recovered on purchases of goods and services that are not directly related to the performance of activities taxable for VAT purposes. In such cases, VAT paid constitutes an additional cost of goods or a deductible expense if it satisfies all of the requirements to be a deductible expense for income tax purposes. If VAT is paid for the acquisition of goods or services not related to the taxable income of the taxpayer, VAT paid may not be deductible.

The following list provides some examples of items of expenditure for which input tax is not deductible.

Examples of items for which input tax is nondeductible

- Business gifts
- Private use of business

Examples of items for which input tax is deductible (if related to a taxable business use)

- Input tax is deductible on every item that complies with the requirements (subject to VAT and related to a taxable business use).

Partial exemption. Input tax is not deductible if it relates to exempt or nontaxable activities. VAT taxpayers that carry on both taxable and nontaxable or exempt activities may not recover input VAT in full. This situation is referred to as "partial exemption." The percentage of input VAT that may be recovered is calculated based on the value of taxable operations carried out during the period, compared to total turnover.

Refunds. If the amount of input VAT (VAT credit) recoverable in a certain period (a month) exceeds the amount of output VAT (VAT debit) payable, the excess credit may be carried forward to offset output tax in the following tax periods.

If a VAT taxpayer pays excess VAT as the result of an error, it may request a refund of the overpaid amount from the tax authorities. Taxpayers may request a refund of the overpaid tax within three years after the end of the period for which the claim is made.

Preregistration costs. Not applicable. In Chile, input VAT incurred on preregistration costs cannot be recovered by the taxpayer. It is only once the business is registered as a taxpayer, it may recover any VAT input credit going forward, subject to the general rules on input tax deduction, as outlined above.

G. Recovery of VAT by non-established businesses

Chile does not refund VAT incurred by businesses that are neither established nor registered for VAT purposes in Chile, unless the VAT was paid as a result of an error.

H. Invoicing

Tax invoices and credit notes. A taxpayer must generally provide a tax invoice for transactions subject to VAT, including exports. A tax invoice is necessary to support a claim for input tax deduction.

A VAT taxpayer may also issue credit notes for rebates, discounts or transactions voided with respect to the acquirer of the goods or beneficiary of the services. A credit note must contain the same information as a VAT invoice.

A VAT taxpayer may also issue debit notes for increases in the tax basis of VAT. A debit note must contain the same information as a VAT invoice.

Invoices must be issued in Chilean pesos (CLP).

Electronic invoicing. On 31 January 2014, Law No. 20.727 was passed with rules and requirements regarding electronic invoicing. In general terms, the law makes the use of electronic invoices mandatory for all taxpayers — along with other tax documents such as debit notes, credit notes, purchase invoices, etc.

Implementation of electronic invoicing was completed in February 2018 for all taxpayers. There are some exceptions for taxpayers whose transactions are carried out in geographical areas without mobile data connection or electricity.

VAT input tax credit arises in the period when the buyer or service recipient grants the "acknowledgment receipt" for the invoice.

Exports. Chilean VAT does not apply to the export of goods. However, to qualify as VAT-free, exports must be properly supported by evidence confirming that the goods have left Chile. Invoices for export transactions must be issued in accordance with the regulations established by the National Customs Service, and must be stamped by the Chilean Internal Revenue Service.

Foreign-currency invoices. As a general rule, invoices must be issued in Chilean pesos (CLP). Equivalent sums in foreign currency can be expressed in the detail lines of the document using the exchange rate of the day of the issuance. However, as an exception, export invoices may be issued in foreign currency.

B2C. VAT taxpayers must issue a till receipt ("*boleta")* to final customers for goods sold or services rendered. However, the Chilean tax authority may permit small merchants and service providers that sell products or render services directly to the public to not issue till receipts for those types of transactions. A till receipt is not required for sales valued at less than CLP180.

Moreover, certain taxpayers may obtain an authorization from the Chilean tax authority to be exempted from the obligation to issue till receipts for sales made through vending machines.

I. VAT returns and payment

VAT returns. VAT returns are submitted for monthly periods on Form 29. VAT returns and payments in full are due by the 12th day of the month following the end of the return period. Return liabilities must be paid in Chilean pesos (CLP). For taxpayers that issue electronic tax documents, VAT returns and payments in full are due by the 20th day of the month following the end of the return period.

Special schemes. Certain small businesses, as selected by the tax authority, that sell products or render services directly to the public may opt for a simplified VAT regime. In this simplified regime, the monthly VAT basis is determined by decree to every activity or group of taxpayers. The tax basis is calculated considering variables such as the estimated amount of sales or services, stock turn rate and other factors. The VAT rate is not modified. Only natural persons may opt for this regime.

Electronic filing and archiving. It is possible to submit VAT returns (Form 29) and make payment electronically through the Chilean IRS website. In order to do this, taxpayers will need a password associated with its tax ID that must be requested from the Chilean tax authority by the taxpayer. Taxpayers must keep a record of invoices issued and received on the Chilean tax authority website, for six years.

Annual returns. The Chilean VAT law does not require any taxable persons to submit an annual return.

J. Penalties

Penalties are assessed for a range of errors and omissions related to VAT accounting. In general, penalties for VAT errors are calculated as a percentage of the tax underpaid; penalty measures may also include closure of the business. The amount of the penalty depends on the severity and frequency of the error. The following are the classes of offenses:

- Serious: for example, failure to issue an invoice
- Less serious: for example, omitting a required detail from an invoice
- Light: for example, failure to issue a credit note

In addition, interest is assessed at a rate of 1.5% monthly on unpaid VAT.

Criminal tax evasion may be punished by a term of imprisonment, a fine, or both, depending on the severity of the case.

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"China" in this publication refers to the mainland China tax jurisdiction.

A. At a glance

Name of the tax	Value-added tax (VAT)
Introduced	1 January 1994
Trading bloc membership	None
Administered by	Ministry of Finance (MOF) State Administration of Taxation (SAT) (http://www.chinatax.gov.cn)
VAT rates	
Standard	6%, 10%, 16%
Reduced	3%, 5%, 10%
Other	Exempt and exempt with credit
General VAT taxpayers	5%, 6%, 10%, 16%
Small-scale VAT taxpayers	3%, 5%
VAT number format	XXXXXXXXXXXXXXXXXX (1-digit Registration Management Department code + 1-digit entity type code + 6-digit administrative division code + 9-digit organization code + 1-digit verification code)
VAT return periods	Tax periods range from one day to one quarter
Thresholds	
Registration	Monthly turnover from CNY5,000 to CNY20,000 for supplies of goods Monthly turnover from CNY5,000 to CNY20,000 for supplies of services Daily turnover from CNY300 to CNY500 (the local tax offices set the actual thresholds within the above ranges)
Recovery of VAT by non-established businesses	No

B. Scope of the tax

VAT applies to the following transactions:
- The supply of goods or taxable services for consideration in China, by a taxable person in the course or furtherance of any business
- The importation of goods into China, regardless of the status of the importer

The following transactions are treated as supplies of goods:
- Sales made through an agent

- Sales of goods on consignment
- The application or appropriation of goods by a taxable person for any of the following purposes:
  — VAT-exempt activities
  — Capital investment
  — Appropriation to shareholders or investors
  — Collective welfare or personal consumption
  — Making gifts

The place of supply for goods is where the goods are located at the time of the sale, or if the goods are transported, the place where the goods are dispatched.

A transfer of goods from one branch to another branch of the same taxable person for the purpose of sale is also treated as a supply of goods, regardless of whether any consideration is paid, unless the branches are located in the same county (municipality).

A self-supply of goods occurs if a taxable person diverts goods to private or exempt use and if the goods were manufactured or otherwise acquired by the taxable person and the person was entitled to an input VAT deduction (see Section F).

The aforementioned taxable services include the following types of services:
- Processing services (see below)
- Repair and replacement services (see below)
- VAT pilot services (see below)

The term "processing services" means services supplied by a contractor for producing goods in accordance with a customer's specifications by using raw materials and principal parts consigned by the customer. The term "repair and replacement services" means repairing damaged taxable goods and returning them to their original condition.

The place of supply for processing services and repair and replacement services is where the services are physically performed.

VAT pilot services include the following:
- Sales of services (see below)
- Sales of intangible assets (see below)
- Sales of immovable properties (see below)

Sales of services would include the following:

Transportation services

- Land transportation including railway transportation
- Water transportation
- Air transportation
- Pipeline transportation

Postal services

- Universal postal service
- Special postal service
- Other postal service

Telecommunications services

- Basic telecommunications services
- Value-added telecommunications services

Construction services

- Engineering services
- Installation services

- Renovation services
- Decoration services
- Other construction services

Financial services

- Loan services
- Direct financial services
- Insurance services
- Financial product trading

Modern services

Research and development (R&D) and technology services

- R&D services
- Professional technology services
- Contract energy management services
- Engineering reconnaissance and exploration services

Information and technology services

- Software services
- Circuit design and testing services
- Information system services
- Business process management services
- Value-added information system services

Culture and creative services

- Design services
- Intellectual property services
- Advertising services
- Conferencing and exhibition services

Logistics supporting services

- Aviation services
- Port services
- Freight and passenger station services
- Salvage assistance services
- Storage services
- Collection and delivery services
- Loading-unloading transportation services

Leasing services

- Operating leasing
- Financial leasing services

Authentication and consulting services

- Verification services
- Authentication services
- Consulting services

Radio, film and television services

- Production services for radio, film and television programs (including related goods)
- Distribution services for radio, film and television programs (including related goods)
- Broadcast (including screenings) services for radio, film and television programs (including related goods)

Business supporting services

- Enterprises management services
- Brokerage and agent services

- Human resources services
- Security and protective services

Other modern services

Lifestyle services

- Cultural and sports services
- Education and medical services
- Tourism and entertainment services
- Catering and accommodation services
- Daily residential services (meaning services offered to meet the daily life needs of residents and their families, such as municipal administration, housekeeping, and care and nursing, etc.)
- Other lifestyle services

Sales of intangible assets refer to activities of transferring ownership or rights of use of intangible assets. Intangible assets shall refer to assets that can bring out economic interest without tangible forms, including technologies, trademarks, copyrights, goodwill, rights of use of natural resources and other beneficial intangible assets.

Sales of immovable properties refer to activities of transferring ownership or rights of use of immovable properties. Immovable properties shall refer to the properties that cannot be moved or will be changed in nature or in shape after moved, including buildings, structures, etc.

Place of supply of VAT pilot services. The place of supply of services, intangible goods and immovable properties applies as follows:

- Either 1) the supplier or 2) the recipient of services (except for the lease of immovable properties) and/or intangible assets (except for natural resource user right)
- The sold or leased immovable properties are located in China
- The natural resource for which the user right is sold is located in China
- Other situations regulated by the Ministry of Finance (MOF) and the State Administration of Taxation (SAT)

The following supplies are considered as supplies outside of China and are not subject to VAT:

- Supplies made by overseas entities or individuals that supply taxable services or intangible assets that are completely incurred overseas to entities or individuals within the territory
- Supplies made by overseas entities or individuals that lease tangible property that is completely used overseas by entities or individuals within the territory
- Other circumstances regulated by the MOF and SAT

Special rules apply to mixed transactions consisting of sales of taxable goods and supplies of taxable services. To ease tax administration, mixed transactions carried on by enterprises and sole proprietor businesses engaged in or mainly engaged in the production, wholesale and retail supply of goods are deemed to be supplies of goods. Other units and individuals that supply mixed transactions are regarded as providing taxable services.

C. Who is liable

A taxable person is any business "unit" or individual that sells goods or supplies taxable services in China, unless the person's sales are below the relevant taxable thresholds. VAT is also payable on the importation of goods. The term "unit" includes enterprises, administrative units, business units, military units and social organizations.

Classes of VAT taxpayers. There are two classes of VAT taxpayers:

- General VAT taxpayers, which are VAT taxpayers with an annual turnover of CNY5 million or more
- Small-scale VAT taxpayers, which are VAT taxpayers with an annual turnover of less than CNY5 million

For these purposes, the term annual turnover refers to cumulative VAT taxable sales within an ongoing operational period of up to 12 months, including the taxable sales amounts shown on tax returns, taxable sales amounts not yet paid and the adjusted taxable sales amount resulting from a tax assessment.

It is possible for small-scale VAT taxpayers to voluntarily apply to become general VAT taxpayers.

Registration procedures. To register for VAT, enterprises established (i.e., incorporated or similar) on or after 1 October 2015 should apply to the administrative departments of industry and commerce for the business licenses with a unified social credit code, which could be used for tax affairs purposes.

Transactions between branches. Branches of the same enterprise are required to register separately for VAT, unless the head office and the branch(es) are located in the same county (municipality). However, subject to the approval of the tax authorities, the head office of an enterprise may be allowed to submit combined VAT returns for branches located in different counties (municipalities).

Transactions between branches may be subject to VAT, unless the relevant branches are located in the same county (municipality). A movement of goods between branches located in different counties (municipalities) is subject to VAT regardless of whether any consideration is paid. A distinction is made between a movement of goods to a branch for the purpose of sale to customers and movement of goods to a branch for storage. By default, a movement of goods from one branch to another is deemed to be for the purpose of sale to customers unless the enterprise can prove that it fulfills both of the following conditions to the satisfaction of the tax authorities:

- The branch that receives the goods will not sell the goods to customers on its own account, issue the relevant invoices or collect sales proceeds from the customers.
- The enterprise has obtained a special permit from its supervising tax authority that allows it to keep inventory outside the place where it is established.

If both of these conditions are fulfilled, the goods may be regarded as being moved to a branch for pure storage purposes and the transaction is not liable to VAT.

Government bodies. State and local authorities including administration units, business units, military units, social organizations and other government units are treated as taxable persons for the purpose of VAT.

Group registration. Group registration (or fiscal unity) for VAT purposes is not a recognized concept in the Chinese VAT regulations. Individual group members are regarded as independent VAT taxpayers.

Non-established businesses and foreign enterprises. Subsidiaries of foreign enterprises that supply goods or taxable services in China are treated in the same manner as other taxable persons.

Foreign enterprises that do not sell goods or taxable services in China may not register for VAT. If a foreign unit or individual outside China provides taxable services in China and does not have a business office in China, the purchaser must be the withholding agent.

Representative offices. Under the current business regulatory rules, a representative office of a foreign enterprise may engage only in certain activities, such as liaison and support. A representative office may not engage in direct profit-making activities, and it is prohibited from making sales of goods. Consequently, in general, VAT is not payable with respect to the activities of a representative office and VAT registration is not permitted. However, if a representative office engages in profit-making activities, it could be liable to VAT for any revenues generated.

Any person who imports goods into China is liable to pay VAT at the point of entry, at the same rates applicable to the sale of similar goods in China. A taxable person must pay the VAT due on imported goods within 15 days after the date following the date on which the customs authorities issued the import duties statement.

Reverse charge. Not applicable.

Digital economy. The imported commodities retailed through the cross-border e-commerce shall, according to the types of goods, be subject to import VAT. Individuals purchasing any imported goods retailed through cross-border e-commerce shall be taxpayers; the actual transaction prices shall be a dutiable price; and e-commerce corporations, corporations specialized in e-commercial transaction platform or logistic enterprises can be the withholding agent for VAT.

Imported goods retailed through cross-border e-commerce are subject to single transaction limits of CNY2,000, and annual individual limits of CNY20,000. The tariff for any commodities imported within these transaction limits are fixed at 0% temporarily; and the exemption for import VAT and consumption tax are cancelled, and temporarily levied at 70% of the statutory tax. Where the single transaction is beyond the single transaction limits and the annual transaction limits and the dutiable price is greater than CNY2,000, for single indivisible goods, the tax is levied in full.

Where cross-border e-commerce retail imports are returned within 30 days from the date of customs clearance, a tax refund may be claimed and individual transaction limits should be adjusted accordingly.

Deregistration. Where a taxpayer's obligation to pay tax is terminated in accordance with the law due to dissolution, bankruptcy, cancellation or other reasons, the taxpayer shall provide the relevant certificates or materials and go through the formalities for tax deregistration with the tax authorities that handled its original tax registration ("original tax authorities") before it proceeds to deregister with the industry and commerce administrative authorities and other relevant bodies.

As for taxpayers who do not need a deregistration with the industry and commerce administrative authorities and other relevant bodies, it shall, within 15 days after obtaining relevant approval or termination announcement, provide the relevant certificates or materials and go through the formalities for tax deregistration with its original tax authorities.

Where a taxpayer's business registration is revoked by the industry and commerce administrative authorities, or when the registration is cancelled by other relevant authorities, the taxpayer shall go through the formalities for tax deregistration with its original tax authorities within 15 days after the business registration has been revoked or cancelled.

Where a change of tax registration authorities is required for a taxpayer due to a change in its domicile or business place, the taxpayer shall provide the relevant certificates or materials and go through the formalities for tax deregistration with its original tax authorities before it proceeds to modify registration or deregister with the industry and commerce administrative authorities and other relevant bodies, or to change its domicile or business place. It is also required to apply for tax registration with the tax authorities at the new location within 30 days after the tax deregistration.

Where a foreign enterprise is engaged in construction, installation, assembling or exploration, or provides services in China, it shall provide the relevant certificates or materials and go through the formalities for tax deregistration with its original tax authorities after the project is completed and no less than 15 days before its departure from China.

Exemption from registration. The VAT regulations in China do not contain any provision for exemption from registration.

Voluntary registration. The VAT regulations in China do not contain any provision for voluntary VAT registration. However, voluntary registration is applicable for a small-scale VAT taxpayer that wishes to convert into a general VAT taxpayer. A small-scale VAT taxpayer may elect to register and pay VAT in accordance with the relevant provisions applicable to general VAT taxpayers if it can demonstrate that it has a sound accounting system, maintains proper accounting records, and is capable of generating accurate information for VAT assessment purposes.

Late-registration penalties. The VAT regulations in China do not contain any penalty provision for late VAT registration. But there are penalties for small-scale VAT taxpayers who do not register as general VAT taxpayers in time when their annual taxable sales amount exceeds the threshold.

Taxpayers must settle the relevant formalities within 15 working days from the end of the tax declaration period in the month (or quarter) when the annual taxable sales amount exceeds the threshold. If a taxpayer fails to comply within a prescribed time limit, the competent tax authorities shall produce a Notice of the Tax Affairs within five working days after the end of the prescribed time limit and notify the taxpayer that it must settle the relevant formalities at the competent tax authorities within five working days; if the taxpayer still fails to comply after the expiration of this time limit, the tax payable is calculated based on the sales amount and the VAT rate as of the following month, and the taxpayer is not allowed to deduct input VAT and use special VAT invoices until it completes the relevant formalities.

D. VAT rates

Sales of goods and the provision of processing, repair or replacement services are generally subject to 16% VAT. Certain goods are subject to a reduced rate at 10%. VAT pilot services are subject to the following rates: 5%, 6%, 10% or 16%, depending on the nature of the services. The 3% rate applies to supplies covered by the simplified VAT calculation methods or supplies made by small-scale VAT taxpayers (small businesses).

The following lists provide some examples of goods and services taxable at each rate.

General VAT taxpayers

16% rate

- Sales of goods
- Processing services
- Repair and replacement services
- Movable property leasing

10% rate

- Agricultural products (including grains)
- Tap water
- Heating
- Liquefied petroleum gas
- Natural gas
- Edible vegetable oil
- Air conditioning
- Hot water
- Coal gas
- Coal products for household use
- Food-grade salt
- Farm machinery
- Fodder, pesticides
- Agricultural film
- Fertilizer
- Methane gas

- Dimethyl ether
- Books
- Newspapers
- Magazines
- Audio-visual products
- Transportation services
- Postal services
- Basic telecommunication services
- Construction services
- Sales of immovable properties acquired or developed after 1 May 2016
- Leasing of immovable properties acquired or developed after 1 May 2016
- Transfer of land use right

6% rate

- R&D and technology services
- Information and technology services
- Culture and creative services
- Logistics supporting services
- Authentication and consulting services
- Radio, film and television services
- Business supporting services
- Other modern services
- Value-added telecommunication services
- Loan services
- Direct financial services
- Insurance services
- Financial product trading
- Cultural and sports services
- Education and medical services
- Tourism and entertainment services
- Catering and accommodation services
- Daily services
- Other lifestyle services
- Sales of intangible assets

5% rate

- Sales of immovable properties acquired or developed before 30 April 2016
- Leasing of immovable properties acquired or developed before 30 April 2016
- Transfer of land use right acquired before 30 April 2016
- Financial leasing contract signed before 30 April 2016 by general taxpayers or financial leasing services with leasing object being immovable properties and the properties were acquired before 30 April 2016 (optional)
- Labor dispatching service
- Human resource outsourcing service

3% rate

- Certain taxable used goods
- Consignment goods sold by consignment agencies
- Certain goods sold by pawnbrokers
- Specific duty-free items sold by duty-free shops
- Certain electricity produced by qualified hydroelectric-generating businesses
- Certain construction materials
- Certain biological products

- Tap water (rate applies if taxpayer chooses simplified computation method with no input tax recovery)
- Certain concrete cement goods sold by general VAT taxpayers
- Non-academic education services
- Interest income from agricultural loan provided by Agricultural Development Bank of China and its affiliates
- The following construction service provided by general VAT taxpayers (optional):
  — Construction service providers who do not purchase materials or purchase ancillary materials
  — Old construction projects (projects with a commerce date before 30 April 2016)

Small-scale VAT taxpayers

5% rate

- Sales of immovable properties by small-scale VAT taxpayers
- Leasing of immovable properties by small-scale VAT taxpayers
- Transfer of land use rights by small-scale VAT taxpayers
- Labor dispatching service

3% rate

- Other VAT pilot services

A taxable person that supplies goods or services taxable at different VAT rates must separately book the value of sales of goods and taxable services at each rate. The highest rate of VAT applies if the sales made at different rates are not accounted for separately.

Flat rate. Small-scale VAT taxpayers account for VAT at a rate of 3% on a simplified, flat-rate basis and input VAT paid on purchases is not deductible.

Exempt supplies. In general, exports of goods are "exempt with credit" (or taxable at 0%). This means that no VAT applies but the exporter may recover VAT paid as input tax. In addition, some supplies are exempt from VAT without credit; that is, the supplies are not liable to tax, but the supplier may not recover VAT as input tax (see Section F). Certain taxable services are treated as "exempt with credit" or exempt from VAT without credit.

The provision of the following cross-border services could be exempt from VAT without credit:

- Construction service with the construction project outside China
- Engineering supervision services with the construction project outside China
- Engineering survey services with the engineering and mineral resources outside China
- Conference and exhibition services for conferences and exhibitions that take place outside China
- Warehousing services for storage locations outside China
- Tangible personal property leasing services with the subject used outside China
- Radio, film and television programs (works) broadcast services
- Cultural and sports services, education and medical services, tourism services provided outside China
- Postal service, collection and dispatching service and insurance services provided for export goods
- International transportation services that are not eligible for a zero VAT rating
- Transportation services from and to Hong Kong, Macau and Taiwan, as well as transportation services in Hong Kong, Macau and Taiwan that are not eligible for a zero VAT rating
- Taxable services rendered to overseas entities or units and consumed entirely outside China:
  — Telecommunication services
  — Technical consulting services
  — Intellectual property services

  - — Logistics and supporting services (excluding warehousing services, collecting and dispatching services)
  - — Identification and consulting services
  - — Business supporting services
  - — Advertising services for advertising that takes place outside China
  - — Intangible property
- International transportation services provided by non-transport operating carriers
- Direct chargeable financial services provided for the monetary financing between entities outside the territory and other financial business operations, which are not related to any goods, intangible assets or real property within the territory

To support the development of small businesses, small-scale VAT taxpayers with a monthly sales amount or turnover of less than CNY20,000 may be exempted from VAT. In addition, from 1 January 2018 to 31 December 2020, small-scale VAT taxpayers with a monthly sales revenue from selling goods or providing processing, repairing and replacement services of no more than CNY30,000 and that from selling services or intangible assets is no more than CNY30,000 may be exempted from VAT.

New tax cuts and tax exemptions for small businesses were announced on 9 January 2019 that VAT threshold for small-scale VAT taxpayers will be raised from a monthly sales revenue of CNY30,000 to CNY100,000. The new threshold will be retroactive to 1 January 2019 and will be effective for a tentative three years.

Examples of exempt supplies of goods

- Agricultural products produced and sold by primary agricultural producers
- Contraceptive medicines and appliances
- Antique books
- Imported equipment and apparatus used directly for scientific education, scientific research, development and experiments
- Imported products and equipment in the form of free economic assistance from foreign governments and international organizations
- Products imported by organizations for the handicapped for their exclusive use
- Sale of secondhand goods by individuals

Currently, animal feeds, agricultural protection covers, the trading of seeds, seedlings, chemical fertilizers, agricultural medicines farming machinery, and the sale of self-manufacturing qualifying reclaimed water, certain rubber powder and refurbished tires, and qualifying sewage treatments are also exempted from VAT or eligible for refund upon collection by virtue of administrative measures adopted by the Chinese tax authorities to protect farming businesses and encourage recycling in China.

Examples of services taxable at 0%

The following services rendered by domestic entities or individuals to overseas entities and consumed entirely outside of China are subject to a VAT zero rating:

- International transportation services, including transportation services for Hong Kong, Macau and Taiwan
- Space transportation services
- Research and development services
- Contractual energy performance services
- Design services
- Radio, film and television programs (works) production and distribution services
- Software services
- Circuit design and test service
- Information systems services
- Business process management services

- Offshore outsourcing services, including information technology outsourcing (ITO), business process outsourcing (BPO) and knowledge process outsourcing (KPO)
- Technology transfer

Examples of goods taxable at 0%

- Exports of goods (excluding prohibited or restricted exports)

Taxable persons that supply items eligible for tax exemption or tax reduction must book these sales separately. Otherwise, no tax exemption or reduction applies.

Special rules apply to sales of used fixed assets.

Option to tax for exempt supplies. Taxpayers who could be eligible for VAT exemption may choose to give up the right of VAT exemption and pay VAT. Once the choice is made, the taxpayer cannot switch back to applying for VAT exemption within 36 months.

E. Time of supply

The "time of supply" is the time when VAT becomes due (that is, the tax-triggering point).

Goods. The following are the principal aspects of the time of supply rules for goods:

- If the sales proceeds are received directly from the buyer, the time of supply is when sales payment is received or when an evidence for demanding the sales payment is issued, whichever is earlier, regardless of whether the goods have been delivered.
- By "sales payment is received," it means that the payment is received by the taxpayer in the course of or after the sales of services, intangible assets or real property.
- "The day when evidence for demanding the sales payment is issued" refers to the payment date as stipulated in the written contract; or in the absence of a written contract or stipulation about such payment date in the written contract, refers to the date when the provision of the services or transfer of the intangible assets is completed or the ownership of the real property changes.
- If the sales proceeds are collected through a bank, the time of supply is when the goods are dispatched.
- If payments are made by installments in accordance with a sales and purchase agreement, the time of supply is when each installment is due. In the absence of a written contract or specification of the date of collection in the contract, the tax point is the date on which the goods are dispatched.
- If payment is made in advance, the time of supply is when the goods are dispatched. For large-scale machines and equipment, ships, aircraft and other goods whose production period exceeds 12 months, the time of supply is the date on which the advance payment is received or the date of collection specified in the written contract.
- For supplies of goods made through a consignment agent, the VAT payable by the consignor is due when the consignor receives the sales confirmation list or the payment from the consignment agent, whichever is earlier. However, if the consignor receives neither the sales confirmation list nor the payment from the consignee within 180 days from the date of dispatching goods, the goods are regarded as having been supplied to the consignee and VAT will be payable accordingly.

Taxable services. The time of supply for the provision of taxable services is when the payment for the sale of the service is received or when an evidence for demanding the sales payment is issued, whichever is earlier.

If the taxpayer is engaged in the transfer of financial instruments, the time of supply is the day when the ownership of the financial instruments change.

If the taxpayer provides services or the transfer of the intangible assets or real property, the time of supply is the day when the provision of the services or transfer of the intangible assets is completed or the ownership of the real property changes.

Withholding VAT. The obligation to withhold VAT arises on the day when the VAT payment obligation arises for the taxpayer.

Imports. VAT is payable for imported goods when the goods are declared to Customs.

Deposits and prepayments. With regard to a refundable deposit, in general it would not be subject to VAT and no VAT invoice should be issued (but if VAT invoices are issued, VAT would be due). A refundable deposit is not perceived as a consideration for a supply. In this regard, the treatment would be the same whether the supply takes place or not. With regard to a nonrefundable deposit, VAT is due if the non-refundable deposit is treated as part of the consideration to be paid by the purchaser. VAT would not be due if a nonrefundable deposit has no linkage with the consideration and the supply, and it is solely for the purpose of securing the transaction.

If payment is made in advance, the time of supply for goods is when the goods are dispatched. For large-scale machinery and equipment, ships, aircraft and other goods whose production period exceeds 12 months, the time of supply is the date on which the advance payment is received or the date of collection specified in the written contract.

Where payment is made in advance for leasing services provided by the taxpayer, time of supply on the prepayments is on the day when the advance payment is received. The taxpayers shall prepay tax to the competent SAT office within the tax declaration period for the month following the month when the advanced payment is received. The taxpayers shall prepay tax to the competent SAT office within the tax declaration period for the month following the month when the advanced payment is received.

Goods sent on approval for sale or return. Goods sent on approval would not create a time of supply under the general rules. The general time of supply rules mentioned above would apply; in other words the date of VAT invoice issuance, the date when sales proceeds are received or evidence for demanding the sales proceeds is issued, and the date when goods are dispatched would be assessed in order to judge when the VAT obligation would arise, subject to business trading mode.

In an event that a VAT invoice has been issued, if the goods are returned in the following months, a red letter invoice (credit note) should be issued. If goods are returned in the current month, the VAT invoice could be canceled and reissued.

Leased assets. The general time of supply rules noted above apply to leases. If payment is made in advance for leasing services provided by the taxpayer, the time of supply for the prepayments is the day when the advance payment is received. The taxpayers must prepay the tax to the competent SAT office within the tax declaration period for the month following the month when the advanced payment is received.

Reverse-charge services. Not applicable. The reverse-charge mechanism is not applicable in China.

Continuous supplies. There is no specific regulation for the time of supply rule for continuous supplies.

F. Recovery of VAT by taxable persons

A taxable person may recover input tax, which is VAT charged on goods and services supplied to it for business purposes. A taxable person generally recovers input tax by crediting it against output tax, which is VAT charged on supplies made. However, input VAT credit is not allowed for small-scale VAT taxpayers that are subject to VAT at a flat rate (see Section D). Input tax includes VAT paid by a taxable person on the acquisition and importation of taxable goods and services that are acquired for the purposes of the taxable person's business activities. No credit is permitted with respect to purchases made for other purposes. To claim input VAT credits, a taxable person must comply with the following conditions:

- It must be registered with the tax authorities as a general VAT taxpayer (not as a small-scale VAT taxpayer).
- It must maintain a reliable accounting system and provide accurate information for assessing its VAT liabilities.
- It must hold a valid VAT invoice obtained from the vendor (see Section H), a tax certificate issued by the customs authorities or other valid supporting documents including transportation invoices and agricultural product procurement certificates.

A taxable person may recover input VAT as soon as it has a valid VAT invoice or a tax certificate issued by the customs authorities or other valid supporting documents. It is not necessary to wait until the purchaser has paid for the goods or the supplier has paid the output VAT to the tax authorities. The claim for input VAT credit must be made in the VAT return for the period in which the invoice or other documents are validated by the tax authorities. A taxable person must submit all input VAT invoices and other documents to the tax authorities for verification within 360 days after the date of issuance of the documents.

Input tax on real estate acquired by a general VAT payer after 1 May 2016 and accounted for as fixed assets under the accounting system, as well as real estate construction in progress after 1 May 2016, is deducted from output tax in two yearly installments at a deduction ratio of 60% in the first month and 40% in the 13th month of obtaining the special VAT invoices.

Input VAT credits. In calculating its net VAT payable, a taxable person may also claim an input VAT credit equal to 11% of the purchase value of VAT-exempt agricultural products purchased from primary agricultural producers or agricultural cooperative societies. The input VAT on road, bridge and gate tolls paid by general VAT taxpayers can be calculated on the basis of the fee amount indicated in the toll invoice received by the taxpayers.

Non-deductible input tax. Input VAT is not creditable on the acquisition or importation of the following items:

- The purchase of taxable goods or services used in VAT-exempt activities, except for fixed assets put into use for both taxable and VAT-exempt activities
- The purchase of taxable goods or services used in activities subject to VAT on a simplified basis
- The purchase of taxable goods or services for collective welfare or personal consumption
- The "abnormal loss" of purchased taxable goods and associated processing, repair or replacement services or transportation services
- The abnormal wastage of purchased taxable goods or services consumed in the production of merchandise or finished products
- The abnormal loss of real estate and associated purchased goods, design services or construction services consumed
- The abnormal wastage of purchased goods, design services or construction services in the construction of real estate
- The purchase of passenger transportation services, loan services, catering services, residential daily services and entertainment services
- Other situations that are specified by the Ministry of Finance and the State Administration of Taxation

"Abnormal losses" include losses resulting from a range of events including theft, decay or deterioration of goods as a result of poor management, and any goods or real property forfeited, destroyed or removed in accordance with the law as a result of violations of laws and regulations, but excluding normal wear and tear sustained in the ordinary course of the taxable person's business.

Output VAT and VAT computation method. The following is the calculation for output VAT:

Output VAT = Sales amount x Applicable VAT rate

If the consideration received by a supplier is VAT-inclusive, the following is the calculation of the sales amount:

Sales amount = VAT-inclusive sales amount
÷ (1 + Applicable VAT rate)

The VAT pilot rules contain a new computation method, which incorporates the "netting" mechanism. Only the following services specified by law may use the netting mechanism:

- Financial leasing with approval from the People's Bank of China, the Ministry of Commerce and the China Banking Regulatory Commission. The sales amount shall be the balance of the total price and expenses (including residual value) after deduction of the loan interest (including foreign currency loan and CNY loan interest), interest from issuing bonds, vehicle purchase tax.
- Transfer of financial products
- Agency services
- Tourism services
- Construction services applicable to simplified methods
- Sale of immovable properties developed by the real estate companies that are general VAT payers
- Labor dispatching services
- Human resource outsourcing services

If a pilot taxpayer concurrently sells goods, provides processing and maintenance services and provides VAT pilot services, it must separately account for the different supplies that are subject to different VAT rates. If the taxpayer cannot separately account for the VAT-able sales amount, it must compute its output VAT based on the higher VAT rate.

The VAT pilot rules include the concept of deemed supply of services. A special valuation method applies if a deemed supply of services exists or if the sales amount for VAT pilot services is found to be too high or low without a reasonable commercial purpose.

Export refund. A taxable person that supplies goods for export must register with the relevant local authorities responsible for overseeing foreign trade to obtain an approved Foreign Trade Operator Registration Form. It can use this form to complete a registration with the relevant tax authorities and confirm its entitlement to export refund.

With the exception of certain types of goods, exports of goods are generally exempt with credit; that is, input VAT previously paid on the purchase of goods and services used for the production of goods for export is refunded on application. This procedure is commonly known as the "VAT export refund." However, the VAT exemption with credit mechanism does not apply to certain types of goods. For those goods whose VAT export refund rates are less than the applicable VAT rates for normal supply, the taxable person must bear the difference as a cost, even though the goods are sold for export. Such VAT cost is commonly referred to as an "export VAT leakage" or "input VAT disallowance."

Depending on the type of exporting enterprise, the VAT export refund and the input VAT disallowance are calculated based on the different methods described below.

Manufacturing enterprises (assuming no tax-exempt raw materials). For companies engaging in the production of taxable goods, the following are the calculations of the input VAT disallowance and the relevant creditable input VAT.

Calculation of input VAT disallowance (Calculation #1)

Input VAT disallowance = Free on Board (FOB) value of
export sales x (Applicable VAT rate – VAT export refund rate)

Calculation of creditable input VAT (Calculation #2)

Creditable input VAT = Total input VAT – Input VAT disallowance (as determined in Calculation #1) + Excess input VAT brought forward from previous period

The taxable person must compute VAT payable for each reporting period by using the following calculation.

Calculation of VAT payable (Calculation #3)

VAT payable = Output VAT due on sales for the period – Creditable input VAT (as determined in Calculation #2)

If the amount of creditable input tax in a period is greater than the output VAT due on sales in that period (that is, Calculation #3 results in a negative balance), the taxable person is entitled to a VAT export refund.

The VAT export refund is equal to the lesser of the following amounts:
- FOB value of export sales x VAT export refund rate
- The absolute value of Calculation #3 if the calculation results in a negative balance

Commercial enterprises. For a taxable person carrying on a commercial business that involves the purchase of taxable goods in China for export, the following are the calculations of the VAT export refund and the input VAT disallowance:

VAT export refund = Price paid for the purchase of taxable goods x Applicable VAT export refund rate

As a result, the taxable person bears an input VAT disallowance that goes into its cost. This disallowance is determined in the following calculation:

Input VAT disallowance = Price paid for the purchase of taxable goods x (Applicable VAT rate – VAT export refund rate)

Application and declaration. Eligible enterprises or other entities may file a tax refund (exemption) application. After approval, enterprises or other entities shall make the declaration on VAT refund (exemption) and exemption with the competent authority within the declaration period of VAT payment.

For the goods exported through an agent, the entrusting party shall be responsible for declaring VAT refund (exemption). For the water, electricity and gas supplied to the special areas, the manufacturing enterprises within the special areas, as the purchasers, shall be responsible for declaring the tax refund.

Partial exemption. Taxable persons that make taxable supplies and other supplies (such as exempt supplies and outside the scope supplies) are only entitled to claim input VAT incurred in making their taxable supplies as credits. Input tax is not creditable for any purchases that are directly related to making exempt supplies.

If a taxable person has purchases or imports that are used to make both taxable and exempt or outside the scope supplies, an apportionment of input VAT is allowed. The allowable input VAT credit is generally calculated using the ratio of turnover from taxable supplies compared with the total turnover of that month from all supplies.

Refunds. Upon discovering that a taxpayer has paid an amount in excess of the tax payable, the tax authorities shall immediately refund the excess amount to the taxpayer.

When a taxpayer discovers that it has paid in excess of the tax payable within three years from the date the tax payment was made, it may claim from the tax authorities a refund of the excess amount and interest based on bank deposit for the same period.

Upon examination and verification, the tax authorities shall immediately make the refund. If the refund involves returns from the State Treasury, the refund shall be given according to the provisions of laws and administrative regulations relating to the administration of State Treasury.

Preregistration costs. No input VAT recovery is possible for costs and purchases made prior to registration.

G. Recovery of VAT by non-established businesses

China does not refund VAT to businesses that are not established in China.

H. Invoicing

VAT invoices and credit notes. A general VAT taxpayer must register and procure approved VAT invoices from the tax authorities. The taxable person must also designate and register an individual employee as a representative who is responsible for administering the custody and control of VAT invoices. A valid VAT invoice is needed to support any claim for input VAT recovery (see Section F).

A special VAT invoice may only be issued for supplies of taxable goods or services made to taxable recipients. A special VAT invoice must contain the following information:
- The supplier's VAT registration number
- The purchaser's VAT registration number
- The date of issuance of the invoice
- The name, address and telephone number of the taxable person supplying the taxable goods or services
- The name, address and telephone number of the taxable person purchasing the taxable goods and services
- The bank account numbers of the supplier and the purchaser
- A full description of the taxable goods or services supplied
- The quantity or volume of goods supplied
- The consideration (exclusive of VAT)
- The rate or rates of VAT and the amount of tax chargeable at each rate

The supplier may not issue a special VAT invoice for the following:
- The supply of goods (such as cigarettes, alcohol, foods, garments, shoes, hats and cosmetics) to ultimate consumers by VAT taxpayers that engage in retail sales
- The supply of taxable services to individuals
- The sale of VAT-exempt goods unless otherwise stipulated by specific rules or regulations
- The supply of taxable goods or services by small-scale taxpayers, except for certain cases the small-scale taxpayers are eligible to issue special VAT invoices by its own. However, small-scale taxpayers can apply to the relevant tax authority to issue VAT invoices on their behalf for supplies of taxable goods or services

Red-letter invoice (credit note). If goods are returned after an invoice has been issued, a red-letter invoice must be issued. The original invoice must be returned and "invalid" written clearly on it, or a notification must be obtained from the other party.

If sales discount is given after an invoice has been issued, the original invoice must be returned and "invalid" written clearly on it before re-issuing a new invoice, or a red-letter invoice shall be issued after a notification is obtained from the other party.

Foreign-currency invoices. VAT invoices are issued and printed through the Golden Tax System (GTS) — a tax control system connected to the database of the tax authorities. VAT invoices in China must be issued in CNY. Where a taxpayer settles the sales amount in any currency other than CNY, the average CNY exchange rate on the date the sales amount occurs or on the first day of the current month may be used at the discretion of the taxpayer. The taxpayer shall decide in advance on a conversion rate and may not change it within 12 months once such a conversion rate is determined.

Electronic invoices. The State Administration of Taxation started a pilot on 1 August 2015 for the issuance of electronic invoices through the upgraded VAT invoicing system in Zhejiang Province, the municipalities of Beijing and Shanghai, and the city of Shenzhen. And the electronic invoice pilot has been expanded to the whole nation since 1 December 2015. At present, such electronic invoices are only applicable to the general VAT invoices in China.

Proof of export. For manufacturing enterprises the requirements include:
- Declaration forms required by tax authority for exemption, deduction or refund of tax on exported goods
- Foreign exchange declaration for the export of goods (copy for export refund)
- Export invoice
- For goods exported on assignment, verification issued by the assignee for the export of the goods and a photocopy of the export agency agreement

For foreign trade enterprises the requirements include:
- Declaration forms required by tax authority for exemption, deduction or refund of tax on exported goods
- Foreign exchange declaration for the export of goods
- VAT invoice (credit copy), declaration by batch form for imported goods with export refund, tax payment certificate for imported goods
- For goods exported on assignment, verification certificates issued by assignee's in charge tax authorities for the export of goods on assignment and a photocopy of the export agency agreement
- For items subject to consumption tax, consumption tax payment certificate, consumption tax payment certificate for imported goods

B2C. The supplier should not issue a special VAT invoice for the supply of goods (such as cigarettes, alcohol, foods, garments, shoes, hats and cosmetics) to final consumers by VAT taxpayers that engage in retail sales, but should issue a normal VAT invoice upon request.

I. VAT returns and payment

VAT returns. In China, VAT periods vary in length. A VAT period may be 1 day, 3 days, 5 days, 10 days, 15 days, 1 month or 1 quarter. The length of the tax period is determined by the local tax authorities, based on the amount of VAT payable by the taxpayer. If VAT payments cannot be made on a fixed-period basis, VAT may be paid on a transaction basis.

Taxable persons that have a VAT tax period of 1 month or 1 quarter must submit VAT returns and pay the VAT due on a monthly or quarterly basis within 15 days after the end of the period. Taxpayers that have a VAT tax period shorter than one month must make provisional VAT payments within five days after the end of the tax period. They must also submit a VAT return and settle the VAT payable for the previous month by the 15th day of the following month.

Special schemes. Not applicable.

Electronic filing and archiving. Electronic filing (e-filing) is recommended by tax authorities in China. Taxpayers can log in to the tax declaration website with a U-key and file the electronic VAT

tax return with the relevant appendix. When e-filing is unsuccessful or encounters any difficulties, paper filing is acceptable.

The accounting books, accounting vouchers, statements, receipts of tax payments, invoices, vouchers for exportation and other tax-related materials shall be kept for 10 years unless otherwise specified in the laws and administrative regulations.

Annual returns. Not applicable.

J. Penalties

Authorized tax officers have extensive powers relating to the inspection and seizure of records. If a tax officer is of the opinion that a taxable person has underpaid the VAT due, the officer may issue an assessment based on the correct figures or on an estimate.

Where a taxpayer underpays or fails to pay taxes within the time limit prescribed in provisions, or a withholding agent under-remits or fails to remit taxes within the time limit prescribed in provisions, the tax authorities shall, in addition to ordering the taxpayer or withholding agent to pay or remit the taxes within a prescribed time limit, impose a fine on a daily basis at the rate of 0.05% of the amount of tax in arrears, commencing on the day the tax payment was defaulted.

If the taxpayer or withholding agent fails to pay the tax within the new time limit, the tax authorities may impose a fine of not less than 50% and not more than 500% of the amount of tax in arrears.

If a withholding agent fails to withhold or levy an amount of tax that should have been withheld or levied, the tax authorities shall seek the payment of the tax from the taxpayer and concurrently impose on the withholding agent a fine of not less than 50% and not more than 300% of the amount of tax that should have been withheld or levied.

Special schemes. In general, sales of secondhand taxable goods by taxable persons are chargeable to VAT on a simplified basis at a rate of 3% with a further reduction to 2%.

Sales of secondhand taxable goods by nontaxable individuals are exempt from VAT.

Special rules apply to sales of used fixed assets.

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A. At a glance

Name of the tax	Value-added tax (VAT)
Local name	Impuesto sobre las ventas (IVA)
Date introduced	29 December 1983
Trading bloc membership	None
Administered by	Dirección de Impuestos y Aduanas Nacionales (DIAN) (http://www.dian.gov.co)
VAT rates	
Standard	19%
Reduced	5%
Other	Zero-rated (exempt)
VAT number format	Tax identification number (NIT)
VAT return periods	Bimonthly/quarterly
Thresholds	
Registration	None
Recovery of VAT by non-established businesses	No

B. Scope of the tax

- The sale of movable and immovable tangible goods
- The sale or transfer of rights over intangibles associated with industrial property
- Services rendered in Colombia or from abroad (i.e., services executed abroad that are used in Colombia if the recipient of the services is located, domiciled or resident in Colombia)
- Importation of movable goods into Colombia
- Services of the operation of games of chance or the sale of tickets for games of chance (excluding lotteries and those games operated exclusively online)

Sales of fixed assets are not subject to VAT.

In general, the tax base equals the total value of the sale, that is, the sale price of goods or services plus any reimbursed expenses as part of service, warranties, commissions, insurance and other complementary items even though those items are billed separately. Effective discounts included in the invoice that are not subject to any condition and that are commonly used in the market are not part of the VAT tax base. However, for cleaning, surveillance and temporary employment services, construction agreements, and public infrastructure construction contracts, the tax base corresponds to the fee paid to the service provider/constructor rather than the whole value of the contract. In such cases, the creditable input VAT is the tax incurred by the constructor/service provider that is directly associated with its invoiced fee. The constructor/service provider is not entitled to credit for VAT paid on expenses that are associated with the part of the income that is not subject to VAT (i.e., the difference between the fee and the whole value of the agreement).

C. Who is liable

Generally, any individual or entity that undertakes an activity subject to VAT must register for VAT purposes, unless provided otherwise. The requirement to register also applies to incorporated permanent establishments (PEs) of foreign entities (i.e., branches of foreign entities) if the PE carries out taxable activities or business in Colombia. Additionally, in general, foreign services providers whose operations are not subject to the reverse-charge mechanism (B2C service providers whose direct clients are not VAT registered) must register for VAT purposes unless they expressly apply to be subject to the withholding system. There is a special registration process for these cases.

There is only one VAT regime applicable, which is the common regime.

All individuals or entities that undertake VAT-taxable activities must register for VAT purposes under the common regime.

Retailers, traders and artisans, as well as small individuals or entities engaged in agriculture and cattle farming activities, and service providers, must not register as VAT responsible if they meet the following requirements:

- Their gross income in the current or immediately preceding year derived from their activity is less than approximately USD40,250. (Based on an exchange rate of COP2.980).
- They have a maximum of one commercial establishment, office, premises or business where they perform activities.
- They do not use a franchise, concession agreement or royalty agreement with respect to the commercial establishment.
- They are not customs users.
- In the prior year, or in the current year, they do not enter into sale agreements for goods or services exceeding approximately USD40.250.
- During the prior year, or in the current year, bank deposits and financial investments made do not exceed approximately USD40.250.
- Not being registered as part of the "simple" tax regime (tax regime that applies to certain entities and individuals that replaces income tax, consumption tax, and industry and trade tax).

Group registration. VAT grouping is not allowed in Colombia.

Reverse charge. The withholding mechanism designates certain entities as VAT withholding agents, including government departments, large taxpayers, entities paying nonresident entities, individuals and VAT taxpayers belonging to the common regime, entities that are issuers of debit and credit cards, as well as entities or individuals that provide goods or services to international trading companies. The withholding rate is equal to 15% of the VAT rate applicable to the transaction, due on any payment or accounting accrual related to taxable goods or services. For transactions performed with nonresident entities and individuals, or the sale of tobacco and scrap metal, the withholding rate is 100% of the applicable tax rate (19%).

Non-established businesses and the reverse-charge mechanism. A "non-established business" is a business that satisfies the following two requirements:
- It does not have a permanent activity.
- It does not conduct activities in Colombia through a branch of a foreign company in Colombia.

If a Colombian VAT taxpayer belonging to the common regime receives a service from a non-established business, the reverse-charge mechanism applies. Under the reverse-charge mechanism, the Colombian resident must include in the VAT withholding tax return the value of the VAT due in the operation without subtracting such an amount from the payment made to the service provider. VAT self-assessed by the Colombian resident will be treated as creditable VAT if the relevant requirements provided by law are met.

Tax representatives. Not applicable.

Registration procedures. Registration in the "Registro Único Tributario" (RUT) must precede initiation of economic activity or the rendering of services from abroad not subject to the reverse-charge mechanism. An applicant registers in the RUT by filing forms designed for such effects with the tax authorities DIAN accompanied by hard copies, among others, of the following documents:
- Certificate of incorporation (for non-domiciled entities or nonresident individuals)
- ID document of the applicant or its attorney (documentation of power of attorney has to be included)
- Certificate of bank account

This procedure takes an average of 15 days. The registration in the RUT shall be valid indefinitely.

Late-registration penalties. A penalty corresponding to 1 tax unit (UVT), which in 2019 is COP34,270, is levied for each day of late registration.

Digital economy. As of 1 January 2017, VAT addresses digital services as a taxable event. Taxation is applied through a withholding mechanism in electronic payments. Foreign service providers that render digital services from abroad must register as VAT responsible with the Colombian Tax Office. For this purpose, they must obtain a Colombian Tax ID. These entities must collect the VAT due and file the corresponding VAT return to wire the VAT collected to the tax office. The latter is followed unless VAT due is collected by the beneficiary of the service through the reverse-charge mechanism (i.e., if the beneficiary of the service is VAT responsible).

Taxed services include:
- Digital supply of audiovisual services (including but not limited to music, video, movies, games and transmission of any event)
- Digital distribution platform
- Online publicity services
- Online training or education services
- Rights for use or exploitation of intangibles
- Other digital or electronic services for users located in Colombian territory

Deregistration. When a company ceases the economic activity for which it was registered, it should deregister in the RUT within the next month following such termination of taxable activities. A certificate signed by the tax auditor or public accountant demonstrating the absence of activities subject to VAT and the absence of inventory pending sale is required.

Exemption from registration. Only individuals and/or entities that meet the requirements outlined above are exempt from registration.

Voluntary registration. VAT law in Colombia does not contain any provision for voluntary VAT registration.

D. VAT rates

The VAT rates in Colombia are 19%, 5% and 0%. The rate of VAT varies according to the type of goods or services, but the standard 19% rate applies to all supplies of goods or services unless a specific provision allows an exclusion from VAT or the application of a reduced or zero rate.

Examples of supplies taxed at 5% rate

- Toasted coffee
- Wheat
- Sugar cane
- Cotton seeds
- Soy
- Rice
- Prepaid health services
- Health insurance
- Storage of agricultural products

Taxable and excluded supplies. The term "taxable supplies" refers to supplies of goods and services that are subject to VAT. Purchasers of such supplies generally benefit from an input credit on their VAT returns.

Exempt supplies. In Colombia, the term "exempt supplies" refers to supplies of goods and services that are subject to VAT at zero tax rate (0%). Purchasers of exempt supplies may receive an input credit for the VAT they paid on inputs, generating VAT balances in their favor that can be requested to be refunded.

Examples of exempt supplies

- Exports of movable, tangible goods if the exporter is registered with the National Tax Registry (RUT), has received a taxpayer identification number and can, at the request of tax authorities, provide proof of agreements to provide exports, such as contracts, offers or purchase orders
- Services rendered exclusively in Colombia and used exclusively abroad by companies or individuals who are not engaged in business in Colombia (Companies not engaged in business in Colombia include companies that are direct beneficiaries of the services, the VAT exemption does not extend to related parties such as a subsidiary, branch, affiliate, representative office or home office in Colombia.)
- Tourism, if rendered to nonresidents in Colombia used in the country for the benefit of a company that is registered in the National Tourism Registry and promotes tourism by engaging in certain qualified activities

Excluded supplies. The term "excluded supplies" refers to supplies of goods and services that are not subject to VAT. Purchasers generally may not claim an input discount or credit for the VAT they paid on inputs (see Section F).

Examples of excluded supplies

- Some goods and services that cover basic needs
- Utilities
- Restaurant services, except when operated under a franchise model
- Interest and exchange differences
- Specific digital services, such as educational media for regulated government content, hosting, cloud computing and provision of webpages, as well as remote maintenance of hardware and software
- Purchase or sale of foreign currency and derivatives

Option to tax for excluded supplies. Not applicable.

E. Time of supply

The time when VAT becomes due is called the "time of sale" or "tax point."

For a sale of goods, the tax point is the earlier of the following events:
- The issuance of the invoice or the delivery of the goods
- Withdrawal of movable goods by the taxable person for its own use or to form part of its fixed assets

For a supply of services, the tax point is the earliest of the following events:
- The issuance of the invoice or equivalent document
- Termination of the provision of the service
- Payment or accrual, whichever occurs first

Imported goods. The general VAT rate on imported goods is 19% (exceptions in law).

For the importation of goods, the tax point is when the goods are "nationalized," that is, when the goods have cleared all customs formalities for importation. As such, VAT is due at the time of the importation. Companies that the DIAN recognizes as Highly Exporters Users (that will replace the Authorized Economic Operators — OEA per its acronym in Spanish), are entitled to enjoy tax and administrative benefits such as:
- No VAT imposed for regular imports of industrial machinery that is not produced in the country and is used to transform raw materials
- Possibility of obtaining authorization from the DIAN to operate an industrial processing warehouse that allows the import of supplies and raw materials with suspension of customs duties and of VAT, as long as such supplies and materials are used in the production of export products

Colombia has special importation-exportation programs, also known as Plan Vallejo, that allow temporary importation of such supplies as capital goods, raw materials, inputs, and parts with significant customs and tax benefits, subject to compliance with the requirement that the imports are used to manufacture and export finished goods or services.

Plan Vallejo is applicable to the imports and exports of companies of which the main activity consists of one of the following:
- Raw materials
- Capital goods for the agriculture sector
- Services export, such as:
  - — Services of transmission, distribution, and commercialization of electric energy
  - — Special design services, value added telecommunications and software exports

International leasing. International leasing can be used to finance long-term temporary importation of capital goods, which may remain in the national customs territory for more than five years. In addition, the DIAN may allow long-term temporary imports of accessories and spare parts that do not arrive as part of the same shipment, if they are imported within the five-year term. Customs duties (tariffs and VAT) are paid biannually. The maximum term for deferment is five years, even though the goods may remain for a longer period in Colombia. When the agreement's duration exceeds five years, with the last payment corresponding to such period, all customs duties that have not been paid must be paid.

This alternative can be complemented with a provision that allows VAT-free treatment of temporary imports of equipment and machinery, considered as heavy machinery for basic industries in Colombia.

Free trade zones. A free trade zone (FTZ) is a territorial area where industrial and commercial activities are developed under a special customs, tax and foreign trade regime. Merchandise that enters a free trade zone is considered to be outside Colombia for customs purposes only. The

objective of these zones is to promote new jobs, new investment in fixed real assets and the creation of scale economies.

The main benefits of operating under a free trade zone are:
- No customs duties or VAT on the capital goods, equipment and machinery that enters into the FTZ for as long as these goods stay in the FTZ.
- VAT exemption on purchases of movable tangible goods, as long as these are effectively exported or transformed.
- VAT exemption for local sales when the purchaser is an industrial user of a FTZ and the goods (raw material, spare parts, semi-finished goods) will be used in compliance with FTZ rules and regulations.
- The intermediary production services that these companies may provide are equally exempt from VAT, as long as the final product is effectively exported.
- Exemption from withholding tax in the payment or credit to account for the acquisition of goods, destined to be exported, provided a certificate of purchase is issued to the seller in which a declaration is made regarding the future export of the product.
- If sale of products is to the rest of the Colombian territory, taxable basis includes foreign goods and local goods acquired for such finished goods plus all national components (services and goods).

International trade companies. International trade companies (ITC) are intended to trade and sell Colombian products abroad. These products are purchased in the domestic market or may be manufactured by partners of the ITC. These companies must be registered before the Colombian Tax and Customs Authority (DIAN).

The most important benefits of these companies are:
- Exemption from VAT on purchases of movable tangible goods, as long as these are effectively exported or transformed.
- The intermediary production services that these companies may provide are equally exempt from VAT, as long as the final product is effectively exported.
- Exemption from withholding tax in the payment or credit to account for the acquisition of goods, destined to be exported, provided a certificate of purchase is issued to the seller in which a declaration is made regarding the future export of the product.

Goods sent on approval for sale or return. There are no special time of supply rules in Colombia for the supply of goods sent on approval for sale or return. As such the general time of supply rules apply (as outlined above), where for the sale of goods, VAT is due when the seller issues the invoice or when the property over the asset is transferred, whichever occurs first.

Leased assets. For ordinary leasing agreements (i.e., a pure rental agreement, such that it is not agreed to transfer the property of the goods at the end of the contract) VAT is due each time the lessor charges the lease fee to the lessee or in absence of invoice, at the time in which the payment is demanded according to the respective terms of the agreement. If at the end of the agreement the asset is sold to the lessor, this transaction would be deemed to be a different and separate transaction from the lease operation. In fact, in this case the transaction would correspond to a sale that would not be subject to VAT provided that the asset sold to the lessee is a fixed asset for the lessor; if the asset sold is deemed as an inventory for the lessor, the sale would be subject to VAT.

Financial leasing agreements (i.e., those in which it is agreed that at the end of the contract the property over the assets will be transferred to the lessee) do not trigger VAT as it is considered an excluded transaction.

Reverse-charge services. In Colombia the reverse-charge mechanism only applies when Colombian VAT taxpayers belonging to the common VAT regime acquire services from foreign entities/individuals without domicile in Colombia and those services are subject to VAT in

Colombia (i.e., services rendered from abroad for the benefit of a Colombian resident). No reverse-charge is applicable when goods are acquired to be imported into Colombian territory.

The reverse-charge is self-assessed and carried out by the customer. The VAT collected through the reverse-charge mechanism is included by the customer in its withholding tax return of the period in which the accrual is made. This VAT does not impact the amount payable to the supplier. The VAT included in the withholding tax return as VAT reverse-charge might be recovered by the Colombian taxpayer customer as a creditable input VAT, subject to the normal recovery rules.

Continuous supplies. There are no special time of supply rules in Colombia for continuous supplies of services. As such, the general time of supply rules apply (as outlined above). So if there is a continuous service being provided, the VAT will be due with each invoice or when the service is fully provided or upon payment, whichever occurs first. If there is a continuous supply of goods, VAT will be due when the transfer of the property over the goods is transferred or when the invoice is issued, whichever occurs first.

F. Recovery of VAT by taxable persons

A taxable person may discount (credit) VAT paid on purchases (known as input tax) from VAT charged on sales (known as output tax), if the input tax relates to certain types of expenditure. Input tax paid on the acquisition of movable tangible goods and on services supplied to a taxable person, or VAT paid on imports of movable goods may be claimed as a discount (credit) up to a limit determined by applying the rate of VAT charged on the supply of the goods or services provided by the taxable person to the input tax incurred. Any excess input tax paid (that is, the amount of input tax exceeding the limit determined by applying the VAT rate charged on the supply of goods and services) may be requested as a refund but only after the income tax return for the given year has been filed and if such balance in favor corresponds to the authorized refundable VAT (exempted activities or VAT derived from withholding applied to the taxpayer; as described below). In addition, for transactions with foreign suppliers, the reverse-charge (self-assessment) mechanism must be used and the VAT withheld may be treated as input tax in accordance with the general rules and limitations if the taxable person can prove to the tax authorities that the tax has been withheld. Alternatively, the VAT withheld can be treated as a higher cost or expense if the rules to claim the input tax as a credit are not met.

Refunds. If the amount of input VAT recoverable in a taxable period exceeds the amount of output VAT payable, the taxable person earns an input VAT credit. The credit may be requested in a refund on a bimonthly basis if either of the following applies:

- The taxable person is an exporter of goods or services and it is duly registered as an exporter.
- The taxable person supplies zero-rated (0% rate) goods or has been subject to VAT withholding and the total balance arises from the withholdings.

In addition, a refund of VAT paid on the acquisition of materials used to construct "housing of social interest" may be requested if the construction plans were approved by the Colombian government.

If a VAT balance in favor of the taxpayer exists because of VAT rate differences, the balance may be carried forward, offset or refunded under certain conditions (see Section 481 of the Colombian Tax Code). The balance in favour must have been originated during the previous taxable period and will be determined according to a proportionality mechanism.

VAT taxpayers subject to the ordinary income tax regime are allowed to claim as income tax credit the VAT paid on acquisition or import of capital goods.

Acquisitions or importations of capital goods. VAT paid for the acquisition of capital goods may be included as creditable for income tax purposes. In this case, the applicable VAT included cov-

ers the acquisition of any real productive fixed assets (depreciable or amortizable) acquired by the VAT-taxable person and build costs incurred. The latter includes the VAT associated to services directly linked with the construction of such assets to allow for their use.

G. Recovery of VAT by non-established businesses

Colombia does not refund VAT incurred by foreign or non-established businesses unless they are registered for VAT in Colombia. However, members of accredited diplomatic missions and members of the United Nations may claim a refund of VAT paid.

H. Invoicing

Tax credit documents, invoices and credit notes. A taxable person must provide a VAT invoice for all taxable supplies made, including exports. In some cases, other documents may be treated as equivalent to invoices such as tickets and contracts signed with nonresidents for technical services or technical assistance services. A tax invoice is generally necessary to support a claim for input tax credit. Electronic invoice requirements will be introduced during 2019, becoming mandatory for any relevant transactions and used for supporting any VAT input credits.

Proof of exports. VAT is not chargeable on supplies of exported goods. Exports are exempt from VAT. However, to qualify as a VAT-free, exports must be supported by customs documents that prove that the goods have left Colombia. The exporter must file a declaration to the tax authorities by filling out a DEX ("Declaración de Exportación") and be registered as an exporter with the "Registro Único Tributario" (RUT). In Colombia, sales of goods required for the normal development of the businesses of operators or industrial users located in free-trade zones and sales to International Commercialization Companies are considered to be exports if the goods are effectively supplied to the purchaser. Consequently, these transactions are also exempt from VAT.

Foreign-currency invoices. Invoices may be issued in a foreign currency, but must be paid in Colombian pesos (COP) unless the customer is a foreign entity. When transactions take place locally, the VAT amount must be converted to pesos using the market exchange rate on the date of the transaction. The Colombian Central Bank manages the exchange system.

B2C. In Colombia there are no special VAT invoicing rules for supplies made by taxable persons to private consumers. Full VAT invoices must always be issued for all taxable supplies.

Electronic invoicing. During 2019, VAT taxpayers must implement electronic invoicing. As of 1 January 2020, electronic invoicing will be mandatory for all VAT taxpayers in Colombia. As of such date, only the cost and expenses supported in electronic invoices will be deductible.

I. VAT returns and payment

VAT returns. VAT returns are filed bi-monthly during March, May, July, September, November and January by large taxpayers, which are those with gross revenues equal to or higher than 92,000 UVT (tax value unit or "unidad de valor tributario"), or approximately USD1 million. Taxpayers with gross revenues lower than 92,000 UVT (USD1 million) file VAT returns every four months during May, September and January. Returns must be filed electronically and payments made directly using the financial system considering the due date set by the government every year.

Liabilities shown in returns must be paid in Colombian pesos.

Special schemes. Not applicable.

Electronic filing and archiving. Provided the taxpayer has a digital signature, VAT returns must be filed electronically at www.dian.gov.co.

Annual returns. Annual returns are not required to be filed in Colombia.

J. Penalties

The penalty for late filing and payment applies for each calendar month (or part thereof) of delay. It equals 5% of the total tax charged or withheld in the tax return period, up to a maximum of 100% of the tax.

If the taxable person is not required to pay any VAT, the penalty for each month of delay (or part of a calendar month) equals 0.5% of the gross income received by the taxpayer, up to a maximum of 5% of such income, or twice the credit balance in favor of the taxpayer in the return period. The maximum penalty is 5% of gross income or two times the credit balance (if any) or, if no credit balance exists, USD28,750 (for 2019). If the taxpayer does not have any income during the period, the penalty per month (or part of a month) equals 1% of net equity for the preceding year. The maximum penalty is the lower of 10% of the taxpayer's net equity for the preceding year and twice the credit balance (if any) or, if no credit balance exists, USD28,750. The minimum penalty is USD111.

The taxpayer must include the appropriate amount of penalty in a tax return that is filed late.

The interest rate charged on late payments of VAT is determined every month by a national decree. The current rate established by the government as of January 2019 is 28.74% annually. At any time, it is necessary to review and confirm the interest rate published.

The Criminal Code includes penalties for the omission of tax liabilities. A taxpayer or tax withholder that does not pay collected VAT amounts within the two months after the due date may be punished with imprisonment for a term of between three and six years, and payment of a penalty equal to twice the amount of unpaid VAT, up to a maximum of USD11,849,200 for 2019, approximately.

K. Consumption tax

A consumption tax applies to certain goods and services, including but not limited to restaurant services (including catering services), mobile phone services, the sale or import of certain vehicles, the sale of jewelry, the sale of plastic bags and the sale of medicinal cannabis.

Consumption tax rates.

- Certain vehicles based on their free on board (FOB) value: 8%
- Restaurant services: 8%
- Mobile phone services: 4%
- Medicinal cannabis: 16%
- Plastic bag consumption: COP40 per bag in 2019
- Luxury vehicles, chassis, hot-air balloons and airships: 16%
- The sale of real estate higher than 26.800 UVTs (exception may apply for agricultural real estate): 2%

Moment of taxation. The tax is levied at the date and time the invoice is issued to the final consumer or upon delivery of the goods or services to the final consumer.

Returns. Returns for the consumption tax are filed quarterly, starting on the date when taxable activities commenced and ending at the end of the calendar quarter. A simplified regime is also contemplated for some of the activities above.

The consumption tax return must include the following:

- Basic taxpayer identification information
- All the taxable events subject to the consumption tax
- The calculation of the consumption tax
- The signature of the obliged taxpayer and/or its representative
- The signature of the accountant, CPA and/or statutory auditor if applicable

Invoicing. For restaurants, bars, grills and other food and catering services, the consumption tax must be shown in the bill, registration ticket or invoice, and it must be calculated over the total amount of the consumption, including all the foods, entrances or tickets and any additional amounts attached to the rendering of the service. There are exceptions for tips and food that has not been transformed or otherwise prepared upon serving.

Tax recovery. Consumption tax paid does not generate input VAT (VAT credit) but may be treated as a deduction for income tax purposes, except in the case of plastic bags.

Penalties. Penalties for failure to file consumption tax returns are calculated in the same manner as for VAT (see Section J).

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A. At a glance

Name of the tax	Value-added tax (VAT)
Date introduced	4 December 2018
Trading bloc membership	Central American Integration System (no differentiated VAT treatment)
Administered by	Ministry of Finance (http://www.hacienda.go.cr/)
VAT rates	
Standard	13%
Reduced	4%, 2%, 1%
Other	Exempt and zero-rated
VAT number format	Corporate or individual identification number
VAT return period	Monthly
Thresholds	
Registration	None (a simplified VAT regime applies to small taxpayers; see Section C)
Recovery of VAT by non-established businesses	No

B. Scope of the tax

VAT applies to the following transactions:
- All types of transfers of goods and the rendering of services in Costa Rica by taxable persons, unless a specific exemption is provided
- Self-consumption
- The importation of goods into Costa Rica, regardless of the status of the importer
- Lease of goods with purchase option

C. Who is liable

A VAT taxpayer is any business entity or individual that sells taxable goods (including imports and exports of goods) or that provides taxable services on a regular basis. A permanent establishment of a foreign business in Costa Rica may be a VAT taxpayer.

No turnover threshold applies to VAT registration. As soon as a taxable person begins a taxable activity, it must notify the VAT authorities of its obligation to register. A taxable person that does not notify the VAT authorities of its obligation to register may be automatically included in the registry of VAT taxpayers.

Small taxpayers. A simplified VAT regime applies to small taxpayers. The simplified regime applies to individuals who carry out a limited range of activities, such as small retail activities, including operating a grocery store or mini-market. To qualify as a small taxpayer, the entrepreneur's annual purchases may not exceed CRC64.650 million (approximately USD103,628), and the entrepreneur may not have more than five employees. Under the simplified regime, presumed taxable turnover is calculated by applying an estimated profitability factor that is determined based on the taxpayer's business sector. The VAT rate is applied to the presumed taxable turnover and the small taxpayer pays VAT on that base.

Group registration. VAT grouping is not allowed under the Costa Rican VAT law. Legal entities that are closely connected must register for VAT individually.

Non-established businesses. A "non-established business" is a business that has no fixed establishment in Costa Rica. In principle, a non-established business must register for VAT if it supplies goods or services in Costa Rica.

Late-registration penalties. A taxpayer that fails to register for VAT on a timely basis cannot offset VAT credits generated from purchases that at the time of registration are included in inventory.

Penalties and interest are also assessed for late registration for VAT.

Tax representatives. At the moment of registering an entity as VAT taxpayer, a tax representative must be appointed. The tax representative must be the legal representative of the entity.

Reverse charge. Not applicable.

Digital economy. The VAT Law establishes that financial institutions responsible for processing credit or debit card payments should withhold VAT (at a rate of 13%) in payments made for services rendered to local customers through internet or digital means.

Registration procedures. Taxpayers must register at the time they start selling goods or providing services subject to VAT, either in person at the offices of the tax administration by filing form D-140 or online if the tax representative is a Costa Rican individual or has a tax identification number.

Deregistration. In order to deregister, the taxpayer has to file Form D-140 in person at the offices of the tax administration or online, and the last VAT return must be filed within 10 days after deregistering.

Exemption from registration. The VAT law in Costa Rica does not contain any provision for exemption from registration for entities or individuals that make taxable supplies.

Voluntary registration. The VAT law in Costa Rica does not contain any provision for voluntary VAT registration as there is no registration threshold (i.e., all entities or individuals that make taxable supplies are obliged to register for VAT).

D. VAT rates

In Costa Rica, the standard rate of VAT is 13%. The standard rate applies to the supply of all goods and services, unless a specific exemption is provided. Private health services and local flight tickets are subject to a 4% rate; medicines, private education services and personal insurance premiums are subject to 2%; and goods that form part of the "basic consumption basket" (a list of items essential for the traditional household) are subject to 1%.

In addition, some activities are exempt or zero-rated. In both cases, no VAT is charged. Note that zero-rated and exempt activities do not give rise to a right of input tax.

Examples of exempt supplies of goods and services

- Veterinarian services, including livestock
- Domestic monthly consumption of electricity not exceeding 280 kilowatts per hour
- Books, musical compositions and paintings created in Costa Rica
- Exported goods
- Re-importation of national goods within three years of their export

Option to tax for exempt supplies. Not applicable.

E. Time of supply

The time when the taxable event is considered to have taken place and VAT becomes due is called the "tax point."

For the sale of goods, the tax point is the earlier of the delivery of the goods or the issuance of an invoice. For services, the tax point is the earlier of when the services are performed or an invoice is issued.

Imported goods. The time of supply for imported goods is when the bill of lading or the customs form for the goods is accepted.

Deposits and prepayments. There are no special time of supply rules in Costa Rica for deposits and prepayments. As such, the general time of supply rules apply, and the tax point is the earlier of the invoicing or delivery/performance.

Goods sent on approval for sale or return. If goods are sent on "approval" or for "sale or return" conditions, the tax is due when the goods are delivered. If the goods are ultimately returned, a credit note should be issued and VAT reversed.

Leased assets. The lease of goods with or without an option to purchase are subject to VAT. The tax point is the earlier of the delivery of the goods or the issuance of an invoice.

Reverse-charge services. The VAT Law establishes that in the event of a purchase of international services (i.e., importation of services), the reverse-charge mechanism is applicable by the local taxpayer. This means that the local taxpayer (i.e., the customer) accounts for VAT locally by way of the reverse-charge mechanism.

Continuous supplies. There are no special time of supply rules in Costa Rica for continuous supplies. As such, the general time of supply rules apply, and the tax point is the earlier of invoicing or delivery/performance.

F. Recovery of VAT by taxable persons

A taxpayer may offset input tax, which is VAT paid on the purchase of goods and services used to generate other goods and services subject to tax. Input tax is generally credited against output tax, which is VAT charged or collected on the sale of goods or the rendering of services. An input tax credit may be taken in the month of the import or the acquisition of goods and services. Taxpayers receive a tax credit or deduction for tax paid with respect to the following:

- The purchase or importation of goods and services used in the production, trade and distribution of taxable merchandise or services, as long as such services are directly and exclusively linked to the taxpayer activity.
- The payment of insurance premiums for the protection of merchandise used or incorporated physically in the production of taxable merchandise or services, as long as such premiums are directly and exclusively linked to the taxpayer activity.
- The purchase of merchandise used during the production, trade and distribution of exempt merchandise or of goods for exportation (while these are exempt goods, when they are exported, recovery is allowed).

A valid tax invoice or customs document must generally accompany a claim for an input tax credit.

Nondeductible input tax. Input tax may not be recovered on purchases of goods and services that are not used in the production, trade and distribution of the final goods and services supplied by the taxpayer.

Examples of items for which input tax is nondeductible

- Overhead expenses of a business, generally

Examples of items for which input tax is deductible (if related to a taxable business use)

- Insurance premiums
- Wrapping, packaging, etc.

Partial exemption. Exempt activities do not give rise to a right of input tax recovery.

Preregistration costs. Taxpayers are not permitted to recover input VAT paid on purchases made prior to VAT registration. Nevertheless, the VAT Law provides that taxpayers may accrue tax credits generated after VAT registration for a maximum period of four years until the beginning of their economic activity, as long as they are directly and exclusively linked to the taxpayer activity and are duly registered for VAT purposes.

Refunds. If the amount of input VAT recoverable in a month exceeds the amount of output VAT payable, the taxpayer obtains an input VAT credit. The input VAT credit may be carried forward to offset output tax in the following months. Under special circumstances, if the taxpayer foresees that VAT credits will not be used within the following three months, the taxpayer may request to use the credits to offset other tax liabilities.

G. Recovery of VAT by non-established businesses

Costa Rica does not refund VAT incurred by foreign or non-established businesses unless they are registered for VAT in Costa Rica.

H. Invoicing

VAT invoices and credit notes. Tax authorities have set forth several resolutions to ensure that all invoices must be issued electronically following specific technological requirements. Therefore, VAT taxpayers must generally provide an electronic VAT invoice for all taxable supplies made. Such electronic invoices must be authorized by the tax authorities. The tax authorities may authorize the use of cash registers and other computerized systems to issue invoices. Electronic invoices must include an official invoice number and the taxpayer's identification number, and it must also show the VAT amount separately, among other requirements.

An electronic VAT invoice is generally necessary to support a claim for input tax credit.

An electronic VAT credit note may be used to reduce the VAT charged and reclaimed on the supply of goods and services.

Exports. Costa Rican VAT is not imposed on the supply of exported goods. However, to qualify as VAT-free, exports must be supported by customs documents that prove the goods have left Costa Rica. Suitable evidence includes export invoices and bills of lading. Exportation of services should not be levied with VAT.

Foreign-currency invoices. In general, VAT invoices must be issued in local currency — colons (CRC). However, invoices may be issued in US dollars (USD) if the amount in colons is also stated. The applicable exchange rate is the exchange rate on the date of issuance of the invoice, as established by the Costa Rican Central Bank.

B2C. Small taxpayers are not required to issue VAT invoices for sales under 5% of a base salary (approximately USD34) unless requested by the purchaser.

Electronic invoicing. As mentioned in section H, electronic invoicing is mandatory for all VAT taxpayers.

Electronic invoicing must comply with all technical specifications set forth by the tax authorities.

Rules regarding storage and conservation of invoices should not vary for electronic invoicing. Taxpayers must conserve digital copies of invoices for five (5) years after the transaction.

I. VAT returns and payment

VAT returns. VAT returns are submitted monthly. Returns must be submitted by the 15th day of the month following the end of the return period. Payment in full is due on the same date. A return must be filed even if no VAT is due for the period.

Tax due must be paid in Costa Rican currency — colons.

Special schemes. VAT returns for small taxpayers must be submitted quarterly by the 15th day of the month following the end of the return period. The relevant months are October, January, April and July. Payment in full is due on the same date, and a return must be filed even if no VAT is due for the period.

Electronic filing and archiving. VAT returns must be filed online at https://www.hacienda.go.cr/ATV/Login.aspx. Filing requires a Tax ID (Nite or Dimex) issued by the tax authorities. Archiving tax returns may also be done electronically.

Annual returns. It is not permitted to file VAT returns annually in Costa Rica. Note that tax credits generated from the acquisition of goods and services used indistinctly for operations subject to tax credits and operations not subject to tax credits, must be offset proportionally. In this sense, in every December return, taxpayers should calculate the proportion of their annual operations subject to tax credits to determine the percentage of their tax credits to be offset.

J. Penalties

Penalties apply to a range of VAT offenses in the following amounts:

- Late filing of a VAT return: a penalty of 50% of the average monthly Costa Rican wage ("base salary" as established by law is CRC431,000, which is approximately USD693). The amount of the penalty may be reduced up to 80%, depending on the time of payment.
- Late payment of VAT: a penalty of 1% of the unpaid amount for every month or fraction of a month. The maximum penalty is 20% of the unpaid amount.
- Inaccuracies in the return: a penalty of 50% of the unpaid amount (as determined by the tax authorities). Such penalties may be increased to 100% or 150% if the inaccuracies qualify as severe or very severe. For this purpose, the unpaid amount must be higher than 500 times the value of the base salary and meet certain other requirements, such as deriving from the concealment of information or use of fraudulent means. These penalties may be reduced up to 80% depending on the time of payment.

In addition, interest applies to underpayments of VAT at the average interest rate charged by commercial banks to the commercial sector for the tax period.

Violation of formal duties. A failure to file and satisfy reporting obligations in Costa Rica is subject to penalties ranging from half a base salary to two base salaries as follows:
- Not registering with the relevant tax authorities — penalty of half a base salary
- Failure to maintain accounting books or records required by law — penalty of one base salary
- Failure to maintain shareholder registry book — penalty of one base salary
- Failure to issue invoices as required by law — two base salaries

Tax fraud. Tax fraud occurs when the taxpayer by any action or omission commits fraud against the tax authorities by incorrectly computing the amount of tax due. VAT fraud that results in an underpayment of VAT greater than 500 times the base salary is punishable by a term of imprisonment of 5 to 10 years.

Croatia

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A. At a glance

Name of the tax	Value-added tax (VAT)
Local name	Porez na dodanu vrijednost (PDV)
Date introduced	1 January 1998
Trading bloc membership	European Union (EU) Member State
Administered by	Ministry of Finance (http://www.porezna-uprava.hr)
VAT rates	
Standard	25%
Reduced	13% and 5%
Other	Exempt
VAT number format	Prefix HR followed by the 11-digit personal identification number (OIB), e.g., HR12345678910
VAT return periods	
Businesses established in Croatia	Monthly or quarterly
Businesses not established in Croatia	Monthly
Thresholds	
Registration	
Businesses established in Croatia	HRK300,000 (approximately EUR40,000) of taxable supplies in the preceding or current calendar year
Businesses not established in Croatia	No threshold: foreign businesses should register in Croatia before performing their first taxable supplies in Croatia
Distance selling	HRK270,000 (approximately EUR36,000)
Recovery of VAT by non-established businesses	Yes (reciprocity required for taxable persons not established within the EU)

B. Scope of the tax

VAT applies to the following transactions:
- Supply of goods and services in Croatia for consideration by a taxable person, performed in the course of the person's business activity, and supplies made in accordance with the provisions of the law or decisions of state bodies
- Intra-Community acquisition of goods from another EU Member State by a taxable person
- Import of goods into Croatia

C. Who is liable

Taxable person. A taxable person is any person who independently carries out any economic activity, regardless of the purpose or results of that activity.

VAT registration is required prior to commencing taxable activities in Croatia.

Taxable persons applying the scheme for small businesses. Taxable persons established in Croatia can apply a special scheme for small entrepreneurs if their taxable supplies in the preceding or current calendar year do not exceed the HRK300,000 (approximately EUR40,000) threshold. Taxable persons applying this scheme do not charge Croatian VAT as their transactions are exempt from VAT, but they also cannot deduct input VAT.

Voluntary registration. A taxable person subject to the special scheme for small businesses may voluntarily register for VAT when beginning business activities or may register during the year. In the case of voluntary registration, the entrepreneur must remain a VAT payer for a period of three years.

A taxable person whose taxable supplies exceeded the prescribed threshold is considered to be a VAT payer and must inform the tax authorities by submitting an application for VAT registration. Retrospective VAT registration is not possible.

Group registration. VAT group registration is not allowed under the Croatian VAT law.

Non-established businesses. A "non-established business" is a business that does not have an establishment in Croatia. A non-established business that makes supplies of goods or services in Croatia is liable to account for VAT on these supplies.

However, if supplies are made by a non-established business that is not registered for VAT purposes in Croatia (requirement for non-registration will enter into force on 1 January 2019) to a recipient who is either a taxable person or a legal person that is not a taxable person but registered for VAT in Croatia, Croatian VAT should be calculated by the recipient of the supply.

Consequently, non-established businesses must register for VAT if they make any of the following supplies:
- Intra-Community supplies
- Intra-Community acquisitions
- Distance sales in excess of the threshold
- Supplies of goods and services that are not subject to the reverse charge (for example, goods or services supplied to private persons)
- Export supplies

Tax representatives. A foreign entity (taxable person) that has to register for VAT in Croatia may appoint a tax representative. Taxable persons in Croatia can be appointed as tax representatives if they are established or have their permanent address in Croatia and are not a branch or fixed establishment of a foreign company.

A foreign entity (taxable person) that has its seat of business outside the EU must appoint a tax representative.

Reverse charge. The reverse charge applies to the supply of most goods and services performed by non-established businesses to taxable persons or nontaxable legal persons registered for VAT in Croatia. As of 1 January 2019, reverse charge will apply only if the non-established business is not registered for VAT purposes in Croatia. The recipient of the supply accounts for VAT using the appropriate Croatian VAT rate.

Croatia applies a domestic reverse-charge mechanism for certain supplies. The following activities fall within the scope of the domestic reverse charge irrespective of whether the supplier is VAT registered or not:

- Construction work (repair, maintenance, alteration and demolition services in relation to immovable property) and supply of staff engaged in construction work
- Supplies of used-material waste, industrial and nonindustrial waste, recycling waste, and partially processed waste
- Supplies of immovable property if the option to tax is exercised
- Supplies of immovable property in a compulsory sale procedure and similar
- Transfer of greenhouse gas emission units
- Supplies of concrete steel and iron, as well as products made of concrete steel and iron (armature)

Registration procedures. As of 1 January 2019 if a Croatian taxable person's annual taxable supplies exceed the prescribed threshold, the taxable person becomes liable to register as a VAT payer in the current year (at the time when the prescribed threshold is reached).

Entrepreneurs whose taxable supplies do not exceed the threshold may also apply for VAT registration. After registering, such entrepreneur is obliged to remain in the VAT system for the next three years.

In case a Croatian VAT payer intends to perform supplies within the EU, it should request a Croatian VAT ID number 15 days before the first supply is made.

Taxpayers in all cases mentioned above should file the request for VAT registration with the Croatian tax authority by submitting a hard copy of the application in person. The registration procedure may be initiated in person by a third party legally authorized by the company applying.

All accompanying documents (which should be filed in hard copy) with the request should be translated to Croatian by the official interpreter. A VAT ID number should be assigned within 8 days from the day when all documentation is submitted.

Registration for MOSS purposes should be done through the HR-MOSS internet portal of the Croatian tax authority. HR-MOSS application is available on the following link: https://eusustavi.porezna-uprava.hr/wps/myportal.

Late-registration penalties. Penalties for non-registration range between HRK1,000 and HRK200,000 (approximately EUR135 and EUR26,300) for the company and between HRK500 and HRK40,000 (approximately EUR66 and EUR5,300) for the responsible person within the company.

Digital economy. As of 1 January 2019, a threshold of HRK77,000 (approximately EUR10,000) will be introduced for taxpayers with headquarters in Croatia who provide electronic services to nontaxable individuals (business-to-consumer (B2C)) in other EU Member States. If electronic services are provided below the respective threshold, the place of supply is Croatia and taxpayers providing these services should not register in other EU Member States. Once the threshold is reached, then rules on the place of supply based on the customer's place of establishment apply. Taxpayers below the threshold may opt for the above-threshold regime, in which case they must apply it for two calendar years.

For issuing invoices, the rules of the EU Member State where the taxpayer has registered for the special scheme for supplying telecommunications services, broadcasting services or electronic services to nontaxable persons apply.

A respective special tax procedure will also apply to taxpayers who do not have headquarters in the EU, even if they are registered for VAT purposes in the EU.

Mini One-Stop Shop. The Mini One-Stop Shop (MOSS) is a special scheme for suppliers established in EU (EU suppliers) as well as those established outside EU (non-EU suppliers).

The Member State of identification is the Member State where the taxable person is registered for MOSS and where it declares and pays the VAT due in respect of the Member State of consumption. It obliges taxpayers to stay in the scheme two years following the year of registration.

Non-EU suppliers. Non-EU suppliers that choose Croatia as the Member State of identification apply by filing the application electronically with the Croatian tax authority. The application should include the following information:
- Name of the non-EU supplier
- Postal address
- Electronic address including web pages
- National tax number (if any) and the statement that it is not established within EU

The non-EU supplier should inform the Croatian tax authority if the initially provided information is subsequently amended. The Croatian tax authority assigns the identification number and electronically informs the applicant. The non-EU supplier is not required to appoint a fiscal representative. The non-EU supplier will not be able to deduct input VAT through the respective VAT return but will have to apply refund procedures prescribed by 13th Directive 86/560/EECZ (no reciprocity requirement).

EU suppliers. The EU supplier who has established its business or has a fixed establishment in the EU can register for MOSS. If the EU supplier does not have a head office or permanent establishment within the EU, the Member State of identification is a Member State where the EU supplier has a fixed establishment. Where the EU supplier has more than one fixed establishment in the EU, that taxable person can choose any Member State in which it has a fixed establishment to be its Member State of identification. In that case it is bound to that decision for the current calendar year, plus the two following calendar years.

The EU supplier that does not have establishment in the Member State of consumption, and chooses Croatia as a Member State of identification will have to apply for MOSS, electronically filing the application with the Croatian tax authority using the Croatian VAT ID number.

Registration for MOSS purposes should be done through the HR-MOSS internet portal of the Croatian tax authority at this link: https://eusustavi.porezna-uprava.hr/wps/myportal.

Deregistration/cancellation of VAT ID number. Taxpayers registered for VAT (because the VAT threshold was reached in past periods) may submit written application for deregistration to the Croatian tax authority until 15 January if the threshold in the preceding year was not reached.

Foreign taxpayers who have obtained a Croatian VAT ID number and cease the economic activities in Croatia for which they were registered should notify the Croatian tax authority about the cessation of business activities within eight days.

Croatian VAT payers who also perform intra-Community transactions may apply for cancellation of their VAT ID number if they cease to perform such transactions. The cancellation of a VAT number does not automatically mean that taxpayer is erased from the VAT register in Croatia.

The tax authority can *ex officio* cancel the VAT ID number in certain cases, such as when the taxpayer has not performed business activities in the EU for more than one calendar year; the

taxpayer has acquired goods valued at less than HRK77,000 (EUR10,130) in the previous two calendar years; the taxpayer has not received services within the EU for more than one calendar year; or a foreign taxpayer has not performed supplies in Croatia for more than one calendar year.

In the case of fraudulent activities, deregistration occurs almost automatically.

The tax authority can also cancel the VAT ID number if it determines that there is no further reason for VAT registration in Croatia or if the taxpayer has misused the VAT ID number.

In case the tax authority suspects the VAT ID number was assigned without actual justification, the tax authority may request from the taxpayer in question that it provides securities, i.e., VAT payment guarantees for the period not longer than 12 months. If the taxpayer does not provide requested securities, the tax authority will cancel the taxpayer's VAT ID number and render a resolution on such decision.

Tax authorities may suspend the VAT ID number if they suspect it has been misused. A suspended VAT ID number can be reactivated if the taxpayer submits evidence that eliminates the reason for the suspension within one year. Failure to do so will result in cancellation of the VAT ID number.

Exemption from registration. The VAT law in Croatia does not contain any provision for exemption from registration.

D. VAT rates

The term "taxable supply" refers to supplies of goods and services that are liable to any of the VAT rates, including supplies that are exempt with the right to deduct input VAT.

The following are the VAT rates in Croatia:
- Standard rate: 25% (reduced to 24% from 1 January 2020)
- Reduced rates: 13% and 5%

The standard rate of VAT applies to all supplies of goods or services, unless a specific measure provides for a reduced rate or exemption.

Examples of goods and services taxable at 5%

- All types of bread
- All types of milk
- Books containing professional, scientific, artistic, cultural and educational content, unless they are used for advertising purposes and unless they comprise of video or music content
- Drugs authorized by relevant agency
- Medical products, implants and other orthopedic devices
- Cinema tickets
- Scientific magazines
- Newspapers and magazines published daily unless they are used for advertising purposes and unless they comprise of video or music content

Examples of goods and services taxable at 13%

- Room only, bed and breakfast, half board or full board accommodation services in all types of the listed commercial catering facilities and agency commission services for all the above mentioned services
- Daily and periodic newspapers and magazines printed on paper with the exception of those subject to 5% or that, in their entirety or mainly, contain advertisements or serve advertising purposes and unless they comprise of video or music content
- Oils and fats for human consumption, of either vegetable or animal origin, in accordance with special legislation

- Car seats, babies' nappies, baby food and processed grain food for infants and small children, in accordance with special legislation
- Supply of water, with the exception of water sold in bottles or any other packaging
- Concert tickets
- Electricity supply to another supplier or end-user, including related fees
- Public service of collecting mixed municipal waste, biodegradable municipal waste and separate waste collection under special regulations
- Urns and coffins
- Seedlings and seeds
- Fertilizers and pesticides and other agrochemical products
- Animal food, excluding food for pets
- Live animals
- Fresh or cooled meat
- Fresh meat products
- Fresh fish
- Fresh crabs
- Fresh vegetables
- Fresh fruit and nuts
- Fresh eggs
- Writers, composers and artists' services and related royalties

The term "exempt supply" refers to all supplies of goods and services that are not liable to VAT. Exempt supplies do not give rise to the right of input VAT deduction. Supplies that are "exempt with the right to deduct input VAT" include exports of goods outside the EU and related services and intra-Community goods and services supplied to another taxable person established in the EU or to a recipient outside the EU.

Examples of exempt supplies of goods and services

- Public interest activities
- Postal service
- Hospital services and health care services
- Social care services
- Financial services
- Insurance transactions
- Real estate transactions

Option to tax for exempt supplies. An option to tax is available for the provision of credit that is connected with the taxpayer's supplies of goods or services. The taxpayer may also opt for taxation of supplies of real estate and land (except construction land) to another taxpayer who is fully entitled to input VAT deduction for the respective acquisition. The option may be exercised at the moment of supply.

E. Time of supply

The time when VAT becomes due is called the "chargeable event" or "tax point." Under the general rules the chargeable event occurs when goods are delivered or when services are performed.

If no invoice is issued for supplied goods or services, VAT is due on the last day of the tax period (month) in which the goods are delivered or the services performed.

Intra-Community acquisitions. Tax point is the moment when goods are acquired within the EU. VAT is due the moment the invoice is issued. The invoice should be issued no later than the 15th day of the month following the month in which the goods are delivered. If the invoice for the supply is not issued in time, VAT is due on the 15th day of the month following the month in which goods were acquired.

Prepayments. If a payment is made before the supply (prepayment), VAT is due the moment the prepayment is received. A regular VAT invoice must be issued when a prepayment is received. The above rules do not apply to prepayments in connection with intra-Community supplies and acquisitions and in case of import.

Imported goods. VAT on import is due when goods are imported, or when the goods leave the duty suspension regime and are released for free circulation. As of 1 January 2018, for import of explicitly listed machinery and equipment amounting above HRK1 million (approximately EUR133,300) imported by the taxpayer (as capital goods) who has a full right to VAT deduction, then the VAT is considered to be paid if the taxpayer importer includes the VAT amount in question in its VAT return and has obtained a resolution from the Customs Authority on such VAT calculations and payment regime . For the above import of machinery and equipment, the reverse charge would apply (no cash flow effect).

Cash accounting. All taxpayers whose supplies in the preceding calendar year did not exceed HRK3 million (EUR395,000) may apply the cash accounting scheme. Taxpayers who choose to apply the cash accounting scheme are not able to deduct input VAT on invoices received from their suppliers until they have paid them.

Reverse-charge services. The supply of reverse-charge services becomes generally taxable when the service is supplied, i.e., consumed by the recipient.

Continuous supplies of services. If the service is being provided continuously through several tax periods, VAT becomes due at the end of each tax period in which the service is provided, regardless of whether the invoice has been issued.

Intra-Community supplies of goods. Generally, for intra-Community supplies of goods, the time of supply is when the invoice is issued. Otherwise, the time of supply is the 15th day of the month following the month in which goods are supplied. However, intra-Community supplies of goods are exempt from VAT in Croatia if certain requirements are met, such as cases where the goods left the territory of Croatia and a VAT ID is obtained from the customer.

Leased assets. VAT law prescribes specific VAT treatment of leasing agreements. It differentiates VAT treatment of lease transactions depending on whether the lease in question is an operating or finance lease. In general, a finance lease arrangement is treated for VAT purposes as a supply of goods while an operating lease would be treated as provision of services.

In the case of a finance lease where the lessee bears depreciation costs and may acquire ownership rights over the asset, the VAT liability for total value of the lease arises for the accounting period in which the asset has been supplied to the lessee. In the case of an operating lease where the lessor bears depreciation costs of the leased asset and the lessee does not have the purchase option, VAT liability arises with respect to respective rental fees incurred in the tax period. If rental fees are not determined for the tax period, i.e., a month, it should be calculated for each month.

Goods sent on approval for sale or return. There are no special time of supply rules in Croatia for supplies of goods sent on approval for sale or return. The general time of supply rules (as outlined above) are applicable.

F. Recovery of VAT by taxable persons

A taxable person may recover input VAT, which is the VAT charged on goods and services supplied to the taxable person for its business purposes. A taxable person generally recovers input VAT by deducting it from output VAT, which is VAT charged on supplies made. Input VAT includes VAT charged on goods and services supplied in Croatia, VAT paid on imports and self-assessed VAT on intra-Community acquisitions of goods, acquisition of goods within the triangulation and reverse-charge services.

Nondeductible input tax. Input VAT may not be recovered on purchases of goods and services that are not used for business purposes (for example, goods acquired for the private use of entrepreneurs). In addition, input tax may not be recovered for some items of business expenditure.

The following lists provide some examples of items of expenditure for which input VAT is not deductible and examples of items for which input VAT is deductible if the expenditure is related to a taxable business use.

Examples of items for which input VAT is nondeductible

- 50% of costs related to the purchase and lease of passenger cars, including purchase of any related goods or services. Passenger cars are considered to be motor vehicles for transport of people which, except for the driver's seat, have no more than eight seats. As an exception, the above rule will not apply to passenger cars used for drivers' training, vehicle testing, security services, business activities that include transport of passengers, goods, deceased, leasing or are acquired for further sale; nor will it apply to certain categories based on specific tariff declarations and are not subject to taxation according to the special regulations.
- The purchase of goods or services for the purpose of business entertainment, which is defined as payment for accommodations, gifts, holidays, sport or pleasure of business partners, as well as payment for rentals of cars, boats, aircraft, summer houses, etc.

Examples of items for which input VAT is deductible (if related to a taxable business use)

- Advertising
- Purchase, lease, fuel and maintenance of test vehicles, taxis and rental vehicles
- Telephones
- Books and newspapers
- Attendance at seminars and training courses (except food and drinks)
- Business gifts up to HRK160 (approximately EUR21)
- Hotel accommodations

Partial exemption. If an entrepreneur uses goods and services in its business activity for which an input VAT deduction is allowed and also uses them with respect to the supply of goods and services for which input VAT deduction is not allowed, the amount of "mixed" input VAT must be divided between deductible input VAT and nondeductible input VAT.

To determine the amount of input VAT that may be recovered, one of the following methods may be used:

- The deductible input VAT may be determined based on accounting and other documentation that relates to taxable and exempt supplies.
- If the taxable person cannot determine the amount of input VAT as described above, a pro rata method can be used to determine the amount of deductible input VAT. Under the pro rata method, the total annual supplies (exclusive of VAT) for which input VAT is deductible is divided by total annual supplies, including supplies for which VAT is not deductible and subsidies.
- The amount of deductible input VAT may be determined separately for each business segment of the taxable person. The taxable person must maintain separate accounting records for each business segment and notify the tax authorities before this method is applied.

If a taxable person performing both taxable and exempt supplies of goods and services determines under the pro rata method that it has the right to deduct 98% or more of input VAT, it is entitled to a 100% input VAT deduction.

Capital goods. Capital goods are goods classified according to accounting standards as long-term assets. Input VAT is deducted in the year in which the goods are acquired or produced. In general, input VAT on the purchase or lease of vehicles for personal transportation is 50% deductible

(as of 1 January 2019, 50% of input VAT should be deductible on the purchase of passenger cars regardless of their value).

If the conditions applicable to the deduction of input VAT change within a five-year period beginning with the year in which the goods begin to be used, the amount of input VAT is corrected in the period after the change. For real estate, the adjustment period of 10 years applies.

Refunds. If the amount of input VAT recoverable in a tax period exceeds the amount of output VAT payable in that same period, the taxable person has an input VAT credit. An input VAT credit may be carried forward to the following tax period and used as a payment for future VAT liabilities or may be claimed as a VAT refund. A taxable person is entitled to a VAT refund upon request within 30 days after submitting a VAT return, or, in the case of a tax audit, 90 days from when the audit started.

Repayment interest. The tax authorities must pay interest on delayed repayments of VAT. Until 31 July 2018 the annual penalty interest rate was 7.09%. Starting from 1 July 2018, annual interest rate is 6.82%.

Preregistration costs. The economic or other activity of the taxpayer begins with preparatory activities undertaken to starting the economy activity. Input VAT in relation to preparatory activities can be deducted if all other requirements for the deduction of input tax are met. In case a taxpayer has applied the special scheme for small enterprises, input VAT could be deducted as of the date of VAT registration (based on the invoice for supplies received from the date of VAT registration).

Write-off of bad debts. In case of subsequent correction of the tax base resulting from withdrawals, various types of discounts or the inability to collect receivables, the taxpayer who supplied goods or rendered services can correct amount of VAT only after the taxpayer to whom supplies have been made has corrected respective input VAT and informed the supplier in writing.

Noneconomic activities. A taxpayer cannot deduct input VAT for his noneconomic activities.

G. Recovery of VAT by non-established businesses

Croatia refunds VAT incurred by businesses that are neither established nor registered for VAT in Croatia. Non-established businesses may claim Croatian VAT to the same extent as VAT-registered businesses.

Businesses established in the EU can submit a claim for refund with the tax authorities of their country of establishment. Businesses established outside the EU can claim a refund under the terms of the 13th EU VAT Directive. Croatia applies the condition of reciprocity with respect to refund claims made by applicants from non-EU countries.

As of 1 January 2019, requirements for the VAT refund to taxpayers from third countries (outside the EU) will be aligned with the requirements for the VAT refund to the taxpayers from other EU Member States and the taxpayers from third countries will be able to request a refund of the Croatian VAT even in the cases of supply of goods where the reverse-charge rules are applied.

Refund application. For non-EU businesses, the deadline for refund claims is 30 June following the calendar year in which the tax was incurred. The application must be completed in Croatian or English.

The minimum claim period is three months, and the minimum claim amount for a period of less than a year is HRK3,100 (approximately EUR400). For an annual claim, the minimum amount is HRK400 (approximately EUR50).

The tax authorities are obliged to make a decision whether the request is approved in full, partially or not approved within eight months of receiving the application for the VAT refund. If the request is approved, the tax authorities must pay the refund within 10 working days following the eight-month deadline.

All claims must be supported by valid original invoices.

The completed application and supporting documents identified above should be sent to the following address:

Porezna uprava
Područni ured Zagreb
Avenija Dubrovnik 32
10 000 Zagreb
Croatia

Businesses established in the EU are required to submit claims for VAT incurred in other Member States electronically on a standardized form to the tax authorities in their own state. The deadline for refund claims is 30 September following the calendar year in which the tax was incurred.

The tax authorities processing the VAT refund must notify the claimant of their decision to accept or refuse the claim within four months of the date they first received the application, which can be extended up to eight months from the date it first received the application in cases where additional information is requested.

H. Invoicing

VAT invoices. A taxable person must generally issue invoices for all taxable supplies, including exports and intra-Community supplies made to other taxable persons and legal entities that are not taxable persons. Invoices may not be issued for certain exempt financial services and for certain other supplies. A document qualifies as a valid invoice if it complies with the requirements set out in the Croatian VAT Act. A less detailed VAT invoice may be issued for local supplies that do not exceed HRK700 (approximately EUR93).

Credit notes. Where the tax base is changed subsequently because of recall, discounts or impossibility of collection, the taxpayer who made a supply or performed a service can correct its VAT liability but only after the taxpayer to whom goods are supplied or services performed corrects its input VAT and informs the supplier respectively in writing. Credit notes should provide the same data as the original invoice.

Collective invoices. A taxable person can issue a collective invoice with respect to several supplies of goods and services under the condition that the VAT on those supplies arises in the same calendar month.

Self invoicing. When a customer issues the invoice on behalf of the supplier, the invoice must be marked "self invoicing" ("*samoizdavanje računa*").

Cash accounting. The invoices from taxpayers that apply the cash accounting scheme have to be marked "cash accounting scheme" ("*obračun prema naplačenoj naknadi*").

Proof of exports and intra-Community supplies. Croatian VAT is not chargeable on supplies of exported goods or on intra-Community supplies of goods. However, to qualify as VAT-free, exports and intra-Community supplies must be supported by evidence that the goods have left Croatia/EU. Acceptable proof includes the following documentation:

- For an export, a copy of the export document (customs declaration) officially certified by the customs authorities
- For an intra-Community supply, an invoice with the purchaser's VAT identification number and corresponding transport document (or other suitable document that clearly refers to the freight of goods specified on the invoice)

Foreign-currency invoices. All amounts stated on an invoice should be in HRK. Amounts may also be stated in any other currency if the VAT liability and the total amount of the invoice are stated in HRK, applying the Croatian National Bank's exchange rate applicable on the date when VAT liability occurred. As an alternative, the taxable person may use the exchange rate published by the European Central Bank at the time the tax becomes chargeable.

B2C. Mandatory issuance of invoices in B2C transactions is not prescribed by the VAT legislation.

Electronic invoicing. All taxable persons obliged to issue invoices for their supplies may choose to issue electronic invoices subject to the acceptance by the recipient (i.e., electronic invoicing is not mandatory, but optional for taxpayers in Croatia). The authenticity of the origin, the integrity of the content and the legibility of the electronic invoices should be ensured. This could be achieved by any business controls that create a reliable audit trail or by using an advanced electronic signature or electronic data interchange (EDI).

Taxable persons that issue or receive electronic invoices or store invoices electronically should, upon request, grant the Croatian tax authorities the right to access, download and use these invoices.

I. VAT returns and payment

VAT returns. Croatian VAT returns are submitted for monthly or quarterly tax periods.

All VAT payers must submit VAT returns electronically. As an exception, VAT returns may be submitted in paper by:
- The taxpayers who are not established in Croatia, have no permanent establishment, domicile or habitual residence in Croatia and perform only occasional international road transport of passengers on the Croatian territory
- Small taxpayers who only receive and perform services for taxpayers from third countries or pay VAT on supplies subject to reverse charge received from taxpayers not established in Croatia

Quarterly tax periods coincide with the months of March, June, September and December. The tax period for a taxable person is determined on the basis of its turnover in the preceding calendar year.

Taxable persons with turnover up to HRK800,000 (approximately EUR105,300) can submit quarterly tax returns if they do not perform intra-Community supplies.

Taxable persons with turnover greater than HRK800,000 (approximately EUR105,300) submit monthly tax returns.

The tax period for foreign taxable persons (non-established businesses) is always a calendar month. VAT returns must be submitted by the 20th day of the month following the accounting period.

Special schemes. Croatia applies special VAT treatment to the following schemes:
- Special scheme for small enterprises
- Tour operator's margin scheme
- Special arrangements for taxable dealers relating to work of art, second-hand goods, antique goods and public auctions
- Special scheme for investment gold
- Mini One-Stop Shop (MOSS)

Special schemes mentioned above (except MOSS) apply regular VAT return filing rules.

Electronic filing and archiving. VAT returns should be filed electronically. As an exception, VAT returns may be submitted in paper by:

- The taxpayers who are not established in Croatia, have no permanent establishment, domicile or habitual residence in Croatia and perform only occasional international road transport of passengers on the Croatian territory
- Small taxpayers who only receive and perform services for taxpayers from third countries or pay VAT on supplies subject to reverse charge received from taxpayers not established in Croatia

According to the provisions of the VAT Act, all issued and received invoices either on paper or electronically, credit notes, export and import documents, documents used for the VAT exemption, VAT calculations and all other documents relevant for VAT purposes should be kept for a period regulated by the General Tax Act. According to the General Tax Act, bookkeeping documents should be archived for the period of 10 years from the date when the statute of limitation commences, i.e., from the year following the year in which the tax return should have been filed, unless longer deadlines are prescribed by special regulations.

Bookkeeping documentation, such as invoices, should be archived for at least 11 years starting from the last day of the year following the year to which the business records relate. The bookkeeping documents should be stored in original format (paper or electronic).

Annual returns. There is no requirement in Croatia to submit annual VAT returns.

J. Penalties

Penalties are imposed for a range of VAT offenses. A penalty ranging from HRK1,000 (approximately EUR135) to HRK500,000 (approximately EUR66,670 is prescribed for a range of offenses, including late submission of VAT return, late payment of VAT and errors made on VAT returns.

A penalty ranging from HRK500 (EUR66) to HRK50,000 (EUR6,670) can be imposed on individuals who are responsible for indirect tax within the legal entity.

Interest. For late payment of VAT, interest is charged at an annual rate of 7.88% (for periods as of 1 July 2016).

Criminal offenses. The criminal offense of tax evasion in an amount higher than HRK20,000 (approximately EUR2,600), is punishable by a term of imprisonment ranging from six months to five years. However, if the criminal offense causes great damage, the term of imprisonment may range from 1 to 10 years.

K. EU filings

Intrastat. The Intrastat reporting threshold for 2019 is HRK2.2 million (approximately EUR293,333) for arrivals and HRK2.1 million (approximately EUR160,000) for dispatches.

The Intrastat reporting period is monthly, and the report covers the month in which receipts or deliveries occur, i.e., that month in which the goods physically enter or leave the territory of Croatia. When no reportable transactions occur in the respective month, a "nil return" should be filed.

The deadline for submission of the Intrastat form is the 15th day of the month following the reporting period. If the 15th day of the month is a nonworking day, the deadline is the last working day before the 15th day of the month.

The Intrastat report is submitted electronically to the customs authorities by Intrastat application.

EC Sales List. All businesses registered for VAT are required to complete and submit the EC Sales List (ESL) if they do any of the following:

- Make supplies of goods to a VAT-registered customer in another EU Member State
- Act as an intermediate supplier in triangular transactions between VAT-registered businesses in other EU Member States
- Make supplies of services covered by the "general rule" (to which the reverse charge applies in the customer's Member State) to a VAT-registered customer in another EU Member State

The ESL should be filed electronically on the prescribed form by the 20th day of the month following the end of the month in which reportable events occurred. There is no requirement to submit the ESL if there were no reportable sales in the respective month.

EC Acquisitions List. All businesses registered for VAT are required to complete and submit the EC Acquisitions List if they receive supplies of goods or services from a VAT-registered supplier in another EU Member State.

The EC Acquisitions List should be filed electronically on the prescribed form by the 20th day of the month following the end of the month in which reportable events occurred. There is no requirement to file if there were no reportable supplies in the respective month.

Form PPO. Croatian taxable persons supplying goods and services for which the recipient is obliged to calculate and pay VAT in accordance with the domestic reverse-charge mechanism report those supplies on Form PPO. Examples of supplies subject to the domestic reverse-charge mechanism are construction works (repair, maintenance, alteration and demolition services related to immovable property), supply of staff engaged in construction work, supplies of used material and waste. The form is filed electronically on a quarterly basis.

As of 1 January 2017, a Croatian taxpayer that acts as a VAT representative of a foreign taxpayer involved in customs procedures 42 (exemption from VAT for import of goods that are intended for other EU Member States) and 63 (exemption from VAT for reimport of goods that are intended for other EU Member States) should file a report to the Croatian tax authorities by the 20th of the month following the reporting month and disclose the information of the foreign taxpayer.

Curaçao

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Effective from 10 October 2010, the Netherlands Antilles was dissolved. Curaçao became an autonomous country within the Kingdom of the Netherlands and now has its own laws and regulations.

A. At a glance

Name of the tax	Turnover tax (TOT)
Local name	Omzetbelasting
Date introduced	1 March 1999
Trading bloc membership	None
Administered by	Inspectie der Belastingen
Rates	
Standard	6%
Other	9%, 7% and exempt
TOT number format	1XX.XXX.XXX (9 digits)
TOT return periods	Monthly (or annually on request)
Thresholds	None
Recovery of TOT by non-established businesses	No

B. Scope of the tax

TOT applies to the following transactions:
- The delivery of goods or services in Curaçao by a taxable business as part of its business
- The import of goods into Curaçao

C. Who is liable

A taxable business is a business entity or individual who delivers goods or performs services (taxable activities) in Curaçao. This includes a representative that supplies services on behalf of a nonresident business. In principle, the business performing the services or delivering the goods is liable for TOT. In some cases, when the reverse-charge mechanism applies, the (business) customer will be liable for TOT on services enjoyed.

Effective from 1 January 2012, the definition of a business was broadened to include an entity or individual who manages an asset to obtain revenue from the asset on a permanent basis. For example, any form of leasing real estate located in Curaçao is subject to TOT, unless an exemption applies.

Non-established businesses. A "non-established business" is a business that does not have a fixed establishment in Curaçao. The "reverse charge" generally applies to supplies of goods and services made by non-established businesses to taxable persons and other nontaxable legal persons established in Curaçao, provided that local TOT is due on these supplies. Under the reverse-charge provision, the recipient of the supply must account for the TOT due. The reverse-charge mechanism does not apply to supplies made to private individuals.

A non-established business is deemed to have chosen a domicile at the office of the Inspectorate of Taxes, unless the Inspectorate of Taxes has been notified in writing of a different domicile in Curaçao.

Group registration. TOT grouping is not allowed under the TOT legislation; group entities that are closely connected must register for TOT individually.

Registration procedures. In general, a taxable entity that begins taxable activities must register with the Inspectorate of Taxes by filing a hard copy letter requesting registration along with some additional required documentation. Completion of the registration process may take from one week up through a few weeks.

Late-registration penalties. No specific penalty is imposed for late registration. However, if the late registration results in the late payment of TOT or the late submission of TOT returns, penalties may be imposed (see Section J).

Tax representatives. A taxpayer may be represented by a third party based on a power of attorney.

Reverse-charge mechanism. See *Non-established businesses* above.

Digital economy. TOT legislation does not specifically mention any regulations in connection with the digital economy, i.e., special VAT treatment for the supply of electronic or digital services.

For business-to-business transactions, TOT is generally applicable on the payment from the customer to the business, in the case of services provided by the non-established business they are deemed to take place where the service is enjoyed. Note that electronically provided content is generally treated as a service for turnover tax purposes. In a business-to-business transaction, the reverse-charge mechanism is applicable. In this case, the customer is expected to self-assess Curaçao turnover tax on the payment to the business in its monthly turnover tax returns.

For business-to-consumer transactions, if the customer is an individual entrepreneur, the tax treatment will be the same as indicated above. However, if the customer is a private individual, the supplier is in principle required to register for Curaçao TOT.

Deregistration. For the deregistration with the Inspectorate of Taxes, a taxpayer should provide proof of deregistration as issued by the Curaçao Chamber of Commerce and some additional docu-

mentation. The deregistration with the tax authorities should be completed once all tax filing and payment obligations have been met by the taxpayer.

Exemption from registration. The TOT law in Curaçao does not contain any provision for exemption from registration.

Voluntary registration. The TOT law in Curaçao does not contain any provision for voluntary VAT registration, as there is no registration threshold (i.e., all entities that make taxable supplies are obliged to register for VAT).

D. TOT rates

The term "taxable supply" refers to a supply of goods and services that are liable to a rate of TOT.

The following rates apply:
- Standard TOT rate: 6%
- Standard TOT rate for insurance and hotel accommodation: 7%
- Standard TOT rate for specific goods and services listed as luxurious or unhealthy: 9%

The standard TOT rate of 6% applies to all supplies of goods or services, unless a specific measure provides for a different rate or exemption.

Examples of services taxable at 7%

- Insurance (exemption for life insurance, funeral insurance, health insurance, reinsurance by insurance companies and services provided by brokers)
- Hotel accommodation, effective 1 January 2016

Examples of goods and services taxable at 9%

- Sale of motor vehicles
- Food prepared and suitable for immediate consumption
- Soft drinks with exception of fruit juices
- Alcoholic beverages
- Tobacco products
- Digital equipment for the storage of films, games and similar data
- Mobile phones and other means of communication
- Weapons and ammunition
- Fireworks
- Christmas trees (except synthetic Christmas trees)
- Motor vehicle rental
- Recreational outings for pleasure
- Scuba diving
- Admission to cinemas, expositions, adult entertainment and permanent recreational facilities
- Film and computer game rental
- Providing food, drinks and alcoholic beverages for consumption in hotels, bars, restaurants and related venues
- Participation in lottery games

The term "exempt supply" refers to a supply of goods and services that is not liable for TOT and for which there is no opportunity to recover input VAT.

Examples of exempt supplies of goods and services

- Medical services
- Water and electricity services
- Public transportation services
- Betting and gaming (casinos)
- Postal services

- Services and goods to an oil refinery
- Bread
- Eggs
- Rice
- Potatoes
- Grain
- Flour
- Baby food
- Fruits and vegetables
- Bottled water
- Foreign-orientated activities of businesses in the possession of a foreign exchange license
- Liquefied natural gas by or through the intermediary of an LNG transfer station
- Certain services provided to companies or individuals that are in the possession of a foreign exchange license

Exports. Exports of goods are exempt from TOT. However, to qualify for a TOT exemption, evidence must confirm that the goods have been transported outside of Curaçao.

Option to tax for exempt supplies. TOT legislation does not specifically mention any regulations in connection with the option to tax exempt supplies.

E. Time of supply

The time when TOT becomes due is called the "time of supply" or "tax point." In principle, the time of supply for taxable supplies is the date on which the invoice is issued or should have been issued.

In Curaçao, an invoice must be issued by the 15th day of the month following the month in which the supply takes place. The actual tax point becomes the date on which the invoice is issued. However, if no invoice is issued, tax becomes due, at the latest, on the day on which the invoice should have been issued.

Imported goods. There are no special time of supply rules in Curaçao for imported goods. As such, the general time of supply rule applies, and the time of supply is considered to be the moment of importation.

F. Recovery of TOT by taxable persons

In principle, the recovery of TOT by taxable business is not allowed in Curaçao. However, TOT recovery can be requested with respect to the TOT payable at the moment of sale of goods for the following:

- TOT paid by the selling business on the import of a commodity
- TOT paid on the import of raw materials, semi-finished products and packing materials used for exported goods produced by the importing business

For purposes of the above rule, commodities are stocks of goods purchased for resale, manufacturing, processing, assembly, or for the use as a new commodity within the company of the business.

The TOT paid on imports is recovered by deducting it against TOT due in the TOT return for each TOT period. If the input tax exceeds TOT due in a period, the excess may be carried forward to the following TOT period and subsequent periods.

Partial exemption. TOT legislation does not specifically mention any regulations in connection with partial exemption.

Refunds. Refund of TOT can be requested if certain conditions are met and the business is sufficiently able to prove that:

- The TOT paid was not actually due
- Payment for the supplied goods or services will eventually not be received by the business

Or

- Payment is reimbursed by the business following reduction of the amount due or in the event that the goods have been returned unused.

G. Recovery of TOT by non-established businesses

TOT may not be recovered by non-established businesses.

H. Invoicing

Invoicing and credit notes. A taxable person must provide a receipt or invoice for all taxable supplies made, including exports.

As of 1 May 2013, receipts or invoices provided to customers should meet specific requirements. If these conditions are not met, an administrative penalty or sanction can be imposed.

A TOT credit note must be issued if the quantity or consideration shown on an invoice is altered. In general, credit notes must contain the same information as the original invoices.

Taxable businesses must retain a copy of their invoices for 10 years.

Foreign-currency invoices. All amounts indicated on an invoice can be in a foreign currency provided that the amount of TOT due is indicated in Antillean guilders.

Electronic invoices. The issuance of electronic invoices is allowed.

Proof of export. To qualify for the TOT exemption applicable to the export of goods, the following documents are required for the business's administration:

- A copy of the issued invoice
- A proof of payment
- Transport documentation evidencing that the goods have left the levy territory

B2C. The Curaçao TOT legislation does not have any special rules for TOT invoices issued to private consumers. However, as of 1 January 2014, retailers, businesses that provide personal services, businesses in the catering industry ("horeca") and lottery vendors are required to use a cash register system, and in principle, they will need to issue receipts to their customers. All other businesses will need to issue invoices.

I. TOT returns and payment

TOT returns. TOT returns are generally submitted for monthly periods. Returns must be filed and TOT due must be paid by the 15th day of the month following the end of the reporting period. The TOT due for the period must be remitted together with the return.

Special schemes. Special rules apply to non-established businesses, small enterprises, cultural organizations, gambling companies, offshore companies and offshore banks and entities that have a foreign-exchange license.

Small enterprises. A small enterprise is a resident individual who has a business or permanent establishment in Curaçao and who had turnover (excluding TOT) in the preceding calendar year of ANG30,000 or less. If a request is filed with the Inspectorate of Taxes and it is granted, a small enterprise is not liable for TOT. However, the small enterprise must still submit TOT returns for monthly periods. Upon request of the small enterprise, the small enterprise may submit annual TOT returns.

If the annual turnover of ANG30,000 is exceeded in any year, TOT is due on the excess amount. Furthermore, the business will also lose its status as a small enterprise.

The arrangement for small enterprises mentioned above does not apply to businesses who manage real estate to obtain revenue from the real estate on a permanent basis.

Nonprofit organizations. Supplies by organizations of a social, cultural, charitable, sports or religious nature may also be exempt from TOT if there is no profit motive nor distortion of competition.

Gambling companies. The term "gambling" refers to the participation in lottery and bingo games. If the exploiter is a non-established business, the organizer or the contract arranger of the gambling games is liable for TOT.

E-zones. In principle, E-zone companies are not liable for TOT as the economic zone is excluded from the levy area.

Offshore companies and onshore banks. Companies and banks that are taxed under the so-called offshore tax regime and hold a foreign-exchange license are generally business liable for TOT but exempt for their foreign-orientated activities. The offshore regime is grandfathered up to and including the year 2019.

Foreign-orientated activities of businesses in the possession of a foreign exchange license are exempt, as well as certain services provided to businesses in the possession of a foreign exchange license.

Electronic filing and archiving. TOT returns can be filed electronically upon request. Electronic archiving is allowed.

Annual returns. Following request and if certain conditions are met, the Inspectorate of Taxes may allow the filing of an annual TOT return instead of monthly TOT returns.

J. Penalties

TOT penalties are imposed for the late submission of a TOT return or for the late payment of TOT, in the following amounts:

- For the late submission of a TOT return, the maximum fine is ANG2,500.
- For the late payment of TOT, the maximum fine is ANG10,000.
- If the late payment is caused by negligence, fault or intent, a fine of 100% of the TOT payable may be imposed.

Criminal penalties may also apply in certain circumstances, such as in cases of fraudulent conduct.

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A. At a glance

Name of the tax	Value-added tax (VAT)
Date introduced	1 July 1992
Trading bloc membership	European Union
Administered by	Tax Department, Indirect Taxation (http://www.mof.gov.cy/mof/vat/vat.nsf/dmlindex_gr/dmlindex_gr?opendocument)
VAT rates	
Standard	19%
Reduced	5% or 9%
Other	Zero-rated and exempt
VAT number format	12345678X
VAT return periods	Quarterly
Thresholds	
Registration	EUR15,600 (in a 12-month period)
Distance selling	EUR35,000 (annually)

Intra-Community acquisitions (for Intrastat)	EUR160,000
Intra-Community supplies (for Intrastat)	EUR55,000
Recovery of VAT by non-established businesses	Yes

B. Scope of the tax

VAT applies to the following transactions:
- The supply of goods or services made in Cyprus by a taxable person
- The intra-Community acquisition of goods from another EU Member State by a taxable person (see the chapter on the EU)
- Reverse-charge services received by a taxable person in Cyprus
- The importation of goods from outside the EU, regardless of the status of the importer

Special rules apply to intra-Community transactions involving new means of transport and distance sales (see the chapter on the EU).

C. Who is liable

A taxable person is any business entity or individual that makes taxable supplies of goods or services or intra-Community acquisitions or distance sales, in the course of a business in Cyprus.

A person making taxable supplies must register at the end of any month if the value of taxable supplies in the year ended on the last day of that month exceeds EUR15,600. A person exceeding this threshold must notify the VAT Commissioner by submitting Form T.F.2001 "Application for registration of a new taxpayer and issue of tax identification number" and Form T.F.1101 "Supplementary application for registration to the VAT registry" to the local VAT office within 30 days after the end of the relevant month. Registration is effective from the end of the month following the relevant month or from such earlier date as may be agreed.

If a person makes a supply of services to a taxable person in another EU Member State and if such services are taxable where the recipient of the services is established, the person making the supply must register from the date of making the supply. A person making such supply must notify the VAT Commissioner by submitting Form T.F.2001 "Application for registration of a new taxpayer and issue of tax identification number" and Form T.F.1101 "Supplementary application for registration to the VAT registry" to the local VAT office within 30 days after the creation of the obligation. Registration is effective as of the date of the creation of the obligation.

A person must also register if reasonable grounds exist for believing that taxable supplies in the next 30 days will exceed EUR15,600. The taxable person must submit Form T.F.2001 "Application for registration of a new taxpayer and issue of tax identification number" and Form T.F.1101 "Supplementary application for registration to the VAT registry" to the local VAT office within the 30 days and registration is effective from the beginning of that 30 day period.

Special rules apply to foreign or "non-established businesses."

Group registration. VAT grouping is possible for two or more companies registered in Cyprus. The following are the principal aspects of grouping:
- One member of the group is appointed as the representative member.
- The representative member is responsible for the preparation and submission of the VAT returns and for paying or reclaiming any VAT on behalf of all group members.
- Any business carried on by a member of the group is treated as being carried on by the representative member.

- Any supply of goods or services performed by a member of the group to another member of the group is disregarded.
- Any supply of goods or services by or to a third party is treated as a supply to or by the representative member.
- All members of the group are responsible for any VAT payable by the representative member.

Non-established businesses. A "non-established business" is a business that has no fixed establishment in Cyprus. A non-established business that makes supplies of goods or services in Cyprus must register for VAT if it is liable to account for Cypriot VAT on the supply or if it makes intra-Community supplies or acquisitions of goods.

Consequently, a non-established business must register for Cypriot VAT if it makes any of the following supplies:
- Intra-Community supplies
- Intra-Community acquisitions
- Distance sales in excess of the threshold
- Supplies of goods and services that are not subject to the reverse charge (for example, goods or services supplied to private persons)
- Supplies of services that are taxable in Cyprus if the reverse charge is not applicable to the recipient

Tax representatives. The VAT authorities may instruct any taxable person that does not have any business establishment, fixed establishment, or usual place of residence within the EU to appoint a VAT representative to act on its behalf with respect to VAT. This representative is personally liable for any VAT that is not paid.

If the taxable person fails to appoint a VAT representative, the VAT Commissioner may require the taxable person to provide adequate security for the payment of any VAT that is or may become due.

Late-registration penalties. A penalty is applied to late registration, assessed at EUR85 for each month that the failure to register continues. Interest is charged at the rate of 3.5% annually on the amount of outstanding VAT.

Reverse charge. The reserve-charge mechanism applies in situations where services subject to specific exceptions are supplied by a person outside Cyprus to a person who is carrying on a business in Cyprus. The recipient is treated as having made the supply himself and as if that supply was a taxable supply and thus must account for output tax. The person will then have the right to claim a corresponding amount as input tax, subject to their partial exemption status.

The reverse charge should be treated like output tax with a corresponding credit for input tax depending on the ability of a person to recover input tax.

Local reverse charge. If a VAT taxable person provides services or services together with goods in the context of construction, alteration, demolition, repair or maintenance of a building or any civil engineering project, including services provided by developers, contractors, architects, civil engineers and quantity counters, to another VAT taxable person who receives them in furtherance of his business, then the supplier will not charge VAT. The customer must account for the VAT in accordance with the reverse-charge rules. Reverse charge is also applicable for the recipient where a property supply arises under the relevant restructuring laws or foreclosure procedures.

The supply of scrap and/or precious metals to a taxable person that acquires them in the course of furtherance of his business is also subject to the local reverse charge. The purchaser must account for the VAT in accordance with reverse-charge rules outlined above.

Registration procedures. A person making taxable supplies must be registered at the end of any month if the value of the taxable supplies in a period of 12 months has exceeded EUR15,600.

The person must notify the VAT authorities by submitting Form T.F.2001 "Application for registration of a new taxpayer and issue of tax identification number" and Form T.F.1101 "Supplementary application for registration to the VAT registry" to the local VAT office within 30 days of the end of the relevant month. A person is also liable to register if there are reasonable grounds for believing that taxable supplies in the next 30 days will exceed EUR15,600, also by submitting Form T.F.2001 "Application for registration of a new taxpayer and issue of tax identification number" and Form T.F.1101 "Supplementary application for registration to the VAT registry" to the local VAT office within 30 days. Online registration is not available, and the process can be completed within one to four weeks.

Deregistration. Registration is canceled in the following cases:

- Decreasing business turnover. Where any registered person notifies the Tax Commissioner that the value of taxable supplies in one year has fallen below EUR13,668.81 and applies for cancellation of his registration, then an authorized VAT officer, if satisfied of this fact, shall cancel the registration with effect from the date of the notification or from any other later date as may be agreed between the Tax Commissioner and that person.
- Termination of taxable supplies or termination of the intention to make taxable supplies. When a registered person ceases to make taxable supplies and is not entitled to remain registered or ceases to have the intention to make taxable supplies, he must notify the VAT Commissioner within 60 days of the date of the termination by submitting an Application for Cancellation of Registration (Form VAT 204). Failing to comply, the person is liable to a levy of EUR85. If an authorized VAT officer is satisfied of the fact of the termination, he shall cancel the registration with effect from the date that the person ceased to make taxable supplies or ceased to have the intention of making taxable supplies or from any other later date as may be agreed between the VAT officer and that person.
- Deregistration in the case of distance sales. A person registered for making or intending to make distance sales in Cyprus is liable to apply for deregistration when he no longer makes or intends to make distance sales in Cyprus and he is not liable to register in Cyprus for any other taxable transactions.
- Deregistration in the case of acquisitions. A person registered for making or intending to make acquisitions in Cyprus is liable to apply for deregistration when he no longer makes or intends to make acquisitions in Cyprus.
- Retrospective cancellation of registration. If the VAT officer is satisfied that on a specified date, a registered person was neither entitled nor liable to be registered, the VAT officer can cancel the registration with effect from that date.

Digital economy. Further to the general B2B rules for the place of supply of services, digital services are also subject to use and enjoyment rules. Under these rules, the place of supply could be shifted to a different EU Member State or outside the EU, depending on where the recipient business effectively uses the services.

In addition, in the case of B2C supplies where the supplier is a non-EU entity, the place of supply is where the EU nontaxable customer is located, i.e., Cyprus in the case of Cypriot customers, and hence the non-EU supplier would have an obligation to register and account for Cypriot VAT.

Mini One-Stop Shop. Effective 1 January 2015, new rules apply with regard to VAT reporting for supplies of telecommunications, broadcasting and electronic services to non-VAT taxable customers. Cyprus has harmonized its local VAT law to allow VAT reporting under the provisions of the Mini One-Stop Shop scheme. This involves accounting for VAT due on B2C supplies across EU Member States via a single VAT return through a relevant portal from the Cypriot VAT authorities.

Exemption from registration. The VAT law in Cyprus does not contain any provision for exemption from registration.

Voluntary registration. The VAT law in Cyprus contains a provision for voluntary registration for VAT for taxable persons who have a business establishment in Cyprus or their usual place of residence is in Cyprus and make supplies outside Cyprus (that would be treated as taxable supplies if made within Cyprus).

D. VAT rates

The term "taxable supplies" refers to supplies of goods and services that are liable to a rate of VAT, including the zero rate. The term "exempt supplies" refers to supplies of goods and services that are not liable to tax. Exempt supplies do not give rise to a right of input tax deduction (see Section F). Some supplies are classified as "exempt with credit," which means that no VAT is chargeable, but the supplier may recover related input tax. Exempt with credit supplies include exports of goods outside the EU and related services and intra-Community supplies of goods and intangible services supplied to another taxable person established in the EU or to recipients outside the EU (see the chapter on the EU).

The following VAT rates apply in Cyprus:
- Standard rate: 19%
- Reduced rates: 5% and 9%
- Zero rate (0%)

The standard rate of VAT applies to all supplies of goods or services, unless a specific measure allows a reduced rate, the zero rate or exemption.

Examples of goods and services taxable at 5%

- Services provided by undertakers
- Services of writers and composers
- Refuse collection
- Waste treatment
- Road cleaning
- Fertilizers
- Animal feeding stuffs
- Liquefied petroleum gas
- Various goods for incapacitated persons
- Bus fares for rural and urban areas
- Newspapers, books, magazines and similar items
- Water
- Medicines
- Food (except supplied in the course of catering)
- Purchase, construction or renovation of a house or flat to be used as a private main residence

Examples of goods and services taxable at 9%

- Restaurant services (excluding the supply of alcoholic drinks)
- Transportation of passengers and their luggage by taxi
- Accommodation provided by hotels and other similar establishments, including the provision of holiday accommodation
- A combined provision of services that includes accommodation provided by hotels and other similar establishments and the provision of breakfast and/or half-board and/or full board, and/or a combined service that includes, in addition to accommodation, the provision of other catering facilities, such as alcoholic drinks, beer and wine

Examples of goods and services taxable at 0%

- Supply, lease and repair of seagoing vehicles and aircraft and related services
- International transport of persons

Examples of exempt supplies of goods and services

- Real estate (except: "new buildings," transfer of non-developed building land intended for the construction of structures in the course of carrying out a business activity, and leasing of immovable property to taxable persons for taxable business activities, for which a permanent non-imposition of VAT can be exercised by the lessor)
- Services of doctors and dentists
- Social welfare
- Finance (except "SWIFT" services)
- Insurance
- Human organs
- Education services

Option to tax for exempt supplies. Not applicable.

E. Time of supply

The time when VAT becomes due is called the "time of supply" or "tax point."

For a supply of goods, the tax point is the earliest of the following:
- The date of delivery of goods
- The date of issuance of the invoice
- The date of payment

For a supply of services, the tax point is the earliest of the following:
- The date of completion or performance of the services
- The date of issuance of the invoice
- The date of payment

If an invoice is issued within 14 days after the date of delivery of the goods or the performance of the services, the tax point is the invoice date, unless this date is overridden by the date of an earlier payment. The period of 14 days may be extended with the approval of the VAT authorities.

Intra-Community acquisitions. For an intra-Community acquisition of goods, the tax point is the earliest of the following:
- The 15th day of the month following the month in which the goods are sent
- The date of issuance of the invoice by the supplier

Intra-Community supplies. For an intra-Community supply of goods, the tax point is the earliest of the following:
- The 15th day of the month following the month in which the supplier sent the goods or the recipient receives them in order to transfer them outside Cyprus
- The date of the issuance of the invoice by the supplier

Reverse-charge supplies. For reverse-charge supplies, the tax point is the earliest of:
- The date of completion or performance of the services
- The date of issuance of the invoice
- The date of payment

For continuous supplies of reverse-charge services, please refer to the paragraph below for continuous supplies of services.

Imported goods. The time of the supply for imported goods is either the date of importation, or the date on which the goods leave a duty suspension regime.

Cash accounting. The scheme is applicable since 20 December 2013 for businesses whose turnover does not exceed EUR25,000 in the last 12 months.

Continuous supplies of services. In the case that no invoices have been issued and/or no payments have been made for a period of a calendar year, an annual tax point is created.

Prepayments. Prepayments create a tax point for Cypriot VAT purposes for the value of the paid amount. However, in the case of intra-Community supplies, a prepayment does not create a tax point for Cypriot VAT purposes.

Leased assets. The time of supply for goods (see above) applies for finance leases.

Goods sent on approval for sale or return. Goods sent for "sale or return" are considered as a supply of goods for VAT purposes, only where it is certain that the sale will take place (i.e., client shows intention to keep the goods or pays for the goods).

If no sale or return of the goods takes place within a period of 12 months and the 12-month period has elapsed, then the tax point is created at 12 months. Where it is certain that the sale will take place, the normal tax point rules in relation to goods apply (as per the above) being the earliest of delivery, invoice issuance or payment.

F. Recovery of VAT by taxable persons

A taxable person may recover input tax, which is VAT charged on goods and services supplied to it for business purposes. Input tax is generally recovered by deduction from output tax, which is VAT charged on supplies made.

Input tax includes VAT charged on goods and services supplied within Cyprus, VAT paid on imports of goods and VAT self-assessed on the intra-Community acquisition of goods and reverse-charge services (see the chapter on the EU).

A valid tax invoice or customs document must generally accompany a claim for input tax.

Nondeductible input tax. Input tax may not be recovered on purchases of goods and services that are not used for business purposes (for example, goods acquired for private use by an entrepreneur). In addition, input tax may not be recovered for some items of business expenditure.

The following lists provide some examples of items of expenditure for which input tax is not deductible and examples of items for which input tax is deductible if the expenditure is related to a taxable business use.

Examples of items for which input tax is nondeductible

- Purchase, hire and lease of saloon cars
- Accommodation, food and entertainment (other than for employees)
- Private expenditure

Examples of items for which input tax is deductible (if related to a taxable business use)

- Purchase, hire, lease and maintenance for vans and trucks
- Fuel
- Parking costs
- Attending conferences, seminars and training courses
- Business gifts (if valued at more than EUR17.09, output VAT is due)
- Business use of home telephone
- Mobile phones (the invoices must be issued in the name of the business)
- Advertising

Noneconomic activities. A taxable person who is engaged in noneconomic activities, such as holding activities, may not deduct input VAT on local and reverse-charge expenses that are directly related to noneconomic activities.

A taxable person that carries out both economic and noneconomic activities and that purchases local and reverse-charge services relating both to its economic and noneconomic activities must apply a reasonable basis for the apportionment of the input VAT on the general overhead expenses to economic and noneconomic activities. A taxable person may deduct the portion of input VAT based on this reasonable percentage of input VAT attributed to economic activities of the taxable person.

Partial exemption. Input tax directly related to the making of exempt supplies is generally not recoverable. If a Cypriot taxable person makes both exempt and taxable supplies it may not recover input tax in full. This situation is referred to as "partial exemption."

Input tax directly relating to taxable supplies is fully recoverable and input tax directly relating to exempt supplies is not recoverable. Non-attributable input tax must be apportioned. The standard method for apportioning input tax is to multiply non-attributable input tax by the ratio of the value of taxable supplies to the value of total supplies.

The VAT authorities may approve or direct the use by a taxable person of another reasonable method if the result achieved by the standard method is considered to be distortive.

The services supplied by businesses in the insurance and financial sectors are generally exempt from VAT, with no right to input tax deduction. However, input VAT paid by businesses that provide insurance and financial services, such as insurance companies, banks and other financial institutions, may be reclaimed if these services are supplied to persons established in countries outside the EU. Services covered by this measure include the supply of life and general insurance, the granting of loans and other credit facilities, the operation of bank accounts, foreign-exchange dealings and transactions that relate to shares, bonds and other securities.

If a business provides services described above to customers both in the EU and outside the EU, the amount of refundable input VAT is apportioned accordingly.

Capital goods. Capital goods are items of capital expenditure that are used in a business over several years. Input tax is deducted in the VAT year in which the goods are acquired. The amount of input tax recovered depends on the taxable person's partial exemption recovery position in the VAT year of acquisition and first use. However, the amount of input tax recovered for capital goods must be adjusted over time if the taxable person's partial exemption recovery percentage changes during the adjustment period.

The capital goods scheme in Cyprus applies to the following transactions:
- The acquisition of tangible fixed assets maintained and used by a business (the cost of repairs and maintenance are not included in the value of the tangible fixed assets) and intangible fixed assets such as the use of property rights, trademarks, patents and goodwill that have more than one use and a value of EUR17,086 or more
- The transfer of all or part of a building including the land if the transfer takes place before the first occupation
- The transfer of ownership of all or part of a building including the land under a sales or lease agreement that is transferred at the end of the agreement, if the transfer takes place before the first occupation
- The construction of buildings constructed by a taxable person on immovable property not owned by the taxable person

The input tax adjustment lasts for a period of five years for the capital goods except for immovable property for which the input tax adjustment lasts for a period of 10 years.

The adjustment is applied each year following the year of acquisition to a fraction of the total input tax. The adjustment may result in either an increase or a decrease of deductible input VAT, depending on whether the ratio of taxable supplies made by the business has increased or decreased compared with the year in which the capital goods were acquired and first used.

Refunds. If the amount of input tax recoverable in a quarterly period exceeds the amount of output tax payable in that period, the taxable person has an input tax credit. The input tax credit is offset against future payments or it is refunded to the taxable person after submission of a claim electronically through the "TAXISnet" system if the input VAT relates to one of the following categories:
- The making of zero-rated supplies
- The supply of services provided outside Cyprus
- The acquisition of fixed assets

In addition late refunds may be eligible for interest under certain conditions.

Preregistration costs. VAT costs paid on the purchase of services during the six months prior to the effective date of registration can be recovered, and for the purchase of goods, the recoverable period is three years prior to the effective date of registration.

Write-off of bad debts. Where a taxable supply has been made, the VAT has to be accounted and paid for with reference to the quarter in which the tax point falls, irrespective of whether payment has been received from the customer. The VAT can be recovered after making a claim to the Commissioner of VAT on the grounds that payment from the customer has not been received provided that:
- The VAT on the supply has been paid to the VAT authorities.
- The consideration for the supply has been written off in the vendor's records as a bad debt.
- All necessary steps to recover the consideration have been taken.
- A period of 12 months has elapsed.

A claim must be made within a period of four years following the later of:
- The date on which the consideration that has been written off as a bad debt becomes due and payable
  Or
- The date of supply

Where the purchaser is a taxable person, the claimant must notify that purchaser that bad debt relief is being claimed.

G. Recovery of VAT by non-established businesses

Cyprus refunds VAT incurred by businesses that are not established in Cyprus nor registered for VAT there. Non-established businesses may claim Cypriot VAT to the same extent as VAT-registered businesses.

For businesses established in the EU, refund is made under the terms of the EU 2008/9/EC Directive. For businesses established outside the EU, refund is made in accordance with the terms of the EU 13th Directive.

For a person established in a country outside the EU, the refund system applies if that country provides reciprocal arrangements for similar repayments to be made to Cypriot businesses. In addition, to take advantage of this refund system, the person must not be established or registered in any of the other EU Member States.

For the general VAT refund rules applicable to the EU 2008/9/EC Directive and 13th Directive refund schemes, see the chapter on the EU.

Refund application. For a person registered for VAT in an EU country, a claim for repayment must be made by 30 September of the calendar year following the refund period. To obtain a refund of Cypriot VAT, a taxable person not established in Cyprus must submit an application in electronic format in the EU Member State of its establishment via the electronic portal of that Member State.

If the refund application relates to a refund period of less than one calendar year but not less than three months, the minimum amount of VAT for which an application for a refund can be submitted is EUR400. If the refund application relates to a refund period of a calendar year or the remainder of a calendar year, the minimum amount of VAT for which an application for a refund can be submitted is EUR50.

For all other persons, claims with respect to VAT incurred in the one-year period from 1 July to 30 June must be made within six months of the end of that one-year period (that is, by 31 December).

Claims may be submitted in Greek. The application for refund must be accompanied by the appropriate documentation (see the chapter on the EU).

The minimum claim period is three months; the maximum period is one year. The minimum claim for a period of less than a year is EUR25.63. For an annual claim, the minimum amount is EUR205.03.

Applications for refunds of Cypriot VAT may be sent to the following address:

Commissioner of Tax
VAT Headquarters
1471 Nicosia
Cyprus

H. Invoicing

VAT invoices and credit notes. A Cypriot taxable person must generally provide a VAT invoice for all taxable supplies made, including exports and intra-Community supplies. Invoices are not automatically required for retail transactions valued at less than EUR85 (if the supply is not to a person in another EU Member State), unless requested by the customer.

A VAT invoice is necessary to support a claim for input tax deduction or a refund under the EU 2008/9/EC Directive or 13th Directive refund schemes (see the chapter on the EU).

A VAT credit note may be used to reduce the VAT charged and reclaimed on a supply of goods or services. Credit notes adjusting the initial amount of VAT charged may be issued if a genuine mistake or overcharge has been made or if agreement on a discount has been reached. To be valid for VAT purposes, the credit note must be issued within one month after the date on which the mistake is discovered or the agreement on the discount is reached. It must be marked "Credit Note" and contain details of the original supply and the circumstances under which the credit is given (for example, return of faulty goods).

Invoice for prepayments. An invoice should be issued, if a prepayment has been received for the supply of goods or services to a customer.

Electronic invoicing. Effective 1 January 2013, the VAT law has been amended to permit electronic invoicing in line with EU Directive 2010/45/EU.

Proof of exports and intra-Community supplies. Cypriot VAT is not chargeable on supplies of exported goods or on intra-Community supplies of goods (see the chapter on the EU). However, to qualify as VAT-free, exports and intra-Community supplies must be supported by evidence that the goods have left Cyprus. Acceptable proof includes the following documentation:

- For an export, a copy of the export document, officially validated by the Department of Customs and Excise, showing the supplier as the exporter
- For an intra-Community supply, a range of commercial documentation, such as purchase orders, transport documentation, proof of payment and contracts

Foreign-currency invoices. If Cypriot VAT is charged on an invoice, the invoice must be issued in euros (EUR), effective from 1 January 2008. If an invoice is issued in foreign currency, the

amount before VAT and the VAT amount must be converted to euros using the exchange market rate or the rate issued by the Department of Customs and Excise.

B2C. Effective 1 January 2015, new rules apply to the place of supply for supplies of telecommunications, broadcasting and electronic services to non-VAT taxable customers. Please refer to the European Union chapter.

I. VAT returns and payment

VAT returns. Cypriot VAT returns are submitted for quarterly periods. Quarterly VAT returns must be filed by the 10th day of the second month following the end of the VAT quarter. Any VAT due must be paid by this date.

Special schemes

The optional profit margin scheme for the sale of secondhand cars and some other used goods. The method of calculating the taxable value and output tax of supplies of secondhand goods differs from the standard rules, as do the records that a taxable person is required to keep. The tax due is taken to be included in the gross margin of the trader, provided that a margin has been realized. The sale of assets previously used by a company is a taxable supply if the company is already a taxable person.

The optional special regime for farmers. Sales by farmers of their produce are standard rated; alternatively, farmers can choose to claim 5% of the value of their sales to taxable persons as notional input tax and do not have to charge output tax.

Special regime for tour operators. The method of calculating the taxable value for tour operators is taken to be the travel agent's gross margin on the sale of package tours after deduction of the actual cost to the travel agent.

Optional retail schemes. Under these schemes, the method of calculating the taxable value and output tax on supplies deviates from the general rules, as do the books and records that retailers must keep.

Retail export scheme. This is an optional scheme for registered retailers where a supply of goods, on which a positive rate of VAT was originally imposed, is converted to a zero-rated supply, through correction of the VAT account after the retailer receives certification from customs that the goods were exported.

Electronic filing and archiving. From May 2017, submission of VAT returns, Intrastat and VIES forms is only possible through the "TAXISnet" system. This does not apply for retrospective VAT returns, final VAT returns before VAT deregistration as well as revised Intrastat and VIES forms, which must be submitted in printed form and duly authorized. The deadlines for submission have not changed, following the abolition of paper-based returns and forms.

Annual returns. Not applicable.

J. Penalties

A one-off penalty of EUR51 per VAT return is charged for the late submission of the VAT return. Late payment of outstanding VAT results in the imposition of a penalty of 10% of the outstanding amount. Interest is charged at the rate of 3.5% annually on the amount of VAT outstanding. The 3.5% interest rate applies to the late payment of VAT, late registration, and late submission of the VAT return. The interest rate does not fluctuate.

Penalties are also assessed for the following offenses:
- Late registration: a penalty of EUR85 for each month that the failure continues
- Failure to apply the reverse charge: a penalty of EUR85
- Failure to keep records for a prescribed period: a penalty of EUR341

- Issuing an unauthorized invoice: a penalty of EUR85
- Fraudulent evasion of VAT: up to three years' imprisonment or a fine up to three times the amount due, or both
- Receipt of goods on which VAT was evaded: up to 12 months' imprisonment or a fine of EUR8,543, or both
- VAT shown in assessments issued by the VAT Commissioner and not paid: up to 12 months' imprisonment or a fine of EUR8,543, or both

K. EU filings

Intrastat. A Cypriot taxable person that trades with other EU countries must complete statistical reports, known as Intrastat, if the value of either its sales or purchases of goods exceeds certain thresholds. Separate reports are required for intra-Community acquisitions (Intrastat Arrivals) and for intra-Community supplies (Intrastat Dispatches).

The Intrastat thresholds for 2018 are EUR130,000 for Arrivals and EUR55,000 for Dispatches. In addition, special thresholds have been set at EUR1.85 million annually for Arrivals and EUR5.8 million for Dispatches. Traders that make intra-Community supplies and acquisitions below these thresholds are not required to complete all the information required on the Intrastat return. Intrastat forms are submitted electronically through the TAXISnet system and has been obligatory for all taxable persons who are registered for Intrastat purposes in Cyprus and submit monthly Intrastat forms to the VAT authorities. Intrastat returns must be submitted electronically by the 10th day of the month following the end of the month to which they relate. Cypriot taxable persons must complete Intrastat declarations in euros, rounded up to the nearest whole number. The Intrastat return period is monthly.

The VAT authorities impose a one-off penalty of EUR15 for each delayed form. If the return is not submitted within 30 days, the offense is treated as a "civil wrong," and in the case of conviction, a fine up to EUR2,562 applies.

EU Sales Lists (VIES form). Every VAT-registered person who supplies goods and/or provides services to VAT-registered persons in other EU Member States has been required to submit a VIES form every month to the Cypriot VAT authorities.

The VIES form must be submitted electronically by the 15th day of the month following the end of the relevant month. The VIES form must be submitted even if no intra-Community supplies are made in the month.

If the VIES form is not submitted on time, a penalty of EUR50 is imposed per late form. If the form is not submitted for more than three months, it is treated as a civil wrong. In the case of a conviction, a penalty of an amount not exceeding EUR2,562 is imposed. If the VIES form contains misstatements or omissions, a penalty of EUR15 is imposed unless a revised form is submitted by the end of the month following the month to which the VIES form relates.

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A. At a glance

Name of the tax	Value-added tax (VAT)
Local name	Dan z pridane hodnoty
Date introduced	1 January 1993
Trading bloc membership	European Union (EU) Member State
Administered by	Ministry of Finance (www.mfcr.cz)
VAT rates	
Standard	21%
Reduced	15%, 10% and 0%
Other	Exempt
VAT number format	CZ99999999, CZ999999999 or CZ9999999999
VAT return periods	Monthly Quarterly (optional if turnover in the preceding calendar year was less than CZK10 million; VAT groups and newly registered or unreliable VAT payers ineligible)
Thresholds	
Registration	
General	CZK1 million (for a total period of 12 consecutive calendar months)
Non-established businesses	No threshold
Recovery of VAT by non-established businesses	Yes

B. Scope of the tax

VAT applies to the following transactions:

- The supply of goods or services made for consideration in the Czech Republic by a taxable person, including the transfer of real estate
- The intra-Community acquisition of goods for consideration made in the Czech Republic by a taxable person (see the chapter on the EU)

- The intra-Community acquisition of goods by a legal entity that has not been founded or established for the purpose of carrying on business activity (see the chapter on the EU)
- The acquisition of a new means of transport from another Member State of the EU for consideration by a person who is not a taxable person (see the chapter on the EU)
- The importation of goods into the Czech Republic

C. Who is liable

A taxable person is an individual or business that independently carries out economic activities. In addition, a taxable person is a legal entity that was not established for the purpose of doing business if it undertakes economic activities. Employees, including executives/members of board of directors, are deemed not to perform the activity independently of the business. The proposed amendment of VAT Act abolishes this explicit exclusion for executives/members of board of directors. The status of executives/members of board of directors will have to be judged case by case. At the time of preparing this chapter, the amendment of the VAT Act has not been approved and implemented into law.

There are two different kinds of VAT registrations in the Czech Republic — VAT payers and VAT identified persons.

Businesses that exclusively make exempt supplies, that is, supplies that are exempt without the right to deduct input VAT (see Section D), may not register for VAT.

A taxable person that is established in the Czech Republic must register as a VAT payer particularly in any of the following circumstances:

- The taxable person's turnover in the preceding 12 consecutive calendar months exceeded CZK1 million. A taxable person must file an application for VAT registration by the 15th day of the calendar month following the month in which the threshold was exceeded. The taxable person then becomes an effective VAT payer as of the first day of the second month following the month in which the turnover threshold was exceeded. The turnover is calculated only from supplies with the place of supply in the Czech Republic, either taxable or exempt from VAT with credit. Certain supplies exempt from VAT without credit are also included unless performed occasionally. The sale of long-term assets is generally not included either. The proposed amendment of the VAT Act outlines that a sale of long-term assets within the common business activity should be included in the turnover calculation. *At the time of preparing this chapter, the amendment of the VAT Act has not been approved and implemented into law.*
- The taxable person provides a service (with the exception of an exempt-without-credit service) with a place of supply in the Czech Republic, or it effects distance sales to the Czech Republic with a place of supply in the Czech Republic through its fixed establishment located outside the Czech Republic. The taxable person must file an application for VAT registration by the 15th day following the tax point of the supply.
- The taxable person engages in certain other specified transactions. For example, a taxable person acquires a property from a VAT payer based on the transfer of a going concern agreement, or a taxable person becomes a successor company in a business transformation in which the dissolving company is a VAT payer.

A taxable person that is established in the Czech Republic and is not a VAT payer must register as an identified person for VAT in the following circumstances:

- It acquires goods from another EU Member State subject to tax (with the exception of acquisition of goods made by a middle man under the simplified rules of triangulation). This applies also to nontaxable legal persons.
- It receives a service subject to the reverse-charge mechanism (in general, see Article 44 of EU Directive 2006/112/EC) from a non-established business. The taxable person must file an application for registration by the 15th day following the tax point of the service (see Section E).

- It receives a service according to Article 47, 48, 53, 55 or 56 of EU Directive 2006/112/EC, goods with installation, or electricity or gas from a non-established business, and the place of supply for such item is in another EU Member State. The taxable person must file an application for registration by the 15th day following the tax point of the supply.
- It provides an Article 44 service with a place of supply in another EU Member State except for services that are VAT exempt in the Czech Republic. The taxable person must file an application for registration by the 15th day following the tax point of the service.

Group registration. A group registration for VAT purposes is possible in the Czech Republic. Legal entities that are closely connected (through capital or management) may register as a VAT group. A VAT group is treated as a single taxable person, where members of the VAT group are not regarded as independent taxable persons. Only persons established in the Czech Republic may be part of a VAT group. As a result, any establishments (seat or fixed establishment) of such persons outside the Czech Republic may not be part of a VAT group. The group members share a single VAT number and submit a single VAT return.

An application for group registration must be filed before 31 October for the group registration to be effective from 1 January of the following year.

Non-established businesses. For the purposes of determining if a person is liable for payment of VAT to tax authorities, the Czech VAT Act defines a non-established business as a taxable person that:

- Does not have a seat or fixed establishment in the Czech Republic
- Has a fixed establishment that does not participate in the effected supply of goods or services in the Czech Republic

There are two different kinds of VAT registrations of persons without a seat in the Czech Republic — VAT payers and identified persons.

A taxable person not established in the Czech Republic must register as a VAT payer particularly in any of the following circumstances:

- It makes a taxable supply of goods (including distance selling) or provision of service with the place of supply in the Czech Republic except for the supplies subject to reverse-charge mechanism or the Mini One-Stop Shop regime. The taxable person must file an application for VAT registration by the 15th day following the tax point of the supply.
- It makes an intra-Community supply of goods from the Czech Republic to another EU Member State. The taxable person must file an application for VAT registration by the 15th day following the tax point of the supply.
- Certain other specified transactions occur. For example, a taxable person acquires a property from a VAT payer based on the transfer of a going concern agreement, or a taxable person becomes a successor company in a business transformation in which the dissolving company is a VAT payer.

Similarly, as in the case of taxable persons established in the Czech Republic, a taxable person without a seat in the Czech Republic must register as an identified person for VAT in any of the following circumstances:

- It acquires goods from another EU Member State subject to tax (with the exception of acquisition of goods made by a middle man under the simplified rules of triangulation). This applies also to nontaxable legal persons.
- A fixed establishment of a taxable person without a seat in the Czech Republic receives a service subject to the reverse-charge mechanism (in general, see Article 44 of EU Directive 2006/112/EC) from a non-established business or it receives a service according to Article 47, 48, 53, 55 or 56 of EU Directive 2006/112/EC, goods with installation, or electricity or gas from a non-established business, and the place of supply for such item is in the Czech Republic or it provides an Article 44 service with a place of supply in another EU Member State.

The taxable person must file an application for registration by the 15th day following the tax point.

Voluntary registration. Both established and non-established taxable persons may register for VAT voluntarily if they will make supplies with credit in the Czech Republic.

An established VAT taxable person may register as a VAT identified person provided:
- It is going to supply electronic, telecommunication or broadcasting services using the Mini One-Stop Shop regime where the Czech Republic will be the state of the VAT identification.
- It is going to receive services, goods with installation or supply of gas and electricity from non-established supplier with the place of supply in the Czech Republic.
- It is going to supply services with the place of supply in another EU Member State according to Article 44 except for services that are VAT exempt in that EU Member State.

Regardless, if a taxable person is established or non-established in the Czech Republic, it may opt to register as a VAT identified person provided it is going to acquire goods from another EU Member State that are subject to Czech VAT.

Fiscal representative. The concept of fiscal representative (as a person required to apply and pay VAT) was abolished, effective from 1 January 2005. Nevertheless, general rules concerning representation for tax proceedings (including the possibility of representing a person with respect to tax registration) may apply.

As of 1 September 2016, VAT registration applications for non-established businesses must be sent to the following address:

Tax Authority for Moravian-Silesian Region, Territorial branch Ostrava I (Financni urad pro Moravskoslezsky kraj - Uzemni pracoviste Ostrava I)
Jureckova 940/2
700 39 Ostrava
Czech Republic

Reverse-charge supplies. In general, the reverse charge applies to services according to Article 44, 47, 48, 53, 55 or 56 of EU Directive 2006/112/EC, supply of goods with installation, supply of gas and electricity with the place of supply in the Czech Republic if provided by a non-established supplier in the Czech Republic to a Czech-established taxable person (a VAT payer or an identified person). Further, the reverse charge applies to supplies of goods with the place of supply in the Czech Republic if provided by a taxable person not established and not registered as a VAT payer in the Czech Republic to a purchaser that is a VAT payer in the Czech Republic.

Certain local transactions (supplies between persons registered for Czech VAT) are subject to the reverse charge. For example:
- Supplies of construction services, including supply of construction staff
- Supplies of gold
- Certain types of waste
- Emission allowances
- Supplies of immovable property (real estate) in cases the supplier opted for taxation
- Supply of electricity and gas to a trader via distribution systems or networks including transfer of guarantees of the origin of an energy source
- Certain telecommunication services

Additionally, the local reverse charge applies to certain commodities for transactions exceeding CZK100,000, for example:
- Mobile phones
- Laptops and tablets
- Game consoles
- Certain integrated circuits

- Cereals and technical crops
- Certain raw or semi-processed metals

The vendor and the customer may agree in written form to waive the threshold and apply the reverse charge also to supplies not exceeding CZK100,000.

Importers (see *Section E*).

Registration procedures. A taxable person that becomes a VAT payer by law or would like to register for VAT must file electronically by filling out an application form that is available online in the Czech language on the Czech Ministry of Finance website at http://www.mfcr.cz. The Tax Administrator should issue an official registration decision within 30 days from the date a complete and correct application for registration (including all relevant documents) is filed.

Late registration. If a taxable person fails to register for VAT, it will be registered retrospectively. The tax authorities can impose a penalty for breaching non-monetary obligations. Moreover, they would assess sanctions if VAT returns and VAT ledgers are filed late or if payments of VAT liability are late.

Digital economy. Effective 1 January 2015, new EU VAT place of supply rules apply to business-to-consumer (B2C) supplies (i.e., supplies to non-VAT-taxable customers) of digital services. From this date, supplies of digital services to EU consumers are subject to VAT in the Member State where the customer belongs. Consequently, where the customer is established in the Czech Republic, Czech VAT will be due.

Digital economy registration procedures. Any taxpayers making B2C supplies of digital services are required to register for VAT in each EU Member State where they have customers or register for the Mini One-Stop Shop (see *Mini One-Stop Shop*).

Mini One-Stop Shop (MOSS). The place of supply of telecommunications, broadcasting and electronic services to non-VAT taxable customers is the place of the service recipient, according to Council Implementing Regulation (EU) No. 282/2011. If a non-established taxable person supplies these services to Czech customers, it could either register for VAT in the Czech Republic or apply MOSS simplification in its country of establishment.

Deregistration. If a company does not perform economic activities it is deregistered for VAT. The tax authorities also deregister a VAT payer if it effects only VAT-exempt supplies without credit or if it does not make any supplies within 12 consecutive calendar months without notification of reasons.

An established taxable person may apply for deregistration if either of the following occurs:
- Its turnover falls below the registration threshold. Although deregistration is not compulsory in these circumstances, it may be requested after one year from the registration date, at the earliest, if the taxable person's turnover did not exceed CZK1 million in the immediately preceding 12 calendar months.
- It ceases to effect economic activity in the Czech Republic.

A non-established taxable person may apply for deregistration if either of the following occurs:
- It did not make any taxable supplies or supplies of goods to another EU Member State that are exempt with credit in the Czech Republic within the previous 12 consecutive calendar months.
- It ceases to carry out economic activities in the Czech Republic.

A non-established business will be deregistered by the tax authorities if it did not make any taxable supplies or VAT-exempt supplies with credit in the preceding calendar year.

The VAT registration will be also cancelled by the tax authorities in certain specific cases if the VAT payer breaches its tax administrative obligations.

An identified person may apply for deregistration if any of the following circumstances exist:
- Its liability to account for VAT (e.g., from incurred services, supplies of goods with installation or assembly) did not arise within the previous six consecutive calendar months.
- Neither in the current calendar year nor in the preceding year has it acquired goods from another EU Member State subject to Czech VAT.
- It ceased to effect economic activity in the Czech Republic.

The tax authorities may deregister an identified person if the person was not liable to declare any VAT in two previous calendar years. A group registration may be canceled only as of 31 December. The application must be filed before 31 October of the current year. Otherwise, the group registration will be canceled as of 31 December of the following year.

Deregistration shall be supported by sufficient evidence that the conditions for deregistration are fulfilled.

Exemption from registration. The VAT law in the Czech Republic does not contain any provision for exemption from registration.

D. VAT rates

In the Czech Republic, the term "taxable supplies" refers to supplies of goods and services that are liable to a rate of VAT. Some supplies are classified as "exempt with credit" or "zero-rated," which means that no VAT is chargeable, but the supplier may recover input tax related to the supply.

The following are the VAT rates:
- Standard rate: 21%
- Reduced rates: 15%, 10% and 0% (zero-rated or exempt with credit)

The standard rate of VAT applies to all supplies of goods or services, unless a specific measure provides for the reduced rate or exemption.

Examples of goods and services taxable at 15%

- Foodstuffs *(at the time of preparing this chapter, it is proposed to change the VAT rate on drinking water to 10% as of 2019)*
- Repairs and work on medical instruments
- Non-alcoholic beverages
- Water distribution and treatment of sewage *(at the time of preparing this chapter, it is proposed to change the VAT rate on water distribution and treatment of sewage to 10% as of 2019)*
- Public transportation *(at the time of preparing this chapter, it is proposed to change the VAT rate on public transportation to 10% as of 2019)*
- Water and air passenger transport
- Services of fitness centers
- Certain medical equipment and pharmaceuticals
- Medical and social care (unless exempt)
- Children's car safety seats
- Cultural and sporting activities
- Funeral services
- Transfers of "housing provided as part of a social policy" ("Social housing" includes apartments with a maximum floor area of 120 square meters and family houses with a maximum floor area of 350 square meters.)

Examples of goods and services taxable at 10%

- Books and magazines subject to certain conditions
- Medications
- Medications for veterinary use
- Necessary baby food

Apart from items mentioned above, the amendment of VAT Act proposes to include new items in 10% VAT rate, for example:
- Household cleaning services
- Bicycle repairs, footwear and clothing repairs
- Children, senior and disabled homecare
- Hairdresser and barber services
- Draft beer

At the time of preparing this chapter, the amendment of VAT Act has not been approved and implemented into law.

Examples of goods and services taxable at 0%

- Exports of goods
- Intra-Community supplies of goods
- International transportation of passengers and their luggage
- Transport and services directly related to the importation or exportation of goods

The term "exempt supplies" refers to supplies of goods and services that are within the scope of VAT but are not taxed. Exempt supplies generally do not give rise to a right of deduction for related input VAT (see Section F). These supplies are sometimes referred to as "exempt without credit."

Examples of exempt supplies of goods and services

- Basic postal services
- Insurance
- Financial services
- Transfer of real estate (after lapse of five years from issuance of first building permit, first approval for use or from the first use; substantial change of the real estate restarts the five-year exemption test) or non-building land
- Rent of real estate (excluding short-term rent, rent of parking space, safety boxes and machines)
- Education
- Betting and gambling
- Medical care
- Social welfare

Option to tax for exempt supplies. Under certain conditions, a VAT payer can opt to tax a supply of real estate or non-building land that qualifies for exemption, if approved by the customer. In case the supplier opts for taxation of supply of real estate to another VAT payer, the latter is obliged to pay the VAT by the local reverse-charge mechanism.

E. Time of supply

VAT is charged at the time of the earlier of the following events (known as the tax point):
- A taxable supply is carried out.
- Payment for the supply is received.

Supply of goods is generally considered to be carried out on the date of supply (delivery).

Supply of services is generally considered to be carried out on the date on which the service is performed or the date on which the tax document is issued, whichever date is earlier.

Other tax point rules may apply to specific supplies of goods and services.

Imported goods. The time of supply for imported goods is either the date of release of goods for free circulation (or another customs procedure that leads to a liability to pay VAT) or the date on which the goods leave a duty suspension regime.

Import VAT liability needs to be reported by the VAT payers in the VAT return (postponed accounting). It is administered by the tax authorities instead of the customs authorities.

The purchaser must self-assess output VAT at the appropriate rate (see Section D). The self-assessed tax is also treated as input tax and may be recovered (see Section F). This does not apply in the case of identified persons. The self-assessment of VAT does not apply to supplies made to private individuals who are not registered for VAT.

Guarantee for unpaid VAT. The VAT law stipulates several instances when purchasers may be held liable (as guarantor) for unpaid VAT by the seller, such as:
- The purchaser knew or should have known at the moment the transaction was carried out or paid for that VAT would not be paid by the seller.
- The seller is blacklisted as an unreliable VAT payer, which is any VAT payer that seriously breaches its obligations as stipulated by the tax law. The status of an unreliable VAT payer will be published on websites of the Ministry of Finance.
- The consideration is obviously different from a fair market price, and the reason is not properly explained.
- The consideration exceeds CZK540,000 and is paid by bank transfer partly or in full to a bank account that is not properly published on the websites of the Ministry of Finance.
- The consideration is paid using a virtual currency.
- The consideration is paid to a foreign bank account.

The VAT guarantee can be avoided if the purchaser agrees with the seller that the amount of VAT will be remitted directly to the bank account of the tax authorities.

Intra-Community acquisitions of goods. VAT on intra-Community acquisitions of goods is charged at the earliest of the following dates:
- On the date of issuance of the tax document
- On the 15th day of the month following the month in which the supply took place

Reverse-charge services. For reverse-charge services (Article 44 services), the tax point is the earliest of the following dates:
- The date on which the service is rendered (specific rules may apply to particular types of services)
- The date on which consideration is paid
- The last day of each calendar year if the service is being provided for more than 12 calendar months and if no consideration is paid during this period

Cash accounting. The Czech Republic does not operate a cash accounting scheme.

Continuous supplies of services. If the service is provided for a longer period, the parties can agree on the partial supplies in the contract. In such a case, the days of supply are the days agreed in the contract. Alternatively, if there is no such agreement between the parties, the day of supply is the last day of the period in which the service is provided unless payment is received earlier.

If the taxable supply is being provided in the Czech Republic for more than twelve (12) calendar months, it is regarded as having taken place, at the latest, on the last day of each calendar year, following the calendar year in which the provision of the supply began. As of 2019, it is proposed to exclude from this rule services supplied based on a decision of the public authorities and paid by the state (e.g., ex offo attorney). *At the time of preparing this chapter, the amendment of VAT Act has not been approved and implemented into law.*

Prepayments. If the payment is received by the supplier before the supply is effected, the supplier is generally obliged to issue the VAT document for the received payment and declare and pay output VAT. This does not apply if the taxable supply is not sufficiently specified upon the receipt of the payment or if the prepayment relates to supplies with different VAT rates or VAT regimes.

Intra-Community supplies of goods. The time of supply for intra-Community supplies of goods that meet the conditions for the VAT exemption laid down by the Czech VAT Act is the 15th day of the month following the month of supply unless the VAT document for the supply was issued earlier.

Leased assets. The time of supply of leased assets depends on the type of leasing and contractual documentation agreed between the parties.

- In case of financial leasing where the customer is obliged to buy the asset after the leasing, the time of supply is the date on which the asset is handed over to the customer. The VAT amendment proposes to replace the obligation to buy the asset by choice of the customer to making the option to buy the asset obligatory, meaning that the customer in the normal course of events will likely buy the asset at the end of lease. *At the time of preparing this chapter, the amendment of VAT Act has not been approved and implemented into law*.
- In case of a standard lease, the VAT is payable upon the agreed monthly or quarterly installments.

Goods sent on approval for sale or return. There are no special time of supply rules in the Czech Republic for supplies of goods sent on approval for sale or return.

Vouchers. The proposed VAT amendment implements into Czech VAT Act as of 2019 Council Directive (EU) 2016/1065 concerning VAT treatment of vouchers. There are two types of vouchers that need to be distinguished — single-purpose voucher (SPV) and multipurpose voucher (MPV). The voucher is regarded as SPV if upon the issue of the voucher at least place of supply and VAT rate of future transaction is known. Such a voucher is taxed upon any transfer, while the actual supply of goods or services in return for voucher is not taxed. If, however, the SPV is redeemed by a person who did not issue the voucher, the redeemer will be deemed to provide the supply to the issuer. Any other voucher shall be treated as MPV and shall be taxed upon actual supply of goods or services. *At the time of preparing this chapter, the amendment of VAT Act has not been approved and implemented into law*.

F. Recovery of VAT by taxable persons

A VAT payer may recover input tax, which is VAT charged on goods and services supplied to the VAT payer for business purposes. A VAT payer generally recovers input tax by deducting it from output tax, which is VAT charged on supplies made.

Input tax includes VAT charged on goods and services supplied in the Czech Republic, VAT self-assessed on intra-Community acquisitions of goods and on services subject to the reverse-charge mechanism and VAT paid on imports.

VAT payers prove their entitlement to VAT deduction with valid tax documents. Input VAT on local supplies made by another Czech VAT payer may not be deducted earlier than the tax period in which the recipient obtains a valid tax document.

No VAT can be recovered after three years starting from the first day following the end of the taxable period when the right to deduct arose.

Identified persons may not claim input VAT deduction.

Nondeductible input tax. Input tax may not be recovered on purchases of goods and services that are not used for business purposes such as goods acquired for private use by an entrepreneur. In addition, input tax may not be recovered for some items of business expenditure (e.g., input VAT incurred on gifts with an acquisition cost exceeding CZK500 excluding VAT).

The following lists provide some examples of items of expenditure for which input tax is not deductible and examples of items for which input tax is deductible only if the expenditure is related to a taxable business use.

Examples of items for which input tax is nondeductible

- Business entertainment
- Nonbusiness expenditure
- Goods and services used exclusively for the making of VAT-exempt supplies without credit

Examples of items for which input tax is deductible (if related to a taxable business use)

- Passenger car acquisition and maintenance costs
- Car hire
- Fuel for vehicles
- Books
- Conferences
- Advertising
- Accommodation
- Mobile phones

Partial exemption. A Czech VAT payer is entitled to a full VAT deduction with respect to purchases used for taxable supplies (that is, supplies on which VAT is charged), certain other supplies that fall outside the scope of Czech VAT (that have a place of supply abroad) and supplies that are VAT-exempt with credit.

A VAT payer may not deduct input VAT related exclusively to the following supplies:
- Supplies that are VAT-exempt without credit
- Supplies used exclusively for nonbusiness purposes (for example, private consumption)

The VAT payer must reduce the input VAT deduction (that is, claim only a partial deduction) of input VAT with respect to supplies used for both taxable (or VAT-exempt-with-credit) and VAT-exempt-without-credit supplies.

The amount of input tax that may be recovered by the VAT payer is calculated in the following two stages:
- The first stage identifies the input VAT that may be directly allocated to VAT-exempt-without-credit supplies and to taxable (or VAT-exempt-with-credit) supplies. Input tax directly allocated to VAT-exempt supplies without credit is not deductible. Input tax directly related to taxable supplies or VAT-exempt supplies with credit is recoverable in full.
- The second stage prorates the remaining input tax that relates to both taxable (or VAT-exempt-with-credit) and VAT-exempt-without-credit supplies to allocate a portion to taxable (or VAT-exempt-with-credit) supplies. For example, this treatment applies to the input tax on general business overhead. In general, the ratio is based on the value of taxable and VAT-exempt-with-credit supplies, compared with total turnover. If the ratio is at least 95%, full input VAT deduction may be claimed.

The input VAT deduction must be reduced proportionally if the supplies are used for both economic activities and for nonbusiness purposes (for example, private use). If the actual proportion is not clear, an estimate may be used. This estimate may be adjusted at the year-end if the estimate materially differs from the final proportion. If the input VAT deduction is claimed in full, output VAT must be applied to the nonbusiness consumption (this is not possible for capital goods).

Capital goods. Capital goods are items of capital expenditure that are used in a business over several years. Input tax is deducted in the tax period in which the goods have been acquired. The amount of input tax recovered depends on the taxable person's partial exemption recovery position in the VAT year of acquisition (see *Partial exemption*). However, the amount of input tax recovered for capital goods must be adjusted over time if the taxable person's partial exemption recovery percentage changes during the adjustment period or when the use of the capital goods changes. For example, a taxable person that acquired an asset and recovered VAT in full at the time of its acquisition must adjust the amount of recovery if the asset is later used for a

VAT-exempt activity. In contrast, if the asset was originally acquired for a VAT-exempt activity and no input VAT was reclaimed, and the asset is later put to a fully taxable use, input tax may be recovered when the use changes.

In the Czech Republic, the capital goods adjustment applies to the following assets:
- Long-term tangible assets with a value higher than CZK40,000
- Long-term intangible assets with a value higher than CZK60,000
- Land (unless accounted for as merchandise)
- Technical appreciation (substantial improvement) of fixed assets
- Assets or land leased by financial leasing

The adjustment period is generally 5 years (10 years for real estate), beginning with the calendar year of the acquisition of the asset and extending for the subsequent 4 or 9 calendar years. In the tax period of acquisition, the input VAT is deducted depending on whether and to what extent the goods are used for taxable activities (see *Partial exemption*). A portion of the total input VAT must be adjusted according to the use of the goods (VAT-exempt, nonbusiness or taxable) in that particular year.

No change needs to be made if the difference between the use in the current year and in the first year is not material (that is, the difference in use is not more than 10 percentage points).

If, within the adjustment period, the capital goods are damaged, lost or stolen and these losses are not properly documented, then a VAT adjustment should be done for all remaining years left within the adjustment period. The adjustment should be done in the VAT period in which the VAT payer found out about the loss.

A three-year VAT adjustment period applies to business property that does not qualify as capital goods. The input VAT claimed must be adjusted if the actual use of the respective business property differs from the purposes reflected in the original input VAT claim. Wear and tear is not taken into account. In case business property is damaged, lost or stolen and these losses are not properly documented, the VAT amount should also be adjusted.

As of 2013, an unlimited VAT adjustment applies to buildings, flats and business premises that do not qualify as capital goods prior to their first use.

The proposed amendment of the VAT Act implements the obligation to adjust the VAT amount incurred on construction services related to repairs of real estate the net value of which exceeded of CZK200k. The adjustment period for repair services would be 10 years. *At the time of preparing this chapter, the amendment of VAT Act has not been approved and implemented into law*.

Refunds. If the amount of VAT recoverable in a taxable period exceeds the amount of VAT payable, the taxable person has a VAT credit. A refund of the VAT credit is claimed by submitting the VAT return. The Czech tax authorities should generally make repayments within 30 days after the filing deadline for the return.

Preregistration costs. A VAT taxable person can deduct VAT from received taxable purchases made during the preceding 12 consecutive calendar months if these purchases were used for economic activities and are included in the business assets on the registration date.

Write-off of bad debts. The VAT payer can recover the output VAT declared and paid on supplies provided to VAT registered customers who became insolvent if the bankruptcy has already been declared. The proposed amendment of the VAT Act introduces a certain extension in this respect. The VAT payer should be able to recover output VAT from supplies deemed to be definitely unpaid, e.g., the receivable was subject to unsuccessful recovery proceeding for more than two years, the debtor was liquidated without legal successor or inheritance was not enough to cover all debts. *At the time of preparing this chapter, the amendment of VAT Act has not been approved and implemented into law*.

Noneconomic activities. The input VAT deduction must be reduced proportionally if the input supplies are used for both economic and noneconomic activities.

G. Recovery of VAT by non-established businesses

The Czech VAT authorities refund VAT incurred by businesses that are neither established (by means of seat or fixed establishment) in the Czech Republic nor registered for VAT there. For businesses established in the EU, refund is made under the terms of EU Directive 2008/9/EC. For businesses established outside the EU, refund is made under the terms of the EU 13th Directive.

Refunds under the 13th Directive are made on the principle of reciprocity. A non-established business may claim a refund if it is established in a country that refunds VAT to Czech VAT payers or in a country that does not apply VAT or similar consumption tax.

For the general VAT refund rules under EU Directive 2008/9/EC and the 13th Directive, see the chapter on the EU.

Refund applications under EU Directive 2008/9/EC. A non-established VAT payer may request a refund of Czech VAT by filing an application through the electronic portal in its country of establishment. The application must be completed in the Czech language.

An application for a VAT refund must contain the following:
- Identification of the claimant (VAT number, business name, registered seat and electronic address)
- Electronic copies of the tax documents if the tax base exceeds the equivalent of EUR1,000 (EUR250 in the case of petrol)
- Confirmation that the claimant has not supplied goods or services in the Czech Republic in the period for which the claimant requests a VAT refund (except for supplies subject to the reverse-charge procedure)
- Description of the economic activities of the claimant
- Data regarding the claimant's bank account, including the International Bank Account Number (IBAN) and the Bank Identifier Code (BIC), the name of the account's owner and the currency in which the account is denominated
- The following information for each tax document:
  — VAT number of the supplier
  — Business name of the supplier
  — Evidence number of the tax document
  — Tax point
  — Tax base and amount of VAT in Czech crowns (CZK)
  — Total amount of claimable VAT (if pro rata deduction)
  — Pro rata coefficient
  — Categories of goods and services (respective codes)

The minimum claim period is three calendar months (unless the relevant period represents the remainder of the calendar year), while the maximum claim period is one calendar year. Applications for a refund must be submitted within nine months after the end of the calendar year to which they relate, that is, by 30 September of the following year. Claims that are not filed on time are rejected. The application is considered to be filed on time only if all of the above stated information is provided by the taxpayer by the deadline.

The minimum claim for a period of less than a year but not less than three months is EUR400 (an equivalent in CZK). For an annual claim or for a remaining period of the year the minimum amount is EUR50 (an equivalent in CZK). The tax authorities must decide on the VAT refund application within four months after the date on which the claim is submitted or within two months after the submission of the additional information that is requested by them.

VAT is also refunded in a few additional cases (for example, to individuals from third countries with respect to the exports of goods in personal luggage).

H. Invoicing

VAT invoices and credit and debit notes. A Czech VAT payer must generally provide a tax document for all taxable supplies and VAT-exempt supplies with credit made to another taxable person or nontaxable legal person. A Czech VAT payer must also issue tax documents for distance selling supplies that have a place of taxable supply in the Czech Republic. The taxable person must provide tax documents for supplies of services, goods with installation and supplies of gas and electricity with a place of supply outside the Czech Republic. The tax documents must be issued no later than:

- 15 days after the tax point (see Section E)
  Or
- 15 days after the end of the calendar month in which the VAT-exempt supply with credit or out of scope supply was effected (see Section E)

The proposed amendment of the VAT Act introduces the obligation of the VAT payer to make all possible efforts in order to deliver the tax document to the customer by means agreed between the parties (i.e., in paper or electronically). *At the time of preparing this chapter, the amendment of VAT Act has not been approved and implemented into law*.

A tax document is necessary to support a claim for input tax deduction or a refund to a non-established business.

If a VAT payer is required to account for VAT on the private use of business assets, the VAT payer must issue "a document of use" similar to a VAT invoice.

A taxable person is not required to issue a tax document for a supply that is VAT-exempt without credit.

A VAT credit note is used to reduce the VAT originally charged on a supply. The value of the supply must be reduced in the following circumstances, among others:

- The supply is cancelled (in full or in part).
- A supply is returned (in full or in part).
- A discount is provided after the tax point.
- The payment on which a VAT payer was required to charge VAT was subsequently used for purposes of another supply.
- The payment was returned as the supply did not take place.

The VAT base and VAT amount can generally be corrected within three years starting from the end of taxable period in which the tax point of the respective supply occurred. The limitation period stops during the court proceeding or arbiter proceeding, which may affect the amount of VAT base.

A VAT debit note is used to increase the value of the original supply if the price increases after the tax point.

The amount of VAT credited or debited should be separately itemized on the credit or debit note. The credit or debit note must satisfy all of the following requirements:

- It must contain the reason for the correction.
- It must be cross-referenced to the original tax document. If the credited amount relates to several original supplies and if the VAT payer is not able to link the credit note to particular original invoices, a general reference to original invoices (or example, a period in which they were issued) should be sufficient. In such a case, VAT credited or debited may be stated on the document as a summary value.
- It must contain generally the same information as the original tax document.

Electronic invoicing. The Czech VAT law permits electronic invoicing in line with EU Directive 2010/45/EU.

Proof of exports and intra-Community supplies. Czech VAT is not chargeable on supplies of exported goods. However, to qualify as VAT-exempt, an export supply must be accompanied by official customs declaration stating that the goods have left the EU. Customs declarations are now processed electronically. As a result, a data file received from the customs authorities represents evidence of goods leaving the EU and must be stored. To qualify for the exemption, the VAT payer (or its customer if it is not established in the Czech Republic) must be declared as an exporter, and this must be stated on the customs declaration. Furthermore, the transport has to be arranged either by the Czech VAT payer, the customer (not established in the Czech Republic) or by authorized third party by the Czech VAT payer or customer.

Czech VAT is not chargeable on goods supplied to taxable persons in other EU Member States (see the chapter on the EU). For a sale to another EU Member State to qualify as a VAT-exempt, intra-Community supply, the following conditions must be satisfied:

- The Czech VAT payer must prove that goods were delivered to another EU Member State by the VAT payer, the customer or a third party authorized by the Czech VAT payer or customer.
- The customer must be VAT registered in the other EU Member State.
- The acquisition of the goods must be subject to VAT in the other EU Member State.

Transportation documents (for example, Convention on the Contract for the International Carriage of Goods by Road) confirmed by the customer and the transporter are suitable proof of the above. In certain cases, written statements of the customer or an authorized third party or other similar documentation may also be sufficient.

Foreign-currency invoices. A Czech tax document may not be issued in a foreign currency only. If a foreign currency is used, for VAT purposes at least, the VAT amount must be converted to Czech crowns.

For VAT purposes, the exchange rate used to convert foreign currency to Czech crowns is generally the exchange rate declared by the Czech National Bank or European Central Bank valid for the VAT payer on the date on which the VAT becomes chargeable.

A tax document may also be issued in electronic form, provided that the person for which the taxable supply or supply exempt from VAT with credit was affected, agrees with it.

B2C. With some exceptions, it is not mandatory to issue an invoice to non-VAT taxable customers, apart from nontaxable legal persons.

Electronic registration of sales revenues (ERS). The Revenues Registration Act regulates the obligation of business entities to report sales revenues online in real time to the tax administrator. ERS applies mainly to revenues in the form of cash, meal vouchers, gift cards and similar means of payment. On the other hand, bank transfers, payments by credit/debit cards or receivable set-offs (with certain exceptions) does not need to be registered.

ERS has a gradual effect. As of 1 December 2016, hotel and restaurant services have been subject to ERS. As of 1 March 2017, ERS has applied to wholesale and retail activity. Further expansions are proposed for 2019 focusing mainly on small entrepreneurs, but at the time of preparing this chapter, the precise timeline is not clear yet.

Permanent exceptions from ERS include, for example, one-off revenues that are not subject to regular economic activity (e.g., the one-off sale of business assets), state or regulated entities, public-benefit organizations, financial institutions, securities traders, pension funds, energy companies, and water supply and sanitation, etc.

I. VAT returns and payment

VAT returns. Czech VAT returns are generally submitted for monthly periods. If the turnover of the taxable person for the preceding calendar year has not reached CZK10 million, the taxable

person may opt for quarterly VAT returns. Newly registered VAT payers, unreliable VAT payers and VAT groups do not qualify as quarterly VAT return filers.

VAT returns must be filed within 25 days after the end of the tax period. Payment of the VAT liability must be credited to the bank account of the tax authorities within the same time period. VAT liabilities must be paid in Czech crowns. So-called nil returns must be filed if no taxable transactions have taken place in the period.

VAT ledgers. VAT payers are obliged to submit the VAT ledgers to the tax authorities. The VAT ledgers include detailed data (e.g., tax base, tax rate, tax point, invoice number, business party VAT ID) about effected and received supplies, particularly the following:

- Domestic taxable supplies or receipt of advance payment
- Domestic acquisition of goods or services or provision of advance payment
- Transactions falling within the local reverse-charge regime
- Services received from persons not established in the Czech Republic and intra-Community acquisitions of goods
- Special scheme for investment gold

The system is designed to enable the tax authorities to cross-check the transactions reported by suppliers with the transactions reported by the customers in order to identify suspicious chain supplies and VAT fraud.

VAT ledgers must be submitted electronically by the 25th day of the month following the reporting period. For legal persons, the reporting period is always one calendar month without regard to the taxable period. For natural persons, the reporting period corresponds to the taxable period.

Special schemes. The following special VAT schemes are available in the Czech Republic, provided that the statutory conditions for their application are met.

Travel agents. Special scheme for travel agents has to be applied by travel agents who act in their name when providing travel services. Under the special scheme, Czech VAT is paid from the margin of travel agents established in the Czech Republic. VAT charged by travel agents under the special scheme cannot be deducted by the customers.

Secondhand goods, works of art, collector's items and antiques. The application of this special scheme is optional and can be applied by a taxable person who purchased the named goods from nontaxable persons, taxable persons that are not Czech VAT payers or from other taxable persons. VAT is paid from the taxable person's margin. VAT charged by taxable persons under the special scheme cannot be deducted by the customers.

Investment gold. Supply of investment gold in the Czech Republic, intra-Community acquisition of investment gold or its importation are exempt from VAT without entitlement to input VAT deduction, as well as services of arranging for these transactions. Taxable persons who produce investment gold or transform gold into investment gold can decide to charge VAT if such gold is subsequently supplied to another taxable person in the Czech Republic. In such case, the taxable person is entitled to deduct input VAT incurred in connection with production or transformation of investment gold.

Electronic filing and archiving. Electronic filing of the VAT returns and other VAT-related reports is mandatory for all VAT payers.

Annual returns. There is no annual VAT return in the Czech Republic.

J. Penalties

Default interest is charged for the late payment of VAT due on a VAT return, beginning with the fifth working day. The interest is calculated as a repo rate declared by the Czech National Bank

to be valid on the first day of the respective calendar half-year increased by 14 percentage points (the repo rate represents an interest rate at which the Czech National Bank purchases discounted bills from the Czech commercial banks). The default interest may be applied up to a maximum of five years.

Late filing of VAT returns results in a penalty of 0.05% of VAT due for each day of the delay. The penalty is capped at 5% of the VAT due or at CZK300,000 for each VAT return. The first five working days following the deadline are penalty free.

A penalty is charged at a flat rate of 20% of the additionally assessed VAT if the VAT liability is increased or the deduction of VAT is decreased based on the findings of the tax authorities.

Fines up to CZK500,000 may be imposed for breach of non-monetary obligations such as VAT registration, reporting, recording or other notifications or obligations to provide proof or documentation. Furthermore, the fine for failure to file a Czech VAT return or EC Sales List electronically is now CZK2,000.

Penalties in connection with the obligation to file the VAT ledgers are assessed automatically upon the breach of obligation and the range is from CZK1,000 to CZK500,000 (penalties may be waived if certain conditions are met).

As of December 2016, new penalties were introduced in connection with the new obligation to report sales revenues online. The tax administrator may impose a fine up to CZK500,000 for undermining or complicating the registration of revenues.

K. EU filings

Intrastat. A Czech VAT payer or person identified for VAT that trades with other EU Member States must complete statistical reports, known as Intrastat, if the value of either the VAT payer's sales or purchases of goods exceeds certain thresholds. Separate reports are required for intra-Community acquisitions (Intrastat Arrivals) and for intra-Community supplies (Intrastat Dispatches).

The threshold for Intrastat Arrivals is CZK8 million per calendar year. The threshold for Intrastat Dispatches is CZK8 million per calendar year.

The Intrastat report period is monthly. Intrastat reports must be submitted to the competent customs authorities by the 10th working day of the month following the calendar month to which they relate if submitted in paper form, or by the 12th working day of the month following the calendar month to which they relate if submitted electronically. Submission in paper form is allowed in specific cases only.

A penalty of up to CZK1 million may be imposed for late submission or for missing or inaccurate declarations.

EU Sales Lists. If a Czech VAT payer makes intra-Community supplies of goods or provides services (Article 44 services) to a taxable person established in another EU Member State in any tax period, it must submit an EU Sales List (ESL) to the Czech tax authorities together with the VAT payer's VAT return.

An identified person providing an Article 44 service with a place of supply in another EU Member State must also file an ESL.

Generally, an ESL must be filed monthly; quarterly filings are possible in limited cases. An ESL is not required for any period in which the taxable person has not made any intra-Community supplies or has not provided the services mentioned above.

The ESL must be filed electronically by uploading the data to an application accessible on the website of the Ministry of Finance. If the ESL is submitted through a data message that is neither signed using guaranteed electronic signature based on the qualified certificate issued by an authorized provider nor sent through a data box (mandatory legal instrument for electronic communications between legal entities and public bodies), it must be refiled in paper form.

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A. At a glance

Name of the tax	Value-added tax (VAT)
Local name	Merværdiafgiftsloven (Momsloven)
Date introduced	3 July 1967
Trading bloc membership	European Union (EU) Member State

Administered by	Danish Tax Agency (www.skat.dk)
VAT rates	
Standard	25%
Other	Zero-rated (0%) and exempt
VAT number format	DK 12 34 56 78
VAT return periods	Monthly: Annual turnover more than DKK50 million Quarterly: Annual turnover between DKK5 million and DKK50 million Half-yearly: Annual turnover below DKK5 million
Thresholds	
Registration	
Businesses established in Denmark	DKK50,000 a year
Businesses established elsewhere	None
Distance selling	DKK280,000
Intra-Community acquisitions	DKK80,000 a year (for businesses exempted from VAT)
Recovery of VAT by non-established businesses	Yes

B. Scope of the tax

VAT applies to the following transactions:
- The supply of goods or services made in Denmark by a taxable person
- The intra-Community acquisition of goods from another EU Member State by a taxable person (see the chapter on the EU)
- Reverse-charge services received by a taxable person in Denmark
- The importation of goods from outside the EU, regardless of the status of the importer

C. Who is liable

The term "taxable person" means any entity or individual that makes taxable supplies of goods or services, intra-Community acquisitions or distance sales, in the course of a business.

The VAT-registration threshold is turnover of DKK50,000 a year for a business resident in Denmark. No registration threshold applies for a non-established business. Consequently, VAT registration is required as soon as a non-established business begins making supplies subject to VAT in Denmark.

Group registration. Groups of companies or related entities may request registration as a single taxable person (VAT group). If both VAT-registered and VAT-exempt companies are part of a VAT group registration, the parent company must be included in the VAT group. All group members must be 100% owned by the parent company and established in Denmark.

The effect of VAT grouping is that no VAT is charged on supplies between group members. However, if any member of the group has exempt activities, the group must deduct input VAT on a pro rata basis. The group members are jointly and severally liable for any VAT on transactions with third parties.

Non-established businesses. A non-established business must register for Danish VAT if it makes any of the following supplies:
- Goods that are located in Denmark at the time of supply.
- Intra-Community acquisitions in Denmark.

- Distance sales in excess of the annual threshold.
- B2C e-services, broadcasting and telecommunications to individuals with Danish residence.
- Services that are not subject to the tax under the "reverse-charge" mechanism (for example, services related to real estate that are supplied to private persons). Most services supplied to taxable persons in Denmark are covered by the Danish reverse-charge regime.

Foreign businesses have to register for VAT by filling out the following form:
https://indberet.virk.dk/myndigheder/stat/ERST/Registration_of_Non-Danish_Company__Start_-_40112

The application can be submitted either electronically or in hard copy, but it must be submitted at the latest eight days before taxable activities are started in Denmark. If the application is not submitted or submitted late, or the information provided is not correct or insufficient, a fine might be issued.

Additional documentation can be required, for instance to show whether or not the company has a debt and documentation of the company's registration in its home country.

The registration process takes about two weeks. A certificate with the Danish VAT number will be sent to the registered postal address.

Tax representatives. Businesses established in the following countries are not required to appoint a tax representative to register for Danish VAT:

Aland Islands	Faroe Islands	Iceland
EU Member States	Greenland	Norway

However, businesses established in the above countries may choose to appoint a tax representative to register for VAT. If a business established in a country, which is not an EU Member State, imports goods into Denmark, there will be an obligation to appoint a fiscal representative who is jointly and severally liable for any VAT or customs duty payments due.

VAT registration for non-established taxable persons from the Aland Islands, EU Member States, the Faroe Islands, Greenland, Iceland and Norway may be conducted through the following office:

Skattecenter Toender
Pionér Allé 1
DK-6270 Toender
Denmark

Businesses established in other countries must appoint a Danish resident as tax representative to register for VAT. The representative and the nonresident business are jointly and severally liable for VAT liabilities.

The Danish tax authorities may require a non-established taxable person to provide security equal to its expected VAT liability for a three-month period. This may occur if the tax authorities believe a risk exists that the non-established business may not pay its indirect tax obligations.

Registration procedures. For domestic businesses, the registration process is performed online and requires a digital signature/NemID. The application must be submitted at the latest eight days before taxable activities are started. If the application is not submitted or submitted late, or the information provided is not correct or insufficient, a fine might be issued.

The registration process takes between 1 and 14 days. A certificate with the Danish VAT number will be sent to the registered postal address.

Reverse charge. If a non-established business supplies services to a taxable person in Denmark but does not register for VAT, the taxable person may be required to account for the VAT due

under reverse-charge accounting. This means that the taxable person charges itself VAT. The self-assessed VAT may be deducted as input tax.

In case of digital services, telecom services or broadcasting services supplied in a B2B context, the place of supply is the place where the recipient is established. No Danish VAT should be charged, and reverse charge applies unless supplier and customer are established in Denmark.

In case of digital services, telecom services or broadcasting services supplied in a B2C context, until the end of 2014 only Danish businesses and foreign businesses that are not established in the EU were liable to charge Danish VAT to the recipients that are established in Denmark. Effective 1 January 2015, Danish VAT is always due in case of supply to customers established in Denmark, disregarding whether the supplier is established inside or outside the EU. We refer to the section on MOSS below for more information.

From 1 January 2016, the Danish authorities increased controls regarding distance sales of goods and e-services supplied to nontaxable persons. The authorities can require banks, credit card companies and others handling transfer of payments to inform them of payments involving distance sales of goods made to Danish customers and electronic services supplied to nontaxable persons in Denmark.

Late-registration penalties. No specific penalty is levied for late VAT registration. However, a penalty may be charged of up to twice the VAT amount due in the period during which the business should have been registered.

Digital economy. Supplies of digital services to EU consumers (business-to-consumer (B2C)) are subject to VAT in the Member State where the customer belongs. For example, where the customer belongs in Sweden, Swedish VAT will be due. As of 1 January 2019, a threshold of EUR10,000 is applicable for these types of services. If the sales to Danish consumers do not exceed EUR10,000 in the current or in the preceding year, the supplier is not obliged to charge Danish VAT on the sales. The supplier may choose to register even if the threshold is not exceeded — if so, the decision to register is binding for a period of two years.

Digital economy registration procedures. Any taxpayers making business-to-consumer (B2C) supplies of digital services are required to register for VAT in each EU Member State where they have customers or register for the Mini One-Stop Shop (see *Mini One-Stop Shop*).

Mini One-Stop Shop (MOSS). Suppliers of B2C e-services, broadcasting and telecommunications in the EU can register for the VAT MOSS scheme from October 2014 and will be able to use the MOSS service from January 2015.

Check the site of the Danish Tax Administration at www.skat.dk for a registration form. After MOSS registration, the VAT must be settled and paid quarterly in DKK.

Deregistration. A taxable person that ceases to be eligible for VAT registration must deregister within eight days. For Danish businesses with a Danish business identification number, the VAT number will be the same if taxable activities are resumed. For foreign businesses, it is not possible to receive the same VAT number if taxable activities are resumed.

Exemption from registration. If a business only makes supplies that are exempt from VAT, then it does not have to register for VAT. However, the business is often liable to register for salary duty. It is a duty, which some businesses have to pay, when they deliver VAT exempt goods and services. For example, businesses that supply education, medical services, financial services, cultural services, etc., will have an obligation to register for salary duty. On the other hand, businesses that supply passenger transport to or from other countries or supplies made by writers, composers and performing artists are not obliged to register for salary duty.

If a business delivers supplies that are not exempt from VAT, the VAT law in Denmark does not contain any provision for exemption for registration.

Voluntary registration. The VAT law in Denmark does not contain any provision for voluntary VAT registration for foreign entities, as there is no registration threshold for businesses established outside of Denmark. Therefore, all foreign entities that make taxable supplies are obliged to register for VAT.

Foreign entities that supply goods or services in Denmark for which they are not obliged to settle the VAT (because the VAT must be settled by the buyer under the reverse-charge regime) may NOT opt to register for VAT in Denmark.

Danish entities that are not required to register for VAT because their turnover does not exceed the threshold may choose to voluntarily register.

Both Danish and foreign businesses that lease out real estate can register voluntarily for the letting of real estate, which would lead to the letting becoming subject to VAT rather than exempt.

In certain cases where the sale of real estate would be exempt, it is also possible to voluntarily register for the sale of real estate to a VAT-registered business. In this case the sale would still be exempt, but the VAT incurred may be deducted and transferred as a VAT adjustment obligation under certain conditions.

It is also possible for certain businesses to register voluntarily for sale of investment gold.

D. VAT rates

The term "taxable supplies" refers to supplies of goods and services that are liable to a rate of VAT, including the zero rate.

In Denmark, the following are the two rates of VAT:
- Standard rate of 25%
- Zero rate (0%)

The standard rate of VAT applies to all supplies of goods or services, unless specific measures provides for the zero rate or an exemption.

Examples of goods and services taxable at 0%

- Newspapers
- Supplies to ships
- Supplies of gold to the Danish National Bank

The term "exempt supplies" refers to supplies of goods and services that are not liable to tax and that do not give rise to a right of input tax deduction (see Section F). Some supplies are classified as "exempt with credit," which means that no VAT is chargeable, but the supplier may recover related input tax. Exempt-with-credit supplies include exports of goods and related services, intra-Community supplies of goods and intangible services supplied to either another taxable person established in the EU or a recipient outside the EU (see the chapter on the EU).

Examples of exempt supplies of goods and services

- Medical services
- Education
- Financial services
- Insurance and re-insurance
- Supplies made by writers, composers and performing artists
- Cultural services

- Transport of passengers
- Investment gold
- Leasing of real estate

Option to tax for exempt supplies. It is possible to make a voluntary registration for letting and tenancy of real estate. The voluntary registration for letting of property must be at least two years. The two-year period starts when the first letting has commenced. In cases where the sale of real estate would be exempt, it is also possible to obtain a voluntary registration for the sale to a taxable business.

E. Time of supply

The time when VAT becomes due is called the "time of supply" or "tax point." The basic time of supply for goods is when they are delivered. The basic time of supply for services is when they are performed.

In Denmark, VAT is due when the invoice is issued, which is normally at the time of supply. In practice, however, the Danish tax authorities accept invoices that are issued after the time of supply if that is the taxable person's normal business practice.

Prepayments. The time of supply for an advance payment is when the supplier receives the payment even if the supply has not yet been made. This also applies if an invoice is not issued at this point in time (in which case, however, the customer will not be able to deduct the VAT until they receive an invoice). A final time of supply occurs when the supply has been completed.

Intra-Community acquisitions. The time of supply for an intra-Community acquisition of goods is the 15th day of the month following the month in which the acquisition occurred. If the supplier issues an invoice before this date, the time of supply is when the invoice is issued.

Imported goods. The time of supply for imported goods is the date of the customs clearance or the date on which the goods leave a duty suspension regime.

Reverse charge. Certain services imported from outside Denmark by a taxable person are subject to the tax under the "reverse-charge" mechanism, which means that the recipient of the service must account for VAT. The time of supply for a reverse-charge service is the VAT period in which the service is supplied or the period in which the invoice is issued if the invoice is issued shortly after the supply.

Cash accounting. There is no cash accounting scheme available in Denmark.

Continuous supplies of services. The time of supply of services where no final delivery has taken place is at the end of each VAT return period.

Continuous supplies of goods. When, as part of a continuous supply of goods, the delivery is taking more than one month and has not concluded, delivery is considered to have taken place on the last day of the month. If delivery is taking more than one year and has not concluded, and no payment has been made, delivery is considered to have taken place on the last day of the calendar year.

Leased assets. There are no special time-of-supply rules for supplies of leased assets in Denmark.

Goods sent on approval for sale or return. When goods are supplied in consignment/commission (sale or return), it is possible to choose between two different time of supply rules:

- The time of supply
  Or
- The time of the payment to the consignee

If the last possibility is chosen, the invoice must be issued at the time of payment.

If the goods are returned to the seller, the treatment that applies depends on which time of supply the seller and consignee have agreed upon. If they have chosen the time of supply, a credit note must be issued. If they have chosen the time of the payment to the consignee, no payment has taken place and the consignee can return the goods without further issues.

If the goods are not sold, the VAT treatment depends on the circumstances. It may be that no supply has taken place or it may be that a supply for no consideration has taken place.

Denmark does not have a specific time of supply rule for any supplies sent on approval for sale or return that are not under the consignment/commission setup, as outlined above.

F. Recovery of VAT by taxable persons

A taxable person may recover input tax, which is VAT charged on goods and services supplied to it for business purposes. Taxable persons generally recover input tax by deducting it from output tax, which is VAT charged on supplies made.

Input tax includes VAT charged on goods and services supplied in Denmark, VAT paid on imports of goods and VAT self-assessed on intra-Community acquisitions of goods and reverse-charge services.

A valid tax invoice or customs document must generally accompany a claim for input tax.

Nondeductible input tax. Input tax may not be recovered on purchases of goods and services that are not used for business purposes (for example, goods acquired for private use by an entrepreneur). In addition, input tax may not be recovered for some items of business expenditure.

The following lists provide some examples of items of expenditure for which input tax is not deductible, and examples of items for which input tax is deductible if the expenditure is related to a taxable business use.

Examples of items for which input tax is nondeductible

- Business gifts with a value of more than DKK100
- Purchase, lease or hire of a passenger car
- Maintenance costs for a passenger car
- Employee meals and entertainment

Examples of items for which input tax is deductible (if related to a taxable business use)

- 100% of hotel accommodation, if strictly for business purposes
- 25% of restaurant services, if strictly for business purposes
- Books
- Long-term lease of cars used for a business (a proportion)
- Attendance at conferences, seminars and exhibitions
- 50% of home telephone bill

Partial exemption. Input tax incurred that is directly related to making exempt supplies is not generally recoverable. Input tax wholly attributable to taxable supplies is recoverable in full. Only that portion of input tax attributable to exempt supplies is not recoverable. This situation is referred to as "partial exemption." Exempt with credit supplies are treated as taxable supplies for these purposes.

The amount of input tax that may be recovered is calculated in the following two stages:

- The first stage is the direct allocation of VAT to exempt and taxable supplies. Input tax directly allocable to exempt supplies is not deductible.
- The second stage is to prorate the remaining input tax that relates to both taxable and exempt supplies (for example, VAT incurred on business overhead) based on the percentage of total

turnover that is taxable. The pro rata calculation must be performed each year, and the recovery percentage is rounded up to the next whole number. For example, a recovery percentage of 77.2% is rounded up to 78%.

Capital goods. Capital goods are items of capital expenditure that are used in a business over several years. Input tax is deducted in the VAT year in which the goods are acquired. The amount of input tax recovered depends on the taxable person's partial exemption recovery position in the VAT year of acquisition. However, the amount of input tax recovered for capital goods must be adjusted over time if the taxable person's partial exemption recovery percentage changes during the adjustment period.

In Denmark, the capital goods adjustment applies to the following assets for the number of years indicated:

- Land and buildings including additions and alterations: adjusted for a period of 10 years
- Repair, maintenance and renovation of land and buildings if the annual cost exceeds DKK100,000: adjusted for a period of five years
- Items of machinery, equipment and furniture costing more than DKK100,000: adjusted for a period of five years
- Services that are comparable to physical capital goods, including software and rights, where such services have a purchase price exceeding DKK100,000

The adjustment is applied each year following the year of acquisition to a fraction of the total input tax (1/10 for land and buildings and 1/5 for other capital goods). The adjustment may result in either an increase or a decrease of deductible input VAT, depending on whether the ratio of taxable supplies made by the business increases or decreases compared with the year in which the capital goods were acquired.

Refunds. If the amount of input VAT recoverable in a period exceeds the amount of output VAT payable, a refund may be claimed by submitting the VAT return form.

Preregistration costs. Preregistration costs are refundable if they relate to the business's taxable activities. Whether or not the costs qualify for a refund, they must be individually assessed. Where the business is not registered from the start of the activities, there is a time limit of three years for obtaining a retroactive deduction (corresponding to the general statute of limitation for VAT).

Write-off of bad debts. To claim bad debt relief, the supplier must be able to demonstrate the loss by use of a court order. If a debtor is bankrupt, in liquidation, etc., or the debtor is dead, this is treated as the equivalent to a court order.

In regard to bad debt not related to bankruptcy and the like, it is sufficient that the supplier has made an effort to claim the amount through a debt collection agency or a lawyer or that the supplier himself has tried in vain to collect the amount. The debt must be considered lost and minimum internal chasing procedure must be performed in order to render it probable that the debt cannot be recovered. The chasing procedure must be reasonable compared to the size of the debt and the costs related to the collection.

Noneconomic activities. Costs related to noneconomic activities are not deductible. For overhead cost related to both economic and noneconomic activities, an evaluation must be made as to what extent the goods or services are related to the taxable activities.

G. Recovery of VAT by non-established businesses

The Danish tax authorities refund VAT incurred by businesses that are neither established nor registered for VAT in Denmark. A non-established business may claim Danish VAT to the same extent as a VAT-registered business and to the extent the VAT incurred is deductible in the country

of establishment. The refund procedure depends on whether the business seeking the VAT refund is established in the EU or in a third country. Refunds to businesses established in the EU are made under the rules in Directive 2008/9/EC. Refunds to businesses established outside the EU are made under the rules in Directive 86/560/EEC (13th VAT Directive). In practice, Denmark does not exclude businesses from any non-EU countries from the recovery scheme.

For the general rules of the EU VAT refund schemes, see the chapter on the EU.

Refund application. The deadline for refund claims for both EU and non-EU businesses is 30 September of the year following the year in which the tax is incurred.

Claims must be submitted in Danish, English, German or Swedish. The application for a refund must be accompanied by the appropriate documentation (see the chapter on the EU).

The minimum claim period is three months, while the maximum period is one year. The minimum claim for a period of less than a year is DKK3,000. For an annual claim, the minimum amount is DKK400. These limits apply to both EU and non-EU businesses.

Applications for refunds of Danish VAT may, for businesses established outside the EU, be sent to the following office:

Skattestyrelsen
Nykøbingvej 76
Bygning 45
DK-4990 Sakskøbing
Denmark

Businesses established in another EU Member State must apply for a VAT refund by following an electronic procedure (see the chapter on the EU).

Repayment interest. If the acceptance of the refund request and the payment of the refund (or the denial of the refund request) do not occur within six months, the Danish tax authorities pay interest to claimants for refunds under the general Danish rules.

H. Invoicing

VAT invoices and credit notes. A Danish taxable person must generally provide a VAT invoice for all taxable supplies made, including exports and intra-Community supplies.

A VAT invoice is necessary to support a claim for input tax deduction or a refund under the VAT refund schemes (see the chapter on the EU).

A VAT credit note may be used to reduce the VAT charged and reclaimed on a supply. It must be cross-referenced to the original VAT invoice and contain the same information.

Electronic invoicing. Effective 1 January 2013, the VAT law has been amended to permit electronic invoicing in line with EU Directive 2010/45/EU.

Proof of exports and intra-Community supplies. VAT is not chargeable on supplies of exported goods or on intra-Community supplies of goods (see the chapter on the EU). However, to qualify as VAT-free, exports and intra-Community supplies must be supported by evidence that proves the goods have left Denmark. Acceptable proof includes the following documentation:

- For an export, the seller must retain the signed customs documentation with a pro forma invoice and commercial evidence such as customer orders and contracts.
- For an intra-Community supply, the seller must indicate the customer's VAT identification number (from a different EU country) and must retain commercial documentation, such as purchase orders, transport documentation, and evidence of both payment and receipt of goods.

Foreign-currency invoices. A Danish VAT invoice may be issued in Danish kroner (DKK) or euros. If another currency is used, the amount of VAT must be converted into Danish kroner, either by using the current exchange rate or the official monthly customs exchange rate published by the Danish tax authorities.

B2C. Effective 1 January 2015, new rules apply to the place of supply for supplies of telecommunications, broadcasting and electronic services to non-VAT taxable customers. Please refer to the European Union chapter. Foreign businesses registered under the Mini One-Stop Shop scheme are exempt from the invoicing requirement when selling these services to Danish consumers.

Danish suppliers of these services are required to issue invoices to nontaxable customers.

I. VAT returns and payment

VAT returns. A Danish taxable person whose turnover exceeds DKK50 million must submit VAT returns on a monthly basis. A taxable person with a turnover of between DKK5 million and DKK50 million generally submits returns on a quarterly basis (monthly returns are optional). A taxable person with turnover of less than DKK5 million must submit returns on a half-yearly basis.

Monthly VAT returns and payments are due by the 25th day of the month following the return period. Quarterly VAT returns and payments are due by the first day of the third month following the end of the return period. Half-yearly VAT returns and payments are due by the first day of the third month following the end of the return period.

A summer VAT relief scheme allows filing and payment for the June period to be made by 17 August.

Returns must be completed and liabilities must be paid in Danish kroner.

Mini One-Stop Shop (MOSS). Suppliers of B2C e-services, broadcasting and telecommunications in the EU can register for the VAT MOSS scheme.

Electronic filing and archiving. It is generally compulsory for local businesses and foreign businesses to submit VAT returns online, using the Danish tax authorities' website, www.skat.dk through "E-tax for businesses" ("Tast Selv").

VAT records must be kept for five years, and if the records concern immovable property covered by the capital goods scheme, they must be kept for 10 years. VAT records may be kept electronically or on microfilm, and the company must provide the tax authorities a description of the method of storage in order to make it possible to locate the relevant records and print them out.

Access to stored records on a server outside Denmark depends on the location of the server and an approval from the Danish authorities.

Annual returns. Not applicable.

Special schemes. The VAT law in Denmark does not provide any special VAT accounting schemes or VAT returns for certain groups of taxable persons.

J. Penalties

The penalty for the late submission of a VAT return is DKK65 per reminder for payment. If a business still does not submit its VAT return, the Danish tax authorities will submit a temporary VAT return on behalf of the business. An extra duty of DKK800 will apply for this. In addition, interest is levied for late payment of VAT. The interest rate for 2019 is 0.7% per month, calculated on a daily basis. This interest is not deductible for income tax purposes.

K. EU filings

Intrastat. Danish taxable persons that trade with other EU countries must complete statistical reports, known as Intrastat, if the value of their sales or purchases exceeds certain thresholds. Separate reports cover intra-Community acquisitions (Intrastat Arrivals) and intra-Community supplies (Intrastat Dispatches).

The 2019 threshold for arrivals is DKK6.7 million, and for dispatches it is DKK5 million.

Danish taxable persons must complete Intrastat declarations in Danish kroner. Euros may not be used.

The Intrastat return period is monthly. The submission deadline is the 10th working day of the month following the end of the Intrastat return period.

If a report is late or missing, a fine of DKK550 is imposed. Continued failure to report will be sanctioned by the police and the legal courts.

EU Sales Lists. If a Danish taxable person makes intra-Community supplies or renders services that are subject to reverse charge in another EU country in any return period, it must submit an EU Sales List (ESL). An ESL does not need to be submitted for a period in which no intra-Community supplies are made.

ESLs must be submitted on a monthly basis. In some cases, businesses that have limited intra-Community supplies may obtain permission to submit ESLs on a quarterly basis.

ESLs must be completed in Danish kroner.

If an ESL is late, a reminder penalty of DKK65 is imposed.

Dominican Republic

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A. At a glance

Name of the tax	Tax on the Transfer of Industrialized Goods and Services
Local name	Impuesto sobre Transferencias de Bienes Industrializados y Servicios (ITBIS for its Spanish acronym)
Date introduced	May 1992
Trading bloc membership	None related to VAT
Administered by	Dirección General de Impuestos Internos (DGII) (www.dgii.gov.do)
ITBIS rates	18%, 16%, 0% and exempt
ITBIS number format	Tax identification number (known as the "RNC" number)
ITBIS return periods	Monthly
Thresholds	No thresholds apply
Registration	None (smaller businesses may be treated differently; see Section C)
Recovery of ITBIS by non-established businesses	No

B. Scope of the tax

ITBIS applies to the following transactions:
- Supply/transfer of industrialized goods
- Importation of industrialized goods
- Leasing and rendering of services

C. Who is liable

The following are ITBIS taxpayers:
- Individuals or business entities, whether domestic or foreign, that habitually supply industrialized goods as part of their industrial or commercial activities
- Individuals or business entities engaged in the importation of goods subject to ITBIS
- Individual or business entities that render services subject to ITBIS

No turnover threshold applies to ITBIS registration.

Within 30 days after beginning taxable activities, the taxpayer must notify the tax authorities of its activities. In addition, VAT taxpayers must issue tax valid invoices for their operations. An authorization for fiscal supporting numbers (*Números de Comprobantes Fiscales* or *NCF*) for tax valid invoices to be issued by VAT taxpayer should be requested from tax authorities prior to the issuance of any tax valid invoice.

Small and medium taxpayers. A taxpayer may use a simplified tax procedure (*Procedimiento Simplificado de Tributación*, or PST) if it meets certain purchase or income criteria that qualify it as a small or medium taxpayer.

The PST based on purchases applies to a taxpayer that makes annual purchases of DOP40,759,725 (approximately USD815,200) or less and satisfies at least one of the following conditions:
- It performs commercial activities related to retail sales to final consumers.
- It performs commercial activities related to wholesale or retail sales of merchandise if the industrial products (products that are subject to industrial transformation) are acquired directly and principally from the national industries or from wholesale sellers of industrial products.
- It manufactures goods using materials acquired from the local market, and its sales are made to taxpayers that do not benefit from the PST.

If the PST is adopted following the purchasing criteria, it allows the liquidation of the ITBIS based on the difference between the gross income and the purchases (gross value added).

The PST based on income criteria applies to a small taxpayer that satisfies all of the following conditions:
- The taxpayer has annual income of DOP8,771,771 or less (approximately USD175,435).
- The taxpayer does not use an organized bookkeeping method.
- The taxpayer's income satisfies one of these criteria:
  - — The income is exempt from ITBIS.
  - — More than 50% of the income is derived from ITBIS-exempt activities.
  - — 100% of the ITBIS that arises from the rendering of services is subject to withholding.

The above provisions may include measures designed to reduce the frequency of the filing of ITBIS returns and to simplify other ITBIS requirements.

Group registration. Although the tax authorities do not apply group registration in practice, under the Dominican ITBIS provisions the tax authorities may consider as unique taxpayers entities, individuals, enterprises or a combination of them, if they supply or render ITBIS-taxable goods or services and if these activities are controlled by the same person or persons (individuals, entities or combinations). If an individual exercises control or administers several businesses or establishments, the ITBIS imposed is considered to be the ITBIS of such individual.

Non-established businesses. A "non-established business" is a business that has no fixed establishment in the Dominican Republic. The Dominican Tax Law does not provide a mechanism for the payment of the ITBIS from non-established businesses. Consequently, a non-established business must register to pay ITBIS to the tax authorities if it supplies goods or services in the Dominican Republic. Once registered before the local authorities, the entity will be considered domiciled for fiscal purposes and will have to comply with all tax duties and obligations as if it

were a resident entity. To register for ITBIS, a non-established business must register with the Chamber of Commerce and the tax authorities.

To register for ITBIS, a non-established business must register with the Chamber of Commerce and the tax authorities.

The Dominican tax regulations do not provide a reverse-charge or refund mechanism for these entities.

Tax representatives. At the moment of registering an entity as VAT taxpayer, a tax representative must be appointed.

Reverse charge. Not applicable.

Digital economy. There are no specific VAT rules in relation to the digital economy. In principle, the same VAT rules should apply to goods and services that are provided digitally, nonetheless, the rules are not that clear.

Registration procedures. Individual persons should submit Form RC-01 to the tax authority with a copy of their ID or passport. Legal entities should first register before the local Chamber of Commerce and then request to the tax authority their incorporation into the National Taxpayers Registry (RNC) through Form RC-02, attaching copies of their corporate documentation.

Late-registration penalties. A taxpayer that fails to register for ITBIS on a timely basis may not deduct tax on goods purchased by the business that form part of its inventory at the time of registration. The tax authorities may assess unpaid ITBIS, and penalties and interest are also assessed for late registration.

Deregistration. In order to deregister from the National Taxpayers Registry (RNC for its Spanish acronym), taxpayers must request from the tax authority an authorization for business termination, and additionally submit within 60 days after its business termination, a final income tax return. Legal entities must also provide corporate documentation approving the dissolution of the corporation.

Exemption from registration. The ITBIS law in the Dominican Republic does not contain any provisions for exemption from registration for entities or individuals that make taxable supplies.

Voluntary registration. The VAT law in the Dominican Republic does not contain any provision for voluntary VAT registration, as there is no registration threshold (i.e., all individuals or business entities that make taxable supplies or provide services (including exempted) are obliged to register for VAT).

D. ITBIS rates

In the Dominican Republic, the standard rate of ITBIS is 18%, which applies to all supplies and importations of goods and to the list of taxable services, unless a specific provision allows a reduced rate, a zero rate or an exemption.

Examples of items taxed at 16%

- Yogurt and other dairy derivatives
- Coffee
- Butter, margarine and oils
- Powdered cacao (with or without sugar) and unfilled cacao bars
- Sugar

Examples of exempt goods and services

- Live animals
- Fresh, refrigerated or frozen meat

- Fish for popular consumption or reproduction
- Milk, eggs, and honey
- Non-processed fruit for massive consumption
- Cocoa, chocolate and some grains and cereals
- Certain types of medicines
- Certain types of books and magazines
- Education services, including theatre, ballet, opera, and dance
- Health services
- Electricity, water, and garbage collection services
- Financial services (including insurance)

Option to tax for exempt supplies. Not applicable.

E. Time of supply

The time when the taxable event is considered to take place and ITBIS becomes due is called the "tax point."

Supply of goods. The basic time of supply of goods is when the invoice is issued or, if an invoice does not exist, the time of the delivery or the withdrawal of the goods.

Services. The basic time of supply for services is the earlier of the following: (i) when the service is performed, (ii) when the invoice is issued or (iii) when the price is paid in full or in part.

The basic time of supply for services is the earlier of the following:
- When the service is performed
- When an invoice is issued
- When the service is completed
- When the price is paid in full or in part

Imports. The time of supply for imported goods is when the goods are placed at the disposition of the importer.

Leasing. The time of supply for leasing is when the good is delivered to the lessee or when the leasing agreement is signed, depending on the property being leased. For long-term leasing or rent, the time of supply is when lease payments (installments) are due or paid.

Deposits and prepayments. The time of supply can be when the price is paid in full or in part, if it occurs before the issuance of the invoice or the provision of the service.

Goods sent on approval for sale or return. The time of supply is when an invoice is issued by the receiver of the goods once it sells it to a third party.

If the goods are returned to the original seller, no VAT should apply.

Leased assets. The time of supply for leasing assets is when the lease payment is due, according to contractual terms, or when it is paid, whichever occurs first.

Local legislation does not provide a special rule if the lease results in the transfer of ownership of the underlying assets. Nonetheless, the general time of supply rules should apply.

Reverse-charge services. Local legislation in the Dominican Republic does not contain any provision for ITBIS for reverse-charge services.

Continuous supplies. When there is a periodic payment/invoicing for ongoing services, the time of supply for the services is the earlier of when the invoice is issued or when the price is paid (in full or in part).

F. Recovery of ITBIS by taxable persons

An ITBIS taxpayer may deduct as input tax the advance taxes paid with respect to the following purchases:
- The purchase of domestic goods and services that are subject to ITBIS
- The importation of goods subject to ITBIS

The right to deduct advance taxes must be supported by proper documentation related to the local purchase or the importation of the goods.

Partial exemption (proportional ITBIS deduction). If it is not possible to determine whether the goods purchased or imported by a taxpayer have been used in performing taxable or exempt activities, the ITBIS deduction is proportional. The deductible proportion is based on the value of the taxpayer's taxable operations in the tax year compared with the value of its total operations for the tax year.

$$\text{ITBIS Deduction} = 100 \times \frac{\text{Taxable operations}}{\text{Total operations}}$$

ITBIS not deductible according to this formula should be considered as a cost of production for the goods supplied or services provided.

Refunds. Exporters that have excess credits for advance taxes paid on the purchase of materials employed in production of exported goods may request a refund for the advance tax.

If an invoice is voided within 30 days after its issuance, a refund of the ITBIS may be requested in that period.

Preregistration costs. Taxpayers are not permitted to recover input VAT paid on purchases made prior to VAT registration.

G. Recovery of ITBIS by non-established businesses

The Dominican Republic does not refund ITBIS incurred by foreign or non-established businesses unless they are registered as taxpayers with the tax authorities.

H. Invoicing

Invoices and credit notes. An ITBIS taxpayer must provide invoices indicating the amount of ITBIS collected for the taxable supplies made. In addition, invoices must include a Fiscal Supporting Number (*Número de Comprobante Fiscal*, or NCF from its Spanish acronym) and the Taxpayer's Registration Number (RNC), among other requirements.

An invoice showing the NCF, RNC and the ITBIS amount separate from the total amount is generally necessary to support a claim for an input tax credit.

An ITBIS credit note may be used to reduce the ITBIS charged and reclaimed on a supply of goods and services within the next 30 days of the issuance of the invoice or the supply of the goods.

The invoice for every supply of goods or services rendered must show an NCF. The NCF is made up of an alphanumeric sequence granted by the tax authorities at the request of the taxpayer.

The NCF is required to support deductions for income tax purposes or ITBIS credits.

Invoices with NCFs may be printed directly by taxpayers through their computer systems or by establishments duly authorized by the tax authorities.

Exports. Exported goods are zero-rated for ITBIS purposes. Under the ITBIS Law, a compensation and reimbursement procedure is provided for exporters. This procedure allows the compensation or reimbursement of the ITBIS charged with respect to goods to be used for exportation activities.

Foreign-currency invoices. It is acceptable for invoices including NCF to be issued in a foreign currency.

Electronic invoices. Currently in the DR, electronic invoices are not implemented.

B2C. No special rules apply for VAT invoices. They must all contain their corresponding NCF in order to be valid for fiscal purposes. However, certain businesses could be exempted from issuing individual tax invoices for final consumers based on the volume of their operations (e.g., supermarkets, gas stations, retailers) by being allowed to group tax invoices to final consumers in a single tax invoice, per day. Approval from the tax authority is required for the application of this rule.

I. ITBIS returns and payment

ITBIS returns. ITBIS returns are submitted monthly. ITBIS taxpayers shall file and pay the corresponding ITBIS amount through the form IT-1 the first 20 days of the following month of the verification of the tax liability. A tax return must be filed, even if no ITBIS is due by the taxpayer for the period.

Tax due must be paid in Dominican pesos (DOP).

Pursuant the provisions of the Dominican tax code, all taxpayers are required to file the form IT-1 concerning ITBIS within the first 20 days of the following month of the verification of the tax liability.

Tax due must be paid in Dominican pesos (DOP).

Special schemes. None.

Electronic filing and archiving. ITBIS returns should be monthly submitted via the tax authority's virtual office, through Form IT-1.

Annual returns. There are no annual ITBIS returns. IT-1 forms shall be submitted monthly.

J. Penalties

Penalties can be imposed for late payment, tax evasion, failure to comply with formal duties and tax fraud.

Late payments or noncompliance with tax obligations. The following are the penalties for late payments of ITBIS or for the noncompliance with tax obligations:

- Surcharges: charged at 10% of the unpaid tax for the first month or fraction of a month, and at 4% per month for each successive month or fraction of a month.
- Interest: charged at 1.10% per month or fraction of a month. This amount is added to the surcharge.

Tax evasion. Tax evasion that does not constitute fraud occurs if, by any action or omission, a taxpayer files an inaccurate tax return that results in a reduction in the tax payment to be made to the tax authorities. The penalty may consist of up to twice the unpaid amount plus interest and the closure of the business. If the amount of the unpaid tax cannot be determined, a fine ranging from 10 to 50 times the minimum salary (the minimum salary is approximately USD200) may be imposed. The tax evasion penalty may not be applied simultaneously with surcharges for late payment.

Failure to comply with formal duties. Failure to fulfill formal tax duties could result in a fine of 5 to 30 times the minimum salary. The following, among others, are the violations:
- Failure to maintain accounting books or records required by law
- Providing false information when registering for ITBIS
- Not registering in the relevant tax registries
- Refusing to provide information to the tax authorities
- Failure to file tax returns for the calculation of tax payments (among others)

Tax fraud. Tax fraud occurs when information has been altered in a manner that causes the tax authorities to incorrectly compute the amount of tax due. The consequences of tax fraud may include a penalty ranging from 2 to 10 times the amount of the evaded tax, closure of the business establishment or the cancellation of an operating license.

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A. At a glance

Name of the tax	Value-added tax (VAT)
Local name	Impuesto al valor agregado (IVA)
Date introduced	31 December 1981
Trading bloc membership	None
Administered by	Ecuadorian Internal Revenue Service (IRS) (http://www.sri.gob.ec)
VAT rates	
Standard	12%
Other	0% and exempt
VAT number format	The nine-digit Tax ID is applicable to all taxes.
VAT return periods	Monthly
Thresholds	
Registration	None
Recovery of VAT by non-established businesses	No

B. Scope of the tax

VAT is levied on the following transactions:
- The supply of goods or rendering of services performed in Ecuador
- The importation of goods and services from outside Ecuador
- The supply of copyrights, industrial property and related rights (this includes intellectual property)

C. Who is liable

A VAT taxable person is an individual or business entity that, in the course of doing business in Ecuador, engages in the following actions:
- Transfers and/or imports of physical movable goods
- Performance and/or importation of services

No registration threshold applies.

The definition of a VAT taxable person also applies to a permanent establishment (PE) of a foreign business, located in Ecuador.

Group registration. VAT grouping is not allowed under Ecuadorian VAT law. Legal entities that are closely connected must register for VAT individually.

Non-established businesses. If non-established businesses perform transactions on which VAT is levied, a sales and purchase receipt must be issued by the local company and the VAT payable is levied from the local company (reverse charge). Please see the *reverse charge* section below.

Tax representatives. Foreign companies may select a resident person or legal entity to represent the taxpayer to the tax authorities. This is not limited to VAT issues but must include all tax matters between the taxpayer and tax authorities in Ecuador.

Reverse charge. A self-invoice is issued in case of self-consumption or donation, and for imported services. In case of self-consumption or donation, the price has to be the market price or higher, and VAT is levied. The legal requirements applicable are the same as for a normal sales invoice.

For imported services, the local entities must issue a sales and purchase receipt in order to charge the VAT over the services billed from abroad. The VAT on import of goods is settled by the local customs authority.

Registration procedures. Private entities must file before the tax authority the following documents:
- Form RUC-01-A signed by the legal representative
- Public deed of the constitution of the company duly registered in the Commercial Registry
- Legal representative's appointment duly registered in the Commercial Registry
- General data sheet provided by the Superintendance of Companies
- Legal representative's ID or passport

To register for VAT, the business must register for a tax ID and this must be performed directly in the tax authority's offices. All documents must be originals and notarized copies. The legal representative must perform the registration directly or file a letter of authorization to the person in charge of this process. The estimated time for this procedure is three hours.

Late-registration penalties. In order to proceed with commercial activities in Ecuadorian territory, legal entities must first obtain a Tax ID. There are no penalties for late registration.

Digital economy. There are no specific requirements for digital economy transactions other than general VAT regulations. For business-to-business transactions, the services provided by a non-

resident business are generally subject to 12% VAT with respect to imported services. The customer is expected to self-assess and pay VAT, which may be used as a tax credit.

For business-to-customer transactions, payment is generally subject to a 5% currency exportation tax, which is the responsibility of the customer. The 5% currency exportation tax also applies in general to any payments that are made by the customer to the supplier (for business-to-business and business-to-consumer transactions).

Deregistration. If a person or legal entity ceases its commercial activities in Ecuadorian territory, then a request to cancel the Tax ID must be submitted to the tax authority in order to prevent penalties and new tax obligations.

This process can be done online with the correspondent username and password to use electronic media of the company before the IRS.

Exemption from registration. The tax law in Ecuador does not contain any provision for exemption from registration. However, foreign businesses are not required to be registered for tax purposes in Ecuador unless their activities trigger a permanent establishment.

Voluntary registration. The tax law in Ecuador does not contain any provision for voluntary registration.

D. VAT rates

The general rate of VAT in Ecuador is 12%. A zero rate (0%) can apply, preserving the right to deduct input VAT.

Examples of goods and services taxed at 0%

- Unprocessed food
- Agricultural goods (such as certified seeds, plants and roots) and equipment
- Drugs and veterinary products
- Paper, newspapers, magazines, books and publishing services
- Exported goods
- Transport of persons and materials and air cargo transport
- Education
- Health services
- Public supply of electricity, drinking water and sewerage services
- Rent for housing purposes
- Financial securities exchanges
- Electric kitchens with induction systems for domestic use
- Solar panels and plants for wastewater treatment
- LED lamps
- Electric vehicle chargers

Some supplies are exempt from VAT, which generally means there is no right to deduct input VAT.

Examples of goods and services exempt from VAT

- Sale of a business
- Mergers, spin-offs and conversions of companies
- Donations to charities
- Transfers of stock, shares and other negotiable instruments
- Real estate rental payments and related maintenance costs

Option to tax for exempt supplies. Not applicable.

E. Time of supply

The time when VAT becomes due is called the "time of supply" or "tax point." The basic time of supply is when the goods are transferred or when the services are performed. The invoice for the transaction must be issued at the time of supply.

The total amount of VAT must be paid even in credit operations.

Imported goods. The time of supply for imported goods is either the date of importation or the date on which the goods leave a duty suspension regime.

Deposits and prepayments. There is no special time of supply rule in Ecuador for deposits and prepayments.

Goods sent on approval for sale or return. For the supplies of goods sent on approval for sale or return, and the sale takes place, then the normal tax point is when the goods are sold. However, where the goods are sent for approval and no sale takes place, then no VAT needs to be accounted for. If the goods, having been sent to the customer on approval, and no sale takes place but are returned to the supplier, then no VAT is to be refunded (as none was accounted for when sending the goods for approval) and no credit note is required to be issued. A credit note is only required to be issued when a sale takes place and then the goods are returned to the supplier, and refund is required.

Leased assets. Leased assets are subject to 12% VAT. The time of supply of leased assets is every month against the invoice or every duly established period of time as agreed in the lease agreement.

Reverse-charge services. If an Ecuadorian taxpayer imports services, he has to self-assess and determine the applicable VAT when the expense is recognized and recorded in the accounting books. The tax has to be paid the next month from the date in which the self-assessment was issued. When paying for the services, the purchaser must withhold the VAT.

Continuous supplies. There is no special time of supply rule in Ecuador for continuous supplies. Therefore, the general time of supply rules apply (as outlined above) and as such the tax is due when the goods are transferred or the services provided. The time to issue the corresponding invoice and to levy the VAT is agreed between the parties if the services or the goods are delivered periodically. Nevertheless, the expense solely can be considered as deductible once the service is rendered or the goods are delivered.

F. Recovery of VAT by Ecuadorian taxable persons

Input tax may be recovered with respect to the following:
- Exportation of goods and services (some restrictions apply)
- Importation and local acquisition of goods and raw materials used in the production of exported goods
- The provision of goods or services to governmental entities (some restrictions apply)
- The activities of audiovisual, television and cinematographic productions (some restrictions apply)

The recovery may be achieved through the offsetting of VAT receivable against VAT payable or through a claim to the tax authorities.

If a taxpayer registers a VAT amount for which a credit exists as an expense, the expense is not deductible for income tax purposes.

The use of the VAT credit paid on local purchases and imports of goods and services can be used for up to five years. The specific request for the reimbursement of VAT credit is not allowed.

Partial exemption (input tax credit system). Taxpayers that produce goods or supply services that are subject to 12% VAT may recover the full input tax paid, netting it with local acquisitions. The same treatment applies to VAT taxable persons that export goods and services. VAT input tax can be recovered with respect to imports of fixed assets and goods, raw materials and services necessary to produce and trade taxable goods and services.

Taxable persons that exclusively produce or sell goods, or supply services that are subject to VAT at the zero rate (other than exports of goods or services), are not entitled to any input tax recovery.

VAT taxable persons that supply goods or render services that are subject to VAT at both rates (12% and 0%) may recover a proportion of input tax.

The recovery percentage is calculated using a pro rata method, using the ratio of the total value of supplies made at the standard rate plus exports to the total value of all supplies made. The following is the ratio:

$$\frac{\text{Supplies subject to a rate of 12\% + exports}}{\text{Total sales + exports}}$$

Refunds. If the amount of input VAT (credit VAT) recoverable in a month exceeds the amount of output VAT (debit VAT) payable, the excess credit may be carried forward to offset output tax in the following tax period.

G. Recovery of VAT by non-established businesses

Ecuador does not refund VAT incurred by foreign businesses unless they have a PE in Ecuador.

H. Invoicing

VAT invoices. In general, a VAT taxpayer must issue an invoice for all taxable transactions performed, including exports. Such invoices are necessary to support a tax credit.

Exports. Ecuadorian VAT is not chargeable on supplies of exported goods or services. However, to qualify as VAT-free goods, exports must be supported by customs documents evidencing that the goods have left Ecuador.

Foreign-currency invoices. Invoices related to supplies made in Ecuador must be issued in US dollars (USD).

B2C. There are no special rules for supplies made to non-registered customers (private consumers). A taxable person must issue full VAT invoices for all of its supplies it makes.

Electronic invoicing. From 2019, electronic invoicing is mandatory in general for all taxpayers (special taxpayers, exporters, internet-based sellers, issuers and administrators of credit cards, financial institutions, and entities that develop television and communication activities, etc.). Nevertheless, any taxpayer can apply to the tax authority in order to issue electronic invoices.

Special taxpayers are companies or individuals subject to a special tax regime that includes regulations that are not applicable to all taxpayers. A taxpayer will be considered as a "special taxpayer" if the Ecuadorian IRS decides it through an official resolution. The taxpayer must be considered as "special" regarding the volume of its transactions and strategic interest for the IRS.

Electronic invoices are subject to the same general rules applicable to regular invoices. Taxpayers that issue electronic invoices must include information such as: the amount of the transaction, the applicable VAT rate, date and place of issuance, identification of the taxpayers involved in the transaction, among others.

Taxpayers must issue electronic invoices for the supply of the goods and services and store them for at least seven (7) years. The electronic invoices must be forwarded to the Ecuadorian IRS and the purchaser, when issued. The no compliance of the latter may cause the imposition of sanctions to the provider such as the closing of facilities.

I. VAT returns and payment

VAT returns. VAT returns are generally submitted monthly. VAT returns and payment in full are due between the 10th and the 28th day of the month following the end of the return period. To determine the filing deadline for a VAT taxable person, the tax administration uses the ninth number of its tax identification number (RUC).

In certain circumstances, VAT-taxable persons that supply goods and services exclusively at the 0% rate may submit VAT returns every six months.

VAT shown in tax returns must be paid in US dollars.

Special schemes. Taxpayers who perform only 0% VAT rated sales and purchases must file a VAT return every 6 months, due between the 10th and the 28th day of July (for transactions performed between January and June) and January (transactions performed between July and December).

Electronic filing and archiving. All VAT returns must be electronically filed according to the schedule specified above and using the software provided by the tax authority, which can be downloaded from the website www.sri.gob.ec.

Annual returns. Annual returns are not required in Ecuador.

J. Penalties

A range of penalties is assessed for errors and omissions with respect to VAT accounting, including the late filing of a VAT return or late payment of the tax. The interest rate for late payment is set every quarter.

Penalties for noncompliance with VAT obligations include fines of up to five times the amount lost by the tax authorities, closure of the business and imprisonment.

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A. At a glance

Name of the tax	Value-added tax (VAT)
Local name	Al Dareeba Ala el Qema Al Modafa
Date introduced	7 September 2016
Trading bloc membership	None
Administered by	Ministry of Finance (www.mof.gov.eg)
VAT Rates	
Standard	14% (effective from 1 July 2017)
Reduced	5% on machinery and equipment.
Other	0% on Exported goods and services. Table tax rates due on certain goods and services
Number format	123/456/789
Return periods	Monthly
Thresholds	
Registration threshold:	EGP500,000 annual turnover
Recovery of VAT by Non-established businesses:	Not applicable in Egypt (reverse charge is applicable)

B. Scope of the tax

All local and imported goods and services are subject to VAT except those specifically exempted (see Section D VAT rates). Services are defined in the law as any work that is imported or performed locally that is not classified as goods.

Table tax. The VAT law provides a table with tax rates that are applicable to certain goods and services (either instead of the general VAT rate or in addition to the general VAT rate):
• Goods and services subject to table tax rates only
• Goods and services subject to table tax rate in addition to the VAT rate

Details are provided below.

C. Who is liable

Any natural person or legal entity whose gross sales value reaches the registration threshold after the date of enforcement law in any financial year or part of it, must register with the tax authority within 30 days from the date of exceeding the threshold.

Group registration. Not applicable.

Non-established businesses. If a nonresident person (whether a natural person or legal entity), that is not registered with the Egyptian tax authority renders a service that is subject to VAT in Egypt, to a person who is not registered in Egypt, the nonresident person is obliged to appoint a representative or an agent in Egypt to fulfill all its obligations due under the law including registration, payment of VAT, the additional tax and any other taxes due according to the VAT law.

Tax withholding. If the nonresident supplier does not appoint a representative or agent in Egypt, then the Egyptian resident receiving the service is obliged to remit the VAT within 30 days from making the payment, and any other tax due, to the tax authority.

Reverse charge. If an Egyptian VAT registrant imports a service that is necessary for its VAT taxable activity, the Egyptian registrant is considered to be an importer and the supplier of the service, at the same time.

If a nonresident person, who is not registered with the Egyptian tax authority renders a service to a VAT registrant that is not necessary for its business activity, or to a governmental entity or to a general authority or an economic authority, the service recipient should account and remit the VAT due to the Egyptian tax authority within 30 days from the date of sale, if the nonresident supplier does not appoint a tax representative or agent on his behalf.

If the VAT is not paid within the legal deadline, an additional tax will be payable with and through the same procedures of the original tax payment.

A VAT registrant who has paid the VAT due on the services received from a nonresident person is entitled to deduct this input tax if all conditions and rules stated in Article 22 of the law are fulfilled.

Digital economy. Normal VAT rules apply to digital goods and services. There have been no recent legislative changes in this area.

Registration procedures. The taxpayer must fill in a hard copy registration form, attaching copies of the entity tax card, commercial register and import card. The originals should be provided for reviewing.

The registration form may be submitted by the entity representative with a power of attorney.

Late-registration penalties. Penalties for late registration range from EGP500 to EGP5,000 in addition to 1.5% monthly additional tax on the tax due.

Deregistration. An entity wishing to deregister should submit a request in writing to the tax authority, along with documentation proving the submission of the tax registration document and the cancellation of the entity in the commercial register.

Exemption from registration. The VAT law in Egypt does not contain any provision for exemption from registration.

Voluntary registration. The VAT law in Egypt does not contain any provision for voluntary VAT registration.

Tax representatives. If a nonresident person (both natural and legal), not registered with the ETA, renders a service subject to VAT in Egypt, to a person not registered in Egypt, this person is obliged to appoint a representative or an agent in Egypt to fulfill all the obligations due on the nonresident, as provided by law (including registration, payment of VAT, the additional tax and any other taxes due according to the VAT law).

If the nonresident party does not appoint a representative or agent in Egypt, then the Egyptian resident receiving the service is obliged to remit the VAT and any other tax due according to the VAT law, to the tax authority without breaching its right to reimburse the tax payments made from the nonresident vendor.

If a nonresident person not registered with the ETA renders a service to a VAT registrant not necessary for their activity, to a governmental entity or a general authority or an economic authority, then the service recipient should account and remit the VAT due to the ETA within 30 days from the date of sale if the nonresident party does not appoint a tax representative or agent on his behalf. VAT registrants who import a service necessary for their VAT taxable activity, are considered as an importer and a supplier of the said service at the same time.

If the VAT is not paid within the legal deadline, an additional tax will be payable with and through the same procedures of the original tax payment. The VAT registrant who paid the VAT due on the services received from a nonresident person is entitled to deduct this input tax if all conditions and rules stated in Article 22 of the law are fulfilled.

D. VAT rates

Effective 1 July 2017, the general VAT rate is 14%.

Examples of supplies of goods and services taxable at 5%

Machinery and equipment used in producing taxable or nontaxable goods or rendering services are subject to a 5% VAT rate.

Examples of goods and services taxable at 0%

Exported goods and services are subject to a zero VAT rate.

Examples of goods and services subject to table tax

Special rates apply to a number of goods and services listed in the tables attached to the VAT law, as follows:

Goods and services subject to the table rates only

- Tobacco and tobacco products
- Petroleum products
- Vegetable oils — 5% (*)
- Animal oils and tallow, partially or wholly hydrogenated — 5% (*)
- Crackers and flour products — 5% (*)
- Processed potatoes
- Fertilizers, agricultural pesticides
- Gypsum
- Contracting work, and construction (supply and installation) — 5% (*)
- Soap industrial detergents for home use
- Air-conditioned means of transportation, such as buses and trains between the governorates
- Professional and consultancy services
- Media and program production — 5% (*)

(*) Rates provided as an illustrative example

Goods and services subject to the table rates and the VAT general rate (14%), with a right to deduct the input VAT up to the application of VAT at the general rate:

- Soda water, 8%+14% (**)

- Non-alcoholic drinks, 8%+14% (**)
- Alcoholic drinks
- Beer (alcoholic and non-alcoholic)
- Aromatic preparations (skin or hair care), 8%+14% (**)
- TVs larger than 32 inches, refrigerators larger than 16 feet
- Air conditioning units and their independent devices
- Golf carts and similar vehicles, 10%+14% (**)
- Passenger cars
- Communications services through cellular phone networks

(**) Rates provided as illustrative example

Examples of exempt supplies of goods and services

A table lists 57 exempted goods and services (with no right to deduct input tax) including:
- Tea, sugar and coffee
- Banking services
- Medicines and active substances
- Health care services
- Production, transfer, sale or distribution of electric current
- Education, training and research services
- Sale and rental of land and residential and nonresidential buildings
- Free services that broadcast through radio and television

Option to tax for exempt supplies. Not applicable.

E. Time of supply

The time when VAT becomes due is called the "time of supply" or "tax point." The basic tax point under Egyptian law is the time when the transfer of the ownership of the goods or the rendering of service to the buyer takes place, including if the supplier is an importer.

The following are treated as the time of sale, whichever happens the earlier:
- Issuing the invoice
- Delivery of the goods or rendering the service
- Payment of the price for goods or the service charge, whether wholly or in part

Continuous supplies of services. If services are supplied continuously, a tax point is created each time the vendor issues an invoice.

The following shall be considered services of a continuous nature:
1. Communication and facsimile services
2. Contracting services of construction and building
3. Cleaning and guarding services
4. Transport services of goods and materials

Imported goods. The VAT on imported goods is due on customs clearance.

Deposits and prepayment. A deposit or prepayment, is considered to be the tax point if payment takes place before issuing the invoice or the delivery of goods or the rendering the services as explained above in (time of supply).

Reverse-charge services. If a nonresident person (both natural and legal), not registered with the ETA, renders a service subject to VAT in Egypt, to a person not registered in Egypt:

This person is obligated to appoint a representative or an agent in Egypt to fulfill all the obligations due on the nonresident, as provided by law, including registration, payment of VAT, the additional tax and any other taxes due according to VAT law.

If the nonresident party does not appoint a representative or agent in Egypt, the Egyptian resident receiving the service is obliged to remit the VAT and any other tax due according to VAT law to the tax authority, without breaching his right to reimburse the tax payments made from the nonresident vendor.

If a nonresident person, who is not registered with the ETA, renders a service to a VAT registrant not necessary for their activity, to a governmental entity or a general authority or an economic authority, the service recipient should account and remit the VAT due to the ETA within 30 days from the date of sale if the nonresident party does not appoint a tax representative or agent on his behalf.

VAT registrants who import a service necessary for their VAT-taxable activity are considered as an importer and a supplier of the said service at the same time.

If the VAT is not paid within the legal deadline, an additional tax will be payable with and through the same procedures of the original tax payment.

The VAT registrant who paid the VAT due on the services received from a nonresident person is entitled to deduct this input tax if all conditions and rules stated in Article 22 of the VAT Act are fulfilled.

Leased assets. According to VAT law, a lease payment is considered as a payment for a service subject to the general rate of 14% provided that the legal title of the asset does not pass to the lessee.

Goods sent on approval for sale or return. The time of supply for goods sent on approval for sale or return, is the transfer of the ownership of goods or the services rendering from the supplier to the buyer, even if the supplier is the importer. According to the provisions of the VAT Act, the following shall be considered as the transfer of ownership, and the time of supply is whichever is earliest:

- Issuing the invoice
- Delivery of the goods or rendering of the service
- Payment of the good's price or the service charge, whether wholly or partially, or on credit, or by any other means of payment, in accordance with the different conditions of payment

If the goods are sold but are returned to the seller, the supplier upon originally calculating and paying across the VAT, shall be entitled to deduct the VAT due on the value of its sales, the VAT previously paid or calculated in respect of its returned sales with the following terms and conditions:

- The supplier may only deduct the VAT that has already been paid on the returned goods.
- The returned goods should be in a resalable condition, with the respective information included in the regular books and records of the supplier, including confirmation that its value has been refunded to the customer including the VAT or adding it to its account in the supplier's books and records.
- The supplier shall issue a dated addition/discount notice with a serial number including the data of both the supplier and customer.

Where the goods are not sold but are not returned, no VAT implications apply.

F. Recovery of VAT by taxable persons

A VAT registrant may recover input tax, which is VAT charged on goods and services supplied to it for business purposes. A VAT registrant generally recovers input tax by deducting it from output tax, which is VAT due on supplies made. Where input tax exceeds output tax in any period, the taxable person will receive a refund.

Input tax includes VAT charged on goods and services supplied in Egypt, VAT paid on imports of goods including machines and equipment, and VAT self-assessed on the acquisition of reverse-charge services, provided it is related to selling taxable goods or rendering a taxable service.

A valid tax invoice or customs document must generally accompany a claim for input tax.

Examples of items for which input tax is nondeductible

- Table tax whether on goods and services subject to this tax, or inputs of goods and services subject to this tax
- Input tax included as part of the tax deductible cost of an item for the purposes of the annual corporate income tax return
- Exempted goods and services

Examples of items for which input tax is deductible (if related to taxable business use)

Input tax is the VAT incurred or charged to the registrant upon purchasing or importing goods and services, including machinery and equipment, whether directly or indirectly related to the sale of goods and services subject to VAT.

When calculating the tax, the following should be deducted from the tax due on the sales value:

- Tax paid or accounted for returned sales
- Tax charged on inputs, including the tax charged to the goods and services sold by the registrant through all distribution phases according to the conditions and situations that will be provided by the executive regulations relating to the VAT Act

Partial exemption. Inputs for exempted goods or services are not allowed to be deducted.

If some of the sales of goods and services by the registered person are taxable, and some others are tax exempt, or subject to the schedule tax during the tax period, deductions shall be made in the following manner:

1. The total tax on inputs relating to the sale of a commodity or provision of a service subject only to the tax shall be deducted, whether the sale is effected during or after the tax period.
2. The tax on inputs that are only used in the sales which are tax exempt or which are subject only to the schedule tax, shall not be deducted, whether the sale is effected during or after the tax period.
3. The tax on inputs that are used in the sales of which some are subject to the tax and some others are tax exempt or are subject only to the schedule tax, shall be deducted based on the ratio of the taxable sales to the total sales.

Capital goods. The sale and renting of vacant and agricultural lands, buildings, residential and nonresidential units are exempted by VAT law. However, buildings units within a commercial nature are subject to VAT.

Refunds. A refund of VAT is permitted in the following situations:

- The tax previously collected or charged to exported goods and services. This applies whether exported in its original state or included as a component in other goods and services. The refunded tax should not exceed the credit balance provided that the value of the exports will be paid to a bank under the supervision of the Central Bank of Egypt according to the rules it specifies or pursuant to any of the payment methods or other methods of settlements specified in the Executive Regulations, provided that the value of exports shall not be less than the inputs value thereof.
- Tax is collected by mistake.
- A credit balance results after more than six consecutive periods have lapsed.
- Tax is paid on machinery and equipment used in the production of a taxable good or in provision of a taxable service upon submission of the first VAT return (except for buses and passenger cars), unless their usage relates to the business that the company is licensed to practice.

In all cases of applying for a refund, a certificate signed by a chartered accountant must be one of the documents signifying the right of the VAT registrant to deduct the tax or refund the same.

Preregistration costs. The registrant can deduct the value of the general sales tax, which should be deducted as indicated by the credit balance before the application to be registered for VAT, and the amount that was not fully deducted or refunded of the general sales tax incurred on machinery, equipment, parts and spare parts, as well as the tax previously paid on returned items of sales.

The following conditions and controls shall be observed:
1. Keep proper accounting books and records.
2. Hold original copies of tax invoices or customs procedures certificate and the receipt evidencing the payment of the general sales tax at the customs house.
3. Inputs should be previously declared in tax returns filed by the registrant person for the periods in which purchases were made. For the tax paid on machinery, equipment, parts and spare parts, the books and records must reflect the tax paid at purchase and the remaining balance after excluding the amounts in monthly returns.
4. The amount of the general sales tax should not have been included in the cost.

For the tax previously paid on sales tax returns, only the amounts already paid on the returned goods shall be deducted.

G. Recovery of VAT by non-established businesses

Egypt does not refund VAT to non-established businesses. To recover VAT paid in Egypt, a non-established business must render taxable supplies and be a registered entity with the Egyptian government (see Section C. Who is liable).

H. Invoicing

VAT invoices and credit notes. No special rules apply to VAT invoices or credit notes. However, according to practice, the invoice should include the following information:
- Invoice number
- Invoice date
- Entity's name
- Tax ID number
- Commercial registration number
- Address
- Invoice currency
- Invoice amount
- A clear description for the services provided and its value, the mandatory tax rate and value, and the total value of the invoice
- Name and address of the buyer and their tax registration number or ID number if they do not have a tax registration number

Sales invoices must be serially numbered and include the VAT registration number, address and contact details of the supplier. Based on the instructions issued by the Egyptian tax authority, a taxable person must maintain the original invoices for approval by the Egyptian tax authority for inspection at a later date.

A VAT registrant is also required to maintain proper books and records to record its transactions. It must retain such records together with copies of the invoices for five years following the end of the fiscal year when the entries are made.

Electronic invoicing. Electronic invoices are permitted.

Foreign-currency invoices. Invoices indicating foreign currency are not allowed for supplies made between local entities. However, foreign currency invoices are permitted for supplies with the nonresident entities. It is recommended to include the same information as given above for VAT invoices.

Proof of export. The amount of export goods is proved on the customs clearance certificate (Customs form 13). This evidence is needed to support the seller to charge VAT at 0% on the export sale.

Bad debts. The VAT law does not provide any provision for bad debts.

B2C. There are no special rules for VAT invoices issued for supplies made by taxable persons to private consumers. There are no other VAT document rules or simplifications that may apply to supplies made to the public.

I. VAT returns and payments

- VAT and table tax returns are generally submitted monthly.
- A monthly tax return for the VAT and table tax, or either one of them, should be filed within two months, from the month end.

The April tax return should be filed before 15 June.

- A VAT return, should be filed even if no taxable sales of goods or services are achieved during the tax period.
- Non-submission of the VAT return within the due dates entitles the tax authority to make a deemed assessment. The tax authority will be liable to provide the basis of this deemed assessment.

Electronic filing and archiving. Electronic invoicing and filing are allowed. The electronic invoice does not have to be verified by the tax authority before issuing. In addition, the electronic invoice does not need to be issued on tax authority authorized invoice paper.

Annual returns. Not applicable.

Special schemes. The VAT law in Egypt does not provide any special VAT accounting schemes or VAT returns for certain groups of taxable persons.

J. Penalties

An additional payment is due for each month or part of the month starting from the tax payment deadline until the date of payment. The additional payment is 1.5% of the unpaid VAT and the table tax amount, including the tax resulting from amendments to the tax return.

Sanctions for breaching the procedures set out in the VAT law include:
- A penalty between EGP500 and EGP5,000
- Payment of the VAT, table tax and additional tax
- Penalties are doubled if the offense is repeated within three years

Tax evasion sanctions.
- Prison terms from three to five years
- Penalty payment from EGP1,000 to EGP10,000
- Payment of the VAT, table tax and additional tax
- Prison duration to be folded if repeated within three years
- Tax evasion considers person breaching honor and honesty
- Ceasing the accountant from practicing his profession for one year
- Penalty between EGP10,000 to EGP50,000
- In case of repetition, penalties and sanctions are folded

El Salvador

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A. At a glance

Name of the tax	Value-added tax (VAT)
Local name	Impuesto a la transferencia de bienes muebles y a la prestación de servicios (ITBMS)
Date introduced	July 1992
Trading bloc membership	None that relate to VAT
Administered by	Ministry of Treasury (http://www.mh.gob.sv)
VAT rates	
Standard	13%
Other	Exempt and zero-rated
VAT number format	Taxpayer registry number (NRC)
VAT return periods	Monthly
Thresholds	
Registration	Annual turnover of USD5,714.29 or fixed assets of USD2,285.71
Recovery of VAT by non-established businesses	No, unless the nonresident business has a registered legal or tax representative in El Salvador

B. Scope of the tax

VAT applies to the following transactions:
- The transfer of tangible goods or rendering of services in El Salvador
- The purchase of imported services by a taxable person in El Salvador

- The importation of tangible, movable goods from outside El Salvador, regardless of the status of the importer
- Self-consumption of inventories by VAT taxpayers or transfers of tangible goods for promotional purposes
- The exportation of tangible, movable goods from El Salvador to another jurisdiction.

C. Who is liable

Any individual or business that has an annual turnover exceeding USD5,714.29 or that owns fixed assets valued at USD2,285.71 or more must register as a VAT taxpayer. The requirement to register also applies to permanent establishments in El Salvador of foreign entities. In addition, entities and individuals must pay VAT when any of the taxable events outlined in Section B occur.

Voluntary registration. Individuals whose turnover is below the registration threshold may register voluntarily as VAT taxpayers. Nonresident entities that wish to recover local VAT paid may also register voluntarily.

Small taxpayers. No special regime exists for small taxpayers in El Salvador.

Group registration. VAT grouping is not allowed under the Salvadoran VAT Law. Legal entities that are closely connected must register for VAT individually.

Non-established businesses. A "non-established business" is a business that has no fixed establishment in El Salvador. In principle, a non-established business must register for VAT if it transfers tangible goods or renders services in El Salvador on a regular basis. To register for VAT, a non-established business must provide the tax authorities with the following:
- A copy of its Articles of Incorporation, legalized by a Salvadoran consulate (or with an *apostille*), together with an official translation into Spanish
- Any other documentation required by the tax authorities, including registration of a legal or tax representative

Tax representatives. Businesses that are established outside El Salvador must appoint a resident tax representative to register for Salvadoran VAT purposes. The tax representative is jointly and severally liable for VAT debts with the business that it represents. The liability is limited to the value of the property or assets to be administered, unless the representatives had acted with malice or gross negligence, in which case the tax representatives are severally liable with their own assets up to the amount of the total tax due.

Reverse charge. The Salvadoran VAT Law establishes a reverse-charge mechanism. Under this mechanism, the consumer must self-assess, withhold and pay the VAT due. The reverse-charge mechanism applies if the taxable activities (services performed or used within the country) are rendered by a nonresident. The consumer or resident taxpayer may offset the VAT paid for the services with VAT debits under the general VAT rules.

Digital economy. There are no specific indirect tax regulations regarding the digital economy.

Registration procedures. The time limit for an individual or entity to register as a taxpayer for VAT purposes is within 15 days following the initiation of operations. To register, file Form F-210. Legal entities applying must attach the following documentation:
- Deed of incorporation, merger, or other deed, duly registered before the Commerce Registry
- Legal identification document (*Documento Único de Identidad* or passport) of the entity's authorized legal representative, election credential or power of attorney (special, general, judicial or administrative)
- Proof of payment to the VAT Registry

If the entity wishes to register as an importer, it must make that clear in the request for registration. After reviewing the documents, if there are no observations from the tax authorities, the documents are normally promptly issued after the documentation is filed.

Noncompliance with registration obligations. According to the local tax penalty system, different penalties vary depending on the omissions from taxpayers. In this sense, the penalty for not registering for VAT ascends to the amount corresponding to three minimum legal wages. At the time of preparing this chapter, one minimum legal wage is estimated in USD304.17. Therefore, the penalty for this omission would be USD912.51. This penalty applies regardless of whether interest and penalties are assessed for unpaid VAT.

Penalties that are calculated on the monthly minimum legal wage are based on the commerce and services sector (currently approx. USD305). The minimum legal wages are updated annually by the government.

Deregistration. Whenever a company ceases operations as a consequence of dissolution, liquidation, or a merger, it should deregister before the tax authorities, and request the cancellation of its Tax ID (in Spanish: *Número de Identificación Tributaria*) and Contributors' Registration Number (in Spanish: *Número de Registro de Contribuyente*); also, it must request the annulment of unused invoices, VAT invoices, with specification of its authorized serial number, explaining the motive for cancellation.

Late registration penalties. In the event of late registration, a penalty of two minimum legal wages applies. As outlined above, one minimum legal wage is estimated in USD304.17. Therefore, the penalty for this omission would be USD608.34. This penalty applies regardless of whether interest and penalties are assessed for unpaid VAT.

D. VAT rates

The VAT law in El Salvador provides for exempt activities and zero-rated activities. Unlike zero-rated activities, exempt activities do not permit a taxpayer to claim the input tax deduction (See Section F). In El Salvador, the standard rate of VAT is 13%. The standard rate applies to the transfer of tangible goods or rendering of services, unless a specific measure provides for an exemption.

The following list provides some examples of exempt supplies of goods and services.

Examples of exempt supplies of goods and services

- Health services offered by public institutions
- Rental of houses and apartments for noncommercial purposes
- Public land transport
- The importation by registered VAT taxpayers of machinery used as a fixed asset in the production of goods and services that are not exempt (if the assets are registered with the tax authorities 30 days in advance)
- Education provided by private or public institutions authorized by the Ministry of Education
- Certain financial services regarding interest payments made by domiciled and non-domiciled financial institutions (domiciled financial institutions must be authorized by the Superintendence of the Financial System, and the non-domiciled financial institutions must be authorized by the competent authority in their country of origin and qualified by the Central Bank of Reserve)
- Water services offered by public entities
- Personal insurance services and reinsurance

Option to tax for exempt supplies. Not applicable.

E. Time of supply

The taxable event when VAT becomes due is called the "tax point."

For the supply of goods, the tax event is the earliest of the following events:
- The issuance of the invoice, receipt or other document related to the transaction
- Delivery of the goods
- Receipt of payment

For the supply of services, the tax event is the earliest of the following events:
- The issuance of the invoice, receipt or other document related to the transaction
- Provision of the service
- Receipt of payment

Continuous supplies of services. For continuous supplies of services rendered in return for periodic payments, the tax event is the earlier of the issuance of the invoice or the due date established for the periodic payment, notwithstanding the date of payment for the service.

Imported goods. The taxable event for imported goods is when the goods clear all customs formalities for importation (definite importation).

Deposits and prepayments. There are no special time of supply rules in El Salvador for deposits or prepayments. However, deposits and prepayments as a result of a transfer of goods and services are considered a taxable event and the VAT becomes due, as per the general time of supply rules (as outlined above).

Goods sent on approval for sale or return. The taxable event for goods sent on approval and sold is the earlier of the issuance of the invoice or receipt of payment. There is no taxable event when goods sent on approval are returned to the seller.

Leased assets. The taxable event for leased assets (movable goods) is the earlier of the issuance of the invoice or receipt payment.

Reverse-charge services. There are no special time of supply rules in El Salvador for the supply of reverse-charge services. As such, the general time of supply rules apply (as outlined above).

F. Recovery of VAT by taxable persons

A taxable person may recover input tax, which is VAT paid on the purchase of goods and services for business purposes. Input tax is generally credited against output tax, which is the VAT charged on supplies made. Input tax includes VAT charged on goods and services supplied in El Salvador, VAT paid on imported goods and VAT self-assessed on reverse-charge services. In general, the input tax credit is allowed for ordinary business expenditure that is indispensable to the taxpayer's taxable activity (that is, the business activity that generates output tax).

A valid tax document referred to as "proof of tax credit" or an "import declaration" must support every claim for an input tax credit.

Nondeductible input tax. Input tax may not be recovered on purchases of goods and services that are not used for business purposes (for example, goods acquired for private use by an entrepreneur).

Examples of items for which input tax is non-deductible

- Acquisition, importation or entry of supplies or food when it is not the taxpayer's ordinary business
- Purchase, import, leasing, maintenance, improvement or repair of new and used vehicles that by their nature, are not strictly necessary for carrying out the ordinary business activities of the taxpayer

- Use of any type of services in hotels, and the lease or sublease of real estate or the use of any other services that are not used in core business activities
- Purchase of airline tickets, except those strictly related to business trips
- Acquisition, importation or sale of clothing, jewelry or shoes, if this is not the company's ordinary business, among others

Examples of items for which input tax is deductible (if related to a taxable business use)

- Acquisitions of movable, tangible goods destined to form part of the current assets
- Disbursements for the use of services in the ordinary course of business provided that they are not intended for the construction or alteration of real estate property
- General expenses intended solely for the purpose of achieving the objects, business or activity of the taxpayer

Refunds. If the amount of input VAT recoverable in a particular month exceeds the amount of output VAT payable, the taxpayer obtains an input VAT credit. The credit may be carried forward to offset against output tax due in subsequent VAT periods.

A cash refund or Public Treasury notes may be claimed only if the credit relates to export activities. An input VAT credit related to export supplies may be carried forward to offset output VAT in the following VAT period. If the credit may not be fully offset against output VAT within a tax period, the taxpayer may request an offset of other tax liabilities, including input VAT withheld, perceived or generated as a result of the import of goods, or a refund of the excess amount.

Partial exemption. Not applicable.

Preregistration costs. Taxpayers are not permitted to recover input VAT paid on purchases made prior to VAT registration.

G. Recovery of VAT by non-established businesses

El Salvador does not refund VAT incurred by foreign or non-established businesses unless they are registered for VAT in El Salvador.

H. Invoicing

Tax credit documents, invoices and credit notes. A taxpayer must generally provide VAT invoices for all taxable supplies made, including exports. However, for supplies made to other VAT taxpayers, a "proof of tax credit" document must be issued. A proof of tax credit document is required to support a claim for the input tax credit. Proof of tax credit documents must be issued in triplicate (with two copies provided to the purchaser of the goods or services). Invoices must include an official invoice number (NCF) and the taxpayer's registration number (NRC), and it must show the VAT amount separately, among other requirements.

If the nature of a business makes it impractical for a taxpayer to issue tax invoices, the tax authorities may authorize the use of cash registers and computerized systems to issue tickets (cash receipts) instead of invoices.

Price reductions, discounts or bonuses may be excluded from the VAT base if they are included in the proof of tax credit document or in credit and debit notes. A credit note must contain the same information as a tax credit document.

Exports. A zero rate of VAT applies to the exportation of goods and services. For the exportation of goods to qualify for the zero rate, a definitive transfer of the goods that are to be used or consumed abroad must occur. Exports must be supported by customs documents that prove the goods have left El Salvador. Suitable evidence includes export invoices and bills of lading.

Foreign-currency invoices. VAT invoices and tax credit documents may be issued in Salvadoran colones (SVC) or USD. However, in practice, SVC have been removed from circulation and all transactions are made in USD.

In addition, an exportation of services occurs when a local taxpayer renders a taxable service within the country in favor of a nonresident entity or individual that makes use of the services strictly outside the country; however, the following legal requirements should be met for considering an operation as exportation of services:
- The rendering of services should be performed within El Salvador.
- The receiver of services should be a non-domiciled or nonresident company or individual.
- The services should be used exclusively outside of El Salvador.

B2C. No VAT invoice is required unless requested by the purchaser. If the purchaser is not registered for VAT, a final consumer invoice should be issued. The tax authorities may authorize the use of cash registers and computerized systems to issue tickets (cash receipts) instead of invoices.

Electronic invoicing. The issuance of a physical invoice is mandatory for all taxpayers. The tax authorities may authorize an electronic system solely for purposes of backup information.

I. VAT returns and payment

VAT returns. VAT returns are submitted monthly. Form F-07 must be submitted by the 10th working day of the month following the end of the return period. Payment in full is due on the same date. A return must be filed even if no VAT is due for the period.

In addition, Form F-930, the monthly VAT return of withholdings and collection of VAT, must be filed every month within the first 15 working days of the month following the end of the return period.

By legal disposition, the tax due may be paid in SVC or USD. However, in practice, SVC has been removed from circulation and all transactions are made in USD.

Special schemes. Not applicable.

Electronic filing and archiving. Electronic filings are allowed, provided that the taxpayer has created a user id on the tax authority's website and downloaded the corresponding program (*Declaración Electrónica de Tributos*).

Electronic archiving of VAT documents may be done after four years of the issuance or reception of the documents, as long as the integrity of information is guaranteed and the documents are available and accessible to the tax authorities when required. Also, the conversion process must be certified by an external auditor. This period may be shortened if the taxpayer submits a request and the tax authorities approve.

Annual returns. There are no annual returns for VAT.

J. Penalties

Penalties may vary from 5% up to 50% of the VAT amount due. For some offenses, the penalty may be computed based on the minimum legal wage.

Penalties for tax evasion under the Salvadoran Criminal Code include imprisonment for a period of four to eight years.

Tax evasion. The Salvadoran Tax Code regulates penalties for unintentional or intentional tax avoidance. If tax avoidance is considered unintentional, the penalty is 25% of the unpaid tax. For

intentional tax avoidance that results in an underpayment of tax that is below the criminal amount, the penalty is 50% of the unpaid tax.

Tax fraud. Criminal tax avoidance penalties are based on the amount of the evasion or attempted evasion. If the amount of unpaid taxes ranges from USD11,428.57 to USD34,285.71, the penalty is imprisonment for four to six years. If the amount of unpaid taxes exceeds USD34,285.71, the penalty is six to eight years of imprisonment.

If the unpaid taxes plus the corresponding penalties are paid to the tax authorities, no criminal fraud penalties are imposed.

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A. At a glance

Name of the tax	Value-added tax (VAT)
Local name	Käibemaks
Date introduced	1 January 1991
Trading bloc membership	European Union (EU) Member State
Administered by	Ministry of Finance (http://www.fin.ee) Estonian Tax and Customs Board (http://www.emta.ee)
VAT rates	
Standard	20%
Reduced	9%
Other	Zero-rated and exempt
VAT number format	EE123456789
VAT return periods	Monthly
Thresholds	
Registration	EUR40,000
Distance selling	EUR35,000
Recovery of VAT by non-established businesses	Yes

B. Scope of the tax

VAT applies to the following transactions:

- The supply of goods or services made in Estonia by a taxable person
- The supply of services with a place of supply not in Estonia (that is, services are provided through a seat or fixed establishment located in Estonia to a person who is registered as a taxable person or taxable person with limited liability in the EU or who is a person from a non-EU country engaged in business)
- Reverse-charge services received by a taxable person in Estonia (that is, services for which the recipient is liable to pay the VAT)
- The intra-Community acquisition of goods (see the chapter on the EU)
- The importation of goods into Estonia (except for VAT-exempt imports), regardless of the status of the importer

C. Who is liable

A taxable person is an individual or a business entity (including a public entity and municipality) that makes taxable supplies of goods or services in the course of a business in Estonia. This rule also applies to a branch or fixed establishment of a foreign business entity.

The VAT registration threshold is annual supplies in excess of EUR40,000, counted from the beginning of a calendar year. A non-established business without a fixed establishment in Estonia that makes a taxable supply must register for VAT in Estonia if the place of supply is Estonia and if the supply is not taxed by the Estonian taxable person (purchaser). The registration obligation arises from the time of the supply, regardless of the threshold of EUR40,000. A business that is liable to register for VAT in Estonia must notify the VAT authorities of its VAT registration liability within three days.

Distance sales. If a taxable person established in another EU Member State is engaged in distance selling to a nontaxable person in Estonia (excluding distance selling of excise goods) and if the taxable value of the distance sales exceeds EUR35,000 from the beginning of a calendar year, the registration obligation for the vendor arises from the date on which the threshold was exceeded (see the chapter on the EU).

If the taxable value of intra-Community acquisitions of goods by a nontaxable person (except excise goods and new means of transport) exceeds EUR10,000 from the beginning of a calendar year, the obligation to register as a taxable person with limited liability arises from the date when the threshold was exceeded (see the chapter on the EU).

Voluntary registration. A business established in Estonia whose supplies do not exceed the registration threshold may voluntarily register for VAT.

The tax authorities have the right not to register persons who are unable to prove that they are performing business activities or are about to begin business activities in Estonia.

Group registration. A parent company and its subsidiaries may apply to register as a VAT group. One VAT registration number is provided to all members of the VAT group. The effect of grouping is that no VAT is charged on supplies between group members if the person who acquired the goods or services as a result of the transaction uses them entirely for the purposes of that person's taxable supplies. Group members are jointly and severally liable for all VAT liabilities.

Non-established businesses. A "non-established business" is a business that has no fixed establishment in Estonia. A non-established business must register for VAT if it makes taxable supplies of goods or services regardless of the amount of the supply (that is, effective from the first supply). A fixed establishment or resident legal person must be registered for VAT if it makes taxable supplies in Estonia totaling more than EUR40,000 from the beginning of the calendar year.

Tax representatives. The appointment of a tax representative is required for non-EU entities that are not established in Estonia. EU entities that are not established in Estonia may appoint a tax representative. A tax representative may not be used by a third-country taxable person that provides electronically supplied services and has opted for a special arrangement. A tax representative must be a legal entity established in Estonia or a branch of a foreign entity registered in Estonia and must be accepted by the tax authorities.

Registration procedures. Taxpayers submit an application for registration (form KR) to the Tax and Customs Board. The application can be submitted in PDF format to email address kmkr@emta.ee, completed in Estonian, digitally signed, and submitted by a legal representative (who has to identify himself) or an authorized person (authorization required) or a notary or via e-maksuamet/e-toll (e-Tax Board/e-Customs). In order to submit the application for registration as a person liable to VAT in the e-Tax/e-Customs, the user has to have the power (authorization)

"KMKR avalduste esitamine" (Submission of VAT applications) given by a legal representative of a taxpayer.

Foreign traders must register in person, i.e., the person seeking registration cannot e-mail or send the registration form by post, fax or through the e-Tax/e-Customs. However, an authorized person may act for the taxpayer.

The tax authority shall register a person as a taxable person within five working days as of the receipt of the application or additional documentary (if required).

Late registration penalties. Penalties and interest are assessed for late registration for VAT and delay in remitting the VAT payable to the tax authority.

Reverse charge. In general, the reverse-charge mechanism is applicable and the Estonian VAT taxable person is obliged to charge VAT upon the acquisition of goods or the receipt of services from a foreign taxable person who is not registered for VAT purposes in Estonia and does not have a fixed establishment in Estonia. The VAT charged can be deducted as an input VAT credit on the declaration if the goods or services are used for the taxable business.

Domestic VAT reverse charge applies on supplies of immovable tangible property (which are optionally taxed), waste (scrap) metal, certain metal products and gold if both parties to the transaction are taxable persons and the transaction is considered as taxable supply.

Digital economy. A VAT obligation can arise in Estonia if electronically supplied services are provided to a person whose location/dwelling place is in Estonia and who is not registered for VAT purposes or liable to pay VAT on these services in any other EU Member States.

Mini One-Stop Shop. Special arrangements for imposing VAT may be applied to electronically supplied services on the condition that the services are provided by a taxable person of a third country who is not registered for VAT purposes in any of the Member States to a person in a Member State who is not registered for VAT purposes or taxable person with limited liability. The Mini One-Stop Shop (MOSS) regime could be applied by Estonian VAT registered persons, including for telecommunication, broadcasting and electronic services provided to nontaxable persons located in another Member State.

If a third country taxable person has decided to register in Estonia under the special arrangements, the taxable person shall inform the tax authority, using electronic means, when activity as a taxable person is to commence, cease or change to the extent that the person no longer qualifies for the special arrangements, submits the necessary obligatory details for identification and the tax authority shall allocate a registration number.

A third-country taxable person shall submit by electronic means to the tax authority a VAT return concerning electronically supplied services for each calendar quarter. He shall not deduct VAT paid upon the acquisition of goods or the receipt of services in the Community from the VAT to be paid by the person as input VAT, but he has the right to be granted a refund by the Member State concerned.

Deregistration. A taxable person that ceases to be eligible for VAT registration must deregister. That is, it must notify the VAT authorities that it must cease to be registered. A taxable person may also request deregistration if its taxable turnover drops below the annual registration threshold. However, deregistration is not compulsory in these circumstances. Tax authorities can delete a taxable person that is not performing business activities from the VAT register.

Exemption from registration. The VAT registration obligation does not arise if all the taxable supplies of the person are zero-rated supplies, except unless it is an intra-Community supply of goods and the supply of services of which place of supply is not in Estonia, and are provided to

a taxable person or a taxable person with limited liability as registered by the other Member State.

D. VAT rates

The term "taxable supplies" refers to supplies of goods and services that are subject to VAT. The following are the VAT rates in Estonia:
- Standard rate: 20%
- Reduced rate: 9%
- Zero rate (0%)

The standard rate of VAT applies to all supplies of goods or services, unless a specific measure allows the reduced rate, the zero rate or an exemption.

Examples of supplies of goods and services taxable at 0%

- Exports of goods
- Listed exported services
- Intra-Community supplies of goods
- Seagoing vessels, equipment, spare parts and fuel for seagoing vessels
- Aircraft operating on international routes, equipment, spare parts and fuel for named aircraft
- Goods supplied and services provided to international military headquarters located in Estonia if the tax incentives are laid down in an international agreement, or for the performance of the duties to the armed forces of a NATO Member State participating in the common defense effort, except Estonia, and the civilian staff accompanying them

Examples of supplies of goods and services taxable at 9%

- Medical equipment and products for handicapped people
- Books (excluding textbooks and workbooks related to the national curriculum)
- Periodicals
- Accommodation and accommodation services with breakfast, excluding any goods or services accompanying such services

The term "exempt supplies" refers to supplies of goods and services that are not subject to tax and that do not give rise to a right of input tax deduction (see Section F).

Examples of exempt supplies of goods and services

- Health care services
- Real estate transactions
- Financial services
- Insurance and reinsurance services
- Insurance mediation
- Educational services
- Lotteries and gaming
- Postal services
- Learning materials related to education

Option to tax exempt supplies. A taxable person may opt to apply VAT to certain transactions that would otherwise be exempt from VAT if the taxable person has correctly and promptly notified the tax authority in writing. The tax authority must have been notified during the same tax period as the taxed supply or in an earlier period. The option to tax must be applied continuously for at least two years.

The following supplies are eligible for the option to tax:
- The leasing or letting of immovable property (or parts thereof), except dwellings
- Immovable property and parts thereof, except dwellings

- Investment gold under certain conditions
- Financial services, including the following:
  - The supply of securities
  - Deposit transactions for the receipt of deposits and other repayable funds from the public
  - Borrowing and lending operations, including consumer credit, mortgage credit, leasing transactions, settlement, cash transfer and other money transmission transactions
  - Issuance and administration of non-cash means of payment (for example, electronic payment instruments, traveler's checks and bills of exchange)
  - Guarantees and commitments and other transactions creating binding obligations to persons
  - Transactions carried out for their own account or for the account of clients in traded securities provided in the Securities Market Act and in foreign exchange and other money market instruments, including transactions in checks, exchange instruments, certificates of deposit and other such instruments
  - Transactions and acts related to the issuance and sale of securities
  - Money brokering and management of investment funds

Other financial transactions that are not exempt from VAT, as well as factoring, are taxable at a rate of 0% or 20%, depending on the status of the customer.

From 1 May 2018, the transfer of greenhouse gas emission allowances are treated as securities and thus excluded together with any related transactions from the list of exempt from VAT supplies and they are subject to VAT at a rate of 20%.

The supply of insurance services, including insurance services provided by insurance brokers and insurance agents and reinsurance, are exempt services with no option to tax.

From 1 October 2018, the VAT Act provides a new definition of "building land," which is an unimproved immovable that is planned for building or for which a building notice has been submitted or the intended purpose of the cadastral unit of which is over 50% residential land or commercial land or these jointly. Any land that is planned for building is subject to VAT.

E. Time of supply

The time when VAT becomes due is called the "time of supply" or "tax point." The basic time of supply for goods and services is the earliest of the following events:
- The delivery of goods
- The performance of services
- Receipt of full or partial payment

Cash accounting. All taxable persons whose annual turnover does not exceed EUR200,000 can opt for cash-basis VAT accounting instead of accrual-basis accounting.

Imported goods. The time of supply for imports is when the goods clear customs.

Reverse-charge services. Estonian businesses must self-assess VAT on taxable services purchased from abroad, using the reverse-charge mechanism. Under the reverse-charge mechanism, the purchaser self-assesses VAT at the appropriate rate. The self-assessed tax is treated as input tax and recovered (depending on the purchaser's partial exemption status; see Section F). The reverse charge does not apply to supplies to private individuals who are not registered for VAT.

The reverse charge applies to certain domestic transactions between taxable persons that involve supplies related to immovable property, metal waste and gold. The domestic reverse charge applies to the supply of certain metal products, however, from 1 May 2018, cold-formed or cold-finished flat rolled products (e.g., profiled (ribbed) sheets, flues, venting, aspiration and gutter pipes) are not subject to domestic reverse charge.

The time of supply for reverse-charge services is the earliest of the following events:
- When the Estonian buyer receives the service
- When the Estonian buyer makes a payment

Continuous supplies of services. If the provision of services continues for longer than a period of taxation, the services are deemed to have been provided and received during the taxable period in which the provision of the services terminates. In the case of the provision of regular services to the same purchaser, the time at which the services are provided and received is deemed to be the taxable period overlapping with the end of the period of time for which an invoice is submitted or during which payment for services received is to be made as agreed, but not later than after twelve calendar months. Upon regular provision of service, in the case of which a tax liability arises for the recipient of the service, within a longer period of time than one year, the supply of the service shall be deemed to have been created or the service received, as of the commencement of the provision of the service on 31 December of each calendar year if the services have not been paid for and the provision of the services has not been completed within the period.

Prepayments. The time of supply is deemed to be the date on which full or partial payment is received for the goods or services or, in the case of the receipt of services, full or partial payment is made.

Intra-Community acquisitions. Intra-Community acquisition of goods is effected on the 15th day of the month following the month in which the goods obtained by intra-Community acquisition of goods are dispatched or made available or on the date on which an invoice is issued for the goods if the invoice is issued prior to the 15th day of the month following the month in which the goods are dispatched or made available to the purchaser, except in the case of a transaction that was originally not treated as intra-Community turnover, but then the grounds for a transaction cease to exist and the transaction shall be deemed to constitute an intra-Community supply of goods. Then the intra-Community acquisition of goods shall be deemed to have been effected on the date on which those grounds ceased to exist.

Intra-Community supplies of goods. Intra-Community supply is created on the 15th day of the month following the month in which the goods obtained by intra-Community acquisition of goods are dispatched or made available or on the date on which an invoice is issued for the goods if the invoice is issued prior to the 15th day of the month following the month in which the goods are dispatched or made available to the purchaser, except in the case of a transaction that was originally not treated as intra-Community turnover, but then the grounds for a transaction cease to exist and the transaction shall be deemed to constitute an intra-Community supply of goods. Then intra-Community supply of goods shall be deemed to have been created on the date on which the grounds ceased to exist.

Leased assets. In case of operational leases, supply of service rules shall be applied. In the case of capital leases, supply of goods rules shall be applied.

Goods sent on approval for sale or return. VAT law in Estonia does not have a special time of supply rule for the supply of goods sent on approval for sale or return. As such the general time of supply rules (as outlined above) apply.

F. Recovery of VAT by taxable persons

A taxable person may recover input tax (which is VAT charged on supplies of goods and services) where it is used for business purposes. Input tax is generally recovered as an offset against output tax, which is VAT charged on supplies made. Input tax includes VAT charged on goods and services supplied in Estonia, VAT paid or payable on imported goods and VAT self-assessed for reverse-charge services received outside Estonia.

A valid tax invoice or customs document must generally support a claim for input tax. Invoice or customs documents are not needed if the reverse-charge mechanism is applied and other evidence is presented.

Input VAT is deductible if an invoice has been issued and the goods or services have been supplied or if full or partial payment is made.

For imported goods, input VAT is deducted on the basis of a customs declaration.

An invoice may be issued on paper or, subject to acceptance by the acquirer of goods or the recipient of services, by electronic means.

Nondeductible input tax. Input tax may not be recovered on purchases of goods and services that are not used for business purposes (for example, goods acquired for private use by an entrepreneur). In addition, input tax may not be recovered for some items of business expenditure.

The following lists provide some examples of items of expenditure for which input tax is not deductible and examples of items for which input tax is deductible if the expenditure is related to a taxable business use.

Examples of items for which input tax is nondeductible

- Business and employee entertainment
- Business use of home telephone

Examples of items for which input tax is deductible (if related to a taxable business use)

- Hotel accommodation for a business trip
- Business gifts valued at less than EUR10
- Parking
- Mobile phones
- Travel expenses — company cars (passenger cars purchased, hired or leased and related maintenance costs, including fuel and repair):
  - — Full (100%) deduction if exclusively used for business purposes on a continuous basis for at least two years. In this case, within two years, the company car is used also for nonbusiness purposes, 50% of the input VAT deducted, except from maintenance costs, shall be paid back to the tax authority. When the purpose of use of the company car changes, the taxpayer must apply the tax treatment for partly business use of the car continuously for at least one year.
  - — If personal use of such a car is carried out, input VAT up to 50% can be deducted and such status must be maintained for a year, i.e., full business use can be claimed only after a year.

Partial exemption. Input tax directly related to making exempt supplies is generally not recoverable. If an Estonian taxable person makes both exempt supplies and taxable supplies, it may not deduct input tax in full. This situation is referred to as "partial exemption."

In Estonia, the amount of input tax that a partially exempt business recovers may be calculated using either of the following methods:

- General pro rata
- A two-stage method, which includes a direct attribution of input tax

The general pro rata method is based on the percentage of taxable and total supplies in the preceding calendar year. The recovery percentage is used provisionally during the current year and is adjusted at the end of the year based on the actual value of taxable and total supplies made.

The two-stage calculation consists of the following stages:

- The first stage identifies input VAT that may be directly allocated to taxable and exempt supplies. Input tax directly allocated to taxable supplies is deductible, while input tax directly related to exempt supplies is not deductible.

- The second stage identifies the amount of the remaining input tax (for example, input tax on general business overhead) that may be allocated to taxable supplies and recovered. The calculation is performed using the general pro rata method based on the value of supplies made.

A partial deduction is based on the proportion of taxable supplies for which input VAT deduction is allowed, made during a calendar year in Estonia and abroad, compared with the total amount of supplies made by the person during a calendar year in Estonia and abroad.

Capital goods. Capital goods are items of capital expenditure that are used in a business over several years. Input tax is deducted in the VAT year in which the goods are acquired. The amount of input tax recovered depends on the taxable person's partial exemption recovery position in the VAT year of acquisition. However, the amount of input tax recovered for capital goods must be adjusted over time if the taxable person's partial exemption recovery percentage changes during the adjustment period.

In Estonia, the capital goods adjustment applies to immovable property for a period of 10 years and to other fixed assets for a period of five years. The adjustment may result in either an increase or a decrease of deductible input VAT, depending on whether the ratio of taxable supplies made by the business has increased or decreased compared with the year in which the capital goods were acquired.

A capital goods adjustment is also required if a taxable person transfers immovable property used for less than 10 years and if the supply is exempt from VAT. In these circumstances, the taxable person must recalculate its entitlement to input tax paid on acquisition of the immovable property and for related goods and services. A taxable person may opt to charge VAT on the sale or leasing of immovable property (the option may not be applied to the sale or lease of living space). If the transfer is subject to tax, no capital goods adjustment is required.

Refunds. If the amount of input tax that is deductible for a VAT period exceeds the amount of output tax that is chargeable in the same period, the taxable person has a VAT credit. The taxable person may choose to use the VAT credit to offset other tax obligations or penalties, or it may request a refund. Refunds are made within 60 days after the due date for payment. However, this period may be extended for up to 120 days if the tax authorities have justified reasons to check further the circumstances of the VAT refund application.

Preregistration costs. If a taxable person has, prior to the person's date of registration as a taxable person, acquired goods, except for fixed assets, intended for transfer or for the manufacture of goods to be transferred, the taxable person shall have the right to deduct the input VAT on such goods in the taxable period during which the goods were transferred as taxable supply.

A taxable person who has received services prior to the person's date of registration as a taxable person shall have the right to deduct the input VAT on such services in the taxable period during which such services were provided as taxable supply.

The input VAT on fixed assets acquired before registration of a person as a taxable person may be deducted, if the person has not has not used the fixed assets prior to the registration.

Write-off of bad debts. In instances where a bad debt is written off by taxpayers, there are no VAT reliefs available in Estonia.

Noneconomic activities. Input VAT cannot be deducted if a taxable person uses goods or services for the purposes other than those related to business. If in the accounts of the taxable person it is not possible to separate input VAT paid on goods or services used for business-related purposes from input VAT paid on goods or services used for noneconomic activities, i.e., purposes not business related, the taxable person must request that the tax authority determine the amount deductible.

G. Recovery of VAT by non-established businesses

Estonia refunds VAT incurred by businesses that are neither established nor registered for VAT in Estonia. VAT is refunded if the following conditions are satisfied:
- The taxable person is required to pay VAT as a business in its country of residence.
- An Estonian taxable person may deduct VAT under the same circumstances on the import of goods, the acquisition of goods or the receipt of services.

For businesses established in the EU, refunds are made under the terms of EU Directive 2008/9/EC. For businesses established outside the EU, refunds are made under the terms of the EU 13th Directive. Refunds to non-EU claimants are made on the condition of reciprocity. Estonian VAT is refunded only to claimants established in countries that refund VAT to Estonian businesses.

For the general VAT refund rules of the EU 8th and 13th Directives refund schemes, see the chapter on the EU.

Effective from 1 January 2010, Directive 2008/9/EC rules and principles are applied. These rules are summarized below.

VAT paid in Estonia by a foreign taxable person that is an EU business on the import or acquisition of goods, except for immovable property, and on the receipt of services used for business purposes is refunded to the foreign taxable person on the basis of an electronic refund application submitted to the Estonian tax authorities by the tax authorities of other EU Member States if the following criteria are met:
- The taxable person is required to pay VAT in the home country of the person.
- VAT is refunded to the business in its country of residence under the same conditions with respect to the import of goods and the acquisition of goods or receipt of services.
- The refundable VAT amount is at least EUR50 for the year or EUR400 for a period that is longer than three months, but shorter than a calendar year.
- The application must be submitted electronically through the tax authorities of the country of residence to the Estonian tax authorities by 30 September of the year following the period of refund.

The application must be signed by a nonresident natural person or by the head of the nonresident legal entity or an authorized representative, and it must contain the number of the bank account and a note as to where and in whose name the VAT will be refunded. To obtain a refund for VAT paid on imported goods, the applicant must include with the application proof that it has paid VAT.

Refund application. VAT paid in Estonia is refunded to an EU taxable person on the basis of an electronic refund application submitted to the Estonian tax authorities by the tax authorities of the other EU Member State.

A non-established business from a non-EU state may request a refund of VAT by filing application form KMT. The application may be completed in Estonian or in English. It may be submitted by the non-established business or by an authorized representative to the following address:

Estonian Tax and Customs Board
Lõõtsa 8a
15176 Tallinn
Estonia

The application for a refund of tax must be accompanied by the following documents:
- Original invoices to support the claim for VAT refund
- For an authorized representative, a power of attorney

- A certificate issued within the preceding 12 months by the tax authorities in the country where the claimant is established, indicating that the claimant was a taxable person when it made the purchases

For non-EU taxable persons the following conditions must be met:
- The amount requested must be at least EUR320 for the year.
- The country where the applicant business is resident must refund VAT to Estonian residents under the same conditions.

The VAT authorities refund VAT claimed within six months after the date on which the application is filed.

H. Invoicing

VAT invoices and credit notes. A taxable person must generally provide a VAT invoice for all taxable supplies made and for exports. Invoices are not automatically required for retail transactions unless requested by the customer. A VAT invoice is required to support a claim for input tax deduction.

A VAT credit note may be used to reduce the VAT charged and reclaimed on a supply if the taxable value changes (for example, when goods are returned goods or a discount is granted). The credit note must refer to the original VAT invoice for the supply that is being amended.

Electronic invoicing. Effective 1 January 2013, the VAT law has been amended to permit electronic invoicing in line with EU Directive 2010/45/EU.

Proof of exports. Estonian VAT is not chargeable on exports of goods. An export supply must be accompanied by evidence confirming that the goods have left Estonia (e.g., the customs export declaration, the seller's invoice, proof of payment).

Documents that certify the provision of zero-rated services include a written service agreement or written letter of intent, the purchase invoice and proof of payment.

Foreign-currency invoices. If an invoice is issued in a foreign currency, the amount of VAT must be converted to euros (EUR), using the official exchange rate quoted by the European Central Bank on the date of the transaction.

I. VAT returns and payment

VAT returns. Estonian taxable persons must file VAT returns monthly. Returns must be filed by the 20th day of the month following the end of the tax period. Payment in full is required on the same date. VAT liabilities must be paid in euros.

Invoices must be disclosed in the VAT return appendix in the following cases:
- Invoices on which the transferor of the goods or provider of services has marked the supply taxable at the 20% and 9% VAT rates.
- Invoices with a total amount (without VAT) that makes up at least 1,000 euros for one transaction partner during the taxation period. The transaction partner-based threshold shall be calculated separately for purchase and sale invoices.

A taxpayer has the right to receive a properly calculated and requested refund within 60 days. The Estonian tax authority may extend the term for a refund of VAT by up to 120 calendar days (30 days at a time).

Special schemes. A third-country taxable person shall submit by electronic means to the tax authority a VAT return concerning electronically supplied services for each calendar quarter. The deadline for submission and VAT payment is the 20th of the month following the quarter. As of 1 January 2015, MOSS regulation could be applied also by Estonian VAT registered persons.

Electronic filing and archiving. VAT returns can be submitted electronically using the tax authority's electronic self-service environment "E-Tax Board." Electronic filing becomes obligatory for persons who have been VAT liable at least 12 months. One can continue submitting paper forms after the tax authority approves a formal application.

Estonian tax authorities maintain electronic storage of VAT declarations.

Annual returns. Not applicable.

J. Penalties

Interest at a rate of 0.06% per day is charged on amounts of VAT underpaid or paid late. In addition, a person is subject to a fine of up to EUR3,200. In addition, the penalties are subject to income tax at a rate of 20/80 as nonbusiness-related expenses.

K. EU filings

Intrastat. A taxable person that trades with other EU countries must complete statistical reports, known as Intrastat, if the value of either its sales or purchases of goods exceeds specified thresholds. Separate reports are required for intra-Community acquisitions (Intrastat Arrivals) and for intra-Community supplies (Intrastat Dispatches).

In Estonia, Intrastat declarations are required only from taxable persons whose total annual value of trade from and to EU countries exceeds the statistical threshold in the year preceding the accounting period.

For 2019, the threshold for Intrastat Arrivals is EUR230,000, and the threshold for Intrastat Dispatches is EUR130,000.

Intrastat Arrivals and Intrastat Dispatch reports are filed monthly and must be submitted by the 14th day of the month following the reporting period. If a person that is required to submit an Intrastat report has carried out no intra-Community trade in a previous taxable period, a "zero" Intrastat report must be filed.

EU Sales Lists. An Estonian taxable person who has made intra-Community supplies of goods or services during a tax period, or who has transferred goods as a reseller in a triangular transaction during a tax period, must submit a report on its intra-Community supplies of goods and services (Form VD) together with the VAT return to the tax authority by the 20th day of the month following the end of the tax period.

If no intra-Community supplies were made in the relevant period, no report is required.

If ownership in a new means of transport is transferred to a person in another EU country and if the means of transport will be transported to that EU country, a copy of the sales invoice must be submitted together with the report.

Penalties may be imposed for late, missing and inaccurate reports.

European Union

ey.com/GlobalTaxGuides
ey.com/TaxGuidesApp

The chapter below summarizes the value-added tax (VAT) rules for the European Union (EU) as a whole. For more detailed information, see the chapters summarizing the VAT systems in each of the EU Member States, where you will also find EY VAT contacts listed.

Indirect tax contacts

Gijsbert Bulk *(resident in Netherlands)*	+31 88 40 71175 gijsbert.bulk@nl.ey.com
Kevin MacAuley *(resident in United Kingdom)*	+44 20 7951 5728 kmacauley@uk.ey.com
Steve Bill *(resident in Luxembourg)*	+44 (0) 7768 035826 sbill@uk.ey.com

A. The territory of the European Union

At the time of preparing this chapter, the European Union (EU) consists of the following 28 Member States:

Austria	Germany	Netherlands
Belgium	Greece	Poland
Bulgaria	Hungary	Portugal
Croatia	Ireland	Romania
Cyprus	Italy	Slovak Republic
Czech Republic	Latvia	Slovenia
Denmark	Lithuania	Spain
Estonia	Luxembourg	Sweden
Finland	Malta	United Kingdom
France		

Of these 28, 13 are sometimes referred to as "new Member States": Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovak Republic and Slovenia (joined 1 May 2004); Romania and Bulgaria (joined 1 January 2007); and Croatia (joined 1 July 2013). A referendum on the UK's membership of the EU was held on 23 June 2016, in which voters in the UK decided to leave the EU. The UK Government invoked Article 50 on 29 March 2017, triggering the formal process to withdraw from the European Union, to leave on 29 March 2019.

B. Goods in the Single Market

On 1 January 1993, the Single Market was introduced in the EU. Under the rules of the Single Market, goods may move freely between Member States without hindrance, including customs controls. As a result, the concepts of "import" and "export" no longer apply to cross-border trade between Member States.

Imports and exports. In the EU, the term "export" applies to the supply of goods exported from a Member State to any country outside the EU (also referred to as Third Countries). The term "import" applies to goods imported into a Member State from any country outside the EU.

After goods are imported into the EU, they are in "free circulation," which means that they may travel within the EU without further payment of customs duties or further border controls.

Intra-Community supplies of goods to nontaxable persons. "Nontaxable persons" are any persons or legal entities that are not registered for VAT. In the EU, VAT is generally charged on supplies of goods made to nontaxable persons using the "origin principle," which means that VAT applies in the Member State where the supplier of the goods is established. Consequently, the VAT rate charged is the rate that applies to the goods in the supplier's Member State, not the rate that would apply in the customer's Member State. For example, if a Danish tourist buys a dress in a shop in Paris, she pays VAT at the French standard rate of 20%, not at the Danish standard rate of 25%, even if the dress is subsequently "exported" to Denmark. However, exceptions to this rule apply for "distance sales of goods," sales of "new means of transport" and sales to "nontaxable legal persons" (see below).

Distance sales. A "distance sale" is a sale of goods dispatched or transported by (or on behalf of) the supplier from one Member State to specific types of customers in another Member State who are not registered for VAT, such as nontaxable persons. Distance sales commonly include sales of goods made by mail-order catalog and goods sold online via the internet.

Nontaxable persons generally bear VAT as a cost. Because they do not charge VAT on sales, they are not permitted to offset VAT paid on purchases. Consequently, for nontaxable persons, the rate of VAT charged directly affects the cost of the goods purchased by them. With the introduction of the Single Market, it was feared that the application of the origin principle of taxation could lead to distortions of competition and the loss of VAT revenues for some Member States, as nontaxable persons would have an incentive to purchase goods from suppliers located in the Member State with the lowest VAT rate. Consequently, to avoid competition being distorted by different VAT rates, special rules were introduced for "distance sales" made to nontaxable persons (and certain taxable persons who are not registered for VAT in their home countries).

If the total value of supplies by a distance seller to customers in another Member State exceeds a certain turnover threshold, the distance seller must register for VAT in that other Member State (known as the "country of destination"). VAT is then chargeable on the supply of the goods in the country of destination, at the rate applicable in that country. The relevant threshold applicable in each Member State is provided in the Member State's respective chapter.

Distance sellers may also opt to be taxed in the country of destination of the goods even if their sales do not exceed the distance-selling threshold. Otherwise, until the threshold is reached, the "origin principle" still applies.

Please note that significant changes in the distance selling regime have been adopted by the ECOFIN Council on 5 December 2017 and will be coming into force in two stages in 2019 and 2021 (see the *Digital Single Market* section below).

Intra-Community trade between taxable persons. A "taxable person" for the purpose of intra-Community trade is generally any person or legal entity that is registered for VAT in the EU. Because no customs controls exist between Member States in the Single Market, intra-Community transactions between taxable persons are no longer termed "imports" and "exports" (see *Imports and exports*). Instead, they are referred to as "intra-Community acquisitions" and "intra-Community supplies."

In general, VAT is charged on the "destination principle" on cross-border supplies of goods made between taxable persons. Under this principle, VAT is not chargeable in the Member State from where the goods are supplied (known as the "Member State of dispatch"), but is chargeable in the Member State where the goods are delivered (known as the "Member State of arrival").

Intra-Community supplies. An intra-Community supply of goods is "zero-rated," i.e., exempt with credit in the Member State of dispatch. This means that no VAT is chargeable, but the supplier is entitled to deduct VAT paid on purchases connected with the supply. The supplier must be able to prove that the goods have been dispatched to a taxable person in another Member State.

The supplier must also quote the customer's EU VAT registration number, including the country prefix (for example, BE for Belgium) although exceptions are possible in specific circumstances. The evidence required varies among Member States. Information about the evidence required in each Member State is provided in the chapters of the respective EU countries.

Intra-Community acquisitions. An intra-Community acquisition is an acquisition of goods from another Member State by a taxable person. An intra-Community acquisition is taxable initially in the Member State that issued the VAT identification number unless the person acquiring the goods can establish that VAT has been accounted for in the Member State of arrival at the rate of VAT applicable in that country.

Acquisition tax is self-assessed by a taxable person as output tax (VAT on sales). If the acquirer is entitled to recover the VAT on the acquisition as input tax (that is, VAT on purchases), the acquirer may offset the input tax at the same time as declaring the output tax. Consequently, an acquirer that deducts input tax in full does not actually pay any VAT in connection with an intra-Community acquisition.

If a business makes an intra-Community acquisition of goods in a Member State where it is not registered for VAT, it may be required to register there.

Domestic reverse-charge mechanism. In order to combat fraud, Member States may also apply similar provisions whereby the customer accounts for the VAT on purchases for domestic supplies of certain goods susceptible to fraud, namely mobile phones, integrated circuit devices, game consoles, tablet PCs and laptops, cereals and industrial crops, and raw and semi-finished metals. Where the customer is entitled to recover the VAT on the purchase as input tax, then the customer can offset the input tax at the same time as declaring the output tax. A customer that deducts input tax in full does not pay any VAT in connection with domestic reverse-charge supplies.

On 20 December 2018, the Council adopted a proposal that will allow Member States that are most severely affected by VAT fraud to temporarily apply a generalized reversal of VAT liability. Member States will be able to use the generalized reverse-charge mechanism, only for domestic supplies of goods and services above a threshold of EUR17,500 per transaction, only up until 30 June 2022, and under very strict technical conditions. In particular, in a Member State that wishes to apply such a measure, 25% of the VAT gap has to be due to carousel fraud. Among other requirements, this Member State will have to establish appropriate and effective electronic reporting obligations on all taxable persons, in particular those to which the mechanism would apply. The generalized reverse-charge mechanism may only be used by a Member State once it meets the eligibility criteria and its request has been authorized by the Council.

Branch transfers. A transfer of goods between different parts of the same legal entity is not generally treated as a supply for VAT purposes (for example, no VAT is charged on a transfer of goods from a factory to a warehouse owned by the same company within the same Member State). However, this rule does not apply to transfers of own goods across borders within the EU. A taxable person is deemed to make an intra-Community supply and an intra-Community acquisition if the person transfers goods between different parts of a single legal entity that are located in different Member States. For example, a deemed acquisition may occur when goods are moved between branches of the same company located in different countries or when goods are stored in a warehouse in a different country after being manufactured but before being sold. If a deemed acquisition occurs, the person transferring the goods may need to register for VAT in both the Member State of dispatch and the Member State of arrival. Further information about the requirement to register for VAT is listed in the chapters of the respective EU countries.

Certain transfers are excluded from the provision discussed above, either because they are deemed not to be acquisitions (see *Transfers deemed not to be acquisitions*) or because the goods are exempt from VAT.

Transfers deemed not to be acquisitions. Not all intra-Community movements of own goods qualify as acquisitions. Exceptions include the following transfers:
- Goods to be installed or assembled for a customer in another Member State
- Goods transported to another Member State under the distance-selling rules
- Goods that will be exported outside the EU from another Member State or dispatched to another Member State (that is, the goods are temporarily in the second Member State)
- Goods sent to another Member State for processing (provided that the goods are returned after processing)
- Goods temporarily used in another Member State for a supply of services made there
- Goods used temporarily (that is, for less than two years) in another Member State, provided that customs duty relief would be available if the goods were imported from outside the EU
- Goods acquired from a person not registered for VAT, unless the goods acquired are a "new means of transport" (see *New means of transport*) or are subject to excise duties (such as alcohol and tobacco products)

Triangulation simplification (ABC transactions). A "chain transaction" involves goods that are sold to different parties in a series of transactions, but are delivered directly from the first vendor in the chain to the final purchaser in the chain.

If three taxable persons that are registered for VAT in different Member States enter into a chain transaction, special "triangulation" simplification rules may apply. These transactions are sometimes referred to as "ABC transactions." For example, manufacturer A in Spain sells goods to distributor B in France but delivers them directly to B's customer, retailer C in Italy. In these circumstances, the triangulation simplification rules may be applied. Under the normal intra-Community rules, B makes an intra-Community acquisition in C's country in these circumstances. However, under the simplification rules, B may choose not to register for VAT in C's country and, instead designate C as being responsible for the VAT due. In addition, B must indicate to A that the simplification rules are being applied and include this information on its invoice to C. In some Member States, B may also be required to notify the VAT authorities that it has chosen to use the simplification rule rather than register for VAT there. Following case law of the European Court of Justice, careful consideration must be given to which party is responsible for transporting the goods to determine whether the simplification may be used because simplified triangulation applies only if the cross-border transport of the goods is arranged between parties A and B.

In some Member States, the triangulation simplification rules do not apply if more than three parties are involved in the chain.

"Quick fixes" pending introduction of a "definitive" system for the VAT treatment of Intra-Community supplies of goods to taxable persons. At the time of preparing this chapter, discussions are ongoing in the EU Council on a definitive VAT system to replace the current "transitional" VAT arrangements, which have been applied since 1993. It has been proposed that this new system should be based on taxation in the country of origin at the rate applicable in the country of destination.

Pending introduction of the new VAT system, on 4 December 2018, the ECOFIN Council adopted the following four adjustments to the EU's current VAT rules to provide a short-term solution for specific problems:
- Call-off stock: a simplified and uniform treatment for call-off stock arrangements will be introduced where a vendor transfers stock to a warehouse at the disposal of a known acquirer in another Member State.
- VAT identification number: to benefit from a VAT exemption for the intra-EU supply of goods, the identification number of the customer will become an additional condition.
- Chain transactions: uniform criteria will be introduced to enhance legal certainty in determining the VAT treatment of chain transactions.

- Proof of intra-EU supply: a common framework will be established for the documentary evidence required to claim a VAT exemption for intra-EU supplies.

These adjustments are due to apply from 1 January 2020.

Intra-Community supplies of goods to nontaxable persons. Persons who do not qualify as a "taxable person" will be a "Nontaxable person." "Nontaxable persons" are broadly any persons or legal entities that are not registered for VAT and are not undertaking economic activities. In the EU, VAT is generally charged on supplies of goods made to nontaxable persons using the "origin principle," which means that VAT applies in the Member State where the supplier of the goods is established. Consequently, the VAT rate charged is the rate that applies to the goods in the supplier's Member State, not the rate that would apply in the customer's Member State. For example, if a Danish tourist buys a dress in a shop in Paris, she pays VAT at the French standard rate of 20%, not at the Danish standard rate of 25%, even if the dress is subsequently "exported" to Denmark. However, exceptions to this rule apply for "distance sales of goods," sales of "new means of transport" and sales to "nontaxable legal persons" (see below).

Acquisitions by exempt persons, nontaxable legal persons and flat-rate farmers. Exempt persons, nontaxable legal persons and farmers who account for VAT under a flat-rate scheme are not treated as taxable persons. Consequently, goods acquired by these persons are generally taxed according to the origin principle, that is, in the Member State of dispatch.

However, if a person in one of these categories makes intra-Community acquisitions in excess of EUR10,000 a year (or a higher threshold set by the Member State), it must register for and pay VAT on its acquisitions in the Member State of arrival in the same way as taxable persons, that is, by using the reverse-charge mechanism. However, because a nontaxable or exempt person does not generally deduct input tax, VAT due on intra-Community acquisitions must generally be paid to the VAT authorities. These persons may also choose to be treated as taxable persons even if their acquisitions do not exceed the turnover threshold.

New means of transport. All supplies of "new means of transport" are taxed using the destination principle, that is, in the Member State of arrival, regardless of the status of the vendor or acquirer. Consequently, any person that acquires a new means of transport (see below) from another Member State must account for VAT. Taxable persons account for VAT in the same way as for all other intra-Community acquisitions, that is, by using the reverse-charge provision. Nontaxable persons must pay VAT due to the VAT authorities.

The following are considered to be "means of transport":
- Boats with a length exceeding 7.5 meters
- Aircraft with a take-off weight exceeding 1,550 kilograms
- Motorized land vehicles with a capacity exceeding 48 cubic centimeters or with power exceeding 7.2 kilowatts that are intended to transport persons or goods

For boats and aircraft not to be treated as "new," both of the following conditions must be met:
- The supply of the goods must be more than three months after the date of their first entry into service.
- They must have sailed more than 100 hours in the case of boats, and flown more than 40 hours in the case of aircraft.

For cars not to be treated as "new," both of the following conditions must be met:
- They must be supplied more than six months after the date of first entry into service.
- They must have traveled more than 6,000 kilometers.

Excise products. The supply of excise products (i.e., energy products, alcohol and alcoholic beverages and manufactured tobacco) is always taxable in the Member State of destination. As a result, nonresident suppliers of excise products may be required to register for VAT there.

Intra-Community transportation of goods. VAT is charged on the intra-Community transport of goods using special rules. VAT is charged by the supplier on transport services provided to nontaxable persons in the Member State where the transportation begins.

For supplies of intra-Community transport services provided to taxable persons, the supplier does not charge VAT if the taxable customer is registered for VAT in a different Member State. Instead, the taxable person accounts for VAT in the Member State where it is established, using the reverse-charge mechanism.

Digital Single Market. On 5 December 2017, the ECOFIN Council adopted a series of measures aimed at improving the VAT environment for e-commerce businesses. These new rules build on the system already in place for e services (see *Section C. Services in the Single Market, Electronic services*) and will ensure that VAT is paid in the Member State of the final consumer.

From 1 January 2019, VAT rules for startups, micro-businesses and SMEs selling e-services to consumers online in other EU Member States will be simplified by allowing VAT on cross-border sales under EUR10,000 a year to be handled according to the rules of the home country of such businesses. SMEs will benefit from simpler procedures for cross-border sales of up to EUR100,000 annually.

From 2021 all companies that sell goods, and services not covered by the current "e-service" rules, to their nonbusiness customers in other Member States will be able to deal with their VAT obligations in the EU through one easy-to-use online portal in their own language (the "one-stop shop"). Currently, VAT registration is required in each EU Member State into which they want to sell. This system is already in place for sales of e-services. Large online marketplaces will be made responsible for ensuring VAT is collected on sales on their platforms that are made by companies in non-EU countries to EU consumers. This includes sales of goods that are already being stored by non-EU companies in warehouses (so-called "fulfillment centers") within the EU. At the same time, the current exemption from VAT for imports of small consignments worth not more EUR22 from outside the EU will be abolished.

C. Services in the Single Market

Effective from 1 January 2010, under new rules on the place of supply of services, business-to-business (B2B) supplies of services are taxed where the customer is located, rather than where the supplier is located. For business-to-consumer (B2C) supplies of services, the place of taxation continues to be where the supplier is established. However, in certain circumstances, the general rules for supplies both to businesses and to consumers do not apply, and specific rules apply to reflect the principle of taxation at the place of consumption. These exceptions concern services such as restaurant and catering services, hiring of means of transport, admission to cultural, artistic, sporting, scientific and educational events, and telecommunications, broadcasting and electronic services supplied to consumers.

In general, the following rules apply to services rendered by a taxable person established in the EU:

- If the customer is established in the same Member State as the supplier, the supplier charges VAT on the service at the rate applicable in the supplier's Member State. Member States may, however, apply the domestic reverse-charge mechanism referred to above in relation to supplies of certain services susceptible to fraud, namely gas and electricity services, telecom services and the supply of greenhouse gas emission allowances.
- If the customer is a nontaxable person established in another Member State, the supplier charges VAT on the service at the rate applicable in the supplier's Member State.
- If the customer is a taxable person established in another Member State, the supplier does not charge VAT. The taxable customer accounts for VAT due using the reverse-charge provision at the rate applicable in the customer's Member State.

- If the customer is established outside the EU, the supplier does not charge VAT. The customer may be required to account for VAT in the country where it is established, depending on that country's VAT law.

The following EU VAT rules apply if a non-EU person supplies services:

- If the customer is a nontaxable person, the supplier does not charge EU VAT, unless they are "electronic services" (see *Electronic services*) or the "use and enjoyment" provision applies (see *Use and enjoyment*). However, the supplier may be required to charge VAT in its own country, depending on that country's VAT law.
- If the customer is a taxable person established in the EU, the supplier does not charge EU VAT. The taxable customer accounts for EU VAT due using the reverse-charge provision at the rate applicable in the customer's Member State. The supplier may also be required to charge VAT in the non-EU country where it is established, depending on that country's VAT law.
- If the customer is established outside the EU, the supplier does not charge EU VAT, unless the "use and enjoyment" provision applies (see *Use and enjoyment*). However, the supplier may be required to charge VAT in its country, depending on that country's VAT law.

Reverse-charge mechanism. In order to equalize treatment for the supply of services between Member States, the reverse-charge mechanism is used. Under the reverse-charge mechanism, the supply of services is zero-rated in the Member State of the supplier. The taxable recipient who has purchased the services self-assesses the VAT due as output tax. If the recipient is entitled to recover the VAT on the purchase as input tax, then the recipient may offset the input tax at the same time as declaring the output tax. Consequently, a recipient who deducts input tax in full does not actually pay any VAT in relation to reverse-charge supplies. This process also applies to services received from suppliers belonging outside the EU.

Use and enjoyment. The above rules may lead to nontaxation or to double taxation if either party is not established in the EU. To help avoid these effects, additional rules may apply that either allow a service that is "used and enjoyed" in the EU to be taxed or prevent a service that is "used and enjoyed" outside the EU from being taxed. Before 2010, Member States could apply the use and enjoyment rules to the following services:

- The hiring out of a means of transport
- Telecommunications services supplied by a taxable person established outside the EU to a nontaxable person established in the EU

With a few exceptions, effective from 1 January 2010, Member States may apply the use and enjoyment provisions to almost any type of service if they choose to do so.

If a service is taxed in the EU under the use and enjoyment provisions, a non-EU supplier of the service may be required to register for VAT in every Member State where it has customers that are not taxable persons. For the information regarding the rules relating to VAT registration, see the chapters on the respective countries of the EU.

Electronic services. VAT rules, which took effect on 1 July 2003, apply to supplies of "electronic services." "Electronic services" include services such as supplies of downloaded software and music, pay-per-view television broadcasts, information services and distance-learning services supplied by computer.

Until 1 January 2015, the following VAT rules applied to electronic services:

- EU taxable persons that supply electronic services charge VAT to taxable persons established in the same Member State and to nontaxable persons established anywhere in the EU, using the origin principle (that is, VAT applies at the rate in force in the Member State where the supplier is established).
- EU taxable persons that supply electronic services do not charge VAT to taxable persons in other EU Member States or to customers outside the EU.

- EU taxable persons that receive a supply of electronic services from another EU Member State or from outside the EU must account for VAT under the reverse-charge provision (that is, self-assess VAT).
- Non-EU suppliers that provide electronic services to nontaxable persons are required to register for VAT in the EU and charge VAT based on the destination principle (that is, at the rate in effect in the customer's Member State).

A non-EU service provider may decide whether to register for VAT in each Member State where it has nontaxable customers or it may use a simplification measure. The simplification measure allows a non-EU service provider to register for VAT in a single Member State to fulfill its administrative obligations throughout the EU (however, VAT remains chargeable to nontaxable customers at the rate in effect in each customer's country). If the simplification measure is used, the non-EU service provider may only recover any input tax incurred through the EU 13th VAT Directive scheme (see Section E).

From 1 January 2015, new rules on the place of B2C supplies of electronic services were introduced. Effective from that date, these services are taxed in the country where the consumer is established. EU taxable persons that supply electronic services (as well as telecommunications and broadcasting services) have to charge VAT to nontaxable persons established anywhere in the EU, using the destination principle. EU suppliers are permitted to discharge their VAT obligations using the "Mini One-Stop Shop" (MOSS) scheme, which enables them to fulfill their VAT obligations (VAT registration, reporting and payment) in their home country, including for services provided in other Member States where they are not established. Accordingly, EU suppliers are able to apply a simplification measure similar to the one that is already in place for non-EU providers of electronic services (see above).

D. EU VAT rates

EU Member States may apply a standard rate of VAT and one or two reduced rates. No higher rates may apply. Until 31 December 2017, the standard rate must be at least 15%. Reduced rates may not be less than 5% and may apply only to certain goods and services listed in Annex III of the EU VAT Directive (Directive 2006/112/EC). As an exception to the reduced rate rule, Member States may continue to apply a reduced rate lower than 5% or to apply a reduced rate to goods not listed in Directive 2006/112/EC if such rates were in force in that country on 1 January 1991 or if the rate was agreed on at the time of the country's accession to the EU. Special reduced rates may also apply in certain territories. On 6 November 2018, the ECOFIN Council adopted a proposal allowing Member States to apply reduced, super-reduced or zero VAT rates to electronic publications, thereby allowing alignment of VAT rules for electronic and physical publications.

Directive 2006/112/EC sets out which supplies of goods and services may or must be exempted when supplied within the territory of the Member State. Exempt supplies do not carry a right to deduct related VAT on purchases (known as input tax).

The European Commission periodically publishes the VAT rates that apply in the 28 Member States and provides examples of the goods and services that benefit from reduced rates in the EU. (see http://ec.europa.eu/taxation_customs/resources/documents/taxation/vat/how_vat_works/rates/vat_rates_en.pdf).

The European Commission on 28 January 2018 has proposed new rules to give Member States more flexibility to set VAT rates. In addition to the above rules, Member States would now be able to put in place:

- Two separate reduced rates of between 5% and the standard rate chosen by the Member State
- One exemption from VAT with credit (or "zero rate")
- One reduced rate set at between 0% and the reduced rates

The current, complex list of goods and services to which reduced rates can be applied would be abolished and replaced by a new list of products (such as weapons, alcoholic beverages, gambling and tobacco) to which the standard rate of 15% or above would always be applied. Member States will also have to ensure that the weighted average VAT rate is at least 12%. The new rules ensure that all goods currently enjoying rates different from the standard rate can continue to do so.

E. Recovery of VAT by non-established businesses

Every EU Member State must refund VAT incurred by businesses that are neither established nor registered for VAT in that Member State. A non-established business may claim VAT to the same extent as a VAT-registered business in the Member State.

For businesses established in the EU, refunds are made under the terms of Council Directive 2008/9/EC. All Member States must refund VAT to eligible claimants established in other Member States. Effective from 1 January 2010, the procedure for reimbursement of VAT incurred by EU businesses in Member States where they are not established is replaced by a new fully electronic procedure, thereby ensuring a quicker refund to claimants.

For businesses established outside the EU, refunds are made under the terms of the EU 13th VAT Directive. All Member States must refund VAT to claimants established outside the EU. However, Member States may apply a condition requiring the non-EU country where the claimant is established to provide reciprocal refunds with respect to its own turnover taxes.

Who is eligible. To be eligible for a refund under Council Directive 2008/9/EC, the claimant must satisfy the following conditions:

- It must be a taxable person that is not established in the Member State of refund.
- It must not have the seat of its economic activity, a fixed establishment from where business transactions are effected, a domicile or a residence in the Member State where the refund is requested.
- It must not make supplies of goods or services in the Member State of refund, with the exception of transport and transport-related services and supplies of goods and services where the customer is the taxable person (reverse charge; see Section B).

To be eligible for a refund under the EU 13th VAT Directive, the claimant must satisfy the following conditions:

- It must carry out activities that would make it eligible to be a taxable person in the EU if the activities were conducted there.
- It must not have an establishment, center of economic activity, registered office or place of residence in the Member State where the refund is requested.
- It must not make supplies of goods or services in the Member State where a refund is requested, with the exception of transport and transport-related services and supplies of goods and services where the customer is the taxable person (reverse charge; see Section B).
- If a VAT refund is claimed in any Member State that requires reciprocal VAT refunds for its citizens, the country where the claimant is established must satisfy this condition.

Minimum claims. Under Council Directive 2008/9/EC, the minimum claim period is three months, and the maximum period is one year. The minimum claim for a period of less than a year is EUR400. For an annual claim, the minimum amount is EUR50. Member States may impose higher limits. The minimum claim limits for non-EU businesses may not be lower than for EU businesses. The claim limits applied by the individual countries of the EU are indicated in the respective chapters for such countries.

Documentation. Effective from 1 January 2010, under Council Directive 2008/9/EC, claimants established in the EU must electronically submit applicable documentation through an electronic

portal set up by the Member State where they are established. The refund application must contain the following:
- The applicant's name, contact details, nature of the business and bank details
- For each Member State separately, a list of the suppliers, nature of the purchases, purchase invoices, import documents and VAT amounts
- On request by the Member State of refund, original invoices or import documents, if the taxable amount is EUR1,000 or more (EUR250 for fuel purchases)

Under the EU 13th VAT Directive, a non-EU claimant must submit the following applicable documentation to the relevant VAT office in the Member State where a refund is requested (the relevant offices are listed in the chapters dealing with the individual countries of the EU):
- The standard application form, which is available in all official EU languages and in all Member States. However, the form must generally be completed in the language of the Member State where the refund is requested.
- Proof of entitlement, which may include a certificate issued by the tax authorities in the country where the claimant is established (required annually).
- Original invoices, import documents, bills, vouchers, receipts or customs clearance forms supporting the amounts of VAT claimed.
- Documents appointing a tax representative in countries where that is required.

Time limits. Under the 13th VAT Directive, claims by non-EU businesses must generally be submitted within six months after the end of the calendar year, that is, by 30 June of the following year for most Member States. This deadline is generally strictly enforced. However, certain exceptions exist. The deadlines applied by the individual countries of the EU are indicated in the countries' respective chapters.

Under Council Directive 2008/9/EC, the deadline for the electronic filing of the refund application is 30 September of the calendar year following the refund period.

Refunds are generally paid within six months after the Member State receives the claim. Some Member States pay interest on VAT amounts refunded outside this time limit (for further details, see the chapters dealing with the individual countries of the EU).

Appeals. All Member States provide an appeal procedure if a refund is denied.

F. EU filings

Intrastat. Intrastat is a system of reporting related to intra-Community transactions made by taxable persons. It was introduced on 1 January 1993 to allow the collection of statistical information on intra-Community trade in the absence of customs controls at the borders. EU businesses must submit information on a periodic basis to the VAT or statistics authorities if they make either intra-Community supplies or intra-Community acquisitions of goods in excess of certain limits. Penalties may apply to missing and late Intrastat reports and to errors in reporting. Further information on the requirements for Intrastat reporting is provided in the chapters dealing with the individual countries of the EU. Effective from 1 January 2010, a new measure requires businesses to file Intrastat returns for cross-border services provided to business customers in other EU Member States (for further details, see the chapters dealing with the individual countries of the EU).

EU Sales Lists. Taxable persons that make intra-Community supplies must submit EU Sales Lists (ESLs) to the VAT authorities quarterly. Penalties may apply to missing and late ESL reports and to errors in reporting. Further information on the requirements for ESL reporting is provided in the chapters dealing with the individual countries of the EU.

G. Invoicing

The cornerstone of the VAT system is the invoice, which must be issued for most taxable supplies. However, an invoice is not required for business-to-customer supplies of services.

The second EU Directive on VAT invoicing was adopted on 13 July 2010, and its provisions were required to be applied by Member States from 1 January 2013. The Directive aims to promote and further simplify invoicing rules by removing existing burdens and barriers. It establishes equal treatment between paper and electronic invoices without increasing the administrative burden on paper invoices and aims to promote the uptake of e-invoicing by allowing freedom of choice regarding the invoicing method used.

H. VAT returns

Please see the chapters for the individual Member States for details of the local VAT return requirements.

I. Vouchers

In June 2016, the EU Council adopted a Directive harmonizing the VAT treatment of vouchers in the EU. The Directive differentiates between single-purpose and multi-purpose vouchers. The former are defined as "a voucher where the place of supply of the goods or services to which the voucher relates, and the VAT due on those goods or services, are known at the time of issue of the voucher" while, all other vouchers are defined as multi-purpose vouchers. The transfer of a single-purpose voucher by a taxable person acting in his own name is regarded as a supply of the goods or services to which the voucher relates. The actual handing over of the goods or the actual provision of the services in return for a single-purpose voucher accepted as consideration by the supplier is not regarded as an independent transaction. The transfer of a multipurpose voucher, however, is not subject to VAT until it is accepted as consideration for the actual handing over of goods or the actual provision of services. These new provisions have entered into force on 31 December 2018.

J. Small businesses trading in the EU

The European Commission on 28 January 2018 has proposed new rules to give Member States more flexibility for small businesses trading in the EU. Currently, Member States can exempt sales of small companies from VAT provided they do not exceed a certain annual turnover, which varies between Member States. In addition, the simplification measures are only available nationally, meaning that businesses that trade cross-border cannot access the exemptions and simplification measures in another country.

While the current exemption thresholds would remain, the new rules would, if adopted, introduce:

- EUR2 million revenue threshold across the EU, under which small businesses would benefit from simplification measures, whether or not they have already been exempted from VAT
- The possibility for Member States to free all small businesses that qualify for a VAT exemption from obligations relating to identification, invoicing, accounting or returns
- A turnover threshold of EUR100, 000, which would allow companies operating in more than one Member State to benefit from the exemption from VAT and simplification measures in all Member States

At the time of preparing this chapter, the legislative proposals are being discussed in the Council and will only become effective if and when the Council adopts them.

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A. At a glance

Name of the tax	Value-added tax (VAT)
Local name	Arvonlisävero
Date introduced	1 June 1994
European Union (EU) Member State	Yes
Administered by	Finnish Ministry of Finance and National Board of Taxes (Verohallinto) (http://www.vero.fi)
VAT rates	
Standard	24%
Reduced	10% and 14%
Other	Zero-rated, exempt and exempt with credit
VAT number format	1234567-8 (used for domestic trade, imports and exports) FI12345678 (used for intra-Community trade)
VAT return periods	Monthly (or in certain cases quarterly or annually)
Thresholds	
Registration	EUR10,000 (not applicable to non-established businesses and to municipalities)
Distance selling	EUR35,000
Intra-Community acquisitions	
General rule	No threshold
Fully exempt businesses	EUR10,000
Recovery of VAT by non-established businesses	Yes

B. Scope of the tax

VAT applies to the following transactions:
• The supply of goods or services made in Finland by a taxable person

- The intra-Community acquisition of goods and acquisition of services (as provided in Article 196 of EU Directive 2008/8/EC) from another EU Member State by a taxable person (see the chapter on the EU)
- Reverse-charge services received by a taxable person in Finland (that is, services for which the recipient is liable for the VAT due)
- Reverse-charge goods purchased by a taxable person in Finland
- The importation of goods from outside the EU, regardless of the status of the importer

For VAT purposes, Finland does not include the insular province of Ahvenanmaa (Åland Islands). However, the province is part of the Finnish and EU customs territory.

C. Who is liable

A taxable person is any business entity or individual that makes taxable supplies of goods or services, intra-Community acquisitions or distance sales, in the course of a business.

The VAT registration threshold of EUR10,000 applies to businesses that are established in Finland or that have a fixed (permanent) establishment in Finland. The law also includes a tax relief for small businesses with a turnover between EUR10,000 and EUR30,000 during the financial year. The tax relief is gradual. As a result, the amount of the relief decreases as turnover increases.

Special rules apply to foreign or "non-established" businesses that have no fixed establishment in Finland.

Under the main rule, the place of supply of services is determined by the location of the fixed establishment of the purchaser to which the services are supplied. If no such fixed establishment of a purchaser exists, the place of supply is the purchaser's domicile. If the supplier does not have a domicile or a fixed establishment in Finland that would intervene in the rendering of the service in the country of the purchaser, the supplier must invoice the purchaser for the sale of the service without VAT. Based on the reverse-charge mechanism, the purchaser reports and pays the VAT on the supplier's behalf. The main rule regarding the place of supply of services (Article 44 of Directive 2008/8/EC) is similar to the treatment of intangible services before 2010. However, for certain services (for example, services relating to immovable property, passenger transport, arranging of events and catering services), exceptions to the main rule exist.

Group registration. Group registration may be granted to taxable persons that supply exempt financial or insurance services and to other taxable persons controlled by financial or insurance companies. Group members must have close "financial, economic and administrative relationships." All members of the VAT group must be established in Finland. However, Finnish fixed establishments of foreign entities may belong to a VAT group.

Group members are treated for VAT purposes as a single taxable person. No VAT is charged on transactions between group members. Members are jointly responsible for all VAT liabilities of the group**.**

Cost sharing. An independent group of domestic or foreign persons may be granted a VAT exemption on services that the group supplies to its members, subject to several conditions, among them that the provision of those supplies does not cause any distortion of competition. The legal form of the group of persons or the member is not restricted in the VAT Act. It is recommended that the group request an advance ruling from Finland's VAT authorities before launching a cost-sharing arrangement.

Non-established businesses. A "non-established business" is a business that has no fixed establishment in Finland. A non-established business that makes taxable supplies in Finland is not required to register for VAT if the reverse-charge rule applies to all of its transactions. Under the

reverse-charge rule, the Finnish customer is responsible for accounting for the VAT. However, a non-established taxable person may opt to register for VAT purposes in Finland, and in that case, the reverse-charge rule no longer applies except for certain supplies of construction services or sales of metal scrap or metal waste (applied as from 1 January 2015).

The reverse-charge rule applies to most supplies of goods and services. The reverse-charge rule does not apply to the following transactions:
- Supplies of goods and services to private individuals
- Supplies of goods and services to a non-established business that does not have a fixed establishment in Finland and has not opted to be registered for VAT in Finland
- Distance sales in excess of the annual threshold
- Supplies of passenger transport, supplies of the right of admission to educational, scientific, cultural, entertainment or sporting events and other similar events, as well as services directly related to the admission to such events

If the reverse charge does not apply, the non-established business must register for VAT in Finland. The VAT registration threshold does not apply to supplies made by a non-established business that does not have a fixed establishment in Finland.

When registering for VAT in Finland a foreign business must fill in an explanatory form concerning the business activities conducted by it in Finland. The explanatory form is an enclosure to the VAT registration. The Finnish tax authorities are likely to use the information provided on the form in determining whether the foreign business has a permanent establishment in Finland.

A non-established business that is involved in intra-Community trade in Finland must notify the Finnish VAT authorities of its activities (see the chapter on the EU). Consequently, even if the business does not have to register for VAT (for example, because the reverse charge applies to its sales), it must still notify the Finnish VAT authorities of the fact that it has begun activities. It must also report details of its intra-Community trade to the VAT authorities on a monthly basis. The procedure for registering for the "notification duty" is the same as for general VAT registration.

Alternatively, a non-established business may opt to register for VAT. If a non-established business opts to register for VAT, it may recover Finnish input VAT more quickly through its periodic tax returns. The taxpayer must file a periodic tax return that contains VAT information and information regarding other taxes reported through the "tax account" (see Section I).

Tax representatives. A non-established business that must register for VAT in Finland is not required to appoint a tax representative, but it may choose to do so. In practice, many non-established businesses appoint tax representatives to deal with correspondence from the Finnish VAT authorities, because it is normally written in Finnish or Swedish.

However, if a non-established business opts to register for VAT in Finland when it is not required to do so (for example, because the reverse charge would apply to its transactions), it must appoint a tax representative resident in Finland. This obligation applies only to businesses that do not have a domicile or a fixed establishment in the EU. The Finnish VAT authorities must approve the tax representative. The representative is not liable for any VAT due.

Reverse charge in domestic trade. The reverse-charge mechanism is also applied to the following domestic sales:
- Sales of emission rights
- Sales of construction services
- Sales of investment gold
- Sales of scrap metal and metal waste

The reverse charge is applied to the domestic supply of construction services (also labor leasing for construction work). The reverse-charge mechanism is applied to supplies of construction

work with respect to immovable property in accordance with specific requirements. The nature of the service and the status of the buyer are decisive in determining whether the supplied service falls under the reverse-charge mechanism. The condition is that the buyer is a business engaged in the rendering of construction services on an ongoing basis.

The reverse-charge mechanism applies to local supplies within Finland between VAT-liable businesses provided that the goods supplied meet the specific requirements.

Registration procedures. As described above, in Finland there are alternatives for VAT registration. In the case of mandatory VAT registration, retrospective VAT registration is required, provided that the business activities causing the Finnish VAT registration obligation have commenced in the past. In the case where a foreign entity opts to register for VAT purposes in Finland voluntarily, the earliest possible point of VAT registration is the date of the filing of the VAT registration form.

In Finland, the VAT registration form must be filed in paper format, including the company's trade register extract with an English translation attached. On average, the completion of the VAT registration procedure takes two to four weeks after the filing of the VAT registration application.

Digital economy. As of 1 January 2015, business to consumer (B2C) electronically supplied services, telecom and broadcasting are always taxable in Finland. Non-EU and EU service providers must register for VAT and remit Finnish VAT. They can do this via the one-stop-shop portal in their own country (if they are established in the EU) or the portal in their EU country of choice (if they are established outside the EU). From 1 January 2019, EU digital service providers with a turnover of EUR10,000 or less in a calendar year can choose whether they want to be taxed in the supplier's or buyer's country. Also, non-EU established companies can exploit the same system, if they are registered for VAT in one EU country.

Mini One-Stop Shop. As of 1 January 2015, businesses supplying electronic services to EU non-taxable persons are able to choose Finland as their Member State of identification and declare VAT on services sold to other EU Member State consumers via the Finnish internet portal. For further information, see the chapter on the EU.

Late-registration penalties. No specific penalty is levied for late VAT registration in Finland. However, if the late registration results in the late submission of VAT returns or the late payment of VAT, penalties are imposed.

Deregistration. A taxable person that ceases to be eligible for VAT registration must deregister by filing a notification in paper format.

Exemption from registration obligation. A Finnish business only making zero-rated supplies, is not required to register for VAT in Finland, as they are not treated as being a taxable person. As such, the registration obligation only concerns businesses making supplies subject to positive rates of VAT, and there is no exemption to this obligation, unless supplies made are under the threshold (Finnish businesses only).

Voluntary registration. An entrepreneur is able to register for VAT on a voluntary basis if its activities are considered as business activities, despite being under the VAT registration threshold. The activity has to be, for example, continuous, the customers should not be limited, there has to be contractor´s risk and the activity has to take place in a business environment and for business purposes. The consideration is made based on all circumstances at hand. This provision only applies to businesses established in Finland. For non-established businesses, the voluntary VAT registration is generally not applicable. However, a non-established business may apply for the voluntary VAT registration if the reverse charge would otherwise be applied to its sales in Finland.

D. VAT rates

The term "taxable supplies" refers to supplies of goods and services that are liable to a rate of VAT, including the zero rate. Zero rate supplies can also be classified as "exempt with credit," which means that no VAT is chargeable, but the supplier may recover related input tax. Examples of exempt with credit supplies include intangible services supplied to another taxable person established in the EU or to a recipient outside the EU (see the chapter on the EU).

The following are the current VAT rates in Finland:
- Standard rate: 24%
- Reduced rates: 10% and 14%
- Zero rate (0%)

The standard VAT rate applies to all supplies of goods or services, unless a specific measure allows a reduced rate or exemption.

Examples of goods and services taxable at 0%

- Exports of goods

Examples of goods and services taxable at 10%

- Cinema
- Sporting services
- Books
- Medicine
- Passenger transport
- Accommodation
- Compensation from copyrights received by a copyright organization that represents the copyright holders
- Newspapers and periodicals sold by subscription for a minimum of one month

Examples of goods and services taxable at 14%

- Most foodstuffs including restaurant and catering services (food served at restaurants)
- Animal feed
- Drinking water

The term "exempt supplies" refers to supplies of goods and services that are not liable to tax. Exempt supplies do not give rise to a right of input tax deduction for related expenditure (see Section F).

Examples of exempt supplies of goods and services

- Land and buildings
- Financial transactions
- Insurance
- Education (as defined by law)
- Health and welfare
- Transfers of copyright ownership
- Universal postal services supplied by universal postal service providers

Option to tax for exempt supplies. Leasing of land and buildings is generally exempt. However, provided that the certain preconditions are met, the lessor is able to register for VAT when leasing immovable property and consequently, charge leases with standard VAT rate. This is possible only provided that the land and or building in question is used continuously for taxable purposes. There are also some additional requirements for mutual real estate companies.

E. Time of supply

The time when VAT becomes due is called the "time of supply" or "tax point." The basic time of supply is the month in which the goods are delivered or the services are performed.

During the accounting year, a taxable person may account for VAT on the basis of invoices issued and received. At the end of the accounting year, the VAT reporting must be adjusted to follow the basic time of supply (that is, on the basis of goods delivered and services performed).

Prepayments. The time of supply for an advance payment or prepayment is when the payment is received by the supplier (even if the supplier has not yet issued an invoice or made the supply).

Intra-Community acquisitions. The tax point for an intra-Community acquisition of goods is the month in which the goods are received, but this is superseded if an invoice is issued in the month of receipt of the goods.

Imported goods. The tax point for importation of goods is the date of the written customs clearance confirming that the imported goods are in "free circulation" in the EU following their direct importation or their release from a customs regime. This is not necessarily the date on which the goods are imported.

Continuous delivery. The time of supply of continuous services is the month in which a settlement period ends. A service for which invoicing is based on time spent rather than on amounts received is considered to be continuous.

Cash accounting. Finland has not implemented Article 167a of Directive 2006/112/EC. A taxable person may use a cash accounting scheme during the financial year, but in the last VAT return of the financial year, the bookkeeping must be adjusted to an accrual basis. As of 1 January 2017, small companies with turnover less than EUR500,000 per financial year are allowed to notify and pay the VAT on a cash basis without the mentioned adjustment. This simplification only concerns fully domestic transactions.

Reverse-charge services. The time of supply of reverse-charge services follows the general time of supply rules described above.

Intra-Community supplies of goods. The time of supply of intra-Community supplies of goods reflects the time of supply of intra-Community acquisition. As a consequence, the basic time of supply for an intra-Community supply of goods is the month in which the goods are delivered to the purchaser. The tax point for an intra-Community supply of goods is the month following the one in which goods are delivered to the customer, but this is superseded if an invoice is issued in the month that the goods are delivered.

Leased assets. Usually, the (operational) lease of assets is seen as continuous supplies of services as the invoicing is based on time spent. The time of supply of continuously delivered services is the month in which a settlement period ends.

Goods sent on approval for sale or return. A time of supply rule for "approval" or "sale or return" circumstances is not available in Finland.

F. Recovery of VAT by taxable persons

A taxable person may recover input tax, which is VAT charged on goods and services supplied to it for business purposes. The taxable person generally recovers input tax by deducting it from output tax, which is the VAT due on supplies made.

Input tax includes VAT charged on goods and services supplied within Finland, VAT paid on imports of goods and VAT self-assessed on the intra-Community acquisition of goods and acquisition of services (as provided for in Article 196 of EU Directive 2008/8/EC) and reverse-charge goods and services.

A valid tax invoice that fulfills the requirements of the Finnish VAT invoicing rules (see Section H) or a customs document must generally accompany a claim for input tax.

Nondeductible input tax. Input tax may not be recovered on purchases of goods and services that are not used for business purposes (for example, goods acquired for private use). In addition, input tax may not be recovered for some items of business expenditure.

The following lists provide some examples of items of expenditure for which input tax is not deductible and examples of items for which input tax is deductible if the expenditure is related to a taxable business use.

Examples of items for which input tax is nondeductible

- Business entertainment
- Purchase, lease, hire and maintenance of passenger cars and cars for mixed purposes (that is, cars designed and equipped for carrying passengers and goods), unless used exclusively for business use
- Private use of trucks and vans
- Fuel for private cars
- Private expenditure

Examples of items for which input tax is deductible (if related to a taxable business use)

- Hotel accommodation (VAT on hotel breakfast is not deductible)
- Books
- Advertising
- Staff entertainment (subject to limitations)
- Home and mobile telephone bills (portion of private use is nondeductible)
- Attendance at conferences, seminars and training courses
- Fuel and maintenance of vans, to the extent used for business purposes
- Public transport and taxis

Partial exemption. Input tax directly related to the making of exempt supplies is not generally recoverable. If a Finnish taxable person makes both exempt supplies and taxable supplies, it may not recover input tax in full. This situation is referred to as "partial exemption."

In Finland, the amount of input tax that a partially exempt business may recover is calculated in the following two stages:

- The first stage identifies the input VAT that may be directly allocated to exempt and to taxable supplies. Exempt-with-credit supplies are treated as taxable supplies for these purposes. Input tax directly allocated to exempt supplies is not deductible. Input tax directly allocated to taxable supplies is recoverable in full.
- The second stage apportions the remaining input tax, i.e., the input tax that relates to both taxable and exempt supplies, in order to allocate a portion to taxable supplies (which may then be recovered). For example, this treatment applies to the input tax related to general business overhead. The pro rata calculation is normally based on the value of the taxable supplies made compared to the total value of all supplies made, but other fair and reasonable methods of apportionment may be used.

Capital goods. Capital goods are items of capital expenditure that are used in a business over several years. Input tax is deducted in the VAT year in which the goods are acquired. In Finland, special treatment for capital goods is restricted to purchases of land and buildings and to construction and fundamental improvements.

Special rules apply to deductions on real estate investments, including:

- Input tax on real estate investments is deducted in the VAT year in which the goods or services are acquired for taxable business purposes. The amount of input tax recovered depends on the use of the immovable property for taxable business activity. If the use of the property for taxable business activity increases or decreases, the amount of input tax recovered is adjusted. The right or obligation to adjust relates only to real estate used for business purposes.
- The adjustment period is 10 years, beginning with the year in which the construction or renovation work is completed. This period also applies to certain cases in which the real estate is taken into use after the completion of the real estate investment (that is, cases in which the real estate is not taken into use immediately after the real estate investment has been completed). Each year 1/10 of the input VAT paid for the real estate investment is subject to adjustment.
- The annual adjustment may result in either an increase or a decrease of deductible input VAT, depending on whether the portion of taxable use of the property has increased or decreased compared with the year in which the investment was made. The annual adjustment is reported in the last periodic tax return of the calendar year in question (that is, the periodic tax return for December). Adjustments do not apply to operating costs or maintenance costs.
- If the immovable property is sold to a business, the right or liability for adjustments is transferred to the acquiring business. In some cases, a full adjustment must be made instead of annual adjustments.
- The adjustment and monitoring rules also apply to tenants that have made real estate investments with respect to the leased premises. Consequently, with respect to the transfer of the adjustment obligation, the status of the tenant is comparable to the status of the owner of the immovable property.

Other rules may also apply to specific situations, such as a sale of the real estate that is under construction.

Refunds. If the amount of input tax recoverable in a monthly period exceeds the amount of output tax payable in that period, the taxable person has an input tax credit.

Under the so-called "OmaVero" procedure, the amount of VAT that has not been used for the payment of VAT due during the tax period (i.e., the input tax credit) is set off against other taxes due if needed or otherwise refunded to the taxpayer after the tax period. Alternatively, the taxpayer can allocate the amount of VAT into the tax account. This amount can be used for the payment of the VAT due in the future. As a result of the introduction of the tax account procedure, two earlier practices are, in general, no longer applicable: the VAT advance refund procedure that applied during the accounting period and the VAT refund procedure that applied after the accounting period. For further information, see Section I.

Preregistration costs. In general, costs related to the starting up of a taxable business are deductible.

Write-off of bad debts. Bad debt relief is available for both established businesses and non-established businesses registered for VAT in Finland. The amount does not need to be final based on bankruptcy or enforcement procedures, but it must be considered to be accrued in accordance with good accounting practice.

Noneconomic activities. In general, input VAT on costs related to noneconomic activities is not deductible.

G. Recovery of VAT by non-established businesses

Finland refunds VAT incurred by businesses that are neither established in Finland nor registered for VAT there. A non-established business is allowed to claim recovery of Finnish VAT to the same extent as a VAT-registered business.

Effective 1 January 2010 for businesses established in the EU, refund is made under the terms of EU Directive 2008/9. The Finnish VAT Act was amended to reflect EU Directive 2008/9.

For businesses established outside the EU, refunds are made under the terms of the EU 13th VAT Directive. Finland does not exclude claimants from any non-EU country from the refund process.

For the general VAT refund rules applicable to these refund schemes, see the chapter on the EU.

Refund application. Under EU Directive 2008/9, a claim form must be filed electronically with the domestic tax authorities of the taxpayer's country (for example, if the fixed establishment or domicile of the taxpayer is Finland, the competent tax authority is located in Finland). After a preliminary review of the claim form, the tax authorities will forward the claim form electronically to the tax authorities of the country of destination. The taxpayer must attach to the claim form scanned copies of the purchase invoices and other documents, such as importation documents with a tax base of at least EUR1,000. In addition, the tax authorities of the country of destination may also demand to see the original invoices and documents.

The claim form may have to contain a closer specification of the invoices and importation documents (among others, the nature of the purchased goods or services itemized to different codes).

For refund applications under the 13th Directive, the deadline for refund claims is 30 June of the year following the year in which the supply was made. The date of supply may be earlier than the date of the invoice. The deadline for claims is strictly enforced.

Claims must be submitted in Finnish, English or Swedish. The refund application must be accompanied by the appropriate documentation.

The minimum claim period is three consecutive months during the same calendar year. The maximum claim period is one year. The minimum claim amount for a period of less than a year is EUR400. For an annual claim, the minimum amount is EUR50.

Applications for refunds of Finnish VAT may be sent to the following address:

Uudenmaan Verovirasto
Yritysverotoimisto
PL34
00052 VERO
Finland

H. Invoicing

VAT invoices and credit notes. A Finnish taxable person must generally provide a VAT invoice for all supplies made to other taxable persons and to all legal entities, including exports and intra-Community supplies. There are no obligations to issue invoices for advance payments for intra-Community supplies. Invoices are required for supplies to private persons regarding intra-Community supplies of new means of transport and distance sales.

Less-detailed invoices may be issued in the following cases:
- Invoices for amounts up to EUR400 (including VAT).
- Invoices relating to supplies made by certain businesses whose clients are principally private persons, such as retailers and kiosks, and hairdressers.
- Invoices regarding passenger transport or restaurant services and receipts concerning parking meters and vending machines.

Both sales and purchase invoices must be in accordance with the Finnish VAT invoicing rules. A purchaser of goods and services may recover the input VAT on the purchase only if it retains an invoice that fulfills the requirements. If purchase invoices do not fulfill all the requirements, the

purchaser may lose the right to recover the input VAT, unless the inadequate invoice is replaced with a new (corrected) invoice.

Under the EU Directive 2010/45/EU, effective from 1 January 2013, an invoice for intra-Community supplies of goods carried out in accordance with the conditions specified in Article 138 or for supplies of services for which VAT is payable by the customer pursuant to Article 196 must be issued on the 15th day of the following month at latest.

A VAT invoice is necessary to support a claim for input tax deduction or a refund under the EU Directive 2008/9 or 13th Directive refund scheme (see the chapter on the EU).

A VAT credit note may be used to reduce the VAT charged and reclaimed on a supply.

Electronic invoicing. Effective 1 January 2013, the VAT law has been amended to permit electronic invoicing in line with EU Directive 2010/45/EU.

Proof of exports and intra-Community supplies. Finnish VAT is not chargeable on supplies of exported goods or on the intra-Community supply of goods. However, to qualify as VAT-free, exports and intra-Community supplies must be supported by evidence, such as proof that the goods have left Finland. Acceptable proof includes the following documentation:

- For an export, a copy of the export document, officially validated by customs. The authorities may also approve the use of other documentation such as consignment notes (or other commercial evidence) or the import declaration of the customs destination. Depending on the party that arranges the transportation, other requirements may need to be satisfied for the VAT exemption to be allowed.
- For an intra-Community supply, the supplier must include the purchaser's valid EU VAT identification number (issued by an EU Member State other than Finland) on the sales invoice and must retain commercial documentation (for example, transport documentation, consignment notes, proof of payment and proof of receipt of the goods) to show evidence of the transportation of the goods from Finland to another EU Member State.

Foreign-currency invoices. A valid Finnish VAT invoice may be issued in a foreign currency, but the VAT amount must be converted to euros using the latest selling rate of the Bank of Finland or the rate published by the European Central Bank at the time the tax becomes chargeable.

B2C. Effective 1 January 2015, new rules apply to the place of supply for supplies of telecommunications, broadcasting and electronic services to non-VAT taxable customers. For details, refer to the European Union chapter.

Finnish suppliers are not specifically required to issue tax invoices to nontaxable customers for these services, but in practice, an invoice may often be required.

I. VAT returns and payment

Periodic tax returns. Finnish periodic tax returns are submitted monthly or, in certain cases, quarterly or annually.

Under the "OmaVero" procedure, the taxpayer files one periodic tax return that consists of VAT information and also information regarding other taxes reported through the tax account. In general, the periodic tax return must be filed electronically by the 12th day of the second month following the return period. If the taxpayer's tax period is a calendar year, the due date for the tax return and payment of the tax due is the 28th day of the second month following the return period. The periodic tax return is considered to be filed on time when the Finnish tax authorities receive the tax return within the prescribed period. For example, the due date for the January 2017 tax return is 12 March 2017.

Under the OmaVero procedure, all taxes and payments are entered into a tax account maintained by the tax authority. The taxpayer must pay all taxes due, in euros, by the 12th day of the month

by using a certain reference number. The OmaVero procedure replaces the former tax account procedure containing similar functionalities. The amount of VAT that is not used for the payment of VAT due during the tax period is set off against other taxes due if needed or otherwise refunded to the taxpayer after the tax period. Alternatively, the taxpayer can retain the VAT in the tax account and use it for the payment of the VAT due in the future. Voluntary extensions of VAT reporting and payment periods to a quarter or a year are available for small companies (turnover not more than EUR100,000 or EUR30,000 per calendar year, respectively).

The supply and acquisition of services that fall within the main rule for the place of supply of services (Article 44 of the EU VAT Directive; see Section C) must be reported in the periodic tax return, effective from 1 January 2010, as well as in EU Sales Lists (ESLs; see Section K).

Electronic filing and archiving. Electronic filing of VAT returns is compulsory as of 1 January 2017 unless the Finnish Tax Administration has granted a special permission to file the VAT return in paper. Since November 2013, non-Finnish users have also had access to electronic filing services. E-filing of documents such as VAT returns and EU Sales Lists is organized through a so-called KATSO identification (Katso ID). Consequently, in order to be able to make electronic filings, taxpayers should set up a Katso ID for electronic filing. Currently, the starting up of an e-filing procedure is rather complex, especially for foreign companies with no Finnish citizens as employees.

In principle, documentation related to Finnish VAT returns should be stored in Finland. However, in general this documentation can be stored abroad provided that the storage is arranged by electronic means and real time access from Finland is guaranteed.

Special schemes. As of 1 January 2017, small companies with turnover less than EUR500,000 per financial year are allowed to notify and pay the VAT on a cash basis. This simplification only concerns fully domestic transactions.

A special VAT margin scheme also applies for transactions carried out by travel agents and for transactions concerning second-hand goods, works of art, collectors' items and antiques.

Annual returns. An annual VAT return in addition to the monthly/quarterly/yearly returns is not required in Finland.

J. Penalties

For the late payment of VAT, interest at an annual rate of 7% is assessed for 2017 beginning with the day following the due date to the date of payment. The rate of 7% has not changed since 2017, and is applicable for 2018 and 2019.

If the periodic tax return is filed late, a penalty payment of EUR3 per day is assessed until the tax return is filed, up to a maximum of EUR135. If the tax return is filed more than 45 days late, the penalty payment is EUR135 plus 2% of the VAT payable on the return in question. The maximum amount of the penalty payment dependent on the tax payable is EUR15,000 per type of tax per tax period.

K. EU filings

Intrastat. A Finnish taxable person that trades with other EU countries must complete statistical reports, known as Intrastat, if the value of its sales or purchases exceeds certain thresholds. Separate reports are required for intra-Community acquisitions (Intrastat Arrivals) and for intra-Community supplies (Intrastat Dispatches).

The threshold for Intrastat Arrivals for 2018 is EUR550,000. The threshold for Intrastat Dispatches for 2018 is EUR500,000.

Finnish taxable persons must complete Intrastat declarations in euros.

The Intrastat return period is monthly. The submission deadline is the 10th business day following the return period.

A penalty is assessed for late filing or for a failure to submit a return or for the submission of an incorrect Intrastat return in an amount ranging between EUR10 and EUR2,500.

EU Sales Lists. If a Finnish taxable person makes intra-Community supplies, it must submit an EU Sales List (ESL; also called EU recapitulative statement) to the Finnish tax authorities. An ESL is not required for any period in which a taxable person does not make any intra-Community supplies. Supplies falling under Article 44 of the EU VAT Directive must be reported on an ESL if the purchaser is located in the EU and is liable to pay the VAT on behalf of the supplier in the country where the purchaser is established.

The reporting period for an ESL is one month. The due date for filing the ESL is the 20th day of the month following the month of the transaction. The ESL must be filed electronically. Subject to certain conditions, the tax authorities can allow the taxpayer to file the ESL in paper format if a request is made.

The tax authorities may impose a penalty fee of EUR100 if the ESL is filed up to 45 days late, or EUR200 if the ESL is filed more than 45 days late.

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A. At a glance

Name of the tax	Value-added tax (VAT)
Local name	Taxe sur la valeur ajoutée (TVA)
Date introduced	10 April 1954
Trading bloc membership	European Union (EU) Member State
Administered by	French Ministry of Finance (http://www.impots.gouv.fr)
VAT rates	
Standard	20%
Reduced	2.1%, 5.5%, 10%
Other	Exempt and exempt with credit
VAT number format	FR 31 8 3 2 3 7 5 8 3 1
VAT return periods	Monthly (normal regime); quarterly and annually (simplified regime); or no return, depending on turnover and output VAT due in the previous year
Thresholds	
Registration	None
Distance selling	EUR35,000
Intra-Community acquisitions	EUR10,000 (under specific conditions)
Recovery of VAT by non-established businesses	Yes

B. Scope of the tax

VAT applies to the following transactions:
- The supply of goods or services performed in France by a taxable person
- The intra-Community acquisition of goods from another EU Member State by a taxable person or, under certain circumstances, by a nontaxable legal person (see the chapter on the EU)

- The intra-Community acquisition of new means of transport from another EU Member State by any person
- Reverse-charge services received by a taxable person in France (that is, services for which the recipient must account for the VAT due)
- The importation of goods from outside the EU, regardless of the status of the importer

For VAT purposes, the territory of France includes Corsica and Monaco. The Overseas Dependencies of Guadeloupe, Martinique and Réunion are considered to be non-EU countries with respect to the other EU Member States (see the chapter on the EU), although French VAT is applicable in these territories (with specificities). VAT does not apply in French Guiana (Guyane) and Mayotte.

C. Who is liable

A taxable person is any business entity or individual that performs taxable supplies of goods or services, intra-Community acquisitions or distance sales, in France in the course of a business.

Under the franchise regime, the following thresholds apply to small French-established businesses:
- Sales of goods: EUR82,800 during the previous year (or EUR91,000 when the turnover did not exceed the EUR82,800 threshold during the year before the previous year)
- Supplies of services: EUR33,200 during the previous year (or EUR35,200 when the turnover did not exceed the EUR33,200 threshold during the year before the previous year)

A taxable person that begins business activity in France must notify the French VAT authorities and register for VAT within 15 days.

Special rules apply to foreign or "non-established" businesses.

Group registration. An election to create a VAT payment group is allowed, with the election coming into effect at the beginning of the following financial year. The VAT payment group is considered to be a single entity exclusively with respect to a consolidated VAT payment (or refund), hence it is not a VAT group as described in article 11 of EU Directive 2006/112/EC. As a result, all VAT liabilities due and input VAT (VAT credit) held by the group members are compensated within the group. However, each member of the VAT group must submit its own VAT return for information purposes. Intra-group transactions are thus still subject to French VAT.

Non-established businesses. A "non-established business" is a business that has no fixed establishment for VAT purposes in the territory of France. If a non-established taxable person exclusively performs supplies that are subject to the reverse-charge mechanism, it does not need to register for VAT in France.

Otherwise, a non-established businesses should review their French VAT registration status. In addition, a French VAT registration may be necessary to fulfill Intrastat obligations (see Section K).

Tax representatives and agents. Businesses established outside the EU in countries not having signed a convention regarding mutual assistance in tax matters with France (except some listed countries) must appoint a tax representative to register for VAT. The tax representative must be known and accepted by the French tax authorities and is jointly and severally liable with the non-established businesses represented by it for all French VAT liabilities.

Foreign businesses established within the EU or in countries having signed a convention regarding mutual assistance in tax matters with France (except some listed countries) may either register for VAT directly or appoint a VAT agent who files the registration form and the periodic VAT returns on behalf of the foreign company. In contrast to a VAT representative, the VAT agent acts under the responsibility of the foreign entity. The same rules apply to businesses established in countries that have concluded a tax treaty with France covering mutual assistance.

Reverse charge. Under a mandatory reverse-charge mechanism, the recipient of goods or services holding a French VAT number is liable to settle the French VAT incurred on the (local) supply of goods or services performed by a taxable person not established in France, regardless of where the recipient is established. An entity is considered VAT-established in France if it holds a sufficient degree of permanence and a suitable structure in terms of human (French resident employees) and technical resources (e.g., leased cars) in France enabling it to receive the supply of goods or services in France.

The reverse-charge mechanism also covers the import VAT due upon the importation of goods into France, under strict conditions. Eligible operators could avoid the cash outflows associated with import VAT.

In addition, specific domestic reverse-charge rules apply to the following:
- Delivery of natural gas and electricity
- Supplies of gold or golden products with a purity of more than 325/1000
- Supplies and work performance on new industrial waste and recoverable material
- Transfer of allowances to emit greenhouse gases
- Electronic communications services
- Construction work, including repair, cleaning, maintenance, reconstruction and demolition services related to immovable property carried on by a subcontractor

Registration procedures for non-established entities. Registration requires completing Form IMP (EU persons) or Form M0 (non-EU persons) and the form's appendix describing the activity to be performed in France.

The registration form must indicate the address of the company, its main activity and the address where the company keeps its accounting records. Moreover, the company must attach a certificate of registration in the Trade and Companies registry in its country as well as the original of a certificate of taxable person status delivered in its EU Member State. Finally, the applicant must justify its intention to perform taxable activities in France.

Businesses established outside of the EU must include with their applications the "proxy" appointing the fiscal representative (see above).

The complete file is to be sent to the following tax office for EU businesses:

Service des Impôts des Entreprises Etrangères
10, rue du Centre
TSA 20011
93465 Noisy-Le-Grand Cedex, France

The VAT registration is free of charge and no guarantee is required. It generally takes two to four weeks to obtain a VAT number.

Late-registration penalties. No specific penalty is imposed for late VAT registration. However, interest and penalties apply if a return is absent and if a late registration results in the late payment of French VAT.

Digital economy. Articles 6a, 6b and 7 of EU Regulation 282/2011 provide a non-exhaustive (but legally binding) list of services covered by the terms "telecommunications services," "broadcasting services" and "electronically supplied services." For business-to-business transactions, the place of supply of such services to a taxable person shall be the place where that taxable person has established his or her business. Consequently, these services are taxable in France when the recipient acting as a taxable person has a fixed establishment or permanent address in France or usually resides in France.

The place of supply of business-to-consumer (B2C) transactions has been modified for telecommunication, broadcasting and electronically supplied services. Where supplied to an EU-based recipient, they are taxable in the Member State of location of the customer.

Mini One-Stop Shop (MOSS). The MOSS regime allows taxable persons that supply telecommunication services, television and radio broadcasting services or electronically supplied services to nontaxable persons ("consumers") in Member States in which they do not have an establishment to avoid registering, filing and paying VAT in each Member State of consumption.

They are able to account for VAT due on those supplies via a web portal in the Member State in which they are identified. These electronically supplied services are then subject to the VAT rate in force in the customer's EU Member State.

Two schemes are available. The EU scheme allows taxable persons established in France that deliver electronically supplied B2C services in Member States in which they are not established to file returns and pay the VAT owed on these services through a single portal. In the non-EU scheme, traders established outside the EU delivering electronically supplied services to nontaxable persons residing in the EU can also register with the MOSS in only one Member State even if they have customers in several Member States.

As from October 2014, taxable persons established in France or established outside the EU may register for MOSS via the e-service "access the Mini One-Stop Shop" on the tax web portal (http://www.impots.gouv.fr). After registration, the taxable person will be able to file returns and pay VAT owed on digital distribution service provided to consumers residing in other Member States. In order to be identified for MOSS, the company must have an "*espace professionnel*" (trader's subscriber section) on the web portal and have opted for the service "*consulter: compte fiscal.*" Registration will take effect from the first day of the calendar quarter following that in which the taxable person informs the French tax administration of the intention to start using the scheme.

Deregistration. When ending economic activities, a company has to file a specific form (M4 for non-EU businesses/"*déclaration de cessation*" for EU businesses) within 30 days (extended to 60 days under certain circumstances) following the date of the end of activity. This form must list the transactions performed by the company during this period and the ending date of the activity.

The company is required to regularize its position before the tax authorities, depending on whether it is in a VAT credit position (net input VAT to be refunded) or in a VAT debit position (net output VAT due). In the first case, the company can apply for a refund of its VAT credit within a period of 30 days running as from the date of the end of activity. In the second case, the company must settle the remaining VAT due through the filing of its VAT return.

Usually, the company will not be allowed to deduct the input VAT due on costs incurred after the date of the end of activity.

Exemption from registration. As mentioned above in regard to the reverse-charge mechanism, pursuant to Article 283 of the French tax code, a foreign supplier will not have to register for VAT for its transactions performed with a taxable payer established in France, where the latter will have to self-assess the related VAT.

Voluntary registration. Taxable persons that are established in France, have the option to voluntarily register for VAT through voluntarily wavering the application of the franchise regime, which is for small French-established businesses (see section above), such that they can be taxable and can register for VAT.

For foreign taxable persons, there is one specific scenario where they will be able to voluntarily register for VAT in France. This is in the case of renting an immovable property on an unfurnished basis. If the taxable person wants to opt to tax the renting of an immovable property on

an unfurnished basis, it will have to be VAT registered before it makes this option. See more detail on the option to tax in the Section *D. VAT rates* below.

D. VAT rates

The term "taxable supplies" refers to supplies of goods and services that are subject to VAT, including a reduced or super-reduced rate. The term "exempt supplies" refers to supplies of goods and services that are within the scope of VAT but that are not liable to tax. In principle, exempt supplies do not give rise to a right to recover input tax on related expenditure (see Section F). Some supplies are classified as "exempt with credit," which means that no VAT is chargeable, but the supplier may recover related input tax. Exempt-with-credit supplies include the following:
- Specified financial transactions
- Exports of goods outside the EU and related services
- Intra-Community supplies of goods

Mainland France. In mainland France, the following are the VAT rates:
- Standard rate: 20%
- Reduced rates: 2.1%, 5.5% and 10%

The standard VAT rate applies to all supplies of goods or services, unless a specific measure provides for a reduced rate or exemption.

Examples of goods and services taxable at 2.1%
- Pharmaceuticals (under conditions)

Examples of goods and services taxable at 5.5%
- Foodstuffs

Examples of goods and services taxable at 10%
- Accommodation

Corsica. On the island of Corsica, the standard rate is 20%. However, rates of 0.9%, 2.1%, 10% and 13% apply to specified goods or services. The 0.9% rate applies to the first performance of certain theatrical performances and circuses. The 2.1% rate applies to the supplies of certain goods and services that are subject to the reduced rate of 5.5% in mainland France. The 10% rate applies to work on immovable property, to agricultural equipment and to sales of restaurant food for consumption on the premises. The 13% rate applies to petroleum products.

Overseas Dependencies (Guadeloupe, Martinique and Réunion). In the Overseas Dependencies of Guadeloupe, Martinique and Réunion, the standard rate is 8.5%. A reduced rate of 2.1% applies to the supplies of goods and services that are subject to the 5.5% rate in mainland France. A special VAT rate of 1.05% applies to periodicals. A special VAT rate of 1.75% applies to the sale of livestock to nontaxable persons.

Exempt supplies. The term "exempt supplies" refers to supplies of goods and services that are within the scope of VAT but that are not liable to tax. In principle, exempt supplies do not give rise to a right to recover input tax on related expenditure but specific provisions can grant the right to recover input VAT on exempt supplies (see below and Section F).

Examples of exempt supplies of goods and services
- Land under specific conditions
- Financial transactions
- Buildings completed for more than five years
- Insurance
- Education
- Health and welfare
- Betting and gaming

Some supplies are classified as "exempt with credit," which means that no VAT is chargeable, but the supplier may recover related input tax. Exempt-with-credit supplies include the following:
- Certain financial transactions (where invoiced to non-EU customers)
- Exports of goods outside the EU and related services
- Intra-Community supplies of goods

Option to tax for exempt supplies. Taxable persons performing economic activities that are exempt of VAT may, under express legal provision, be able to apply VAT on such activities. As a result, the taxpayer will be able to recover the VAT credit incurred on the goods or services. Option to tax for VAT may exempt the taxpayer from payroll tax if at least 90% of its turnover becomes VAT taxable.

Examples of exempt supplies of goods and services for which there is an option to treat as taxable

- Leasing of unfurnished buildings to professionals
- Leasing of agricultural assets
- Specific public services provided by local public authorities
- Supplies of undeveloped lands
- Supplies of buildings completed for more than five years
- Certain transactions of bank establishments

E. Time of supply

In France, the time when the legal conditions necessary to determine the VAT liability are fulfilled is called the "chargeable event," while the time when VAT becomes due and recoverable is called the "tax due point" (chargeability of VAT). Different tax event rules and tax due point rules apply to supplies of goods and supplies of services.

The general rule is that the tax event and the tax due point for goods occur at the same time. They occur when the right to dispose of the goods as owner is transferred. If the sale contract stipulates that the supplier retains ownership of the goods, the tax is due at the moment of the physical transfer of the goods from the supplier to the buyer.

The tax event for services is the moment when the services are performed, while the tax due point is the date of the effective payment. However, the supplier may opt to account for VAT on an accrual basis; that is, when the services are rendered and the invoice is issued (*option pour les débits* — option for the debit rule). In principle, if the consideration for a supply of services is paid in installments, VAT is due on the receipt of each installment.

Reverse charge. The time of supply for a domestic reverse-charge service received by a French taxable person is the date of payment for the service, unless the recipient of the service has opted to account for VAT on an accrual basis. With regard to a cross-border reverse charge, the tax point is when the service is supplied, without options.

Intra-Community acquisitions. The tax event for an intra-Community acquisition of goods is the moment of the introduction of the goods in France. The tax due point is the 15th day of the month following the month in which the acquisition occurred. If the supplier issues an invoice before this date but after the tax event, the tax due point is the date of the invoice.

Imported goods. The time of supply for imported goods is either the date of importation or the date on which the goods leave a duty suspension regime.

Cash accounting. France has not implemented the optional scheme under Article 167bis but has implemented Article 66b (as referred to in Article 167bis) for supplies/receipt of services only.

Continuous supplies of services. In the case of installment payments or continuous payments with respect to continuous supplies of services, the chargeable event occurs at the end of the periods to which such installments or payments refer. However, for continuous supplies of services over a period of more than one calendar year, subject to the non-domestic reverse charge, which do not give rise to installments or continuous payments during that period, the tax event occurs on expiry of each calendar year until such time as the supply of services comes to an end.

Continuous supplies of goods. In the case of installments or frequent payments with respect to continuous supplies of goods, the chargeable event occurs at the end of the period to which such installments or payments refer. However, for continuous intra-Community supplies or acquisitions of goods over a period of more than one calendar month, which do not give rise to installments or payments during that period, the tax event occurs on expiry of each calendar month until such time as the supply or acquisition of goods comes to an end.

Prepayments. The collection of advance payments (prepayments) for supplies of goods does not give rise to VAT (except in the case of continuous supplies of goods).

The tax due point for advance payments for services occurs on collection of the payment.

Intra-Community supplies of goods. The tax event for an intra-Community supply of goods is the moment of the shipment of the goods from France. The tax due point is the 15th day of the month following the month in which the shipment occurred. If the supplier issues an invoice before this date but after the tax event, the tax due point is the date of the invoice.

However, specific rules might be applicable in respect of tax due point. For instance, for a contract of sale with a retention-of-title clause, VAT is due when the good is physically delivered.

Leased assets. A leasing contract of goods is an agreement whereby the lessor (the owner) contracts the use of the good to the lessee (the person who leases) in return for a consideration. At this stage, lease incomes received by the lessor during the period of the lease agreement are VAT taxable pursuant to the collection rules applicable to the supplies of services.

At the end of the lease period, should the lessee opt for the purchase of the good, VAT is chargeable upon the transfer of the right to dispose of the asset.

Goods sent on approval for sale or return. The time of supply rules for goods sent on "approval" or for "sale return" is in principle when the transfer of the ownership has occurred. It could be different under the assumption where the agreement has been contracted under a suspensive condition. Therefore under said scenario, the tax due point will occur when the condition is realized, leading to the transfer of the ownership. Under a resolutely condition, the tax point will be the transfer of the ownership, at the conclusion of the agreement, but the latter can be retroactively resolved if said condition is realized.

F. Recovery of VAT by taxable persons

A taxable person may recover input VAT charged on goods and services supplied to it for business purposes. A taxable person generally recovers input tax by offsetting it against output VAT charged on supplies made. Input tax includes VAT charged on goods and services supplied in France, VAT paid on imports of goods and VAT self-assessed by the taxable recipient under the reverse-charge mechanism.

A valid tax invoice or customs document is compulsory for a VAT refund claim.

Non-deductible input tax. Input tax may not be recoverable on purchases of goods and services that are not used for business purposes (for example, goods acquired for private use). Furthermore, input tax may not be recoverable on certain business expenditures.

The following lists provide some examples of items of expenditure for which input tax is not recoverable and examples of items for which input tax is recoverable, except in specific cases.

Examples of items for which input tax is not recoverable

- Hotel accommodation for employees
- Petrol
- Transport of passengers
- Purchase, lease and maintenance of passenger cars
- Business gifts valued at more than EUR69 including VAT, per person per year

Examples of items for which input tax is recoverable (if related to a taxable business use)

- Restaurant meals and entertainment for employees and clients
- Hotel accommodation for clients
- Attending conferences, exhibitions and training seminars
- Books
- Motorway tolls
- Liquefied petroleum gas (LPG)
- Purchase, lease and maintenance of vans and trucks
- Diesel fuel (up to 80%); petrol used in vehicles excluded from deduction rights (up to 10% from 1 January 2017)
- Advertising
- Business use of a home telephone

Partial exemption. Input tax directly related to exempt supplies is not generally recoverable. If a French taxable person performs both exempt supplies and taxable supplies, it may only recover a portion of input tax. This situation is referred to as "partial exemption."

In France, the amount of input tax that may be recovered is calculated in the following two stages:

- The first stage identifies the input VAT that may be directly allocated either to exempt or to taxable supplies. Exempt-with-credit supplies are treated as taxable supplies for these purposes. Input tax directly allocated to exempt supplies is not deductible. Input tax directly allocated to taxable supplies is fully recoverable.
- The second stage prorates the input tax on mixed expenditures (relating to both taxable and exempt supplies) in order to allocate a portion to taxable supplies (which may be recovered). For example, this treatment applies to the input tax on general business overhead expenses.

Alternatively, a taxable person may apply the recovery ratio to all expenditures for the acquisition of goods and services.

A taxable person that performs within the same business entity different types of business activities that are subject to different VAT rules (referred to as "Separate Business Units") must maintain separate accounts for each branch of activity and compute its recovery rights separately for each business unit.

Capital goods. Capital goods are items of capital expenditure that are used in a business over several years and thus qualify as fixed assets. Input tax is recoverable in the VAT year in which the goods are acquired. The amount of input tax recoverable depends on the VAT recovery ratio in the year of acquisition. However, the amount of input tax for capital goods initially deducted might have to be adjusted over a reference period if the VAT recovery ratio varies by more than 10 percentage points (since 1 January 2008) over the adjustment period, depending on the effective use of the fixed assets.

In France, the capital goods adjustment applies to the following assets for the number of years indicated:

- Buildings: for 19 years following the year in which they are acquired (that is, 20 years in total). This rule applies to buildings acquired on or after 1 January 1996.
- All other fixed assets: for four years after the year in which they were purchased, acquired under an intra-Community acquisition, imported or used for the first time (that is, five years in total).

Adjustment is required each year following the acquisition, to a fraction of the total input tax (1/20) for land and buildings and 1/5 for other fixed assets). The adjustment may result in either an increase or a decrease of recoverable input VAT, depending on whether the ratio of taxable supplies made by the business has increased or decreased compared with the year in which the fixed asset was acquired.

Further adjustments might be required upon the disposal of fixed assets (or similar events) within the adjustment period.

Refunds. If the amount of input tax recoverable in a monthly period exceeds the amount of output tax payable in that period, the taxable person has an input tax credit. The input tax credit may be carried forward to offset output tax in subsequent return periods, until it is used up.

A refund of the input tax credit may be requested at the end of the calendar year if the total amount refundable is at least EUR150. A refund may also be requested at the end of a calendar month or quarter if the amount refundable is at least EUR760.

VAT refund claims must be reported on Form 3519 for persons VAT-registered in France. Non-VAT-registered EU taxable persons seeking a refund of French VAT should apply online (see Section G).

Preregistration costs. Newly created companies may claim a refund of input VAT paid on expenses incurred before registration, back to the point in time when they expressed their intention to perform economic activities. Documentation useful to show such an intention may include a statement of existence, a VAT registration certificate, evidence of market investigation and marketing expenses, etc.

Write-off of bad debts. A taxable person may recover input VAT paid on unpaid invoices when the debt is officially unrecoverable, which occurs when the supplier has exhausted all legal remedies against the debtor. However, VAT may be recovered further to a judgment of liquidation or a judgment granting a recovery plan. Therefore, a mere default of recovery does not enable the supplier to qualify the debt as definitely unrecoverable and to claim a refund.

Bad debt relief rules are applicable only to supplies for which the tax point arises before the receipt of payment. Consequently, VAT refund difficulties mostly arise regarding supplies of goods. For supplies of services, the tax point occurs at the date of the effective payment, so bad debt relief rules are only applicable which the taxpayer has opted to pay VAT under the invoice dates regime *(option pour les débits)* under which VAT is due at the time when the debt is recorded.

Non-economic activities. Non-economic activities shall be taken into account in the computation of the VAT recovery ratio that will enable a taxable person to determine its deductible input VAT, specifically as to the assessment of the first and second of the three relevant ratios.

The first relates to the direct allocation of purchased goods or services to the execution of economic activities falling within the scope of VAT (*coefficient d'assujettissment*). The second ratio concerns the operation opening a VAT deduction right (*coefficient de taxation)*. The third ratio addresses specific rules that might limit the input VAT deduction right *(coefficient d'admission*).

G. Recovery of VAT by non-established businesses

Businesses that are neither established in France nor registered for VAT may request the refund of input VAT. Non-established businesses may claim French VAT to the same extent as VAT-registered businesses.

For businesses established in the EU, refund is made under the terms of EU Directive 2008/9/EC. For businesses established outside the EU, refund is made under the terms of the EU 13th Directive. France does not exclude any non-EU countries from the refund process.

For the general VAT refund rules under the EU Directive 2008/9/EC and 13th Directive refund schemes, see the chapter on the EU.

Refund application. Under the EU 13th Directive, the deadline for refund claims is 30 June of the year following the calendar year in which the tax is incurred. This deadline is strictly enforced.

The minimum claim period is three months. The maximum claim period is one year. The minimum claim for a quarterly period is EUR200. For an annual claim, the minimum amount is EUR25.

As a result of the implementation of the VAT Package, the deadline for VAT refund claims under EU Directive 2008/9/EC is extended to 30 September of the year following the calendar year in which the tax is incurred.

Claims must be submitted in French. The application for refund must be accompanied by the appropriate documentation (see the chapter on the EU).

Applications for refunds of French VAT must be sent to the following address:

Service de remboursement de la TVA aux assujettis étrangers
10 rue du Centre
TSA 60015
93 465 Noisy-Le-Grand Cedex
France

VAT refund claims filed under the EU Directive 2008/9/EC procedure must, in principle, be submitted electronically. VAT refund claims filed under the EU 13th Directive procedure are still to be submitted on paper.

Repayment interest. If the refund is not made within required time limits, the French VAT authorities must pay interest to the claimant provided the refund claim complies with all requirements.

H. Invoicing

VAT invoices and credit notes. A French taxable person generally has to provide a VAT invoice for all taxable supplies performed for the benefit of other taxable businesses or nontaxable legal entities, including exports and intra-Community supplies. Invoices are not automatically required for retail transactions, unless requested by the customer. An invoice must be issued as soon as the supply has taken place.

A commercial invoice is necessary to support a claim for input tax under the domestic procedure or a refund under the EU Directive 2008/9/EC or 13th Directive refund schemes (see the chapter on the EU).

Under the French Administrative Guidelines, a VAT credit note may be used for transactions involving French clients to correct the VAT amount charged and reclaimed on a supply. The VAT amount credited must be separately itemized and it must be cross-referenced to the original VAT invoice.

Electronic invoicing. The French VAT Law permits electronic invoicing in line with EU Directive 2010/45/EU. All formats of electronic invoices are accepted, but authenticity of the origin, integrity of content and legibility must be satisfied from the invoice's date of issuance through the end of the archiving period.

In the case of invoices not issued in the Electronic Data Interchange (EDI) format or electronically signed with a qualified certificate, business controls must be put in place that demonstrate the existence of a reliable audit trail between the invoice and the underlying transaction. This would apply notably to e-invoices sent by email.

Proof of exports and intra-Community supplies. French VAT is not chargeable on supplies of exported goods or on intra-Community supplies of goods (see the chapter on the EU). However, to qualify as VAT-free, exports and intra-Community supplies must be supported by evidence indicating that the goods have left France. Acceptable proof includes the following documentation:

- For an export, a copy of the export document, officially validated by customs and showing the supplier as the exporter. Other acceptable proof of export may be provided. The sales invoice must include specific wording.
- For an intra-Community supply, the supplier must include the purchaser's EU VAT identification number on the sales invoice and specific wording. The supplier must also retain commercial documentation (for example, purchase orders, transport documentation, proof of payment and a copy of the customer's invoice stamped for receipt of the goods).

Foreign-currency invoices. If a French VAT invoice is issued in a foreign currency, the VAT amount to be paid must be converted into euros using the rate published by the European Central Bank for the date of the supply. For intra-Community transactions, the customs rate (published monthly) may be used. If a taxable person chooses to use the customs rate, such rate must be used for all intra-Community trade, for at least one calendar year for both VAT returns and Intrastat returns.

B2C. There are territoriality rules with respect to supplies of telecommunications, broadcasting and electronic services to non-VAT-taxable customers. From 1 January 2019, supplies of telecommunications, broadcasting and electronic services to non-VAT-taxable customers established in France will not be viewed as taxable in France under the scenario where the supplier is established within the EU territory and that the overall amount of the services at hand does not exceed during the current year where the services took place, and the year before, the EUR10,000 free of taxes threshold.

However, the supplier could opt for the taxation of the services in France. Therefore, under the hypothesis where the supplier has opted or if the threshold is exceeded, the supplies of services at hand will be VAT taxable in France.

Furthermore, under the scenario where the supplier is this time established in France and rendered the services at hand to business-to-consumer (B2C) customers established in the EU, the services will be taxable in France if the above threshold is not exceeded and if the supplier does not opt for the taxation of the services at hand in the country of the customer. Therefore, under the hypothesis where the supplier has opted or if the threshold is exceeded, the supplies of services at hand will be VAT taxable in the EU Member State of the B2C customer.

French VAT rules do not set requirements as to the issuance of invoices for supplies of telecommunications, broadcasting or electronic services to non-VAT taxable private individuals. However, requirements are defined by the Commercial Law. The invoice should include additional information on these services:

- The total amount including VAT and the corresponding VAT basis

- The total amount including VAT of the services rendered by the service provider and corresponding VAT basis
- Total amount including VAT of the services rendered by third parties and corresponding VAT basis.

The invoice shall comprise two sections, one referring to the services rendered by the operator and another one to the services delivered by third parties. The first section shall be organized in three parts:
- The subscription, all-inclusive packages and options
- Communications
- Other services and product of the operator

The second section shall be organized in two parts:
- Subscriptions with third parties
- Temporary services from third parties

These five parts must show detailed information on the services such as reference periods, quantities of goods or services, rebates, communications included in the subscription or not. For prepaid electronic communication, a simplified document can be issued as from 10 January 2014.

Paper and electronic invoices must be archived in their originally issued form for a period of six years. French administrative guidelines distinguish between requirements for purchase invoices and sales invoices.
- Purchase invoices must be archived in paper form when received in paper; a paper purchase invoice digitized for archiving does not qualify as an electronic invoice. Electronic invoices must be stored in electronic format (the original one under which they were received).
- Sales invoices must be stored in electronic format if they were received in electronic format; for paper invoices, the tax authorities will accept archival storage of a copy in a form other than paper provided that certain conditions regarding integrity of the invoices are met.

Electronic invoices archiving. As from 1 January 2017, paper invoices received and issued can be archived under paper format or electronic format during the period of six years.

On 31 March 2017, the French tax administration authorized the electronic archiving of paper invoices issued or received by taxable persons subject to VAT. However, before destroying the original paper version, it is necessary to comply with certain technical conditions and to update the archiving systems already implemented for sales invoices.

I. VAT returns and payment

VAT returns. The applicable VAT return period depends on the taxable person's turnover. As from 1 January 2015, the following criteria apply:
- Companies following the normal regime (*régime réel normal*) file returns monthly. There are two categories of taxpayer that must follow the normal regime:
  — Companies whose turnover exceeds EUR789,000 (goods) or EUR238,000 (services)
  — Companies whose output VAT due exceeded EUR15,000 the preceding year
- Companies following the simplified regime (*régime réel simplifié*) file returns quarterly and annually. There are two categories of companies that can follow the simplified regime:
  — Companies whose turnover is between EUR82,800 and EUR789,000 (goods) or between EUR33,200 and EUR238,000 (services), and whose output VAT due the previous year was less than EUR15,000
  — Companies whose turnover exceeds EUR789,000 (goods) or EUR238,000 (services) but whose total output VAT due during the previous calendar year did not exceed EUR4,000
- Companies that are not required to file a VAT return are those whose turnover is less than EUR82,800 (goods) or EUR33,200 (services).

For French and non-EU companies, monthly VAT returns and payment are due between the 15th and the 24th day of the month following the end of the return period. The due date depends on several factors including the type of legal entity involved and where the taxable person is established.

For EU entities, monthly or quarterly VAT returns are due on the 19th day of the month following the end of the return period.

Special schemes. In certain circumstances, taxpayers may opt to file VAT returns and pay VAT due under the installment payment scheme, pursuant to which the deadline for filing is extended. However, an installment shall be approved by the tax authorities before the initial deadline.

As mentioned in Section C, the franchise regime is applicable to small French-established businesses following the below thresholds (effective 1 January 2017):
- Sales of goods: EUR82,800
- Supplies of services: EUR33,200

Special rules are also applicable for real estate operations or for agricultural activity.

Electronic filing. As from 1 October 2014, businesses (including foreign businesses, but except small companies and *auto-entrepreneurs* under certain circumstances) must file their VAT returns and settle the VAT due electronically. For companies not established in France but VAT-registered in France, electronic filing is required but not electronic payment.

A notice is currently available on the official website (in French): http://www.impots.gouv.fr. The "TéléTVA" process can be used through one of these two methods:
- The "EDI" procedure using UN-EDIFACT standards (*échange de données informatisées*): the data will be transmitted to the tax office by the intermediary of an "EDI partner" accredited as such by the tax administration. The EDI partner can be the taxpayer itself provided the accreditation has been granted.
- The "EFI" procedure (*échange de formulaires informatisés*): the taxpayer declares and settles the VAT due through the tax authorities' official website http://www.impots.gouv.fr. The taxpayer must have previously connected to this website and, by filling in the required information, created an account in the trader subscription section (*Espace professionnel*). When that is done properly, an activation code is sent to the taxpayer. Once the account is activated, the taxpayer has access to the VAT filing space. For foreign businesses, it is necessary to have a SEPA account to be able to settle the VAT due electronically (no need for a French bank account).

The taxpayer must first approach the tax administration in order to be registered on a compulsory or voluntary basis.

In case electronic filing and payment obligations are not respected, a 0.2% penalty (assessed on the VAT due) is applicable.

Electronic archiving. Electronic archiving is not compulsory and paper invoices issued and received can be archived under their paper format. Therefore, electronic archiving is allowed in France provided that electronic archiving does not alter and modify information submitted in the related document and that the business updates its archiving system in order to comply with the regulations.

In the event of a tax audit, the company has to be able to provide the French tax authorities with all the electronic or others, information/data/treatments directly or indirectly linked to the accounting or tax results and to tax returns.

Annual returns. Businesses falling into the scope of the simplified regime (*régime réel simplifié*) are obliged to file an annual return (CA12). In contrast, businesses subject to the "*régime réel normal*" scheme do not have to file annual VAT returns.

J. Penalties

The following penalties are assessed for errors associated with electronic filing:
- Failure to declare VAT by electronic means: 0.2% of the VAT due
- Failure to pay VAT by electronic means: 0.2% of the VAT due

The following penalties are assessed for the late submission of VAT and late payment of VAT:
- Late payment: 5% of the tax due
- Late submission: 10% of the tax due if the French VAT authorities have not yet issued a formal notice
- Payment more than 30 days after the first formal notice of a late submission: 40% of the tax due
- Second formal notice of a late submission: 80% of the tax due

In addition to the penalty, interest accrues at a rate of 0.4% per month (0.2% per month from 1 January 2018 for late payment interest and default interest).

Penalties and interest payments may also apply to inaccurate returns.

For inaccurate invoices, the following penalty applies:
- EUR15 per missing mandatory information per invoice (listed in Directive 2006/112/EC)

K. EU filings

Intrastat. A taxable person that trades goods from and within France with other EU countries must complete statistical reports, known as Intrastat, if the value of its sales or purchases exceeds certain thresholds. Separate reports are required for intra-Community acquisitions (Intrastat Arrivals) and for intra-Community supplies (Intrastat Dispatches).

For 2019, the threshold to submit Intrastat Arrivals is EUR460,000. There is no threshold to submit Intrastat Dispatches; submission is required from the first EUR and any supplies under EUR460,000).

Taxable persons must complete Intrastat declarations in euros.

Intrastat returns are to be filed monthly. The submission deadline is the 10th day of the month following the end of the return period.

The penalty for late filing is EUR750, increased to EUR1,500 if the report is not filed within 30 days after the French customs authorities have issued a warning notice. In addition, every omission or inaccuracy on an Intrastat return is punishable by a fine of EUR15. The fine cannot exceed EUR1,500 per Intrastat return. A penalty of EUR1,500 may also apply if a taxable person refuses to provide information or documents to the French customs authorities.

EU Sales Lists. In France, all information related to intra-Community transactions is reported using the Intrastat form. No separate EU Sales List (ESL) is to be filed.

As a result of the implementation of the VAT Package, effective from 1 January 2010, an ESL for services must, in principle, be filed with respect to services provided by French suppliers to customers registered for VAT in the EU in specified circumstances. The ESL for services has to be submitted electronically on the web portal of the French customs administration on a monthly basis.

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A. At a glance

Name of the tax	Value-added tax (VAT)
Local name	damatebuli ghirebulebis gadasakhadi
Date introduced	24 December 1993
Trading bloc membership	None
Administered by	Ministry of Finance of Georgia (http://www.mof.ge)
VAT rates	
Standard	18%
Reduced	0.54%
Other	Exempt with the right to reclaim input tax; and exempt without the right to reclaim input tax
VAT number format	123456789
VAT return period	Monthly
Registration thresholds	
Businesses established in Georgia	Taxable turnover of GEL100,000 in the preceding 12 months
Businesses established elsewhere	Reverse-charge rule applies
Recovery of VAT by non-established businesses	No

B. Scope of the tax

VAT applies to the following transactions:
- Supply of goods or services in Georgia within the scope of economic activities
- Use of VAT taxable goods or services for noneconomic purposes if a taxpayer has obtained a VAT credit for these goods (services)
- On termination of VAT registration (except for bankruptcy cases), the balance value of the goods for which a taxpayer has obtained a VAT credit
- Use of self-constructed buildings as fixed assets

- Transfer of ownership of goods or services in exchange for shares in an enterprise or partnership
- On expiration or early termination of a rental agreement, supply of leasehold improvements, if any, to the landlord
- Import or temporary import of goods into Georgia
- Export or re-export of goods from Georgia

C. Who is liable

Enterprises or individuals are considered VAT payers if any of the following circumstances exists:

- They are registered or required to be registered for VAT.
- They carry out taxable imports or temporary imports of goods into Georgia. Such persons are considered VAT payers with respect to such imports or temporary imports only, without the obligation to register.
- They are nonresident persons (except for Georgian citizen individuals) rendering services in Georgia without VAT registration and a permanent establishment. Such persons are considered VAT payers with respect to such services only and are subject to reverse-charge taxation.
- They are transferring property used as a security measure to a creditor in order to fulfill obligations defined under the contract. Such persons are considered VAT payers with respect to this operation only and are subject to reverse-charge taxation, without the obligation to register.
- Their property is being sold to fulfill tax liability or other financial obligation (excluding imposed criminal and administrative sanctions) via auction, direct sale or other methods. Such persons are considered VAT payers with respect to this operation only, without the obligation to register.
- Their property is being sold according to the rules set by the Law of Georgia on Insolvency Proceedings. Such persons are considered VAT payers with respect to this operation only, without the obligation to register.

Taxpayers must register for VAT if they satisfy any of the following conditions:

- They conduct economic activities, and the total amount of VAT taxable transactions carried out in any continuous period of 12 calendar months exceeds GEL100,000. Such persons must register within two working days after exceeding the threshold.
- They produce goods subject to excise tax (excisable goods) in Georgia. Such persons must register before making a supply of such goods.
- They import excisable goods into Georgia (except for excisable goods exempt from VAT taxation on import). Such persons must register before making a supply of such goods.
- An entity is established as a result of reorganization and at least one of the parties to the reorganization is a VAT payer. The entity must register before a VAT taxable transaction is carried out, but no later than 10 calendar days following the completion of the reorganization.
- A VAT payer contributes goods or services into the capital of an enterprise or partnership. Registration of the latter is required before a VAT taxable transaction is carried out, but no later than 10 calendar days following the date of the contribution.

For purposes of determining whether VAT registration is required, exempt supplies with the right to reclaim input tax and exempt supplies without the right to reclaim input tax are not considered.

The above measures also apply to a foreign entity in Georgia. However, to determine the total amount of taxable transactions of a nonresident person, only the supply of goods and rendering of services through a permanent establishment in Georgia is taken into consideration.

Registration procedures. The VAT registration procedure is straightforward and a taxpayer may register for VAT in one working day. An authorized official of the company or its officially designated representative shall appear in person at the tax office to sign and submit the application.

Voluntary registration. A business established in Georgia, including a permanent establishment of a foreign entity, may register for VAT voluntarily. VAT registration is effective from the submission date of the application but no later than the date when the obligation of mandatory VAT registration arises.

Group registration. VAT group registration is not allowed in Georgia. Entities from the same corporate group must register for VAT individually.

Late-registration penalties. A penalty is assessed for late VAT registration. This penalty equals 5% of the VAT taxable turnover (except for exempt operations) for the entire period of operating without VAT registration. The penalty for the late filing of a VAT return (see Section I) does not accrue during this period.

Non-established businesses and tax representatives. A "non-established business" is a business that does not have a permanent establishment in Georgia. If a business does not have a permanent establishment in Georgia, it may not register for VAT even if it makes taxable supplies of goods or services there. Reverse-charge VAT generally applies to the supply of services made by non-established businesses in Georgia.

The supply of goods by a non-established business through its tax representative in Georgia is considered to be a supply made by such representative for VAT taxation purposes.

Reverse charge. The reverse-charge mechanism applies to nonresident enterprises or nonresident individuals (except for Georgian individual citizens) making a taxable supply of services in Georgia. The reverse-charge mechanism also applies to the supply of goods or services conducted outside Georgia if the product (for example, projection documents, technical documentation, and technical schemes and programs) is delivered to resident taxpayers through the Internet or any other means of electronic communication and does not cross the customs border of Georgia in the form of an integrated device or any other type of information bearer.

Under the reverse-charge mechanism, resident taxpayers (except for individuals who do not carry out entrepreneurial activities and Free Industrial Zone Companies) and permanent establishments of foreign entities are responsible for the calculation and payment of VAT.

Digital economy. In the case of business-to-business transactions where a customer pays the nonresident business for services, qualifying as electronically supplied services, telecommunication, radio, television or data processing services, the customer is expected to report and pay VAT via the reverse-charge rules. At the same time, the customer is entitled to a credit for the paid reverse-charge VAT against the VAT payable if certain conditions are met.

For business-to-consumer transactions, reverse-charge VAT applies if the customer is an individual entrepreneur. Otherwise, no VAT applies.

Deregistration. The VAT registration of a taxpayer, including a permanent establishment of a foreign entity, is cancelled in the following cases:
- An enterprise/organization is liquidated.
- An individual passes away.
- A taxpayer applies to the tax authorities through a written request or approves a request from the tax authorities to deregister.
- A bankruptcy proceeding is initiated in accordance with the procedure prescribed under the Law of Georgia on Insolvency Proceedings.

A taxpayer may request deregistration within one year of the most recent VAT registration if the value of taxable transactions carried out during the preceding 12 calendar months did not exceed GEL100,000. The tax authorities may also request that the taxpayer deregister.

VAT registration is cancelled from the date the state registration is canceled, the date the individual passes away or the first day of the month following the application by a taxpayer, the date a court's statement on bankruptcy enters into force or an approval of the request from the tax authorities.

Exemption from registration. The VAT law in Georgia does not contain any provision for exemption from registration.

D. VAT rates

The term "taxable supply" refers to the supply of goods and services that are subject to VAT. The term "exempt supply" refers to the supply of goods and services that are not subject to VAT. Persons that make exempt supplies may or may not be entitled to claim the input tax deduction (see Section F).

In Georgia a standard rate of VAT at 18% applies to all taxable supplies of goods and services and imports, unless a specific measure allows an exemption. The 18% rate also applies to transactions subject to the reverse-charge mechanism.

A VAT rate of 0.54% applies to temporary imports for each full or partial calendar month in which the goods are located in the customs territory of Georgia, but the maximum VAT rate for these goods is 18%.

Goods and services that are exempt from VAT may or may not give rise to input tax deductions. The following lists provide some examples of exempt items for which the taxpayer has the right to reclaim input tax and those for which the taxpayer does not have the right to reclaim input tax.

Examples of exempt items with the right to reclaim input tax

- Export or re-export of goods
- Supply of goods or services intended for the official use of foreign diplomatic missions and equivalent representative offices as well as for the personal use of the members of such diplomatic missions and representative offices (including family members residing with them)
- Transportation of goods under export, re-export, external processing and transit arrangements (foreign goods moving through the customs territory of Georgia) and related services
- Transportation of goods not yet declared into import, warehouse, temporary import, internal processing or free-zone operations between points located in Georgia and related services (except for storage services)
- Transportation of goods declared into import, warehouse, temporary import, internal processing or free-zone operations before entering the territory of Georgia from the customs border of Georgia to the destination point and related services (except for storage services)
- Transportation of passengers and cargo and related services, if the departure or arrival point is located outside Georgia and if a unified transportation document is issued for such transportation
- Import and supply of products to be provided on board for international flights or international sea passages
- Transportation, loading, unloading and storage services provided for the purpose of sending (returning) empty transport facilities (including containers and wagons) outside Georgia
- Supply of natural gas to thermoelectric power stations
- Withdrawal of assets by the state or a local governing body from an entity's capital if more than 50% of the shares is owned by the state or the local governing body
- Free supply of goods or services to the state or a local governing authority
- Supply of Georgian goods to a duty-free outlet for sale, and sale of goods and provision of catering services in a duty-free zone
- Supply of assets during a corporate reorganization

- Contribution of assets into the capital of an enterprise or partnership (on the contribution, the recipient hypothetically credits the VAT on the assets)
- Supply of gold to the National Bank of Georgia
- Organized foreign tours into Georgia by tour operators and the supply of tourist packages to foreign tourists
- Supply of all assets or independently operating units of an entity in a single transaction by one VAT payer to another VAT payer if both parties notify the tax authorities within 15 calendar days after the supply
- Rendering of services to ships on carrying goods into the customs territory of Georgia, and in accordance with these agreements, the supply of such goods/services and/or import of goods is exempt from VAT
- Supply of goods or services or import of goods that qualify for VAT exemption in accordance with the framework of international agreements ratified by the parliament of Georgia
- Supply of unprocessed agricultural products produced in Georgia (except for eggs and chicken)
- Supply of electricity and guaranteed power (except for supply to residential customers), as well as transmission and/or electricity dispatch services

Examples of exempt items without the right to reclaim input tax

- Supply or import of certain medicines
- Supply or import of passenger cars
- Supply or import of publications and mass media
- Supply or import of baby products
- Supply of land plots
- Supply of goods and services between Free Industrial Zone Companies
- Conduct of financial operations or supply of financial services
- Supply of medical services
- Supply of educational services
- Supply of assets under finance leases if the assets are exempt without the entitlement to credit
- Supply of betting and gaming services
- Import of gold for supply to the National Bank of Georgia
- Supply or import of goods and services needed for the oil and gas industry under the Law of Georgia "on Oil and Gas"
- Import of natural gas for electricity production
- Import of goods by an issuer or a recipient of a grant as defined by the grant agreement
- Import or temporary import of goods or services intended for the official use of foreign diplomatic missions and equivalent representative offices, as well as for the personal use of the members of such diplomatic missions and representative offices (including family members residing with them)
- Import or temporary import of goods intended for the personal use of the citizens of foreign countries employed at oil and gas exploration and extraction works
- Import of natural gas for electricity production
- Import of goods by an issuer or a recipient of the grant as defined by the grant agreement
- Supply of property by partnerships to their members if all the members are individuals, the partnership is not a VAT payer, and the members have not changed since the moment of establishment of partnership

Option to tax for exempt supplies. A VAT-registered taxpayer may apply to pay VAT on all transactions that qualify for exemption without the right to reclaim input tax. This option gives the taxpayer the right to reclaim input VAT against output VAT.

After applying to the tax authorities to use this option, it becomes effective from the first day of the reporting month following submission of the application and is valid for 12 calendar months for all transactions.

E. Time of supply

The time when VAT becomes due is called the "time of supply" or "tax point." The "basic" tax point is the moment when goods are supplied or services are rendered. However, the "actual" tax point is the date on which the invoice for supplied goods or rendered services is issued or the date of receipt of advance payment, if either of these dates is earlier than the basic tax point. For regular or continuous supplies of goods (electrical or thermal energy, gas or water supply) and services, the actual tax point is the last day of a reporting period if earlier than the basic tax point.

A range of other situations have different time of supply rules that do not fit naturally into the above scheme. The following are some of these special time of supply rules:
- Starting point of the use of goods or services for noneconomic purposes
- In the case of VAT deregistration, the day preceding the date on which registration is canceled
- Starting point of bringing self-constructed buildings into use as fixed assets
- Starting point of receiving ownership of goods or services in exchange for shares in an enterprise or partnership
- In the case of the supply of leasehold improvements to the landlord, the moment of expiration or early termination of the rental agreement
- December of each year for long-term contracts if neither the basic nor actual tax point occurs (applies only for long-term contracts concluded before 1 January 2018)

Imported goods. The time of supply for imported goods is the date on which the commodity declaration is filed at the border and the goods are accordingly placed into the import regime.

Reverse-charge services. The time of supply for services subject to the reverse-charge mechanism is determined in accordance with the standard rules discussed above.

Deposits and prepayments. The time of supply in the case of prepayments is the date no later than the moment of such payment.

Goods sent on approval for sale or return. There are no special time of supply rules in Georgia for supplies of goods sent on approval for sale or return. The general time of supply rules (outlined above) apply.

Leased assets. There are no special time of supply rules in Georgia for supplies of leased assets. The general time of supply rules (outlined above) apply.

Continuous supplies. The time of supply rule for continuous supplies of goods or services is the date no later than the last day of each reporting period, i.e., a calendar month.

F. Recovery of VAT by taxable persons

VAT-registered taxable persons may recover input tax, which is VAT charged on goods and services received for business purposes. Taxable persons generally recover input tax by deducting it from output tax, which is VAT charged on supplies made. Input tax includes VAT charged on goods and services acquired in Georgia, VAT paid on imports or temporary imports of goods into the customs territory of Georgia and VAT self-assessed for reverse-charge services received from outside Georgia. Input tax also includes VAT assessed on self-constructed buildings that are used as fixed assets.

The claim for input VAT must be accompanied by one of the following documents:
- Tax document (TD)
- Tax invoice
- Customs declaration
- The bank payment order for services rendered by public law entities

- The document confirming the purchase of property that includes the amount paid and related VAT in case of realization of this property to fulfill tax liability or other financial obligation
- Document confirming payment of VAT charged on import and/or temporary import, based on the decision of tax authorities

A VAT credit is allowed for the following:
- Goods and services that are used or will be used in taxable transactions (except for exempt transactions without the right to reclaim input tax), exports or re-exports of goods and rendering of services outside Georgia
- Goods and services used for production of the above-mentioned goods or rendering of services

Nondeductible input tax. No VAT credit is allowed in the following circumstances:

- VAT paid on expenses incurred or that will be incurred for the production of goods and services used in exempt supplies without the right to reclaim input tax
- VAT shown on tax invoices that do not make the identification of the seller of the goods or services possible
- VAT shown on tax invoices not included in a tax return within three reporting periods following the reporting period of a taxable transaction or in December of the calendar year of a taxable transaction. This limitation is not applicable to electronic invoices
- VAT shown on tax invoices issued with respect to bogus operations or fictitious agreements

Partially creditable VAT. If a VAT payer makes both exempt supplies with the right to reclaim input tax and exempt supplies without the right to reclaim input tax, it must account for these supplies separately. Input VAT directly related to exempt supplies with the right to reclaim input tax is recoverable in full, while input VAT directly related to exempt supplies without the right to reclaim input tax is not recoverable. Input VAT that may not be directly attributed to either of these two types of exempt supplies must be apportioned. The statutory method of apportionment is a pro rata calculation, based on the value of exempt supplies without the right to reclaim input tax as compared to the total turnover of the business. The recoverable VAT is adjusted in the last VAT return for the current tax year in accordance with the annual proportion.

Capital goods. Capital goods are items of capital expenditure that are used in the business for more than one year.

The recovery of input VAT on capital goods is similar to the other goods described above with one exception. This exception applies if fixed assets are used in both exempt supplies with the right to reclaim input tax and exempt supplies without the right to reclaim input tax, and the input VAT cannot be directly attributed to either of these two types of exempt supplies. In these circumstances, the input VAT is recoverable in full in the first reporting period if exempt supplies without the right to reclaim input tax account for less than 20% of the total turnover of the preceding tax year of the business. The recoverable VAT is adjusted at the end of each calendar year based on the value of exempt supplies without the right to reclaim input tax as compared to the total turnover of the business for the respective calendar year.

If the above-mentioned 20% threshold is not met, the input VAT is recoverable only in the last VAT return of a calendar year in the proportion of supplies with the right to reclaim input tax to total turnover of the business during the calendar year.

The following adjustments must be made to the value of input VAT for capital goods:
- For a building, an adjustment of 1/10 of total input VAT applies annually for 10 calendar years from the year of bringing the building into use.
- For other fixed assets, an adjustment of 1/5 of total input VAT applies annually for five calendar years from the year of bringing the asset into use.

Refunds. The excess of input VAT over output VAT in the reporting period must first be used to offset other taxes payable. If the amount of VAT credit exceeds all taxes payable, the excess can be used to cover future VAT and other tax liabilities, or a refund may be claimed.

In certain cases specified by the Minister of Finance of Georgia, overpaid tax may be refunded to the taxpayer automatically.

Refund application. If the amount of input VAT on the export of goods, import or purchase of fixed assets subject to depreciation under the Tax Code of Georgia or the purchase of goods for the construction of buildings exceeds the output VAT assessed during the reporting period, this surplus amount must be refunded to the taxpayer within one month following the submission of the application to the tax authorities.

For all other cases, a surplus of input VAT over output VAT assessed during the reporting period must be returned to the taxpayer within three months following the submission of an application to the tax authorities.

Preregistration costs. The recovery of VAT incurred before VAT registration is allowed on the balance of inventory acquired for business purposes outstanding at the moment of VAT registration.

Write-off of bad debts. Not applicable.

Noneconomic activities. Input tax may not be recovered on purchases of goods and services that are not used for economic activities, e.g., VAT paid on expenses incurred for social purposes, entertainment activities or related expenses.

G. Recovery of VAT by non-established businesses

Non-established businesses, except EU VAT-registered businesses, cannot recover VAT because generally only entities registered for VAT in Georgia may claim recovery of input tax.

EU VAT-registered businesses have a right to refund the VAT amount paid on purchased goods (except real estate), services or the importation of goods to Georgia. In order to enjoy the above tax relief, the VAT-registered business must satisfy the following conditions:

- A person must not carry out its economic activity in Georgia through a permanent establishment, or its place of business activity or permanent residency must not be in Georgia.
- Goods/services purchased in Georgia or goods imported into Georgia shall be used for the VAT-taxable transactions.
- If the operations were carried out by a Georgian VAT-registered business, it must be allowed to credit the paid VAT in accordance with the Tax Code of Georgia.

In order to refund VAT, EU VAT-registered businesses are required to assign a representative for this purpose.

Refund of VAT paid on goods purchased by citizens of foreign countries. A citizen of a foreign country who purchased goods in Georgia may obtain a refund of VAT paid on the goods if the following criteria are met:

- The goods are taken out of Georgia within three months from their purchase.
- The price of the goods is more than GEL200 (exclusive of VAT) per receipt.
- A special receipt is issued by an authorized seller.

H. Invoicing

VAT invoice and credit notes. A VAT invoice is a strict accounting document that must be issued in the format approved by the Minister of Finance of Georgia. It certifies the occurrence of a VAT taxable transaction. A VAT invoice could be issued and submitted in electronic form. Such an electronic invoice is not a strict accounting document.

A VAT-registered taxpayer is required to issue a VAT invoice to the recipient of goods or services on the request of the recipient within 30 calendar days. VAT invoices can be issued only for VAT taxable transactions. They can be issued according to the supply cycles for electrical or thermal energy, gas or water supplies if the taxpayer accounts for the supplies based on cycle accruals and payment is usually made periodically and not according to the calendar months.

VAT invoices must be issued in Georgian lari.

The Minister of Finance of Georgia may introduce a special form of VAT invoice for certain goods or services or certain buyers. In addition, computer-printed VAT invoices may also be introduced for certain VAT payers.

Corrected VAT invoices may be used to adjust VAT if a taxable transaction is cancelled, the type of taxable transaction has changed, the compensation amount has changed or services are partially or fully returned to the VAT taxpayer.

A corrected VAT invoice is also an accounting document issued in the format approved by the Minister of Finance of Georgia. It certifies the correction of a VAT taxable transaction.

Tax document. A tax document (TD) is a document that must be issued in a form approved by the Minister of Finance of Georgia for intercountry transportation of goods, supply of goods and provision of services. Issuance of a TD excludes the obligation of waybill or VAT invoice issuance, as VAT invoice is used by VAT-payers for VAT credit. Issuance/non-issuance of a TD leads to the same legal circumstances/charges as issuance/non-issuance of a VAT invoice and/or waybill.

Foreign-currency invoices. No foreign-currency invoices are allowed for VAT purposes. As noted above VAT invoices shall be issued in Georgian lari (GEL).

Electronic invoices. VAT invoices and TDs may be issued and submitted in electronic form.

Proof of export. Goods exported from Georgia are exempt from VAT with the right to reclaim input tax. To confirm the applicability of this exemption, the supplier must collect and provide to the tax authorities all relevant supporting documents: sales invoice, sales contract, transportation document, license/certificate, etc.

B2C. In Georgia, there is no requirement for suppliers to issue VAT invoices/TDs for their supplies of goods or services unless requested by the purchaser. In addition, there are no specific rules in Georgia regarding the issuance of VAT invoices/TDs for supplies made to private consumers.

I. VAT returns and payment

VAT returns. The VAT reporting period is monthly. VAT payers must file VAT returns by the 15th day of the month following the reporting period. VAT returns must be completed in Georgian lari and filed electronically.

The VAT amount payable to the budget is the difference between output and input VAT. Payment in full is required by the due date for the VAT return. VAT liabilities must be settled in Georgian lari.

VAT on imports is paid at the moment the goods are imported into Georgia.

VAT on temporary imports must be paid by the 15th day of the month following the month of the temporary import. The last payment must be made on the last day of the temporary import.

Reverse-charge VAT must be paid by the 15th day of the month following the reporting period.

Special schemes. Not applicable.

Electronic filing and archiving. VAT returns must be completed and filed electronically.

Annual returns. Not applicable.

J. Penalties

Penalties and interest apply to a range of offenses. Late payment interest is calculated from the day following the payment due date. Late payment interest is imposed at a rate of 0.05% of the overdue tax amount for each overdue day. The payment day is considered an overdue day in case of delay.

A penalty is imposed for the late submission of a tax return at a rate of 5% of the amount payable stated in the return for each full or partial month of delay. The amount of the total penalty may not exceed 30% of the tax payable stated in the return and may not be less than GEL50.

If tax is understated, a penalty equaling 50% of the understated amount is imposed. A 10% penalty applies if the understatement results from a change of a tax point by the tax authorities. Understatement of tax in excess of GEL100,000 is considered tax evasion, and criminal proceedings are instituted.

The above penalties also apply to the increase of credited tax or tax subject to refund. If credits are claimed based on bogus operations, fictitious agreements or fake documents, a penalty of 200% of the credited tax amount is imposed.

If a purchaser requests an invoice and if the invoice is not submitted, a penalty equal to 100% of the VAT amount of the taxable transaction is imposed.

For the issuance of a fake invoice or the issuance of an invoice based on bogus operations or fictitious agreements, a penalty equal to 200% of the VAT amount indicated in this VAT invoice is imposed.

Interest is not charged on penalties.

No penalty is imposed for incorrect information presented in the return or calculation form filed by the taxpayer if the latter files an amended return or calculation form before receiving the notification regarding the tax audit or the tax violation from the tax authorities.

The head of the tax authorities and dispute resolution body may not impose the sanction on a "good faith taxpayer" if the taxpayer's action resulted from a mistake or unawareness and has not adversely affected the state budget.

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A. At a glance

Name of the tax	Value-added tax (VAT)
Local name	Umsatzsteuer/Mehrwertsteuer
Date introduced	1 January 1968
Trading bloc membership	European Union (EU) Member State
Administered by	German Ministry of Finance (http://www.bundesfinanzministerium.de)
VAT rates	
Standard	19%
Reduced	7%
Other	Exempt and exempt with credit
VAT number format	DE123456789 (DE+9 digits)
VAT return periods	Monthly or quarterly and/or annual returns
Thresholds	
Registration	None
Distance selling	EUR100,000
Intra-Community acquisitions	EUR12,500

Recovery of VAT by non-established businesses	Yes

B. Scope of the tax

VAT applies to the following transactions:
- The supply of goods or services made in Germany by a taxable person
- The intra-Community acquisition of goods from another EU Member State by a taxable person (see the chapter on the EU)
- Reverse-charge supplies, including supplies of services and supplies of goods with installation services
- The self-supply of goods and services by a taxable person
- The importation of goods from outside the EU, regardless of the status of the importer

For VAT purposes, the territory of Germany does not include the Island of Helgoland, the territory of Buesingen and a free zone of control type I, as defined in Article 1 (1), first sentence of the Customs Administrative Act; this mainly covers the free ports of Bremerhaven and Cuxhaven, as well as certain other special territories. Effective 1 January 2013, the free zone territorial exception no longer applies to the port of Hamburg.

The rules regarding the taxation of services have been significantly amended, effective from 1 January 2010, under the so-called "VAT Package Amendments." Under the general rule, services rendered to taxable persons are taxable where the recipient is resident (many exceptions apply). Consequently, services rendered for foreign businesses are taxable in their home countries instead of Germany.

C. Who is liable

A taxable person is any business entity or individual that independently carries out any economic activity in any place.

No VAT registration threshold applies in Germany. A taxable person that begins an activity in Germany must notify the German VAT authorities of its liability to register.

The following two distinct types of numbers are used in Germany:
- General tax number (Steuernummer)
- VAT Identification Number (USt-IdNr.)

The tax number is the number under which the taxable person is registered at the local tax office that is responsible for the person's tax affairs. The tax authorities use the tax number for internal management and coordination purposes. The tax number must be used for all preliminary VAT returns, annual VAT returns and all correspondence with the local tax authority.

On receipt of the tax number, a taxable person may apply to the Federal Office of Finance in Saarlouis for a VAT Identification Number. This number is used for intra-Community transactions.

Group registration. Germany allows group registration for subsidiaries that are "financially, economically and organizationally integrated" into the business of a parent entity. The following general conditions apply:
- The parent (or controlling) member of the VAT group may be any type of legal entity, including a corporation, a general partnership or a sole entrepreneur.
- A subsidiary (or controlled) member of a VAT group must be a corporation or a general partnership. National jurisdiction has positively admitted only general partnerships fulfilling certain requirements, though. A decree of the tax authorities mainly — if not entirely — follows the rulings regarding the requirements for admitting a general partnership. A sole entrepreneur (i.e., a natural person) is ruled out as a controlled member.

The VAT authorities apply the following criteria to determine whether entities are eligible for integration:
- "Financial integration" means that the parent has the majority of voting rights in the subsidiaries. For a general partnership, national jurisdiction and tax authorities require that the parent holds all its shares (directly and/or indirectly).
- "Economic integration" means that the subsidiaries act like departments of one entity or like divisions with respect to the overall business of the group.
- "Organizational integration" exists if the parent has the means to exercise management power in the subsidiaries. For example, this requirement is met if the parent and the subsidiary have the same person acting as the Managing Director, whereas legislation requires this person to be employed at the parent and not at the subsidiary.

If the integration conditions are met, the subsidiaries and the parent are automatically treated as a group for VAT purposes. The effect of grouping is that the subsidiary is no longer considered to be an entrepreneur or separate taxable person. As a result, intragroup transactions are outside the scope of VAT and accordingly, no VAT is charged. The subsidiary is no longer required to file separate VAT returns and its transactions are reported through the parent's VAT return. These effects apply only to domestic supplies between the group entities (that is, supplies within the scope of German VAT). In addition, the effects of the VAT grouping are limited to Germany.

VAT grouping does not apply to certain intra-Community compliance obligations (see Section J). Each subsidiary must have its own separate VAT Identification Number and must file its own European Sales List, if it carries out intra-Community supplies. Intrastat returns may be filed either on an aggregate group basis by the parent or by each subsidiary separately.

Non-established businesses. A "non-established business" is a business that has no fixed establishment in Germany. A non-established business is not required to register for German VAT if all of its supplies are covered by the reverse-charge procedure (under which the recipient of the supply must self-assess VAT). The reverse-charge procedure applies to most transactions. It does not apply to supplies of goods located in Germany (except supplies of installed goods) or to supplies of goods or services made to private persons. In principle, if the reverse charge does not apply, a non-established business must register for German VAT.

Tax representatives. In principle, a non-established business that is required to register for VAT in Germany may not appoint a tax representative. A tax representative may be appointed only if the non-established business does not have any German VAT to reclaim and exclusively makes supplies that are either exempt from German VAT or exempt with credit.

Reverse charge. Applying the reverse-charge mechanism shifts the liability for payment of the tax from the supplier to the recipient of the supply. The recipient must self-assess the VAT due.

The reverse-charge procedure applies in principle to the following supplies and services (if further criteria are met):
- Services and the supply of goods with installation provided by non-established businesses
- Certain supplies in connection with immovable property
- Certain supplies in connection with the real estate transfer tax law
- Certain supplies of gas and electricity
- Goods supplied as part of the execution of security outside of an insolvency procedure
- Supply of rights to emit greenhouse gases
- Certain supplies of heat and cooling
- Supply of scrap and discarded metal as defined by a special annex
- Facility cleaning under certain conditions
- Supplies of integrated circuits, mobile phones, tablet computers and games consoles for a remuneration of EUR5,000 or more
- Supplies of base metals as defined by a special annex

The reverse-charge procedure does not apply to certain supplies of passenger transportation or to services with respect to fairs or exhibitions.

The recipient is allowed to reclaim the reported VAT in the same preliminary VAT return as input VAT to the extent they are allowed for input VAT deduction. The supplier has to issue invoices without German VAT. Therefore, the taxable person only invoices the net amount. Furthermore, it is mandatory for the entrepreneur to state on the invoice that the reverse charge applies and that the recipient is liable for German VAT with the following phrase: "Steuerschuldnerschaft des Leistungsempfängers."

Registration procedures. There is no VAT registration threshold. All taxable persons that carry out taxable transactions in Germany have to register for VAT purposes in Germany.

It normally takes four to six weeks to obtain a (general) tax number from the responsible local tax authority and afterwards the VAT ID number for intra-Community transactions or services supplied where received from the Federal Central Office for Taxes (Bundeszentralamt für Steuern).

The entrepreneur can apply for the (general) tax number at the responsible local tax authority by explaining in writing why he needs to register for VAT in Germany. No special form is required, but the entrepreneur generally has to complete a questionnaire issued by the relevant local tax authority. Furthermore, he has to submit a certification of status of taxable person as well as an excerpt from his local trade register. Online registration is not possible.

Late-registration penalties. No specific penalty applies to late VAT registration in Germany. If, as a result of the late registration, a taxable person submits VAT returns belatedly, late-filing penalties may apply. Penalties are also charged for any late payments of VAT. In addition, late filing and late payment of VAT may be regarded as a tax fraud.

Late-filing penalties may be assessed up to 10% of the VAT due, and late-payment penalties amount to 1% of the VAT due per month.

In the case of a voluntary disclosure to prevent punishment of tax fraud, a surcharge applies as follows:
- 10% of the tax amount if the respective amount exceeds EUR25,000 up to EUR100,000
- 15% if the amount exceeds EUR100,000 up to EUR1 million
- 20% if the amount exceeds EUR1 million

Digital economy. There are no specific rules relating to the taxation of the digital economy in Germany apart from, for example, specific rules for the place of the digital service and the Mini One-Stop Shop scheme.

A new law has been enacted to introduce from 2019 onward a liability for providers of online platforms to which third parties render supplies. The liability covers the VAT on the supplies, regardless of the residence of the supplier (i.e., domestic to Germany, an EU-Member State or another country). The provider can prevent the liability if they meet certain requirements.

Mini One-Stop Shop. Special rules apply to the place of supply for supplies of telecommunications, broadcasting and electronic services to non-VAT taxable customers. These services are taxed in the country where the consumer is established. EU taxable persons that supply electronic services have to charge VAT to nontaxable persons established anywhere in the EU, using the destination principle. EU suppliers are permitted to discharge their VAT obligations using a Mini One-Stop Shop scheme, which enables them to fulfill their VAT obligations (VAT registration, reporting and payment) in their home country, including for services provided in other Member States where they are not established. Accordingly, EU suppliers are able to apply a simplification measure similar to the one that is in place for non-EU providers of electronic services.

Deregistration. There is no special procedure or form required to deregister. The entrepreneur informs the tax office and states the reason for the deregistration.

Exemption from registration. The VAT law in Germany does not contain any provision for exemption from registration.

Voluntary registration. The VAT law in Germany does not contain any provision for voluntary VAT registration, as there is no registration threshold (i.e., all entities that make taxable supplies are obliged to register for VAT).

D. VAT rates

The term "taxable supplies" refers to supplies of goods and services that are liable to a rate of VAT.

The following are the two rates of VAT in Germany:
- The standard rate at 19%
- The reduced rate at 7%

The standard rate of VAT applies to all supplies of goods or services, unless a specific provision allows a reduced rate or exemption.

An option to treat specific VAT-exempt supplies and services as taxable supplies exists.

Examples of goods and services taxable at 7%

- Books and newspapers
- Cultural services
- Food
- Passenger transport (however, effective from 2012, transport by ship is subject to the standard rate of 19%)
- Agricultural products
- Hotel stays

The term "exempt supplies" refers to supplies of goods and services that are not liable to German VAT and that do not give rise to a right of input tax deduction (see Section F). Some supplies are classified as "exempt with credit," which means that no VAT is chargeable, but the supplier may recover related input tax. Exempt with credit supplies include exports of goods outside the EU and related services, and intra-Community supplies of goods (see the chapter on the EU).

Examples of exempt supplies of goods and services

- Land and buildings
- Financial transactions
- Insurance
- Education
- Medical services

Option to tax for exempt supplies. For some VAT-exempt supplies, such as land, buildings and financial transactions, there is an option for the supplier to treat a transaction as taxable, and if certain requirements are met, related input tax can be recovered. The supply or service must be rendered to an entrepreneur for business purposes, and further requirements might apply.

E. Time of supply

In principle, German VAT payable is due on the 10th day following the end of the filing period (Voranmeldungszeitraum) in which the VAT falls due. A filing period may be a month or a quarter of the calendar year.

The VAT falls due at the end of the filing period in which a supply takes place (tax point). However, some taxable persons are permitted to account for VAT on a cash basis (cash accounting). If cash accounting is used, the tax point is the end of the filing period in which payment is received.

Prepayments. The tax point for an advance payment or prepayment is the end of the VAT return period in which payment is received.

Reverse charge. The tax point for a supply taxed under the reverse-charge procedure (self-assessment by a German taxable person) is the end of the month following the month in which the supply takes place. If the supplier issues an invoice before this date, the tax point is the date on which the invoice is issued. For most services under the reverse-charge procedure, the tax point is the month in which the services are rendered, regardless of the date on which the invoice is issued. For most services under the reverse-charge procedure that last longer than a year, the tax point is once a year (for the yearly part of the service).

Intra-Community acquisitions. The tax point for an intra-Community acquisition of goods is the end of the month following the month when the acquisition occurred. If the supplier issues an invoice before this date, the tax point is the date on which the invoice is issued.

Imported goods. The tax point for imported goods is the date on which the goods clear customs or the date on which the goods leave a duty suspension regime and are released for free circulation. The date on which import VAT becomes due depends on how the goods clear customs. The following are the applicable rules:

- If the goods are cleared without using a payment-simplification regime, in general, the import VAT payment is due within 10 days.
- If the goods are cleared using a payment-simplification regime, payment is postponed for up to 45 days.

Cash accounting. Small businesses with a taxable turnover of not more than EUR500,000 in the prior year may account for VAT on a cash basis (Istbesteuereung). The same applies to small businesses that have been exempted from the obligation to keep books and records (article 148 of the Fiscal Code) as well as to freelancers mentioned in article 18(1)(1) of the Income Tax Act. This method of VAT calculation must be approved by the tax office.

Continuous supplies of services. Continuous supplies of services are deemed to be rendered upon completion of delivery. If such services can be divided into parts and separate payments for these parts are agreed, such as monthly payments for an ongoing lease, VAT arises for these partial supplies.

Intra-Community supplies of goods. The tax point for intra-Community supplies of goods is the end of the month in which the supplies were made. However, for intra-Community supplies a zero VAT rate (exempt with credit) is applicable.

Leased assets. For the lease of assets the rules for continuous supplies are applicable (please see above).

Goods sent on approval for sale or return. There are special time of supply rules in Germany for supplies of goods sent on approval for sale or return. As such, the general time of supply rules apply (as outlined above). In general, VAT accrues when the recipient receives the power of disposition or if he/she acts/uses the goods as if it has already been received. Terms of agreements and actual facts of the given case are decisive.

If goods are returned, the VAT can generally be reclaimed, but not retroactively. Deducted input VAT on the returned goods has to be repaid to the tax authorities accordingly.

F. Recovery of VAT by taxable persons

A taxable person may recover input tax, which is VAT charged on goods and services supplied to it for taxable business purposes (used for taxable (output) services or supplies). Exceptions to this rule exist. A taxable person generally recovers input tax by deducting it from output tax, which is VAT charged on supplies made.

Input tax includes VAT charged on goods and services supplied in Germany, VAT paid on imports of goods and VAT self-assessed on the intra-Community acquisition of goods (see the chapter on the EU) and VAT on purchases of goods and services taxed under the reverse-charge procedure.

A valid tax invoice or customs document must generally accompany a claim for input tax. A tax invoice that is not fulfilling all formal requirements may be corrected/amended retroactively under certain conditions.

Nondeductible input tax. Input tax may not be recovered on purchases of goods and services that are not used for business purposes (for example, goods acquired for private use). The following specific rules apply in Germany to the input tax deduction:

- The 10% rule. If an asset is used for less than 10% business purposes, no input VAT recovery is allowed. This rule applies to all assets.
- Private use. For corporations (for example, a GmbH or an AG) that are taxable persons, any purchase of goods or services is treated as being made for business purposes. Consequently, input VAT recovery is allowed in full. If the goods or services are used for private purposes, the legal entity is deemed to make a supply of goods or services and output VAT is due. However, if the taxable person already intends to use the goods or services for private purposes when he/she acquires them, the legislation does not grant input VAT recovery. Consequently, no output VAT is due upon use for private purposes.
- Luxury goods and services. Input tax may not be deducted for some items of business expenditure. In general, if an item of expense is allowable for German income tax purposes, the input tax may be deducted.

The following lists provide some examples of items of expenditure for which input tax is not deductible and examples of items for which input tax is deductible if the expenditure is related to a taxable business use.

Examples of items for which input tax is nondeductible

- Business gifts (if valued over EUR35)
- Employees' home telephone bills and private mobile telephone bills

Examples of items for which input tax is deductible (if related to a taxable business use)

- Hotel accommodation
- Restaurant meals for employees on business trips
- 100% purchase, lease or hire of cars by corporations, partnerships or sole proprietors (with VAT chargeable on employee private use)
- Advertising
- Books
- Transport services

Partial exemption. Input tax directly related to making exempt supplies is generally not recoverable. If a German taxable person makes both exempt and taxable supplies, it may not recover input tax in full. This situation is referred to as "partial exemption."

Exempt with credit supplies are treated as taxable supplies for these purposes.

The amount of VAT recoverable is calculated using the following two-stage calculation:
- The first stage identifies the input VAT that may be directly allocated to taxable and to exempt supplies. Input tax directly allocated to taxable supplies is deductible. Input tax directly related to exempt supplies is not deductible (exceptions apply).
- The second stage identifies the amount of the remaining input tax (for example, business overhead) that may be allocated to taxable supplies and recovered.

Capital goods. Capital goods are items of capital expenditure that are used in a business over several years. Input tax is deducted in the VAT year in which the goods are acquired. The amount of input tax recovered depends on the taxable person's (partial exemption) recovery position in the VAT year of acquisition. However, the amount of input tax recovered for capital goods must be adjusted over time, if the taxable person's partial exemption recovery percentage changes during the adjustment period.

In Germany, the capital goods adjustment applies to the following assets for the number of years indicated:
- Land and buildings (adjusted for a period of 10 years)
- Other assets (adjusted for a period of five years)

The adjustment is applied each year following the year of acquisition, to a fraction of the total input tax (1/10 for land and buildings and 1/5 for movable capital assets). The adjustment may result in either an increase or a decrease of deductible input VAT, depending on whether the ratio of taxable supplies made by the business has increased or decreased compared with the year in which the capital goods were acquired.

The above provision also applies to current assets and services.

For goods that are used only once, the adjustment takes place at the time the transaction (for example, their resale) is carried out. No adjustment period applies.

The initial input VAT deduction for services that are not performed on goods but that are used for transactions within the scope of VAT (for example, software licenses, cleaning services, consulting services for a business concept and prepayments for long-term leasing) must be adjusted to the extent that the initial deduction ratio changes.

For goods that are integrated in other goods and for services performed on goods, the capital-goods scheme applies in the same way; that is, the additional supply has its own capital-goods adjustment scheme, but the adjustment period is the same as the period that applies to the basic good (for example, if new windows are added to a house, the adjustment period for the windows begins with their first use and the adjustment period lasts for 10 years, because the windows become part of the immovable property).

No adjustment need be made in the following situations:
- The total input VAT on the purchase or the production cost of the goods or service is less than EUR1,000.
- The correction amount for the year does not exceed EUR1,000, and the adjustment is less than 10%.

Refunds. If the amount of input tax recoverable in a monthly period exceeds the amount of output tax payable in that period, the taxable person has an input tax credit. The credit is generally refunded. Exceptionally, the tax authorities may make the refund conditional on the taxable person making a deposit (for example, a bank guarantee) which is subsequently refunded.

Preregistration costs. Input VAT on costs incurred before registration is deductible. Status as a taxable person does not depend on registration. However, recovery of input VAT on such costs requires (retroactive) registration.

Write-off of bad debts. A taxable person is entitled to recover any VAT already accounted to the tax authorities in respect of unpaid debts. VAT on a bad debt is recovered at the VAT rate that was applied to the original transaction.

Noneconomic activities. Noneconomic activities — supplies of goods or services not related to a business purpose — are not subject to German VAT. Therefore, the recipients are not entitled to an input VAT deduction.

G. Recovery of VAT by non-established businesses

Germany refunds VAT incurred by businesses that are neither established in Germany nor registered for VAT there. For businesses established in the EU, refund is made under the terms of the EU Directive 2008/9/EC; see below). For businesses established outside the EU, refund is made under the terms of the EU 13th Directive. In accordance with the terms of the 13th Directive, refunds to non-EU businesses are made on the condition of reciprocity. The German VAT authorities have published a list of countries to which refunds are granted and a list of those to which they are not granted.

A non-established business is generally allowed to claim German VAT to the same extent as a VAT-registered business. However, businesses established outside the EU may not recover German VAT on fuel costs.

For the general VAT refund rules of the EU refund schemes, see the chapter on the EU.

Refund application for non-EU businesses. The deadline for refund claims by non-EU businesses is 30 June of the year following the year in which the invoice was received by the claimant. The date of supply may be earlier than the date of the invoice. The claims deadline is strictly enforced.

Claims must be submitted in German. The application for refund must be accompanied by the appropriate documentation (see the chapter on the EU). The claimant must submit a Certificate of Taxable Status, which confirms that the claimant is registered as a taxable person under a tax number. The certificate may not be older than one year. In addition, the German VAT authorities may send an additional questionnaire, to confirm that the claimant should not be registered for VAT in Germany, as opposed to using the EU 13th Directive procedure. According to the tax authorities, the application must be signed by the legal representative and other representatives are not allowed to sign the application. Consequently, they may reject an application on this ground.

For all claimants, the minimum claim period is three months, while the maximum period is one year. The minimum claim for a period of less than a year is EUR1,000, while the minimum amount for an annual claim or for the remainder of a year is EUR500.

Applications of non-EU businesses for refunds of German VAT must be sent to the following address:

Bundeszentralamt für Steuern
Dienstsitz Schwedt
Passower Chaussee 3b
D-16303 Schwedt/Oder
Germany

Refund application for EU businesses. The deadline for refund claims of EU businesses is 30 September of the year following the year in which the invoice was received by the claimant. The date of supply may be earlier than the date of the invoice. The claims deadline is strictly enforced.

EU businesses must file their refund claims to the competent tax authorities in their home states via an electronic form. These tax authorities pass on the form to the German Federal Tax Office (Bundeszentralamt für Steuern, or BZSt). The language on the electronic form is the language of

the Member State where the claimant is established. Any further correspondence with the BZSt must be completed in German. The minimum value of a claim is EUR400 and the minimum value for annual claims (or the remainder of the year) is EUR50. The original VAT invoices no longer need to be attached to the claims. However, copies must be attached electronically if the net amount is EUR1,000 or more or if the net amount for fuel is EUR250 or more. The original invoices must be retained because the BZSt may view the original invoices or copies of them under certain circumstances. The BZSt must generally repay VAT within four months after the date on which the claim was submitted for refund. The refunded amount yields interest of 0.5% per month, beginning generally four months and 10 work days after the claim is received by the BZSt.

A qualified electronic signature is required for electronic returns and claims to a German tax authority. This rule applies to the refund claims described above.

H. Invoicing

VAT invoices and credit notes. A German taxable person must generally provide VAT invoices for supplies made to other taxable persons and to legal entities, including exports and intra-Community supplies. This obligation generally does not exist for supplies that are VAT-exempt. Invoices are not automatically required for supplies made to private persons. A German taxable person is required only to issue invoices to private persons for certain supplies in connection with real estate.

Invoices must be issued within six months. Invoices for intra-Community supplies as well as services subject to reverse charge and rendered by taxable persons resident in the EU must be issued within 15 days following the month in which said supplies or services have been rendered.

Taxable persons must retain invoices for 10 years. Private persons who receive invoices for certain supplies in connection with real estate must retain the invoices for two years. Otherwise, private persons are not required to retain invoices.

However, all aforementioned retention periods may be extended under certain conditions.

A VAT invoice is required to support a claim for input tax deduction or a refund under the EU refund schemes (see above and the chapter on the EU).

A VAT credit note may be used to reduce the VAT charged and reclaimed on a supply. It is also possible to cancel an incorrect invoice and issue a revised one.

For intra-Community supplies of goods and exports, the invoice must include the statement that the supply is VAT-free. In addition, the customer's valid VAT Identification Number (issued by another EU Member State) must be mentioned in the invoice for all intra-Community supplies of goods.

Electronic invoicing. Electronic invoicing is in line with EU Directive 2010/45/EU and is permitted in Germany.

Proof of exports and intra-Community supplies. VAT is not chargeable on supplies of exported goods or on the intra-Community supply of goods (see the chapter on the EU). However, to qualify as VAT-free, exports and intra-Community supplies must be supported by evidence that proves the goods have left Germany.

The Automated Tariff and Local Customs Clearance System (ATLAS) proof of export is considered to be the standard documentary proof. Alternative proof, such as bills of lading, airway bills or freight forwarder certificates, is accepted only if an export has not been declared in the electronic ATLAS procedure or if, in special cases, the electronic export procedure could not be completed as required.

For intra-Community supplies, the standard proof — the so-called Gelangensbestätigung (confirmation of arrival) — is required. The confirmation must contain the following information:
- The name and address of the customer
- The amount and customary description of the supplied goods
- In case of transport by the supplier or on behalf of the supplier or customer, the place and date of receipt of the delivered goods in another EU Member State
- In the case of transport by the customer, the date and place of the end of the transport in another EU Member State

Other types of proof are allowed. However, the tax authorities are more likely to challenge alternative proofs than to challenge the Gelangensbestätigung.

Foreign-currency invoices. If a German VAT invoice is issued in a foreign currency, the value must be converted to euros (EUR) using an official exchange rate. The following conversion rates may be applied:
- The actual bank-selling rate for the date of the supply (not the date of the invoice). The rate used must be evidenced by documentation issued by the bank (this must be allowed by the German tax authorities).
- The average monthly exchange rates published by the Federal Ministry of Finance shortly after the end of the month.

German law provides that the use of the official Ministry of Finance rates is the standard method of currency conversion for VAT purposes. Alternatively, the tax authorities may accept the use of bank selling rates by a taxpayer. However, neither the law nor any official guidelines specify how this acceptance is to be achieved. In particular, no formal obligation to ask for approval exists. In practice, many companies simply use bank selling rates, while others inform their tax office in advance and ask for acceptance.

B2C. Effective 1 January 2015, new rules apply to the place of supply for supplies of telecommunications, broadcasting and electronic services to non-VAT taxable customers. For further details of the VAT rules on electronic services in the EU, please refer to the European Union chapter.

I. VAT returns and payment

VAT returns. In general, preliminary VAT returns are filed quarterly, but monthly returns must be filed if the VAT payable for the preceding year exceeded EUR7,500. However, if the VAT payable for the preceding year did not exceed EUR1,000, the taxable person may be exempted from filing preliminary returns. Newly established taxable persons must file monthly VAT returns for the first and second year of registration.

In general, preliminary VAT returns must be filed electronically.

The preliminary VAT return must be submitted by the 10th day after the end of the filing period. The VAT authorities must receive payment in full by the same day.

Because the regular filing deadline is relatively short, the VAT authorities allow a permanent one month filing and payment extension on written application. However, taxable persons that must submit monthly preliminary VAT returns must pay a special prepayment equal to 1/11 of the preceding year's VAT liability by the due date. This special prepayment is deducted from the VAT payable in the preliminary VAT return submitted for the month of December. Taxable persons that file returns on a quarterly basis are not required to make a special prepayment when they apply for a permanent filing extension.

Annual return. In all cases (monthly, quarterly or no preliminary returns), an annual VAT return must be submitted by 31 May of the year following the end of the VAT year. If a German tax

advisor is engaged to prepare the VAT returns, the filing deadline is 31 December of the following year.

Annual tax returns must be filed electronically, together with a qualified electronic signature.

Special schemes. A special scheme applies to supplies of second-hand goods, e.g., if a commercial car dealer acquires a car from a private person. If a taxpayer sells goods or services he previously purchased for taxable purposes in his business, he must charge VAT on the resale of such goods or services.

Electronic filing and archiving. In general, German VAT returns have to be filed electronically with authentication verified by an electronic certificate that the taxpayer receives by registering on the ELSTEROnline-Portal (http://www.elsterformular.de/).

Following the successful transmission of data, the transmission protocol needs to be printed out for the taxable person's files in order to fulfill the documentation requirements of Sec. 147 AO ("Abgabenordnung": German Fiscal Code).

J. Penalties

If VAT return liabilities are paid late, penalty interest is charged at a rate of 1% per month of the tax liability.

If a VAT return is filed late, a fine of up to 10% of the assessed tax amount may be imposed, up to a maximum of EUR25,000. In addition, an enforcement fine of up to EUR25,000 may be charged.

Further sanctions apply to tax fraud (please see above).

K. EU filings

Intrastat. A taxable person that trades with other EU countries must complete statistical reports, known as Intrastat, if the value of its sales or purchases exceeds certain thresholds. Separate reports are used for intra-Community acquisitions (Intrastat Arrivals) and intra-Community supplies (Intrastat Dispatches). Apart from deemed intra-Community supplies, any movement of goods to or from other Member States is also subject to Intrastat reporting (for example, goods sent for repair).

The threshold for Intrastat Arrivals in 2018 is EUR800,000. The threshold for Intrastat Dispatches in 2018 is EUR500,000.

The Intrastat returns are generally filed monthly, but they may be submitted more frequently. The submission deadline is the 10th working day of the month following the month in which the intra-Community movement of goods takes place.

Penalties may be applied for late filing or failure to submit an Intrastat return.

EU Sales Lists. If a German taxable person carries out intra-Community supplies, it must submit an EU Sales List (ESL) in addition to its VAT return. No ESLs are required for periods in which no intra-Community supplies are made. ESLs must be filed for supplies of both intra-Community goods and intra-Community services. Under prior law, ESLs were required only for supplies of goods.

The filing period for the ESL for supplies of goods is changed from quarterly filing to monthly filing. For supplies of services, the filing period is quarterly. For entrepreneurs who must file monthly ESLs for supplies of goods, an option is available to also file monthly ESLs for intra-Community supplies of services.

In addition, the possibility of a one-month extension of the filing deadline is abolished. However, the due date for filing is changed from the 10th day of the following month to the 25th day of the following month.

A taxable person that is exempt from filing preliminary VAT returns and has taxable turnover not exceeding EUR200,000 a year may request permission to file annual ESLs if its intra-Community supplies do not exceed EUR15,000 and do not include supplies of new means of transport to purchasers using VAT Identification Numbers. In this case, the submission deadline is the 10th day of the month following the calendar year.

Penalties may be imposed for late or inaccurate ESLs.

Ghana

ey.com/GlobalTaxGuides
ey.com/TaxGuidesApp

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A. At a glance

Name of the tax	Value-added tax (VAT)
Date introduced	18 March 1998
European Union (EU) Member State	No
Trading bloc membership	Economic Community of West African States – Member
Administered by	Ghana Revenue Authority
VAT rates	
Standard	12.5%
	3% (flat rate scheme); zero-rated (0%); exempt
VAT number format	C000XXXXXXX
VAT return periods	Monthly
Thresholds	
Registration	Turnover exceeding GHS200,000 in 12 months or GHS50,000 in 3 months and with reasonable grounds to exceed turnover of GHS150,000 in the next consecutive 9 months
Recovery of VAT by non-established businesses	No

B. Scope of the tax

VAT applies to the following transactions:
- Taxable supplies made in Ghana
- Imported goods or imported services other than goods or services that are exempt

Act 870, passed in 2013, introduced the concept of "taxable activity" for greater clarity on what constitutes a taxable supply. A taxable activity is defined as an activity carried on by a person wholly or partly in Ghana that involves or is intended to involve, in whole or in part, the supply of goods to another person for consideration, whether or not for a pecuniary profit.

Effective 1 August 2018, the Ghana Education Trust Fund (GETFund) Levy of 2.5% has been separated from VAT and made a straight levy. As a result, the VAT rate has reduced from 15% to

12.5%. The National Health Insurance Levy (NHIL), which also moved together with VAT, has been made a straight levy. The GETFund Levy and NHIL incurred by a person are not recoverable through the input/output mechanism.

C. Who is liable

Persons liable to pay VAT are as follows:
- In the case of taxable supplies made in the country, the person making the supply
- In the case of imported goods, the importer
- In the case of imported services, the recipient of the services

In general, all taxable persons who engage in a taxable activity wholly or partly in Ghana in the course of a business are liable to register for VAT if they meet the VAT registration threshold. The Ghana Revenue Authority (GRA) has instituted an 11-digit common Taxpayer Identi-fication Number (TIN) for all tax types (C000XXXXXXX).

Upon registering a taxable person, the Commissioner-General must notify the person that it has been registered for VAT and must issue a certificate of registration to the taxable person.

Group registration. Ghana allows for group registration where the following conditions are satisfied:
- Each member of the group is a registered corporate body in Ghana and has an established place of business in Ghana.
- One of the group members controls the others in the group, or one company controls all of the members of the group.

Non-established businesses. A "non-established business," which is a business that does not have a fixed establishment in Ghana, cannot register for VAT purposes in Ghana. A foreign entity is not required to register for VAT unless it undertakes a taxable activity in Ghana and satisfies the threshold for registration and, in the case of a nonresident entity that provides telecommunication services or electronic commerce services, provides those services through a VAT-registered agent who makes taxable supplies of goods and services in Ghana.

VAT on imported goods are generally paid by the importer of record at the point of customs clearance.

Registration procedures. A person who qualifies as a taxable person and meets the registration threshold is required to submit an application for registration within 30 days of becoming a registrable person to the Commissioner-General. The person shall complete the requisite VAT form and submit it to the Commissioner-General along with copies of the following documents:
- Certificate of Incorporation issued by the Registrar of Companies
- Certificate to Commence Business issued by the Registrar of Companies
- Form 3 and Form 4 delivered to the Registrar of Companies for registration
- Regulations of the company delivered to the Registrar of Companies for registration

Late-registration penalties. A person that is not registered but is required to apply to be registered under the VAT Act is considered to be a taxable person from the beginning of the tax period immediately following the period in which the duty to register arises. A person that fails to apply for registration commits an offense.

A person that fails to register is liable to a penalty of not more than two times the amount of tax on the taxable supplies payable from the time the person is required to apply for registration until the person files an application for registration.

Tax representatives. Ghana provides for the appointment of a representative by a taxpayer. The representative so appointed shall be responsible for payment of any tax payable by the person and

take responsibility for other duties of the person. The Commissioner-General, where he deems it necessary, may also declare a person to be a representative of a taxable person.

Where a taxpayer appoints a representative, the appointment shall not relieve the taxpayer from performing any duty that the representative fails to perform.

Reverse charge. The reverse-charge mechanism of accounting for VAT is applicable to importation of services into Ghana. A VAT-registered person that im-ports services from a nonresident person is required to reverse charge itself VAT at a rate of 12.5%. However, there is no requirement to re-verse charge where the imported services are to be used to make taxable supplies.

The output tax charged shall be paid to the Commissioner-General within 21 days after the end of the month within which the transaction occurred. The payment shall accompany a service import declaration in a prescribed form stating the details of the import. The input VAT on imported services are not claimable.

Digital economy. A nonresident person who is not registered for VAT and supplies telecommunication services or electronic commerce to persons for use or enjoyment in Ghana, is required to register where the threshold for registration is satisfied. However, where the services are provided through a VAT-registered agent, the nonresident person is not required to register.

Deregistration. A VAT-registered person may apply in writing to the Commissioner-General for cancellation of registration as a taxable person. The Commissioner-General may cancel the registration of the person where he is satisfied that the taxable person:
- No longer exists
- Is not carrying on a taxable activity
- Is not required or entitled to apply for registration
- Has no fixed place of business or abode
- Has not kept proper accounting records related to a business activity carried on by that person
- Has not submitted regular and reliable tax returns required under the Act

A taxable person who voluntarily registers for VAT can only apply for cancellation of registration after two years of registration as a taxable person.

Exemption from registration. The VAT law in Ghana does not contain any provision for exemption from registration.

Voluntary registration. Where a person is not registrable for VAT purposes, the law generally permits a taxpayer to apply to the Commissioner-General (CG) of the Ghana Revenue Authority for voluntary registration, subject to the satisfaction of certain conditions. The CG may refuse to voluntarily register a person where the person has no fixed place of business or has reasonable grounds to believe that the person may not:
- Keep proper accounting records related to its business activity
- Submit regular and reliable returns

  Or
- Is not a fit and proper person to be registered

D. VAT rates

The standard VAT rate in Ghana is 12.5%, effective 1 August 2018 (previous rate was 15%, with a National Health Insurance Levy (NHIL) at 2.5% with a combined rate for VAT and NHIL at 17.5%). The NHIL effective 1 August 2018, has been separated from VAT and is a separate levy.

A zero rate (0%) is available for exports.

A flat rate of 3% is payable by retailers and wholesalers of goods supplied in Ghana unless exempt.

Examples of goods and services taxable at 0%

- Exports of taxable goods
- Exports of taxable services
- Goods and services supplied to Free Zone Enclaves or a Free Zone Company
- Goods shipped as stores (stocked for own use) on a vessel or aircraft leaving the territories of Ghana

Restatement of the VAT flat rate scheme. Effective 1 July 2017, a taxable person who is a retailer or wholesaler (including importers) of goods is required to account for VAT at a flat rate of 3%. This means that taxable persons covered by the VAT Flat Rate Scheme (VFRS) cannot claim input tax deduction on purchases. It must form part of their costs.

No VAT is charged on items that are exempt or fall outside the scope of the VAT.

Examples of exempt supplies of goods and services

- Unprocessed agricultural and aquatic products in their raw state, including agricultural and aquatic food products that undergo preservation such as freezing, chilling, smoking, stripping, polishing, etc.
- Domestic transportation by bus and similar vehicles, and by train or boat
- Medical services and supplies
- Agricultural inputs, animals, livestock and poultry
- Provision of accommodation in a residential property

Option to tax for exempt supplies. Not applicable.

E. Time of supply

In Ghana, the time when VAT becomes due is referred to as the "time of supply" or the "tax point." The following rules apply to the determination of the time of supply:

- If the goods or services are applied to the taxpayer's own use, the tax point is the date on which the goods or services are first applied to the taxpayer's own use.
- If the goods or services are supplied by way of a gift, the tax point is the date on which ownership of the goods passes or the performance of the service is completed.

For all other cases, the time of supply is the earliest of the following events:

- The goods are removed from the taxable person's premises or from the premises where the goods are under the taxable person's control.
- The goods are made available to the person to whom they are supplied.
- The services are supplied or rendered.
- Payment is received.
- A tax invoice is issued.

Deposits and prepayments. The time of supply for which deposits and prepayments are made is when the deposit or prepayment is forfeited unless the goods/services are returnable. Where the goods/services are returnable, the tax point follows the rules outlined in the *Goods sent on approval for sale or return* section below. This time of supply rule is the same if the deposits and prepayments are refundable or nonrefundable, and also if the supply does not take place. The time of supply rules for deposits and prepayments are the same for goods and services.

Goods sent on approval for sale or return. The tax point is the earliest of the following:

- The date when the purchaser chooses to keep the goods
- The issue of tax invoice by the seller
- The receipt of payment by the seller, other than a deposit
- The expiry of the period within which the customer may return the goods

  Or
- Twelve months after the date of dispatch by the seller

Leased assets. The supply of goods under a finance lease, hire purchase or operating lease agreement occurs on the date the goods are made available under the agreement or lease. The time of supply for goods supplied under a rental agreement is the date payment is due or received or the invoice issued for each successive supply, whichever date is earlier.

Reverse-charge services. A person who buys a service from outside Ghana, is required to account for VAT by way of the reverse-charge mechanism, unless the services are used to make taxable supplies. The tax point is the earlier of the date the supply occurs, an invoice is issued or payment is made for the services. The VAT is required to be paid within 21 calendar days after the month in which the services were imported.

The reverse-charge mechanism does not apply on the purchase of goods from outside Ghana.

Continuous supplies. The time of supply for continuous supplies for each successive supply is the earlier of the date for which payment is due or received or the invoice is issued. This applies to both goods and services.

Imports. The time of supply for imported goods is either the date on which customs clear or the date on which the goods leave a bonded warehouse (in the case of goods warehoused without the payment of duty).

F. Recovery of VAT by taxable persons

A taxable person may usually recover input tax incurred on goods and services purchased for business purposes. Input tax is claimed by deducting the input tax credits from output tax, which is VAT charged on taxable supplies. Taxable persons must claim input tax within six months after making an expenditure.

A newly registered taxable person can claim or recover input deduction for non-capital goods acquired, supplied or imported within four months prior to being registered. For capital goods, the person can claim the input VAT within six months prior to being registered for the purpose. To be allowed, however, the goods must be on hand at the effective date of registration.

The input VAT credit includes VAT charged on goods and services purchased in Ghana and VAT paid on imports of goods.

Nondeductible input tax. A taxable person may not usually recover VAT on the purchase of goods and services that are not used exclusively for business purposes. In addition, input tax may not be recovered with respect to certain business expenditure. If necessary, an apportionment of input tax between taxable goods and services and nontaxable goods and services is made.

The following lists provide some examples of items of expenditure for which input tax is not deductible and examples of items for which input tax is deductible if the expenditure is for purposes of making a taxable supply.

Examples of items for which input tax is nondeductible

- The supply or import of a motor vehicle or spare parts unless the taxable person is in the business of dealing in or hiring motor vehicles, or selling vehicle spare parts
- Entertainment including restaurants, meals, and hotel expenses, unless the taxable person is in the business of providing entertainment
- A taxable supply to, or an import of goods by, a taxable person partly for business use and partly for personal or other use (the amount of input tax allowed as credit is restricted to that part of the supply that relates to business activity)
- The payment of subscriptions or fees by a taxable person for membership in a club, association or society of a sporting, social or recreational nature
- A supply of immovable property by estate developers

Examples of items for which input tax is deductible (if related to a taxable business use)

- Business expenditure incurred in the production process (for example, VAT paid on material purchased for resale)
- Raw material that is used for production
- Office equipment
- Advertising

Partial exemption. VAT paid that relates directly to goods and services that are exempt is not recoverable. If a registered person makes both exempt and taxable supplies, the VAT incurred in respect of the exempt supply cannot be recovered. This situation is referred to as "partial exemption."

The VAT Act provides the following rules with respect to partial exemption:

- A taxable person that makes both taxable and exempt supplies may deduct the input tax on its taxable purchases and imports that can be directly attributed only to the taxable supplies made.
- Where a taxable person makes both taxable and exempt supplies, but cannot directly attribute the input tax to the taxable and exempt supplies, it may deduct as input tax an amount that bears the same ratio as the taxable supplies bear to the total supplies, applying an apportionment formula provided by the VAT Act.
- If the percentage calculated using the above formula is less than 5%, the taxable person may not claim credit for any input tax for the period.
- If the percentage calculated using the above formula is more than 95%, the taxable person may claim credit for all input tax for the period.

Refunds. From 1 January 2017, a taxable person who has a VAT credit with the Ghana Revenue Authority is permitted to apply for a refund of the excess VAT. The application for a refund must be made within three years of the date the event that led to the overpayment of the VAT occurred.

The Commissioner-General is required to make a decision on the application within 60 days of receiving the application. The Commissioner-General may reject the application when they are of the opinion that the applicant has not overpaid VAT. The Commissioner-General is also empowered to request for additional information from the applicant when they deem it necessary for the purpose of making a decision. The decision on whether the application is accepted or not or whether further information is required by the Commissioner-General is required to be communicated to the taxpayer within 30 days.

Where the Commissioner-General is satisfied that a taxpayer is entitled to a refund, they may apply the amount involved to reduce any outstanding tax liability of that taxpayer and pay the remainder (if any) to the taxpayer within 90 days of making the decision.

G. Recovery of VAT and NHIL by nonresidents

Ghana does not have a regime for the recovery of VAT paid by nonresidents leaving the country. The VAT Regulations provide that a refund of VAT charged on goods purchased by a person not resident or domiciled in Ghana for consumption outside Ghana may be authorized by the Commissioner-General subject to such written conditions that the Commissioner-General may impose.

H. Invoicing

VAT invoices. On making a supply of goods and services, a taxable person must issue to the recipient of the goods or services a pre-printed VAT invoice in a form prescribed by regulations unless the Commissioner-General permits otherwise.

A taxable person that issues VAT invoices must retain copies of them in serial order for inspection by the Ghana Revenue Authority.

The invoice must contain specific information detailed in the VAT Act.

Proof of exports. Exports are zero-rated. All exports must be supported by evidence proving that the goods have left Ghana. The Ghana Export Promotion Authority requires detailed documentation for exports.

Foreign-currency invoices. Ghana does not have a mandatory rule regarding foreign-currency invoices that have been translated into Ghanaian currency. The general practice is to use the interbank exchange rate prevailing on the date of the transaction for the translation. The tax office may check the exchange rate used to translate the Ghana cedi into the foreign currency or vice versa if some doubt exists. If no doubt exists, the tax office accepts the taxpayer's translation of a foreign currency-denominated invoice into cedi.

B2C. There are no exceptions for the requirement to issue VAT invoices on B2C transactions. The supplier may issue electronic invoices to customers as discussed below under the electronic invoicing section.

Electronic invoicing. A taxable person may make an application to the Commissioner-General (CG) for their permission to use the business' own computer-generated VAT invoice. This application will trigger an inspection of the accounting generating invoicing system of the company. Permission may only be given upon the CG satisfying themselves of the robustness of the system.

Once the application is made to the CG, they shall reply to the application acknowledging receipt of the said application. Thereafter, the CG shall send a letter indicating the time period for the inspection and the appointed officer to carry out the assignment. Where the CG is satisfied, they shall grant the business the permission in writing to proceed with the use of its own computer-generated VAT invoices.

Credit notes. A VAT credit note may be issued where any of the following circumstances leads to the output VAT actually accounted for exceed the output VAT that should have been properly charged for the supply:

- When the supply is canceled
- The nature of the supply has been fundamentally varied or altered
- The previously agreed consideration for the supply has been altered by agreement with the recipient of the supply, whether due to an offer of a discount or for any other reason
- The goods or services or part have been returned to the supplier

I. VAT returns and payment

VAT returns. VAT returns must be filed on a monthly basis. All returns other than that for imported services are due by the end of the month following the one in which the tax point occurred. The return for imported services is due within 21 days after the end of the month in which the tax point occurred. Payment is due in full by the date on which the respective return is due.

Nil returns must be filed if no VAT is payable or claimable.

If the normal filing date falls on a public holiday or on a weekend, the VAT returns must be filed on the last working day before that day.

Ghana does not yet have an e-filing system, but the administrative procedures for e-filing are currently being prepared. Returns may be filed by mail, but this may not be efficient and may result in delays.

Special schemes. Not applicable.

Electronic filing and archiving. Ghana has started piloting an e-filing system for selected industries, including the financial services industry. The administrative procedures are being enhanced

to allow the e-filing system to eventually include taxpayers from all sectors. Taxpayers with access to the e-filing system may file returns by mail, but this may not be efficient and may result in delays.

Annual returns. Not applicable.

J. Penalties

The following penalties are imposed for noncompliance with the VAT regime:

- Failure to register: liable on summary conviction to pay the VAT that is due and a fine of not more than two times the amount of tax payable on the taxable supplies from the time the person is required to apply for registration until the person files an application for registration or an amount of GHS1,200, whichever is higher.
- Failure to notify the Commissioner-General of a change in business or apply for cancellation of registration: penalty of not less than GHS12,000 and not more than GHS30,000 or imprisonment for a term not exceeding five years or both.
- Failure to issue a VAT invoice: not more than GHS1,440 or a term of imprisonment of not more than six months or both.
- Making a statement to an officer of the Ghana Revenue Authority that is false or misleading, omitting from a statement any matter or item without which the statement is misleading: where the inaccuracy if undetected, would have resulted in an underpayment of tax exceeding GHS50, to a fine of not less than GHS300 and not more than GHS2,400 or to a term of imprisonment of not less than three months and not more than two years or to both. In any other case, the person shall be liable to a fine of not less than GHS60 and not more than GHS600 or to a term of imprisonment of not less than one month and not more than three months or to both.
- Falsification and alteration of documents: where the inaccuracy if undetected, would have resulted in an underpayment of tax exceeding GHS50, to a fine of not less than GHS300 and not more than GHS2,400 or to a term of imprisonment of not less than three months and not more than two years or to both. In any other case, the person shall be liable to a fine of not less than GHS60 and not more than GHS600 or to a term of imprisonment of not less than one month and not more than three months or to both.
- Evasion of tax payments: a fine not exceeding three times the tax that is being evaded or imprisonment for a term not exceeding five years or both.
- Failure to maintain proper records: liable to pay for each month or part of a month during which the failure continues 75% of the tax attributable to that period where the failure is deliberate, or in any other case, the lesser of 75% of the tax attributable for the period and GHS250.
- Obstruction of officer of the Ghana Revenue Authority: where the offense involves fraud or undue force, to a fine of twice the amount sought to be evaded or recovered or GHS2,400, whichever is greater or a term of imprisonment not less than two years and not more than four years or to both. In any other case, to a fine of not less than GHS120 and not more than GHS2,400 or to a term of imprisonment not less than three months and not more than two years or to both.

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A. At a glance

Name of the tax	Value-added tax (VAT)
Local name	Foros prostithemenis aksias (FPA)
Date introduced	1 January 1987
Trading bloc membership	European Union (EU) Member State
Administered by	Ministry of Finance (http://www.minfin.gr/)
VAT rates	
Standard	24%
Reduced	6%, 13%
Other	Exempt and exempt with credit
VAT number format	EL 1 2 3 4 5 6 7 8 9
VAT return periods	
Monthly	Double-entry accounting
Quarterly	Single-entry accounting
Thresholds	
Registration	None
Distance selling	EUR35,000
Recovery of VAT by non-established businesses	Yes (for businesses established in Norway, Switzerland or the EU)

B. Scope of the tax

VAT applies to the following transactions:
- The supply of goods or services made in Greece by a taxable person
- Reverse-charge services received by a taxable person in Greece
- The intra-Community acquisition of goods from another EU Member State by a taxable person
- The importation of goods and certain services from outside the EU, regardless of the status of the importer

For VAT purposes, the territory of Greece excludes Mount Athos.

C. Who is liable

A taxable person is any entity or individual that makes taxable supplies of goods or services, intra-Community acquisitions, imports of goods into Greece or distance sales (if the relevant annual threshold is exceeded), in the course of a business in Greece.

Group registration. VAT grouping is not permitted under Greek VAT law. Legal entities that are closely connected should register for VAT individually.

Non-established businesses. A "non-established business" is a business that does not have an establishment in Greece. A foreign or non-established business should register for VAT in Greece, if it engages in any of the following taxable activities:
- Supply of goods that are located in Greece at the time of supply
- Intra-Community acquisitions
- Distance sales in excess of the annual threshold (EUR35,000)
- Imports
- Services, to which the reverse charge does not apply

The reverse charge generally applies to supplies made by non-established businesses to taxable persons. Under this measure, the taxable person that receives the supply should account for the Greek VAT due. If the reverse charge applies, the non-established business is not required to register for Greek VAT.

The reverse charge does not apply to supplies of goods or services made to private persons.

Tax representatives. A foreign business, non-established and non-registered in Greece, should obtain a Greek VAT registration number before making taxable supplies in Greece.

In general, a non-EU business must appoint a tax representative, called locally a VAT fiscal representative, to register for VAT. (An exemption applies for registration under the non-Union scheme of MOSS.) The VAT fiscal representative should be given, among other documents required by law, a power of attorney to act on behalf of the non-established business.

The VAT fiscal representative should be appointed and registration obtained before the non-established business begins to make taxable supplies. The VAT fiscal representative may be any person engaged by the business who is resident and VAT liable in Greece, such as a legal entity or an accountant. The VAT fiscal representative undertakes compliance procedures and may be held jointly liable for VAT debts with the foreign business that it represents.

An EU business is not required to appoint a VAT fiscal representative to register for VAT in Greece but may opt to do so. If a VAT fiscal representative is appointed at the foreign EU business's option, such VAT representative undertakes compliance procedures and may be held jointly liable for VAT debts of the foreign EU business.

Registration procedures. Businesses established in the EU that are required to register locally in Greece can do so and obtain a Greek VAT registration number:
- Directly by applying electronically in a simplified process aimed at EU businesses with no prior registration or establishment in Greece, in which case the appointment of a VAT fiscal representative is not required
- By filing in hard copy an application form along with all required documents — including a memorandum of association and a certificate of taxable status, among others — and by appointing locally a VAT fiscal representative

Businesses established outside the EU that are required to register locally for VAT purposes in Greece are required to appoint a local VAT fiscal representative. No electronic registration is available.

In some cases the appropriate local tax office shall not grant the requested Greek VAT registration number to the applicant (foreign business), for example, if the business had already obtained a Greek VAT registration number.

Special registration procedures apply under the Mini One-Stop Shop (MOSS) scheme (see below).

Late-registration penalties. A EUR100 penalty may be incurred for late VAT registration.

Reverse charge. In general, VAT due on cross-border business-to-business supplies of services shall be due at the place where the customer is situated. Where the reverse-charge procedure applies, the Greek recipient must act as both supplier and recipient of the services for VAT purposes. That is, the Greek customer should account for both output and input VAT on the VAT return.

For cross-border business-to-consumer supplies of services, the place of taxation continues to be the place where the supplier is established. However, in certain circumstances, the general rules for both businesses and consumers shall not be applicable, and specified rules shall continue to apply to reflect the principle of taxation at the place of consumption. These exemptions apply to many services including those related to real estate property located in Greece; restaurant services; the hiring of means of transport; cultural, sporting, scientific and educational services; and admission rights to cultural, sporting, scientific and educational events; and business-to-consumer supplies of telecommunications, broadcasting and electronic services.

VAT law provides a use-and-enjoyment rule for the following services to customers established outside the European Union:
- Short-term lease of means of transport services provided on a business-to-consumer basis
- Telecommunication services or electronically supplied services or radio or television broadcasting services provided on a business-to-consumer basis
- Lease of movable goods provided on a business-to-consumer basis

In such cases, the place of taxation shifts back to Greece when the use and enjoyment of the services takes place in Greece.

Domestic reverse charge. Domestic reverse charge applies in case of supplies of scrap, recyclable goods and gas emission rights pursuant to Article 39a of the Greek VAT Code on certain conditions.

Moreover, a domestic reverse-charge mechanism applies to construction works on real estate provided by private contractors to local municipalities or other public bodies, where the latter are acting as taxable persons for VAT purposes. In some of these cases, no Greek VAT is charged on the invoice issued by the private contractor (supplier) to the municipality or other public body, and the supplier is not required to account for VAT but is required to indicate on the invoice a special wording indicating application of this regime as follows: "Article 39A of the Greek VAT Code — domestic reverse charge." The supplier has a full right to deduct input VAT incurred in relation to such supplies.

In addition, a domestic reverse charge applies to B2B supplies of mobile phones, game consoles, PC tablets and laptops. For such supplies, the Greek supplier must issue an invoice as a domestic supply and not charge VAT, and include special invoice wording indicating application of this regime. The buyer must account for VAT via the reverse-charge mechanism.

Digital economy. The place of supply of telecommunication, broadcasting and electronically provided services to nontaxable persons (B2C) is where the customer is established, their permanent address or usually resides.

Mini One-Stop Shop (MOSS). The Mini One-Stop Shop scheme (MOSS) is officially in force in Greece as of 1 January 2015, allowing suppliers of telecommunication, broadcasting and electronic services to consumers in Member States, where they have no establishment for VAT purposes, to pay the VAT due on such services via an online portal in the Member State where they are established for tax purposes.

Such suppliers may elect to get registered in Greece on the basis of the MOSS scheme and on the basis of the relevant requirements and procedure, since both the Union scheme and the non-Union scheme have been enacted locally. A special registration form is used for MOSS registration purposes. Greece has implemented the provisions of Directive 2008/8/EE, according to which the place of supply of the telecommunication services or electronically supplied services or radio or television broadcasting services to a nontaxable person shall be the place where that person is established, has his permanent address or usually resides.

Deregistration. A taxable person that ceases to be required to account for Greek VAT may opt to deregister. If such taxable person is not deregistered, he must continue complying with all relevant filing obligations.

Exemption from registration. The VAT law in Greece does not contain any provision for exemption from registration, as there is no registration threshold.

Voluntary registration. The VAT law in Greece does not contain any specific provision for voluntary VAT registration.

D. VAT rates

The term "taxable supplies" refers to supplies of goods and services that are liable to a rate of VAT.

In Greece, the standard rate of VAT is 24% and the reduced rates are 13% and 6%. There used to be a favorable VAT rate applicable until 31 December 2017 for certain islands. However, this has now been abolished. An extension was granted to the application of the reduced VAT regime (by 30% compared to the standard VAT rates) until 31 December 2018 to the islands of Lesvos, Chios, Samos, Kos and Leros, all affected by the refugee crisis.

The standard rate of VAT applies to all supplies of goods or services, unless a specific measure allows a reduced rate or exemption.

Examples of goods and services taxable at 13%

- Hotel accommodation services

Examples of goods and services taxable at 6%

- Books
- Newspapers
- Magazines
- Theatre tickets

The term "exempt supplies" refers to supplies of goods and services that are not liable to tax and that do not give rise to a right of input tax deduction.

Some supplies are classified as "exempt with credit," which means that no VAT is chargeable, but the supplier may recover related input tax. Exempt-with-credit supplies include exports of goods outside the EU and related services, as well as intra-Community supplies of goods and services supplied to a taxable person established in and outside the EU.

Examples of exempt supplies of goods and services

- Postal services
- Finance

- Insurance
- Certain sales and rental of immovable property under conditions
- Medical services supplied by public law and other not-for-profit organizations
- Health care

Option to tax for exempt supplies. Optionally, commercial lease of real estate may be subject to VAT instead of stamp duty, upon mutual agreement of the lessor and the lessee. The lessor must submit a specific request to the appropriate tax office.

E. Time of supply

The time when VAT becomes due is called the "time of supply" or "tax point."

Goods. The basic time of supply for goods is when the goods are put at the purchaser's disposal. If the supplier undertakes the obligation to forward the goods to the buyer, the time of supply is at the beginning of the transportation. For installed goods, the time of supply is when installation is completed. If the supplier issues an invoice before the basic time of supply, the time of supply becomes the invoice date.

Services. In general, the time of supply for services is when they are performed. If the supplier issues an invoice before the basic time of supply, the time of supply is the invoice date.

Prepayments. Payments received before the supply of goods or services or the issuance of a VAT invoice are known as advance payments. Advance payments do not generally create a tax point (they create a tax point only in the event of an intra-Community supply of services).

Intra-Community acquisitions of goods. For intra-Community acquisitions, the time of supply is when the goods are put at the purchaser's disposal. If the supplier undertakes the obligation to forward the goods to the buyer, the time of supply is the beginning of the transportation. VAT is due on the issuance of an invoice, or by the 15th day of the month following the month in which the supply took place, whichever is the earlier.

Imported goods. The time of supply for an importation is when the importation occurs or when the goods leave a duty suspension regime.

Cash accounting. A "cash accounting system" has been introduced in Greece for local taxable (VAT-able) supplies of goods or services and is aimed at businesses with an annual turnover not exceeding the EUR2 million threshold.

Application of this regime is only optional and can be activated after filing an application to the tax authority before the beginning of the tax year concerned. For businesses registered under this new regime:
- Output VAT shall become due upon collection of the consideration or part thereof.
- Input VAT incurred is deductible at the time when the taxable person pays the consideration or a part thereof for goods or services received.

The tax records issued by entities applying this scheme should indicate the following: "Cash accounting scheme: Article 226.7a Directive 2006/112/EC — Article 39B VAT Code." Issuance of a special record for prepayments is provided for, in cases of prepayments' collection in the context of special scheme's transactions.

Continuous supplies of services. If services are provided continuously, the tax point is the time that any amount is considered as payable.

Intra-Community supplies of goods. For intra-Community supplies, VAT is due upon the issuance of the respective invoice and at the latest on the 15th day of the month following the one on which the supply was effected.

Goods sent on approval for sale or return. The tax point for a local supply of goods sent on approval for sale or return is when the goods are approved for receipt and sold. If the goods are returned, there is no supply.

Leased assets. Lease of assets is considered to be a supply of services, thus, the tax point is the time that any amount is considered to be payable. If at the expiration of the lease agreement, the lessee takes ownership of the assets, this should be considered to be a supply of goods and the tax point shall be the time when the sale is performed.

Reverse-charge services. In Greece there is no special time of supply rule for reverse-charge services. As such, the general time of supply rule applies (as outlined above), i.e., the time of supply of services is when the services are performed, unless an invoice is issued before the basic time of supply.

By way of derogation, in case any advance payment is collected prior to the completion of the EU cross-border services, the tax point is considered to be at that time. A special tax record (titled "special tax record for VAT purposes in case of intra-EU supplies of services") is issued at the time of the advance payment collection, and has the same content as a VAT invoice.

For continuous supplies of intra-EU cross-border services, the VAT becomes due by the end of the tax year, to the extent that no instalments have been paid during the period of the supply. A special tax record should be issued.

The reverse-charge mechanism only applies to B2B cross-border services and not goods. For intra-EU acquisition of goods, please refer to the "Intra-Community acquisitions of goods" subsection above.

F. Recovery of VAT by taxable persons

A taxable person may recover input tax, which is VAT charged on goods and services supplied to it for business purposes. A taxable person generally recovers input tax deducting it from output tax, which is VAT charged on supplies made.

Input tax includes VAT charged on goods and services supplied within Greece, VAT paid on imports of goods and VAT self-assessed on the intra-Community acquisition of goods, reverse-charge services and domestic reverse-charge of goods.

A valid tax invoice or customs document should generally accompany an input tax refund claim.

Nondeductible input tax. Input tax may not be recovered on purchases of goods and services that are not used for business purposes (for example, goods acquired for private use). In addition, input tax may not be recovered for some items of business expenditure.

The following lists provide some examples of items of expenditure for which input tax is not deductible and examples of items for which input tax is deductible if the expenditure is related to a taxable business use.

Examples of items for which input tax is nondeductible

- Hotel accommodation
- Business gifts valued at more than EUR10
- Lease, purchase, hire and maintenance of cars
- Fuel for cars
- Business entertainment
- Home telephone bills
- Taxis
- Public transport
- Food, drink and tobacco

Examples of items for which input tax is deductible (if related to a taxable business use)

- Books
- Attending conferences and seminars
- Lease, purchase, hire and maintenance of vans and trucks
- Fuel for vans and trucks
- Mobile telephones
- Utilities

Partial exemption. Input tax directly related to making exempt supplies is not generally recoverable. If a Greek taxable person makes both exempt and taxable supplies, it may not recover input tax of common expenses in full. This situation is referred to as "partial exemption." Exempt with credit supplies are treated as taxable supplies for these purposes.

The amount of input tax that may be recovered is calculated in the following two stages:

- The first stage identifies the input VAT that may be directly allocated to taxable supplies and exempt supplies. Input tax directly allocated to taxable supplies is deductible, while input tax directly related to exempt supplies is not deductible.
- The second stage identifies the amount of the remaining input tax (for example, on general business overhead) that may be allocated to taxable supplies and recovered. The calculation is based on the value of taxable supplies made compared with total turnover. The partial exemption recovery percentage is rounded up to the nearest whole number (for example, a recovery percentage of 75.1% is rounded up to 76%).

Capital goods. Capital goods are items of capital expenditure that are used in a business over several years. Input tax is generally deducted in the tax year in which the goods are acquired. The amount of input tax recovered depends on the taxable person's partial exemption recovery position in the tax year of acquisition. However, the amount of input tax recovered for capital goods should be adjusted over time, if the taxable person's partial exemption recovery percentage changes during the adjustment period.

In Greece, the capital goods adjustment applies to the following assets for a period of five years:

- Land and buildings (in case of leased buildings, the adjustment period expands to 10 years)
- Other movable capital assets and certain intangible goods

In the tax period of first use, the input VAT is deducted according to whether and to what extent the goods are used for taxable activities. One fifth of the total input VAT is attributed to each year of the adjustment period. At the end of each year, an adjustment of the input VAT has to be made according to the use of the goods (exempt/taxable) in that particular year. When the use of the goods in an adjustment year has changed compared to the use of the goods in the tax period of first use, part of the input VAT must be paid to or can be recovered from the authorities.

The final input VAT adjustment is performed on the basis of the overall data of the tax year, derived from the respective VAT returns.

Refunds. If the amount of input tax recoverable in a period exceeds the amount of output tax payable in that period, the taxable person has an input tax credit. If a VAT return results in an input VAT credit, the amount may be carried forward to offset output VAT payable in subsequent periods. Alternatively, the VAT return may be accompanied by a request for a refund.

Theoretically, a tax audit is not a prerequisite for the refund. However, under certain circumstances, a taxable person may be selected for a tax audit prior to the refund, based on a risk analysis method performed by the Directorate of the Ministry of Finance. Input VAT amounts claimed for refund as of 1 July 2017 by taxable persons who have been granted an "authorized economic operator" license or a "simplified procedure license" or taxable persons engaged in

exports or intra-EU deliveries of goods, may be refunded, under certain conditions, without any VAT audit to be performed.

For VAT refund claims not exceeding EUR10,000 for which no provisional tax assessment has been issued until 11 October 2018, the refund process shall be made without the conduction of the VAT audit, subject to any limitation provisions.

Preregistration costs. Not applicable.

Write-off of bad debts. As a general rule, no adjustment can be made concerning bad debts. Any amount of VAT charged must be paid to the Greek State, even if it has not been collected by the taxable person from their customer. As an exception to this general rule, relief could theoretically be provided for the supplier upon the tax authority's approval in case the customer has been subject to a special "winding-up" or "liquidation" process provided by domestic Greek legislation and provided that a court order has been issued beforehand; however, this exception has rarely been applied in practice.

Noneconomic activities. Not applicable.

G. Recovery of VAT by non-established businesses

Greece refunds VAT incurred by EU businesses that are neither established in Greece nor registered for VAT there. Refund is made under the terms of the EU Directives 2006/112/EC and 2008/9/EC (known as the "EU 8th Directive"). Greece does not yet refund VAT under the terms of the EU 13th Directive (Directive 86/560/EEC) to businesses established outside the EU, with the exception of businesses established in Norway and Switzerland. A Norwegian, Swiss or EU business may claim Greek VAT refunds to the same extent as a Greek taxable person.

Refund application. Greece has incorporated into its VAT law the provisions of EU Directive 2008/9/EC (EU 8th Directive), which provides detailed rules for the refund of value-added tax, provided for in EU Directive 2006/112/EC, to taxable persons not established in Greece but established in another EU Member State. These measures apply for the first time to refund claims of foreign businesses with respect to Greek VAT incurred in the prior calendar year. VAT refund applications should be submitted electronically (except from those relating to Norwegian and Swiss companies, which shall be filed in hard copies before the VAT Division of the Greek Ministry of Finance).

According to the guidelines issued by the Greek VAT authorities on the procedure for the 8th VAT Directive rules, the refund application should be submitted by 30 September of the calendar year following the refund period. Claims should be submitted electronically in either Greek or English and should be accompanied by scanned copies of relevant invoices placed in an electronic archive or file. The refund period should be no longer than one calendar year (the minimum VAT claim amount is EUR50) or less than three calendar months (the minimum VAT claim amount is EUR400). The appropriate Greek authority for this purpose is the following:

The Hellenic Republic
Ministry of Finance, VAT Division
Directorate of VAT Administration and Resources
Sina 2-4
10672 Athens
Greece

Repayment interest. If the refund application is approved, refund of the approved amount should be paid within 10 working days after the expiration of the deadline to respond. Interest is payable to the applicant on the amount of the refund to be paid if the refund is paid after the last date for

payment. Interest due is calculated according to the rules applicable for payment of default interest to Greek taxable persons.

H. Invoicing

VAT invoices and credit notes. A taxable person should generally provide a VAT invoice for all taxable supplies made, including exports and intra-Community supplies. For retail transactions, retail receipts should be issued. A document qualifies as a valid invoice if it complies with requirements set out in the Greek legislation (Greek GAAP law 4308/2014 and relevant administrative guidelines).

A valid original VAT invoice is required to support a claim for input tax deduction or a refund under the EU 8th Directive refund scheme. Invoices should comply with requirements set out in Greek legislation (Greek GAAP law 4308/2014 and relevant administrative guidelines) to qualify as valid evidence to support input tax deductions.

A VAT credit note may be used to reduce the VAT charged and reclaimed on a supply. A credit note should be cross-referenced to the original VAT invoice. It is possible to issue a credit invoice only for the VAT amount in cases where VAT has been erroneously charged under certain conditions.

Proof of exports and intra-Community supplies. VAT is not chargeable on supplies of exported goods or on intra-Community supplies of goods. However, to qualify as VAT-free exports and intra-Community supplies should be supported by evidence confirming that the goods have left Greece. Acceptable proof includes the following documentation:

- For an export, copies of the export document reporting the electronic message "IE 599: Export Completion Notification" indicating the supplier as the exporter, the bill of lading issued by the transporter, the sales invoice and bank proof of payment (if applicable).
- For an intra-Community supply, a range of commercial documentation, such as dispatch notes, the bill of lading and proof of payment.

Foreign-currency invoices. If an invoice is received in a foreign currency, the VAT amounts should be converted into euros. The exchange rate to be used is issued by the Ministry of Finance. An invoice may be issued in foreign currency if Greece is the place of supply of goods or services and if the amount of VAT payable is indicated in euros.

B2C. Effective 1 January 2015, new rules apply to the place of supply for supplies of telecommunications, broadcasting and electronic services to nontaxable customers. For further details of the VAT rules on electronic services in the EU, please refer to the European Union chapter.

For other B2C supplies, a sales receipt must always be issued. Sales receipts (as well as any other tax records issued in the framework of B2C sales) must be issued through the use of Special Electronic Secured Registration Mechanisms (SESRMs)/"black box," as provided by L.1809/1988. However, the Greek VAT law provides for specific exemptions in this respect, for example, in cases of toll receipts or electricity and telephone bills, etc.

Electronic invoicing. Electronic invoicing is not mandatory in Greece, but it is allowed. Greek established businesses may issue invoices either in paper or electronic form. In cases of electronic invoices, the authenticity of the origin and the integrity of the content may be safeguarded in various ways, which are provided indicatively and not restrictively and are the following:

- An advanced electronic signature created by a secure signature creation device based on a qualified certificate for electronic signatures within the meaning of P.D. 150/2001
- Electronic Data Interchange (EDI), as defined in Article 2 of Annex 1 to Commission's Recommendation 1994/820/EC of 19 October 1994, where the agreement relating to the interchange provides for the use of procedures guaranteeing the authenticity of the origin and integrity of the data

- The clearance of sales transactions through a payment service provider that is under the supervision of the Bank of Greece, under Law 3862/2010
- The use of Special Electronic Secured Registration Mechanisms "black box," mainly used in B2C sales

In addition, the readability of the electronic invoices should also be safeguarded. Greek-established companies shall ensure by any appropriate means that the content of an invoice is in a readable format by a person, without the need of excess investigation or interpretation, for the time of its issuance until the end of the retention period required by law. In particular, for electronic invoices that condition is fulfilled when, upon request and with appropriate conversion process, they can be presented in a format that can be read either on screen or in printed format in due time. This process should permit verification that the information of the original electronic file and the item presented in a format that can be read, is not modified.

The readability of invoices is deemed to be ensured, where appropriate and reliable access mechanism of the electronic format is available during the retention period.

The Greek VAT Law (L.4308/2014) has incorporated the electronic invoicing requirements stipulated by EU Directive 2006/112/EE.

From the tax year 2020, Greek taxpayers will become liable to use electronic invoicing as well as electronic maintenance of their accounting books. *At the time of preparing this chapter, no other information is currently available on this change.*

I. VAT returns and payment

VAT returns. Greek periodic VAT returns are submitted:
- Monthly if the taxable person maintains double entry accounting books
- Quarterly if the taxable person maintains single entry accounting books

In principle, filing of VAT returns and full payment of the VAT due should be made by the last business day of the month following the end of the return period. However, in the case of VAT returns filed in time, taxpayers have the option of paying the VAT due in two equal installments provided that the total VAT amount payable exceeds EUR100. If they choose installments, the first installment is due by the last business day of the month during which the VAT return was submitted, and the second installment is due by the last business day of the following month.

No VAT return is required if a taxable person has suspended its business activity and has declared such suspension with the appropriate tax office.

As a general rule, it is mandatory to file VAT returns electronically.

Special schemes. Taxable persons whose turnover exclusive of VAT during the previous tax year did not exceed the EUR10,000 threshold are exempted from the obligation to file VAT returns and from VAT payment, provided that they apply for and are registered as "small enterprises falling under the regime of Article 39 of Greek VAT Code." The EUR10,000 threshold must neither include disposals of capital assets nor exempt supplies with no right of deduction.

Newly Greek VAT-registered businesses may also apply for the special scheme. In addition, it is also no longer obligatory to retain the special scheme for two years.

This exemption shall not apply to special scheme farmers, non-established taxable persons or supplies of new means of transport (Art. 28 par. 1b of the Greek VAT Code).

Application of this special regime requires filing of a relevant declaration to the tax office registry.

Tax records issued by these enterprises are issued with no VAT and must display prominently: "Without VAT: special scheme for small enterprises." Taxable persons under this special scheme have no right to deduct input VAT.

Upon exceeding the threshold, the business is immediately (and not as of the next tax year) obliged to charge VAT on their supplies and apply the regular VAT regime, regardless of the time when notification to the tax authorities is filed.

Annual returns. For tax years ending after 1 January 2014, the requirement to file annual VAT returns has been abolished.

Electronic filing. VAT returns should be filed electronically through TAXISnet (that is, the electronic application of the Greek Ministry of Finance). This is mandatory for all VAT taxpayers.

J. Penalties

Penalties are charged for late or inaccurate VAT returns, for the failure to file VAT returns and for the failure to account for VAT properly, as follows:

Procedural violation penalties in the EUR100–EUR500 range may be imposed for late VAT return.

In the case of failure to issue an invoice or in the case of issuance or acceptance of inaccurate invoices for a transaction that should have been burdened with VAT, a penalty equal to 50% of the unpaid VAT amount or of the relevant difference (i.e., additional input VAT amount deducted) is imposed.

In the case of filing of an inaccurate VAT return or failing to file a VAT return, which results in a full or partial failure to account for VAT or results in the deduction or refund of additional input VAT, a penalty equal to 50% of the unpaid VAT amount or of the relevant difference (i.e., additional input VAT amount deducted or refunded) is imposed.

In the case of a business operation commenced without the appropriate registration with the tax authority, a penalty equal to 50% of the VAT amount that should have been paid to the tax authority during the operation of the business is imposed.

Finally, in cases of late payment, inaccurate underpayment or non-payment of VAT, the taxpayer is obliged to pay interest in arrears calculated on this amount on a monthly basis for the time period from the end of the payment deadline until the date of the payment. The current monthly rate at the time of publication is 0.73%.

K. EU filings

Intrastat. A Greek taxable person that trades with other EU countries should complete statistical reports, known as Intrastat, if the value of its intra-Community sales or purchases exceeds certain thresholds. Separate reports are used for intra-Community acquisitions (Intrastat Arrivals) and intra-Community supplies (Intrastat Dispatches).

For 2018, the threshold for Intrastat Arrivals is EUR150,000 and for Intrastat Dispatches is EUR90,000.

The Intrastat return is filed electronically through the website of the Hellenic Statistical Authority on a monthly basis. The submission deadline is the last business day of the month following the end of the Intrastat return period.

A penalty amounting to EUR100 may be incurred for inaccurate or late or missing Intrastat returns.

EC Listings. EC Listings for cross-border supplies of both goods and services within the EU performed on or after 1 January 2010 are filed on a monthly basis. Separate forms should be filed for intra-Community dispatches (sales or supplies of services or goods) and for intra-Community acquisitions or receipt of services. In principle, EC Listings should be filed electronically through TAXISnet (that is, the electronic application of the Greek Ministry of Finance) by the 26th day of the month following the reporting period. It is not necessary to file nil EC Listings for a month in which no intra-Community transactions take place. EC Listings should include business-to-business (B2B) services supplied on a cross-border basis only if these services are taxable in the country of the recipient. On the contrary, EC Listings should not include services that are exempt from VAT in the country of the recipient business. Taxable persons required to file EC Listings should verify through the VAT Information Exchange System (VIES) the VAT identification number of their customers before engaging in intra-Community transactions.

A penalty amounting to EUR100 may be incurred for inaccurate or late or missing EC Listings.

Guatemala

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A. At a glance

Name of the tax	Value-added tax (VAT)
Local name	Impuesto al Valor Agregado (IVA)
Date introduced	1 July 1992
Trading bloc membership	None that affect VAT
Administered by	Tax Administration Superintendence (SAT) (http://www.sat.gob.gt)
VAT rates	
Standard	12%
Reduced	5% on gross sales for small taxpayers with annual turnover of less than GTQ150,000 (approximately USD20,200) (no input tax recovery)
Other	Exempt, zero-rated, and a fixed amount on used vehicles
VAT number format	Tax identification number (NIT)
VAT return periods	Depends on the regime selected by the taxpayer: (i) general regime: quarterly and half-yearly; (ii) optional regime: monthly; and (iii) special regime: monthly
Thresholds	
Registration	None
Recovery of VAT by non-established businesses	No

B. Scope of the tax

VAT applies to the following transactions:
- The sale or exchange of movable goods or rights derived from movable goods
- The rendering of services within Guatemala
- Imports
- Leasing of movable and immovable property
- The award (transfer) of movable and immovable goods as a payment
- Consumption by the taxpayer and consumption by the employees, executives, directors and shareholders of a company or their family members
- Certain shortages of inventory such as those derived from missing goods (for example, shrinkage) or damaged goods, as well as destruction of inventory, if complied with the legal requirements
- The first sale or exchange of immovable assets
- Certain donations
- Contributions of immovable property to legal entities if the assets have been previously contributed to a real estate entity

C. Who is liable

Any business entity or self-employed individual that carries out taxable activities on a regular or periodic basis must register for VAT. Taxable persons whose annual turnover does not exceed GTQ150,000 (approximately USD19,380) may elect to be taxed under a simplified VAT regime.

Group registration. VAT grouping of separate legal entities is not allowed in Guatemala. Legal entities that are closely connected must register for VAT separately.

Small taxpayers. Small taxpayers with annual turnover of up to GTQ150,000 (approximately USD19,380) may apply for a simplified regime. Under the simplified regime, taxpayers pay tax at a rate of 5% based on their gross taxable sales without a right to credit or deduct VAT input tax (see Section F). Small taxpayers will be subject to VAT withholding when engaging in commercial activities with VAT withholding agents. In all cases where VAT is not withheld, small taxpayers must declare and pay the VAT within the next calendar month. In addition, taxpayers operating under this regime are exempt and shall not declare or pay income tax.

Non-established businesses and tax representatives. A "non-established business" is a business that has no fixed establishment in Guatemala. A non-established business must register for VAT if it supplies goods or services in Guatemala. To register for VAT, a non-established business must take the following actions:
- Appoint a tax representative
- Provide the tax authorities with a copy of its Articles of Incorporation, legalized by a Guatemalan consulate or duly apostilled, together with an official translation in Spanish in order to obtain registration before the Mercantile Registry

Reverse charge. If a non-domiciled individual renders an occasional, temporary service in Guatemala (or performs another taxable activity) without being registered for VAT, the local beneficiary of the service may be able to issue a "special invoice" for VAT withholding.

Large taxpayers may be designated as VAT withholding agents for payments made relating to the acquisition of goods and services. This measure also applies to other special taxpayers expressly qualified as withholding agents (for example, exporters, government entities, and credit card operators). VAT withholding generally applies to the following (certain exemptions regarding minimum amounts may apply):
- Regular exporters (minimum monthly average exports of GTQ100,000 [approximately USD12,920]): 65% of VAT generated from the purchase of agricultural and cattle products, and 15% of VAT generated for other acquisitions

- Drawback entities: 65% of the VAT generated
- Government entities (excluding municipalities): 25% of the VAT generated
- Credit and debit card operators: 15% of the VAT generated on transactions carried out by affiliated entities
- Gas stations: 1.5% withholding on the gross amount of acquisitions of gasoline
- Special taxpayers: 15% of the VAT generated
- Other withholding agents: 15% of the VAT generated

In principle, the VAT withholding mechanism does not apply to transactions between withholding agents, unless the acquisition is made by credit or debit card (in such case, the taxpayer applies the VAT withholding as described above).

Registration procedures. The VAT registration process varies for entities that are newly incorporated or are branches of entities incorporated abroad.

Newly incorporated legal entities. Registration before the tax authorities should be performed simultaneously to registration before the Mercantile Registry. The tax ID certificate should be issued along with the certificate of registration. This process should be carried out directly by the notary public engaged for the incorporation of the entity, either in person at the Mercantile Registry or electronically through the following website: https://minegocio.gt/. A tax ID number should be assigned once the new entity has been registered, a process that takes approximately five business days once a complete application has been filed.

Branches of entities incorporated abroad. Registration should be carried out directly at one of the agencies authorized by the tax authorities. The following documents are required:
- Constitute a minimum assigned capital of USD50,000
- Certified copy of the last balance sheet and profit and loss statement of the company
- ID of a legal representative of the company
- Letter signed by the accountant accepting his or her registration before the tax authorities as the taxpayer's accountant
- Document that proves the individual's authority to represent the company
- Notarized copy of the articles of incorporation of the company
- The information regarding the income tax regime election, inventory method, Solidarity Tax election and quarterly payments election, if applicable

Whenever the information in these documents or any information that is part of the VAT registration changes, the taxpayer must amend its registration within 30 days.

Late-registration penalties. A taxpayer that fails to register for VAT on a timely basis cannot offset VAT credits generated from purchases that are included in inventory at the time of registration.

The tax authorities may impose penalties and interest for late VAT registration.

Digital economy. There are no specific rules regarding the taxation of digital economy for VAT purposes in Guatemala. The general taxable events indicated in Section B should be observed whether or not they are transacted by digital means.

For business-to-business (B2B) transactions, no VAT is expected to apply if the services or goods should not be considered as provided within Guatemalan territory. For the supply of a license, no VAT is expected to apply if it is not considered as granted within the Guatemalan territory. However, the tax authorities have issued official criteria for licenses over software, which provide that such licenses granted abroad to be used in Guatemala should be subject to VAT and customs duties.

Guatemalan legislation does not distinguish between B2B vs. business-to-customer (B2C) transactions. In this regard, the same considerations are expected to apply, irrespective of whether the customer is an individual or an entity.

Deregistration. Taxpayers that will no longer develop commercial activities in Guatemala should, after the legal procedure to liquidate the entity has been completed, deregister for VAT purposes by filing form SAT-2175 and any other required documentation with the tax authorities.

Exemption from registration. The VAT law in Guatemala does not contain any provision for exemption from registration for entities or individuals that make taxable supplies.

Voluntary registration. The VAT law in Guatemala does not contain any provision for voluntary VAT registration, as there is no registration threshold (i.e., all entities that make taxable supplies are obliged to register for VAT).

D. VAT rates

The standard VAT rate in Guatemala is 12%. The standard rate applies to the supply of all goods or services, unless a specific measure allows an exemption. A 5% rate on gross sales applies to small taxpayers, which are those with annual turnover of less than GTQ150,000 (approximately USD19,380). Under this scheme, no input tax recovery is permitted.

The 12% VAT rate applies to sales of vehicles and motorcycles when the transaction and the model of the vehicle or motorcycle corresponds to one of the following:
- The current year
- The year prior to the current year
- The year following the current year

For used vehicles, including motorcycles, a fixed amount of VAT applies ranging from GTQ200 to GTQ1,000 (approximately USD26 to USD129), depending on the year of manufacture.

The first registered sale of a real estate property is subject to 12% VAT, but not to stamp tax; the second and subsequent sales are exempt from VAT but subject to a 3% stamp tax.

Exports of goods and services are exempt, but input VAT is recoverable (see Section F).

In addition to supplies that are subject to tax, some supplies are exempt, which means input VAT is not recoverable.

Examples of exempt supplies of goods and services

- Transfer of assets in a merger
- In-kind contributions of movable property to a legal entity
- In-kind contributions of immovable property if the property had not been previously contributed to a real estate entity
- Supplies by cooperatives to their members
- Low-value retail sales of meat, fish, seafood or shellfish, fresh fruits and vegetables, cereals and basic grains in cantonal and municipal markets with a maximum sale value of GTQ100 (approximately USD13)
- Certain financial services
- Education
- Certain insurance and reinsurance transactions

Option to tax for exempt supplies. Not applicable.

E. Time of supply

The time when the taxable event is considered to be completed and VAT becomes due is called the "tax point." For a supply or exchange of goods, the tax point is the earlier of the issuance of the invoice or the delivery of goods. For a supply of services, the tax point is when the invoice, receipt or other document related to the transaction is issued. If no invoice is issued, the tax point is at the time of payment.

Leasing and continuous supplies of services. For leasing and a continuous supply of services for which the customer pays periodically, the tax point is the due date for each periodic payment.

Imported goods. The time of supply for imported goods is when the goods clear all customs formalities for importation.

Deposits and prepayments. There are no special time of supply rules for deposits and prepayments. As such, the general time of supply rules apply (as outlined above), and the time of supply is when any payment is made from the purchaser to the supplier.

Goods sent on approval for sale or return. For goods sent on approval, the tax point is when the goods are effectively delivered. If goods are returned to the seller after being sold, the seller is required to issue a credit note to reverse the sale operation, provided that the credit note is issued within the time frame permitted by the VAT law (i.e., two months).

Reverse-charge services. The time of supply for the cases of special invoices (see the reverse-charge section above under *C. Who is liable*) is when the invoice is issued by the local acquirer of goods or beneficiary of the services.

Other tax points. The tax point for insurance and bonds is when the premiums or quotas are received, and for shortages of inventory, it is when the shortage is discovered.

F. Recovery of VAT by taxable persons

Input tax is the VAT paid on the purchase of goods and services used to generate other goods and services subject to tax. A taxable person can generally recover input tax, subject to certain rules. Input tax is generally offset against output tax, which is VAT charged or collected on the sale of goods and the rendering of services. To deduct or credit input tax, certain conditions must be met. Input tax may be deducted or credited in the month when the invoice is received or in the following two months.

In general, input tax paid on imports or purchases of goods and services is creditable when directly related to the taxpayer's business activity.

A valid tax invoice or customs document must generally accompany a claim for an input tax credit. Purchases supported by invoices issued by small taxpayers do not generate input tax credits.

Payments in excess of GTQ30,000 (approximately USD3,875) must be made through the banking system or using a deed from a notary public in which the payer and the beneficiary are clearly identified.

Nondeductible input tax. Input tax may not be recovered on imports or purchases of fixed assets not directly related to the taxpayer's business activity.

Examples of items for which input tax is nondeductible

- Items (expenses or purchases) without proper supporting documentation
- Items (expenses or purchases) not registered in the VAT purchases book

Examples of items for which input tax is deductible (if related to a taxable business use)

- Any item that is related to the taxpayer's taxable business activities, which is duly documented with the proper legal documents that comply with local requirements, provided the purchase has been included in the VAT purchases book, the balance of the tax credit has been registered in the accounting books as an account receivable, and the payment in excess of GTQ30,000 (approximately USD3,875) for the purchase has been made through a financial/banking institution.

Refunds. If the amount of input VAT recoverable in a month exceeds the amount of output VAT payable, the taxpayer obtains an input VAT credit. The credit may be carried forward to offset output tax in subsequent VAT periods.

Qualified exporters may claim a refund of VAT paid on inputs. The Bank of Guatemala (central bank) maintains a registry of qualified exporters.

To qualify for the registry of exporters, the taxpayer must provide the Bank of Guatemala with documents that prove it satisfies one of the following conditions:
- It exports 50% or more of its gross sales.
- It exports less than 50% of its gross sales, but it is not able to fully offset its input tax credit related to its exports against its output tax generated from domestic supplies.

Taxpayers registered as exporters may file a refund request with the Bank of Guatemala within 30 business days following the end of the period for which the refund is claimed. No refunds are granted for amounts of up to GTQ10,000 (approximately USD1,292). For refund requests greater than GTQ10,000, the Bank of Guatemala partially refunds the VAT paid by exporters in the following percentages:
- 75% of refund amounts of up to GTQ500,000 (approximately USD64,600)
- 60% of refund amounts greater than GTQ500,000

The remaining 25% or 40% is carried forward to the future periods, or the exporter may request a refund directly from the tax authorities.

Qualified taxpayers may also request VAT refunds based on an opinion issued by a registered certified public accountant.

A nonqualified exporter may request a 100% VAT refund from the tax authorities directly if the exporter is not able to credit VAT on inputs against VAT on outputs. This method is applied to VAT refunds requested by service exporters.

Partial exemption. Not applicable. Special regulations regarding the treatment of overhead expenses are not provided by the VAT law.

Preregistration costs. Input tax incurred in relation to preregistration costs is not recoverable in Guatemala.

G. Recovery of VAT by non-established businesses

Guatemala does not refund VAT incurred by foreign or non-established businesses unless they are registered as Guatemalan VAT taxpayers.

H. Invoicing

VAT invoices, credit notes and debit notes. A taxable person must generally provide a VAT invoice for all taxable supplies made. VAT invoices, credit notes and debit notes must be authorized by the tax authorities. An invoice is generally necessary to support a claim for an input tax credit. If the nature of the business makes it impractical for a taxpayer to issue tax invoices, the tax

authorities may authorize the use of cash registers and other computerized systems to issue invoices in which the goods or services acquirer may insert its name and tax ID for tax purposes.

A VAT debit note must be used to increase the VAT chargeable if the value of a supply increases for any reason. A VAT credit note must be used to reduce the VAT charged and claimed on a supply if the value is reduced for any reason (for example, the granting of a discount, a change in the price or a return of the goods). A debit note or credit note must include the same information as a tax invoice. Credit notes and debit notes only modify VAT charged when issued within the two months following the issuance of the invoice it modifies.

The tax authorities have enabled a new online electronic invoicing regimen (FEL) that allows the tax authorities to obtain invoicing and VAT information in real time. The agreement containing the FEL regime provisions entered into force on 23 May 2018. Taxpayers may be required to adhere to said regime; however, they may also voluntarily apply and implement as desired. Such implementation is designed to be progressive, as both the tax authorities and taxpayers settle on the performance of the Regime.

Specifically, the agreement provides the following procedures for taxpayers to use the FEL regime:

(1) *Taxpayers required by the tax authority:* Progressively, the tax authority will define the taxpayer segments and the deadline for their mandatory incorporation into FEL through the issuance of administrative dispositions, which will be duly notified to the taxpayers. Upon expiration of the deadline established in the administrative provision for such taxpayers, the current authorizations of other resources or forms other than issuance of tax documents will no longer be valid.

(2) *Voluntary incorporation:* Taxpayers may voluntarily apply to join the FEL regime through the use of the Virtual Agency ("Agencia Virtual"), in which case they have six months to comply with the FEL requirements provided in the agreement. Once this period has expired, the authorizations of other resources or forms of issuing tax documents will no longer be valid.

Exports. Exports of goods and services are exempt. However, to qualify as exempt, exports must be supported by customs documents that give evidence of the outbound process. Suitable evidence also includes export invoices and bills of lading.

Foreign-currency invoices. VAT invoices must be issued either in Guatemalan quetzals (GTQ) or in US dollars (USD). However, invoices issued in US dollars must show the exchange rate used on the date of the transaction.

B2C. The VAT law does not contain any provision for special VAT invoices for supplies with private customers.

Electronic invoicing. Please see the information above under the *VAT invoices, credit notes and debit notes* section on the new online electronic invoicing regimen.

I. VAT returns and payment

VAT returns. VAT returns are generally submitted monthly. VAT due must be paid in full by the end of the month following each tax period. Exceptions to this rule apply for real estate and vehicle supplies, in which case the supply should be documented through a public deed and VAT should be paid in cash or through the means made available to the taxpayer by the tax authority within the next 15 days following the date of the transaction.

Special schemes. None.

Electronic filing and archiving. Tax forms should be prepared and filed online at the following website: https://declaraguate.sat.gob.gt/declaraguate-web/. Once the tax returns are filed, the

payment can be made either through an online banking system tool named "BancaSAT" or physically through authorized banks.

Annual returns. There are no annual VAT returns.

J. Penalties

Nonpayment of VAT results in a penalty equal to 100% of the unpaid amount. If the penalty is paid voluntarily by the date required by the VAT authorities, the penalty is reduced to 50%.

Violation of formal duties. The late filing of VAT returns is subject to a penalty ranging from GTQ50 (approximately USD6.50) per day, up to a maximum of GTQ1,000 (approximately USD129). If the return is filed voluntarily, the late-filing penalty may be reduced to 85% of the original amount.

Tax fraud. Tax fraud occurs when information has been altered in a manner that causes the tax authorities to incorrectly compute the amount of tax due. The penalty consists of 100% of the amount of the tax plus imprisonment from one to six years.

The tax fraud penalty may not be imposed together with penalties for late payment.

Gulf Cooperation Council

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The chapter below summarizes the value-added tax (VAT) rules for the Gulf Cooperation Council (GCC) as a whole. For more detailed information, see the chapters summarizing the VAT systems in each of the GCC Member States, where you will also find EY VAT contacts listed.

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A. At a glance

Member States of the Gulf Cooperation Council (GCC)	Bahrain Saudi Arabia Kuwait Oman Qatar United Arab Emirates (UAE)
Name of the taxes	Value-added tax (VAT)
Implementation dates	Saudi Arabia and UAE — 1 January 2018 Bahrain — 1 January 2019
VAT rates	
Standard	5%
Other	Zero-rated and exempt
Threshold registration	SAR375,000 (or its equivalent of the GCC Member States' currencies) (approximately USD100,000)
VAT return period	Monthly, quarterly and other various prescribed periods
Recovery of VAT by non-established businesses	Yes

This guidance has been prepared based on the GCC VAT framework agreement. The GCC VAT framework contains the main principles of the GCC VAT system and sets out the options that individual Member States may choose in terms of the VAT treatment applicable to certain supplies and business sectors. The options are primarily administrative, and where aspects are not dealt with by the GCC VAT framework agreement, then each Member State may determine individually. The GCC VAT framework agreement has no direct effect in the GCC Member States. The summary set out below should be read in conjunction with the legislative provisions contained in the respective Member States' domestic VAT law. Please be aware that at the time of preparing this chapter, the only GCC Member States that have implemented VAT are Saudi Arabia, the UAE and Bahrain.

B. Scope of tax

VAT applies to the following transactions:
- The supply of goods and services made in the GCC territory by a taxable person
- The acquisition of goods or services from another GCC Member State by a taxable person
- Services received by a taxable person in the GCC
- Taxable imports of goods regardless of the status of the importer

Supply of goods. The supply of goods include the following transactions:
- The transfer of ownership of goods to the recipient
- Grant of rights based on the ownership title providing the recipient the right to use certain property
- Transfer of ownership of goods for a return in accordance with the provisions of the Member States' domestic VAT law

Transfer of goods from one Member State to another. Any person subject to VAT who transfers goods from one Member State to another for business purposes is considered as a supplier of these goods. However, such a transfer will not be considered as a supply when the transfer takes place for any of the following purposes:
- If it is for the temporary use of goods in the other Member State under the provisions of temporary import of goods as stated in the Common Customs Law
- When the transfer of goods is part of another supply that is subject to tax in the other Member State

Supply of services. Any supply transaction that does not include goods is considered a supply of services.

Deemed supply. A deemed supply takes place when a taxable person carries out the supply of goods and services with the following conditions:
- The taxable person has been assigned the ownership of goods for noneconomic activity purposes, either for consideration or otherwise
- Changing the use of the goods in order to carry out supply transactions that are not subject to the tax
- Keeping the goods after ceasing the economic activity
- The supply of goods and services for free (without charge), unless such supply is conducted within the context of business, such as samples and gifts of cheap value, as what will be determined by each Member State

The taxable person is treated as if they carried out a supply of services where they use goods that constitute part of their assets for noneconomic activity purposes, and the supply of services for free (without charge).

The rules for deemed supplies will apply where the taxable person has deducted the input tax of the goods and services outlined above.

Each Member State sets out conditions for deemed supply rules.

Receipt of goods and services. If a taxable person in one Member State receives goods or services subject to VAT from a resident taxable person in another Member State, the taxable person is treated as if they have supplied the goods or services to themselves. As such, the supply shall be subject to VAT in accordance with the reverse-charge mechanism.

The reverse-charge mechanism (as outlined above) also applies if a taxable person residing in a Member State receives services from a person who is not a resident of the GCC Territory.

The implementation of the Electronic Services System (ESS) by the GCC will allow the Member States to monitor and exchange intra-GCC trade.

C. Who is liable?

A taxable person for GCC VAT purposes is any individual or entity that is or should be registered for VAT. The taxable person is obliged to pay the VAT due, on the taxable supply of goods or services, to the competent tax authority in the Member State where the goods or services are supplied or regarded as being supplied under the relevant VAT legislation. Any person who includes a VAT amount on an invoice issued will become obliged to pay the tax. For a supply of goods or services made in a Member State where the supplier is not resident, the customer or client subject to tax in that country becomes obliged to pay the tax due on the goods or services. An entity that exclusively makes exempt supplies would not qualify to be a taxable person.

Compulsory registration. VAT registration threshold is Saudi Riyal (SAR) 375,000 (or its equivalent in the local currency of each GCC Member State) (approximately USD100,000). The taxable person is obliged to register for VAT under the following conditions:

- The taxable person is a resident of any of the GCC Member States
- The annual value of its supplies in one Member State has exceeded or is expected to meet the revenue threshold for compulsory registration

A person who is not resident in a Member State should register regardless of the value of its business transactions if it is obliged to pay the tax in the relevant GCC Member State. They can register themselves directly or through a tax representative with the approval of the competent tax authority. The tax representative shall act on behalf of the nonresident person concerning all rights and obligations prescribed by the GCC VAT Framework Agreement. The tax representative may be held jointly and severally liable for any unpaid VAT.

Exemption from registration. A taxable person providing only zero-rated supplies may be exempted from the compulsory registration obligation as prescribed by each Member State.

Voluntary registration. A business that makes taxable supplies may opt to register where its revenues exceed SAR187,500 or its equivalent in the GCC Member States' currencies (c. USD50,000).

Tax identification number. Upon registration, each GCC Member State respective tax authority will issue a tax identification number to the taxable person.

Deregistration. A taxable person that ceases to be eligible for VAT registration must deregister. A taxable person must also request deregistration if its taxable turnover drops below the optional VAT registration threshold (SAR187,500).

Each Member State may determine a minimum period for which the taxable person must remain registered before they can cancel their tax registration. Each Member State may determine the disciplines and conditions necessary for rejecting the cancellation request of the taxable person. The tax authority shall notify the taxable person of the cancellation and of the effective date of deregistration.

Group registration (VAT group). A VAT group means two or more legal persons who are residents of the Member State with common ownership or other sufficient links in that state. Each Member State treats a VAT group as one person subject to tax, in accordance with the provisions of the domestic VAT regulations. VAT is not charged on supplies between group members. Members of a VAT group are jointly and severally liable for all VAT liabilities of the group.

Intra-GCC supplies. A supply of goods and services from a VAT-registered person in one Member State to a VAT-registered person in another Member State, is subject to the reverse-charge mechanism.

In case of Intra-GCC supplies for non-registered parties, each Member State has the right to collect the tax from the other Member State, if the supply transactions exceed an amount of SAR10,000 (c. USD2,667) or its equivalent of the GCC States' currencies. The tax is adjusted in accordance with

the Automatic Transfer System mechanism followed by customs applied within the GCC Customs Federation.

However, pending the implementation of the Electronic Services System (ESS) by the GCC, which will allow the Member States to monitor and exchange intra-GCC trade, each GCC country is operating a single-country VAT system. Intra-GCC supplies are currently treated as an export of the supplier and an import of the customer.

The treatment of GCC free zones is not addressed and is left to each Member State to determine its own VAT treatment for free zones.

Tax on imports. The person identified as an importer in accordance with the provisions of the Common Customs Law is obliged to pay the tax due on imports.

D. VAT rates

Taxable supplies refer to the supply of goods and services that are liable to the standard rate of 5% or at a zero rate (0%). The two positive rates of VAT of 5% and 0% have been allowed for under the framework: 5% (the standard rate) and 0% (i.e., the zero rate). Supplies at the positive rate of VAT give rise to the right to deduct input tax attributable. Certain supplies may also be exempt from VAT. Exempt supplies refers to the supply of goods and services that are not liable to VAT. VAT attributable to the making of exempt supplies is not deductible.

Each Member State may elect to adopt the zero-rate or exemption for certain, limited, supplies. This includes certain basic food stuffs that may be subject to the zero tax rate. Also, the supply of oil, gas and petroleum derivatives can be subject to the zero rate, as per the conditions and disciplines it determines.

In addition, the Member States have the right to subject the following sectors to a zero rate or exempt them from VAT: education, health, real estate, local transport and financial services. The term financial services is not defined. However, broadly, the exemption will relate to dealings in money, securities, foreign exchange, and the operation and management of loan accounts, deposits, trade credit facilities and related intermediary services. The exemption is not expected to extend to fee-based services transacted by a financial institution. However, Member States may choose to apply a different VAT treatment to financial services if they wish. The insurance sector is not addressed specifically in the framework agreement. However, Member States have considered that life insurance falls under the rules of financial services.

Examples of zero-rated supplies of goods and services include:

- Basic food stuffs defined by the relevant Member States legislation
- Export of goods and services to jurisdictions outside of the GCC
- Medicine and medical equipment
- Intra-GCC and international transport
- The supply of sea, air and land transport services for commercial purposes (including related goods and services, and supply of rescue planes and ships for the provision of sea and air help in addition to fishing vessels)
- Supply of gold, silver and platinum (subject to purity requirements) for investment purposes

Examples of exempted supplies of goods and services include:

- Certain financial services offered by licensed banks and financial institutions (banks and financial institutions may recover the input taxes based on tax recovery rates determined by each Member State)
- Diplomatic and military exemptions
- Import of personal baggage and used home appliances brought by citizens residing abroad
- Imports of returned goods
- Import of goods and services and the domestic supplies for people with special needs

Exemption from tax in special cases. Each Member State has the right to exempt certain categories from paying the VAT imposed upon their receipt of the goods and services offered in the Member State. Likewise, each Member State may allow such categories to claim refund of the VAT paid upon the receipt of the goods and services as per the conditions and disciplines it determines. These categories include the following:

- Government bodies as determined by each Member State
- Charitable organizations and public works institutions as per the conditions determined by the Member State
- Companies exempted from tax under mutual agreements for hosting international forums
- Citizens of the Member State that construct a property for private use
- Farmers and fishermen who are not registered for tax

E. Time of supply

The due date for VAT is the earlier of the following:

- The date when goods or services are supplied
- The date of issuing the VAT invoice
- The date when payment for the goods or services is received based on the contracting terms between the respective parties to the contract

The date when the goods or services are supplied (as referred to above), may be as follows:

- The date when the goods are put at the disposal of the customer, even if this is before the goods are sent to them
- The date when the goods are removed
- The date when the installation or assembling of the goods is completed, for goods that involve the supply of installation and assembling
- The date when the performance of services has taken place
- The date when any of the conditions of a deemed supply takes place

Imports. In the case of imports, the tax becomes due on the date when the goods are imported into the Member States, while taking into account the conditions of tax suspension upon the import of goods and the payment mechanism of the tax due upon the import.

F. Recovery of VAT by taxable persons

A taxable person may in general recover input VAT, which is VAT charged on goods and services supplied to it for business purposes. Recovery is by way of deducting input VAT against output VAT, which is the VAT charged on supplies made by the business.

Input VAT includes VAT paid on imports of goods, and VAT self-assessed through the reverse-charge mechanism.

Input VAT which has been paid may not be deducted, under two conditions:

- If such inputs were not for the purpose of conducting an economic activity as prescribed by each Member State

  Or
- If the input tax was imposed on banned goods in the Member State as per the provision of the existing laws

The amount of VAT reclaimed must be supported by a valid VAT invoice, and (if necessary) the customs documents that prove that the taxable person is the importer of the goods in accordance with the Common Customs Law. Each Member State may allow the taxable person to deduct the input VAT if the tax invoice is unavailable or does not meet the VAT invoicing conditions, provided that the value of the tax due is calculated by any other means.

Proportional VAT recovery. Input VAT related to goods and services used to provide supplies that are subject to VAT and those that are exempt, may be deducted in accordance with the proportion

of revenue related to the supplies subject to the VAT. Each Member State determines the methods of calculating the deduction percentage, as well as the conditions for considering the value of the nondeductible input VAT equivalent to 0%.

Tax refund. Each Member State determines the conditions to allow the person subject to tax to apply for a VAT refund or a refundable amount that can be moved to the next taxation period. In the case of GCC resident taxpayers, they may apply for a tax refund paid in another Member State, in accordance with the conditions and disciplines prescribed by the Financial and Economic Cooperation Committee of the GCC.

Preregistration costs. Where a business buys goods or services before registering for VAT to support its taxable business activities, it can recover the VAT, provided that certain conditions are met. In the case of goods, they must remain on hand at the date of registration and must be used in the newly registered business. Different rules apply to capital goods. Input VAT incurred on capital goods is deductible based on the net book value at the date of registration, as per the conditions prescribed by each Member State.

In the case of services, they must have been bought within a set time period before the date of registration. This time period is prescribed by each Member State.

G. Recovery of VAT by non-established businesses

In the case of nonresident taxpayers in the GCC, each Member State may allow a tax refund upon fulfillment of the following conditions:

- The nonresident person does not make any taxable supplies for which it is required to pay VAT in any Member State
- The nonresident person is registered for tax in its country of residence that applies VAT or a similar tax system
- The VAT has been incurred by the nonresident taxpayer in the GCC, for the purposes of its economic activity

At the time of preparing this chapter, not all those Member States that have implemented VAT (Saudi Arabia, United Arab Emirates and Bahrain) have made refunds available to non-established businesses.

Tax refund for tourists. Member States may apply a tax refund system for tourists, only as per the conditions and disciplines stated in its local law. For the purpose of VAT, a tourist is a natural person who is not a resident in any GCC Territory and is not a member of a flight or plane crew leaving a Member State.

H. Invoicing

VAT invoices and credit notes. The supplier of taxable goods and services must issue a tax invoice or a similar document either upon partial or full receipt of the goods and services, and also for deemed supplies. Tax invoices may be issued in any currency provided that the tax value is written in the currency of the Member State where the invoice value is to be paid. Credit notes should show the same information as tax invoices.

The Member States will accept tax invoices in the form of a printed copy or in an electronic format, in accordance with the conditions established by each Member State.

Each Member State may exempt taxable persons from the requirement to issue a tax invoice for the provision of exempt supplies, provided that the supplies are not related to intra-GCC transactions.

Each Member State shall define the content of the tax invoice and the deadline for its issuance. Each Member State may allow the issuance of simplified invoices as per the conditions and

disciplines it establishes. Each Member State may allow the taxable person to issue a summarized tax invoice that includes all supplies of goods and services provided to a single customer and the total VAT amount due, for a period of one month. Self-billing arrangements are also allowed, but the competent tax authority must approve the agreement and the invoice must include a self-billing narrative.

Tax invoices, records and accounting documents must be kept for a period of not less than five years from the end of the tax year. In the case of real estate, this period is extended to 15 years. These limits may be amended by each Member State.

I. VAT returns and payments

Tax return and payments. Each Member State can determine the information required, i.e., for what tax periods (provided that these are not less than a month), conditions of filing, disciplines of filing the tax return (or modified tax return) and payment. Based on the initial implementation of VAT in the Member States, VAT returns are required to be submitted on a quarterly or monthly basis, or other periods prescribed by the relevant tax authorities.

Imports. The tax due on imported goods shall be paid at the first point of entry and deposited in a bank account for the collection of tax and then transferred to the target country through the Automatic Transfer System of the applicable customs duties under the GCC Customs Union. The Ministerial Committee may suggest any other mechanism for tax payment such as the deferral system.

Based on the conditions and the disciplines it establishes, each Member State may allow the taxable person to postpone the payment of the tax due on the imported goods (used for business purposes) and declare it in their VAT return.

J. Penalties

The applicable penalties in the case of any violations is determined by each Member State.

Objections and appeal. Each Member State shall set the conditions and regulations of lodging objections against the decisions of the competent tax authority, including the right of recourse to the specialized local courts in each Member State.

K. Transitional provisions

Each Member State shall outline in their local VAT law the transitional provisions, which include the following:

- VAT due on the supplies of goods and services and the export of goods, shall be effective from the date of the enforcement of the local VAT law in the Member State.
- Each Member State shall determine the VAT registration deadline for taxable persons who are obliged to register from the date of the enforcement of the local VAT law.
- Each Member State may ignore the date of the invoice or the date of the payment and consider the tax due date the same as the date of supply. This is regardless of any other relevant regulation. This includes cases where the tax invoice is issued, or payment is received, ahead of the date of the enforcement of the local VAT law, or ahead of the VAT registration date, and where the supply took place after this date. This may also apply to intra-GCC supplies.
- For continuous supplies that are carried out partially ahead of the date of enforcement of the local VAT law, or ahead of the VAT registration date, and partially after this date, the part that is carried out before the date of enforcement or registration, shall not be taxed.

Honduras

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A. At a glance

Name of the tax	Value-added tax (VAT) or sales tax
Local name	Impuesto sobre Ventas
Date introduced	1 January 1964
Trading bloc membership	None that relate to VAT
Administered by	Finance Secretary (http://www.sar.gob.hn/)
VAT rates	
Standard	15%
Other	18% and exempt
VAT number format	National Tax Registry number (RTN)
VAT return periods	Monthly VAT return if taxable turnover exceeds HNL250,000 (approximately USD10,293); separate monthly withholding returns and monthly informational return if taxpayer defined in Official Gazette as large or medium-sized taxpayer
Thresholds	
Registration	None
Exemption from VAT filing	Annual taxable turnover below HNL250,000 (approximately USD10,293)

Recovery of VAT by non-established businesses	No

B. Scope of the tax

VAT applies to the following transactions:
- The supply of taxable goods or services made in Honduras by a taxable person
- Self-consumption
- The importation of goods or services from outside Honduras, regardless of the status of the importer, with the exception of exempt goods or services

C. Who is liable

A taxpayer for VAT purposes is any entity or individual that supplies taxable goods or services in Honduras in the ordinary course of a trade or business. Taxpayers that deal primarily with final consumers may be designated as withholding agents for VAT. All businesses must register as taxpayers; no separate registry for VAT taxpayers exists. The national tax registry number (RTN) is used for VAT purposes.

Small businesses. Taxpayers whose annual turnover is less than HNL250,000 (approximately USD10,293) are not required to pay VAT or file VAT returns.

Group registration. VAT grouping is not allowed under the Honduran VAT law. Legal entities that are closely connected must register for VAT as separate entities.

Non-established businesses and tax representatives. A "non-established business" is a business that has no fixed establishment in Honduras. A non-established entity is required to register as a taxpayer if it engages in business activities within Honduras. Foreign taxpayers must complete a tax questionnaire, which includes information such as the names of the current shareholders and the projected sales during the first year. This information must be submitted together with the following documents:
- A copy of the Articles of Incorporation, together with an official translation in Spanish
- A special power of attorney granted to a legal representative in Honduras

The above documents must be apostilled or legalized by the Honduran Consul in the foreign taxpayer's country of residence.

Registration procedures. Entities or individuals that are subject to the sales tax must register as taxpayers using Form SAR-410. They also must request an authorization to print invoices or receipts.

Late-registration penalties. A taxpayer that fails to register for VAT on a timely basis is subject to penalties. Penalties are computed based on a taxpayer's gross income and generally range from 10% of a minimum wage to 10 times a minimum wage. However, taxpayers with high amounts of gross income may be subject to additional penalties.

Reverse charge. Not applicable.

Digital economy. There are no specific rules regarding the taxation of the digital economy for VAT purposes. However, generally taxable events indicated in Section B are treated the same whether or not they are transacted by digital means. The normal VAT registration rules apply for such supplies by non-established businesses (as outlined above). The reverse-charge mechanism is not applicable in Honduras, and as such there are no special rules regarding this and the digital economy.

Deregistration. The taxpayer must notify the tax authorities about ceasing operations, and it must file its tax return within 30 days after that notification.

Exemption from registration. Taxpayers under a special tax regime (e.g., Free Trade Zone Regime) could be exempt from VAT registration.

Voluntary registration. The VAT law in Honduras does not contain any provision for voluntary VAT registration.

Tax representatives. Non-established businesses must complete a questionnaire and should include a special power of attorney granted to a legal representative in Honduras when registering for VAT in Honduras.

D. VAT rates

The term "taxable supplies" refers to supplies of goods and services that are subject to VAT.

Effective since 1 January 2014, the standard rate of VAT is 15% and applies to the supply of all goods or services, unless a specific measure imposes a higher rate or allows an exemption. Also effective since 1 January 2014, a higher rate of 18% is imposed on supplies of alcoholic beverages and cigarettes and certain television and internet services.

The term "exempt supplies" refers to supplies of goods and services that are not subject to tax. Exempt supplies do not give rise to a right to an input tax deduction.

Examples of exempt supplies of goods and services

- Goods that form part of the average weekly shopping
- Pharmaceutical products
- Cleaning fluids and disinfectants
- Raw materials and tools for agricultural and agro-industrial production; major and minor poultry species and fish, herbicides, insecticides, pesticides, rodenticides and other anti-rodents, live animals; means of animal reproduction; seed and vegetative material for the sowing and sexual and asexual spreading; raw material for the elaboration of balanced food in its final presentation, except that destined for pets
- Transfer of assets in a merger or liquidation
- Medical services
- Personal insurance and reinsurance
- Gasoline, kerosene and related oil products
- Firewood and coal
- Books and newspapers
- Leather, except fine leather goods
- Water and electrical services
- Education
- Passenger transport
- Financial services

Option to tax for exempt supplies. Not applicable.

E. Time of supply

The time when VAT becomes due is called the "time of supply" or "taxable event."

For the supply of goods, the time of supply is the earlier of the issuance of the invoice or the delivery of the goods. For a supply of services, the time of the supply is the earlier of the issuance of the invoice or the performance of the services.

Importation. The time of supply for imported goods is when the goods are "nationalized," that is, when the goods clear all customs formalities for importation. For the importation of services, the time of supply is the earlier of the issuance of the invoice or the performance of the services.

Deposits and prepayments. There are no special time of supply rules in Honduras for deposits and prepayments. As such, the general time of supply rules apply (as outlined above), and the taxable event is the earlier of the issuance of the invoice and the performance of the services or delivery of goods.

Goods sent on approval for sale or return. The taxable event for goods sent on approval or "for sale or return" should be when they are actually sold. If the goods are not sold or returned, VAT should not be due.

Leased assets. There are no special time of supply rules in Honduras for the supply of leased assets. As such, the general time of supply rules apply (as outlined above), and the tax point is the earlier of the issuance of the invoice or the performance of the services.

Reverse charge services. The reverse charge is not applicable in Honduras, and as such there are no special time of supply rules.

Continuous supplies. There are no special time of supply rules in Honduras for continuous supplies. As such, the general time of supply rules apply (as outlined above), and the taxable event is the issuance of the invoice.

F. Recovery of VAT by taxable persons

A taxpayer may recover input tax, which is VAT charged on goods and services supplied that are used to generate taxable income. Input tax is generally recovered by a deduction from output tax, which is VAT charged on supplies made. Input tax may be deducted in the month in which the invoice is received or in the following month.

Input tax includes VAT charged on goods and services supplied in Honduras, VAT paid on imports of goods and reverse-charge VAT on domestic self-consumption of services. The input tax credit is available only for goods and services acquired to generate income and for the purchase of machinery and equipment.

A valid tax invoice or customs document must generally accompany a claim for an input tax credit.

Nondeductible input tax. No deduction is allowed on input tax charged on goods self-consumed or services rendered for the taxpayer's own benefit. Also, the deduction is not allowed when the purchases are not properly documented with the corresponding invoices or receipts.

Examples of items for which input tax is nondeductible

- VAT paid on items or services for personal consumption
- VAT paid on gifts or presents

Examples of items for which input tax is deductible (if related to a taxable business use)

- VAT paid on purchases of goods or fixed assets in order to produce sales subject to VAT
- VAT paid for services needed to produce goods or other services subject to VAT and repair services

Refunds. If the amount of input VAT recoverable in a month exceeds the amount of output VAT payable, the taxpayer obtains an input VAT credit. The credit may be carried forward to offset output tax in subsequent VAT periods.

Partial exemption. Not applicable.

Preregistration costs. Taxpayers are not permitted to recover input VAT paid on purchases made prior to VAT registration.

G. Recovery of VAT by non-established businesses

Honduras does not refund VAT incurred by foreign or non-established businesses unless they are registered for VAT in Honduras.

Diplomats and international organizations. Diplomatic consular delegations, and international organizations and agencies are entitled to reimbursement for VAT paid in Honduras. Depending on the claimant's status, the claimant may request a refund of the VAT or exercise the right to offset the VAT credit by making subsequent purchases subject to VAT. If the credit has not been offset after six months, the amount may be applied against other taxes.

H. Invoicing

VAT invoices and credit and debit notes. A taxpayer must generally provide a VAT invoice for all taxable supplies made, including exports. An invoice is generally necessary to support a claim for input tax credit. If the nature of the business makes it impractical for a taxpayer to issue tax invoices, the VAT authorities may authorize the use of cash registers and computerized systems to issue receipts instead of invoices.

The Honduran invoicing regulations establish that taxpayers should request an authorization from the tax authorities to print invoices or receipts. Taxpayers may use two methods in order to obtain their invoices or receipts:
- Printing through printing houses
- Self-printing through cash registers or computer systems connected to their accounting systems

Invoices or receipts that are self-printed by taxpayers include a barcode that contains important information about the transaction, which exempts taxpayers from having to enter the data manually into their accounting system.

A VAT credit note may be used to reduce VAT charged and reclaimed on a supply if the value is reduced for any reason (for example, the granting of a discount or bonus, a change in price or the return of the goods). A credit note must generally include the same information as a tax invoice.

Proof of export. VAT does not apply on supplies of exported goods. However, to qualify as VAT-free, exports must be supported by customs documents that prove the goods have left Honduras. Suitable evidence includes export invoices and bills of lading.

Foreign-currency invoices. VAT invoices must be issued in Honduran lempira (HNL).

B2C. There are no special rules for VAT invoices issued for supplies made by taxable persons to private consumers. Full VAT invoices are required to be issued.

Electronic invoicing. Electronic invoicing is legally permitted for all VAT taxpayers. However, tax authorities have not implemented electronic invoicing in practice and therefore it's not currently possible.

I. VAT returns and payment

VAT returns. VAT returns are submitted monthly by the 10th day of the month following the end of the return period. Payment in full is due on the same date and must be paid in Honduran lempira.

Effective since November 2010, large taxpayers as defined in the Official Gazette are required to withhold 15% VAT on payments related to the following:
- Transportation services
- Cleaning and fumigation services
- Printing and screen printing services
- Investigation and security services
- Commercial sites and machinery and equipment rent

This withheld VAT must be paid in full along with a separate monthly withholding return that, like the regular VAT return, must be submitted by the 10th day of the month following the end of the return period.

In addition, all taxpayers that withhold taxes must file the monthly withholding return that covers VAT in addition to payroll taxes, local professional fees and any others withheld. This is Form DEI-540: Declaración Mensual de Retenciones (Monthly Withholding Declaration). Effective 1 January 2015, this withholding return is also due to be submitted by the 10th day of the month following the end of the return period.

Taxable persons whose annual turnover is below HNL250,000 (approximately USD10,293) are not required to file VAT returns or pay VAT.

Special schemes. None.

Electronic filing and archiving. The new Honduran invoicing regulations do not allow electronic filing and archiving.

Monthly returns. The Honduran Tax Authorities issued Agreement No. DEI-SG-276-2015 (the Agreement), which requires taxpayers that currently file monthly sales tax returns to report purchases and imports (taxable or exempt) through a Monthly Purchases Sales Tax Return (the Return), form SAR 527. The Agreement was published in the Official Gazette on 9 February 2016, and is effective as of that date.

Taxpayers subject to this new reporting obligation are those categorized as medium and large taxpayers, including those:
- Operating under special tax regimes
- Carrying out VAT exempt business transactions

The Return must be filed through the Tax Authorities' DET LIVE web-based platform during the first 20 days of each month.

Taxpayers are required to separate and identify purchases that generate sales tax credits from those considered as part of the company's costs and expenses.

The Return replaces the Annual Sales Tax Credit Return, which taxpayers were required to file by 31 March 2016 for tax year 2015.

By getting information on a monthly basis, the Tax Authorities are seeking to improve their control on the sales tax credit claimed by taxpayers.

Annual returns. VAT taxpayers are not required to submit an annual return in addition to periodic VAT returns in Honduras.

J. Penalties

The penalty assessed for the late submission of a VAT return is 1% if filed within five days after the filing date. If the tax liability is not paid within these five days, a 2% monthly penalty applies up to a maximum of 24%.

The surcharge assessed for the late filing of a VAT return is 5% per month, up to 60% if the tax liability is not paid by the 10th day of the month following the end of the return period.

Violation of formal duties. Penalties are computed based on a taxpayer's gross income and generally range from 10% of a minimum wage to 10 times a minimum wage. However, taxpayers with high amounts of gross income may be subject to additional penalties.

The following infractions may be subject to the temporary closure of the business establishment:
- Failure to issue invoices — or other valid tax documents — when required, or issuing tax documents that don´t comply with the legal requirements
- If an issued tax document is not duly recorded in the taxpayer´s accounting registries
- If the taxpayer's records are not presented to the tax or customs authorities when required

If a taxpayer incurs one of the abovementioned infractions for the first time, a fine is imposed based on its annual gross income. In case of recurrence, the fine will be increased by 50%. Furthermore, the recurrence of the same infraction may lead the tax authorities to proceed with a temporary closure of the business establishment, which will last until the situation has been rectified. The law clarifies that a taxpayer engages in recurrence when an infraction is breached two or more times on the same fiscal year.

Tax fraud. Tax fraud is deemed to occur if a taxpayer files a return that results in the underpayment of taxes as a result of illegal actions. The Penal Code provides the following prison terms for tax evasion:
- Three to six years of imprisonment if the amount does not exceed HNL100,000 (approximately USD4,117)
- Three to nine years of imprisonment if the amount does not exceed HNL500,000 (approximately USD20,586)
- Six to 12 years of imprisonment if the amount exceeds HNL500,000 (approximately USD20,586)

In addition, a fine equal to 50% of the underpaid VAT applies. If the underpaid VAT cannot be calculated, the applicable fine is calculated based on the assessment issued by the tax authorities.

Hungary

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A. At a glance

Name of the tax	Value-added tax (VAT)
Local name	Általános forgalmi adó
Date introduced	1 January 1988
Trading bloc membership	European Union (EU) Member State
Administered by	Ministry for National Economy (www.kormany.hu/en/ministry-for-national-economy) National Tax and Customs Authority (www.nav.gov.hu)
VAT rates	
Standard	27%
Reduced	5%, 18%
Other	Exempt
VAT number format	12345678-2-34
VAT return periods	
Quarterly	General
Monthly	Newly registered taxpayers, large taxpayers and VAT groups
Annual	Small taxpayers with no EU VAT number in at least the third year of registration
Thresholds	
Registration	Every taxable person is required to register
Distance selling	EUR35,000 per year
Intra-Community acquisitions	EUR10,000 per year (for taxpayers with special taxable status)

Recovery of VAT by non-established businesses	Yes

B. Scope of the tax

VAT applies to the following transactions:
- The supply of goods or services provided in Hungary by taxable persons
- The intra-Community acquisition of goods from another EU Member State by a taxable person (see the chapter on the EU)
- Reverse-charge services and reverse-charge goods received by a Hungarian taxable person
- The importation of goods into Hungary, regardless of the status of the importer

Special rules apply to intra-Community transactions involving new means of transport and distance sales (see the chapter on the EU).

C. Who is liable

A taxable person is any business or individual that makes taxable supplies of goods or services in the course of its business in its own name.

Every entity or individual that undertakes a business activity in Hungary must register for VAT before beginning the activity in question. Retroactive VAT registration is possible but may trigger significant penalties. Obtaining Hungarian VAT numbers for intra-EU transaction purposes with retroactive effect is not allowed.

Exemption for small businesses. If a taxable person's turnover did not exceed HUF12 million in the preceding VAT year, it may request VAT exemption status. The request for exemption must be filed before the end of the VAT year preceding the year in which the exemption is to take effect. A new business may request exemption from registration if its anticipated turnover is not expected to exceed HUF8 million a year. The request for exemption must be filed at the time of registration.

If exempt status is granted, the business must still register for VAT, although it may not charge VAT on its supplies and it may not recover input VAT on its expenses and purchases. In addition, such businesses are generally not required to file any VAT returns.

Group registration. VAT group registration is available for all industries. Companies that qualify as related parties and that have a fixed establishment in Hungary from a VAT point of view may opt for VAT grouping when the participating entities are regarded as being a single taxpayer and the group regime applies to all transactions performed by every group member. Practically, this means that the supplies performed between the group members fall out of the scope of VAT whereas any supplies performed outside the group are subject to VAT. In addition, the group members are obliged to file joint VAT returns with the tax authority.

Non-established businesses. A "non-established business" is a business that has no fixed establishment in Hungary. A non-established business that makes supplies of goods or services in Hungary must register for VAT if it is liable to account for Hungarian VAT on its supplies or if it makes intra-Community supplies or acquisitions of goods.

The reverse charge applies generally to installation supplies made by non-established businesses to taxable persons that file periodic VAT returns. Under this measure, the taxable person that receives the supply must account for the Hungarian VAT due. If the reverse charge applies, the non-established business is not required to register for Hungarian VAT.

Consequently, non-established businesses must register for Hungarian VAT if they make any of the following supplies:
- Intra-Community supplies

- Intra-Community acquisitions
- Distance sales in excess of the threshold
- Supplies of goods and services that are not subject to the reverse charge (for example, goods or services supplied to private persons)
- Importation of goods
- Purchase of services from other countries

Reverse charge for domestic transactions. The concept of a reverse charge also applies to the following transactions between Hungarian taxpayers:

- Transfer of immovable property on the basis of a construction contract
- Certain services relating to immovable property
- The supply of certain scrap materials
- The supply of real property if taxation is opted for
- The supply of goods provided as security in execution of that security
- Trading in greenhouse gas emission rights
- Goods and services provided by taxpayers under liquidation or insolvency proceedings, provided the value exceeds HUF100,000
- The supply of cereal and metal
- Staff leasing services
- Services provided by school cooperatives

Tax representatives. Businesses that are established in the EU may register for VAT without appointing a tax representative. However, EU businesses may opt to appoint a tax representative under certain conditions.

In general, businesses that are established outside the EU must appoint a resident tax representative to register for Hungarian VAT. The tax representative is jointly liable for VAT debts and obligations with the business it represents.

All non-established businesses must register with the office for foreign taxpayers at the following address:

NAV Kiemelt Ügyek Adó- és Vámigazgatósága
Dob utca 75-81
1077 Budapest
Hungary

Registration procedures. In order to register for VAT purposes in Hungary, two copies of the application form (available only in Hungarian language) should be submitted on paper together with several corporate documents (translated into Hungarian). The registration procedure generally takes at least two weeks from the date of submission.

Late-registration penalties. If a taxable person fails to register for VAT, a default penalty of HUF500,000 applies. In addition, the VAT authorities may notify the taxable person of its obligation to register. The fine is doubled if the taxable person fails to register within the deadline specified by the tax authority.

Digital economy. From 1 January 2015, supplies of telecommunication, broadcasting and electronically supplied services supplied to private customers and nontaxable persons, i.e., B2C transactions are taxable in the Member State where the customer is established, has a permanent address or usually resides.

Mini One-Stop Shop. In case of supplies of telecommunication, broadcasting and electronically supplied services, non-EU based suppliers are entitled to decide in which Member State they register for VAT purposes and file the EU-level consolidated VAT return. Under this scheme, called the Mini One-Stop Shop (MOSS), suppliers do not have to register in Hungary for VAT purposes

if they register in one of the other EU Member States under MOSS and report their Hungarian VAT liability in that Member State via the EU-level consolidated VAT return. Alternatively, such suppliers do not have to register in other EU Member States for VAT purposes if they register in Hungary under the MOSS scheme and file their EU-level consolidated VAT return in Hungary.

One-Stop Shop. With regard to remote supply of services provided to nonbusiness customers, micro and small enterprises established in the EU may choose to pay their taxes based on their place of establishment rather than on the service recipient's place of establishment if the amount received for the services is less than EUR10,000, in the year in question and in the preceding year. In this case the use of the One-Stop Shop is not required. If in any given year the EUR10,000 threshold is exceeded on a cumulative basis, the One-Stop Shop system must be used for the service supply that resulted in going above the threshold.

As of 2019, taxpayers not established in the EU will also be able to use the One-Stop Shop system, provided that they already hold an EU VAT number for other reasons.

Taxable persons using the One-Stop Shop system will be able to issue their invoices as of 2019 in accordance with the rules in their country of establishment.

Deregistration. Foreign entities that cease to perform transactions subject to Hungarian VAT can deregister, canceling their Hungarian VAT number. The necessary steps for deregistration are the following:

- Checking the tax account statement of the company and paying any underpayments or reclaiming any overpayments
- Preparation and submission of the deregistration form within 15 days from the effective date of the deregistration
- Preparation and submission of a closing VAT return covering the period not covered by previous tax returns within 30 days from the effective date of the deregistration (submission together with the deregistration form is advisable)

The tax authority usually performs a tax audit related to the deregistration.

Exemption from registration. The following types of taxable persons may be exempted from registering for VAT in Hungary:

- Any importer who employs an indirect customs representative in connection with the importation of goods and the subsequent intra-Community supply of goods, shall be exempted from the obligation of registration if it is not engaged in any other taxable activities in Hungary.
- Taxable persons that considered non-established according to the Hungarian VAT Act, and the taxable persons to whom the requirement of establishment does not apply, shall be exempted from the obligation of registration if engaged in Hungary solely in the supply of goods under VAT warehousing arrangements as provided for in the Hungarian VAT Act. The condition is that the goods have not ceased to be covered by these arrangements as a direct consequence of such supply, or that the goods are exited by the state tax and customs authority from the territory of the EU.
- Any non-established taxable person who provides telecommunications, broadcasting and electronically supplied services in Hungary to nontaxable persons shall be exempt from the obligation of registration, provided that it is entitled to apply the Mini One-Stop Shop regime.
- Non-established taxable persons (including those where the requirement of establishment does not apply in Hungary), but who are established in another EU Member State) shall be exempted from the obligation of registration. This is only where the taxable person wholly makes supplies of exempt goods in Hungary under the VAT warehousing arrangements.

Voluntary registration. Voluntary VAT registration is applicable to taxable persons supplying goods or services to nontaxable persons (distance selling).

Where the taxable person performing such supplies is a resident of another EU Member State, and not Hungary, the taxable person is entitled to opt for registering for Hungarian VAT purposes and pay Hungarian VAT on the supplies concerned. If, however, the total consideration of such sales exceed the threshold of EUR35,000, registration and payment of Hungarian VAT is no longer voluntary, and is required.

D. VAT rates

The term "taxable supplies" refers to supplies of goods and services that are subject to a rate of VAT. The term "exempt supplies" refers to supplies of goods and services that are not subject to tax and that do not give rise to the right to deduct input tax (see Section F). Some supplies are classified as "exempt with credit," which means that no VAT is chargeable, although the supplier may recover related input tax. Exempt with credit supplies include, but are not limited to, exports of goods outside the EU and related services (for example, related to transport) and intra-Community supplies of goods.

In Hungary, the following VAT rates apply:
- Standard rate: 27%
- Reduced rates: 5% and 18%

The standard VAT rate applies to all supplies of goods and services, unless a specific rule provides for a reduced rate or exemption.

Examples of goods and services taxable at 5%

- Human medicines and certain medical products.
- Books (on paper).
- Live specimens or slaughtered and chopped (to some extent) meat of certain large animals (pigs, cattle, sheep, goats).
- Poultry meat, eggs and milk (i.e., fresh milk and both UHT and ESL).
- From 1 January 2018, the VAT rate applicable to internet services, catered meals and nonalcoholic beverages made on the spot is scheduled to decrease from 18% to 5%.

Examples of goods and services taxable at 18%

- Basic foodstuffs
- Hotel services
- Entrance to certain open-air public music festivals

The term "exempt supplies" refers to supplies of goods and services that are not subject to tax and that do not give rise to the right to deduct input tax (see Section F). Some supplies are classified as "exempt with credit," which means that no VAT is chargeable, although the supplier may recover related input tax. Exempt-with-credit supplies include, but are not limited to, exports of goods outside the EU and related services (for example, related to transport) and intra-Community supplies of goods.

Examples of exempt (without input VAT credit) supplies of goods and services

- Financial services
- Insurance
- Public postal services
- Approved education
- Lease of property
- Sale of securities
- Sale or lease of land
- Human medical care
- Folk arts and crafts

Option to tax for exempt supplies. A taxable person may opt to pay VAT on transactions that would otherwise be exempt from VAT. This decision should be reported to the tax authority before beginning the VAT-exempt activity. The taxable person who exercises the option to pay VAT is required to continue paying VAT for the following five calendar years. After the five years, it can again choose VAT exemption by submitting a notification form to the tax authority by 31 December of the preceding year.

The following supplies are eligible for the option to apply VAT:
- The rental or leasing of immovable property or parts thereof (either only for commercial property or both commercial and residential property)
- The sale of immovable property and sale of land (either only for commercial property or both commercial and residential property)

E. Time of supply

The time at which VAT becomes due is called the "time of supply" or "tax point." With some exceptions, the time of supply is deemed to be when the supply is made or when an invoice is issued.

Deposits and prepayments. A prepayment or deposit creates a tax point when the payment is received. The amount is considered to be inclusive of VAT. When a reverse charge applies between taxpayers, the prepayment shall not be deemed as a tax point if it is with intra-Community acquisitions and supplies of goods.

If a Hungarian taxable person makes a prepayment with respect to services purchased from other EU Member States or third countries (that fall under the general reverse-charge mechanism), the amount shall be regarded as being exclusive of VAT and the Hungarian taxable person is required to self-charge the VAT on the advance payment it paid.

Continuous supplies of goods and services. Parties may agree that a supply of goods and services may be invoiced periodically or paid in installments.

As of 1 January 2016, the following date-of-supply rules apply concerning such transactions:
- In general, the date of supply is the last day of the period in question.
- If the date on which the invoice (receipt) was issued and the payment deadline both fall before the last day of the period concerned, the issue date of the invoice (receipt) is the date of supply.
- If the payment deadline falls on a later date than the last day of the period in question, but not later than the 60th day following the last day of that period, the payment deadline is the date of supply.
- If the payment deadline is later than the 60th day following the last day of the period in question, the date of supply is the 60th day following the last day of the period in question.

Invoices relating to intra-Community supplies of goods cannot refer to a period longer than one calendar month. In other cases the period can be up to 12 months. However, in the case of services purchased from other EU Member States or third countries, the period is deemed as ending on 31 December each year, provided the agreed period exceeds twelve (12) months.

Intra-Community acquisitions. The tax point for intra-Community acquisitions of goods is the date of issuance of the invoice or the 15th day of the month following the month in which the supply takes place, whichever is earlier. For services, it is the date on which the supply is made.

Imported goods. The tax point for imported goods is either the date of acceptance of the customs declaration or the date on which the goods leave a duty suspension regime, if the taxable person is not entitled to self-account import VAT.

Reverse-charge services (other than intra-Community acquisition/importation of goods and purchase of services from abroad). If the reverse-charge mechanism applies to a transaction, the tax

point date is the earliest of the following dates: (i) the receipt of the invoice, (ii) payment of the consideration or (iii) the 15th day of the month following the month in which the supply takes place.

Cash accounting. The cash accounting taxation method may be applied by the following taxpayers:

- Taxpayers that qualify as small enterprises on the first day of the year based on the relevant act, or that would qualify as small enterprises if they were subject to the relevant act
- Taxpayers that have a fixed establishment in Hungary or, in the absence of a fixed establishment, a permanent address or place where they usually reside
- Taxpayers for whom the sum of both the expected and the actual consideration in a given year does not exceed the equivalent of HUF125 million (approximately EUR400,000)

Taxpayers may opt for cash-based taxation for domestic transactions subject to VAT, but considerations for supplies that are outside the scope of Hungarian VAT and for supplies subject to the reverse charge regime are also included in the threshold. Revenue deriving from the sale of tangible assets, from the assignment of intangible property on a permanent basis, from intra-Community supply, from certain VAT-exempt supplies and from services ancillary to financial services is not considered when applying the threshold.

New companies must meet the financial conditions proportionately in the first calendar year.

Taxpayers may apply this taxation method based on the calendar year. Taxpayers that apply cash-based taxation must refer to this special taxation method and indicate it on their invoices.

Taxpayers that opt for cash-based taxation:

- Will have to pay output VAT when they receive the consideration, including the VAT for their supply
- Will be entitled to deduct input VAT when they pay the total gross amount of the invoice to their suppliers

Taxpayers may decide to terminate the application of cash-based taxation from the year following the year in question or during the suspension of their activities.

Taxpayers whose suppliers apply the cash-based accounting scheme are entitled to deduct the input VAT charged by the supplier at the time they pay the consideration (including the VAT) to the supplier.

Cash-based taxation will be terminated automatically if a taxpayer's revenue exceeds the threshold or if the taxpayer is subject to insolvency or discontinuation of operations proceedings. The termination of this taxation method must be announced to the tax authority within 15 days.

Intra-Community supplies of goods. The date of supply for intra-Community supplies of goods is the date of issuance of the invoice or the 15th day of the month following the month in which the supply takes place, whichever is earlier. For services, it is the date on which the supply is made.

Leased assets. Open-end financial leasing transactions (when buyers can decide whether or not they want to obtain the title of the leased assets at the end of the lease contracts) qualify as rented assets, so each installment should be invoiced with VAT. Closed-end financial leasing transactions (when it is fixed in advance that the buyer will automatically obtain the title of the assets upon the payment of the last installment) qualify as sale of goods where the tax point is the delivery date of the asset, i.e., the total value including VAT has to be invoiced at the beginning and no separate invoices have to be issued on the installments (that are not subject to VAT).

Goods sent on approval for sale or return. VAT shall become chargeable upon the occurrence by virtue of which the legal conditions necessary for VAT to become chargeable are fulfilled. In the case of a supply of goods, the supply occurs where the right to dispose of the goods is transferred

from the supplier to the customer. It is the wording of the agreement that determines whether the supply takes place if the goods are sent on approval.

In the case of return goods, the reason of the return and other contractual arrangements must be analyzed to establish the proper VAT treatment. For instance, return of defective goods where the supplier provides the customer with a new product from the same type is a non-supply for Hungarian VAT purposes. However, in the case of a resale, the transaction can qualify as a taxable event.

F. Recovery of VAT by taxable persons

A taxable person may recover input tax, which is VAT charged on goods and services supplied to it for a taxable business purposes. A taxable person generally recovers input tax by deducting it from output tax, which is VAT charged on supplies made.

Input tax includes VAT charged on goods and services supplied in Hungary, VAT paid on intra-Community acquisitions and imports of goods and VAT self-assessed for reverse-charge services received from outside Hungary and for certain reverse-charge domestic transactions.

The amount of VAT reclaimed must be supported with a valid VAT invoice.

Under the general rule, input VAT is deductible from output VAT charged in the same VAT period. If the amount of input VAT exceeds the amount of output VAT in the period, the excess can be carried forward to the next filing period, offset against the taxpayer's other Hungarian tax liabilities or refunded to the taxpayer's bank account.

Nondeductible input tax. Input tax may not be recovered on purchases of goods and services that are used for nonbusiness purposes (for example, goods acquired for private use) or VAT-exempt transactions (for example, assets used for providing financial services). In addition, input tax may not be recovered for some items of business expenditure.

The following lists provide some examples of items of expenditure for which input tax is not deductible and examples of items for which input tax is deductible if it relates to a taxable business use.

Examples of items for which input tax is nondeductible

- Nonbusiness expenditure
- Purchase of cars (private use)
- 50% of the leasing fee of passenger cars irrespective of the actual business use
- Taxi services
- 50% of car maintenance service costs
- 30% of telecommunication services

Examples of items for which input tax is deductible (if related exclusively to a taxable business use)

- Transport
- Purchase, lease or hire of cars, vans and trucks
- Books related to business activities
- Conferences
- Advertising
- Accommodation
- Attending exhibitions

Partial exemption. Input tax directly related to making exempt supplies is generally not recoverable. If a Hungarian taxable person makes both exempt supplies and taxable supplies, it may not deduct input tax in full. This situation is referred to as "partial exemption."

The amount of input tax that may be deducted is calculated in the following two stages:
- The first stage is the direct allocation of VAT to exempt and taxable supplies. Input tax directly allocable to exempt supplies is not deductible, while input tax directly allocable to taxable supplies is deductible. Exempt with credit supplies are treated as taxable supplies for these purposes.
- The second stage is the proration of the remaining input tax that relates to both taxable and exempt supplies based on the percentage of taxable supplies to total supplies made (called the deduction ratio). This treatment may apply, for example, to input tax on business overhead. The deduction ratio is calculated up to two decimal places. The amount of VAT recoverable must be rounded up to units of HUF1,000.

When calculating the proration, a taxable person may initially use the deduction ratio amounts for either the current tax year or for the preceding tax year. However, if the preceding year's amounts are used, the calculation must be adjusted at the end of the VAT year, using the relevant information for the year in question.

Capital goods. Capital goods are tangible items of capital expenditure that are used in a business over several years. Input tax is deducted in the VAT year in which the goods are acquired. The amount of input tax recovered depends on the taxable person's partial exemption deduction ratio in the VAT year in which the acquisition took place. However, the amount of input tax recovered for capital goods must be adjusted over time if the taxable person's partial exemption deduction ratio changes during the year under review and if the difference with respect to a particular capital asset exceeds HUF10,000.

In Hungary, the capital goods adjustment applies to the following assets for the number of years indicated:
- Land and buildings: adjusted for a period of 20 years
- Tangible capital assets: adjusted for a period of five years
- From 2014, intangible rights related to capital goods: the same adjustment period as the underlying capital asset

The adjustment is applied each year following the year of acquisition, to a fraction of the total input tax (1/20 for land and buildings and 1/5 for other tangible capital assets). The adjustment may result in either an increase or a decrease in the deductible input VAT, depending on whether the ratio of taxable supplies made by the business has increased or decreased compared with the year in which the capital goods were acquired.

If a Hungarian taxable person sells an asset on which no input tax was deducted, a proportion of the input tax becomes deductible. The qualifying period for this treatment is the same as the capital goods adjustment period, which is 60 months (five years) for tangible assets and 240 months (20 years) for land and buildings.

Refunds. If the amount of input tax recoverable in a monthly period exceeds the amount of output tax payable in that period, the taxable person has an input tax credit. A taxable person may request a refund of the credit if this excess exceeds the following amounts:
- HUF50,000 if the taxable person files VAT returns annually
- HUF250,000 if the taxable person files VAT returns quarterly
- HUF1 million if the taxable person files VAT returns monthly

If a taxable person is not allowed to request a repayment, the excess input tax may be carried forward to the following period to offset output VAT payable.

Taxpayers significantly not complying with tax rules ("risky taxpayers") will receive the VAT refund within 75 days; taxpayers properly complying with the tax rules ("trusted taxpayers") will receive the VAT they reclaim within 30 days.

Taxpayers not qualifying as either risky or trusted will continue to receive the VAT refund based on the following rules: If a repayment is claimed, the VAT authorities must pay it within 75 days after the due date of the return. However, if all the supplier invoices that are recorded as deductions on a given VAT return have been paid by the time of filing of the VAT return and this fact was indicated on the filed VAT return, the tax authority must refund VAT repayment claims that exceed HUF1 million within 45 days. Repayment claim amounts under HUF1 million will be transferred within 30 days (if all supplier invoices have been paid).

If the repayment is not made within the time limits indicated above, the VAT authorities must also pay interest, calculated from the due date of the repayment.

Preregistration costs. Input tax on preregistration costs is deductible as long as the (future) taxpayer can demonstrate that the goods or services were issued in preparation of a future economic activity. In practice, this means that the VAT on these costs can be deducted in the first VAT return of the taxable person becoming VAT registered.

Write-off of bad debts. VAT cannot be recovered on bad debts.

Noneconomic activities. A taxable person that carries out both taxable and noneconomic activities cannot deduct input VAT incurred in connection with the noneconomic activities.

G. Recovery of VAT by non-established businesses

The Hungarian VAT authorities refund VAT incurred by businesses that are not established in Hungary nor registered for VAT purposes there. Non-established businesses may claim Hungarian VAT to the same extent as Hungarian taxable persons.

Hungary applies the reciprocity principle to refunds. Under this principle, refunds are granted to businesses established in countries that refund VAT to Hungarian businesses. Refunds are currently allowed to businesses established in another EU Member State, Liechtenstein, Switzerland and Norway.

Refund application. The deadline for submitting applications is 30 September following the claim year. This deadline is strictly enforced. The claimant must submit its application to either the tax office in its country of establishment in the EU or the Hungarian tax office for Swiss, Liechtenstein and Norwegian businesses.

Non-EU claimants must file a form issued by the Hungarian VAT authorities together with the relevant documents, including the original invoices. The claimant must also submit a certificate issued by the VAT authorities in the country in which it is established, certifying its status as a taxable person. The applicant must prove that it paid the gross amount of the invoices. Hungarian suppliers may also provide a declaration that the invoices have been paid in full. The form may be completed in Hungarian, English, German or French. However, all correspondence with the tax authorities must be in Hungarian. A non-established claimant may appoint a lawyer, legal advisor or tax consultant resident in Hungary to represent it in any dealings with the VAT authorities. If a representative is used, the original power of attorney appointing the representative must accompany the repayment claim form. All documents relating to the VAT reclaim must be sent to the Hungarian VAT authorities at the following address:

NAV Kiemelt Ügyek Adó- és Vámigazgatósága
1077 Budapest
Dob utca 75-81
Hungary

In accordance with EU Directive 2008/9/EC, EU claimants must file their refund applications electronically with their home country tax office, together with, in general, soft copies of invoices with a value over EUR1,000.

The claim period is a minimum of three months if the VAT recoverable in that period exceeds EUR400. The maximum claim period is one calendar year. The minimum claim allowed is EUR50. Non-established businesses cannot submit more than five claims with respect to a specific calendar year.

Refunds are paid in Hungarian forints into the bank account notified by the claimant. This account may be either a bank account in Hungary or in the country in which the claimant is registered. If the claimant provides the tax authority with a foreign bank account number, the costs related to the bank remittance and exchange are the claimant's responsibility and the refunded amount is reduced accordingly.

Repayment interest. Hungarian law provides that repayments must generally be made within 75 days of the date on which the claim is approved. If the VAT authorities do not repay the claim within this time limit, the claimant is entitled to interest.

H. Invoicing

VAT invoices and credit notes. Generally, a Hungarian taxable person must provide VAT invoices for all Hungarian taxable supplies made, including exports and intra-Community supplies, in line with the Hungarian invoicing provisions. If the supplier is not established in Hungary and (i) the supply is subject to the reverse-charge mechanism or (ii) the place of supply is outside the EU, Hungarian invoicing standards are not applicable (except in cases in which the invoices are issued by the buyer within the self-billing process).

Invoices must be issued no later than 15 days after the date of supply (or, for intra-Community supplies, no later than the 15th day of the month following the month in which the supply took place) (see Section E). If the consideration is paid in cash or using cash-substitute payment instruments, the supplier is obliged to issue the invoice immediately.

A VAT credit note may be used to reduce the VAT charged and reclaimed on a supply. The document must be clearly marked "credit note" and refer to the original invoice. A credit note must also indicate the date on which it was issued, the reason for and the numerical result of the correction and any new items arising from the correction.

Electronic invoicing. Although the Hungarian VAT law permits electronic invoicing in line with EU Directive 2010/45/EU, local rules and practice of the Hungarian tax authority are very strict and formalistic.

Proof of exports and intra-Community supplies. VAT is not charged on exports and intra-Community supplies. To qualify as VAT-exempt, exports and intra-Community supplies must be accompanied by evidence that the goods have left Hungary (in the case of exports, within three months). Suitable documentary evidence includes the following:

- For an export, a copy of the single administrative document or other export declaration endorsed by the customs office of exit on the actual exit of the goods
- For an intra-Community supply, a shipping document or any other credible evidence

Foreign-currency invoices. If an invoice is issued in any currency other than Hungarian forints, the taxable value must be converted into Hungarian forints using the foreign exchange offer rate on the date of supply of any domestic credit institution that has a foreign-exchange permit. (In case of continuous supplies, the exchange rate effective on the issue date of the invoice should be applied.) The taxpayer may use the official exchange rate quoted by the National Bank of Hungary or the European Central Bank, provided it has reported this decision to the Hungarian tax authorities in advance. Once a taxpayer has exercised this option, it cannot be changed until the end of the following calendar year. If the domestic credit institution in question does not quote the foreign currency used, the Hungarian National Bank or the European Central Bank rate

must first be used for conversion into euros. The conversion is based on the euro exchange rate for the quarter preceding the date of supply of the transaction.

B2C. Effective 1 January 2015, new rules apply to the place of supply for supplies of telecommunications, broadcasting and electronically supplied services to non-VAT taxable customers. For further details of the VAT rules on electronic services in the EU, please refer to the European Union chapter.

Registering and documenting invoicing software. In connection with invoicing software, taxpayers have an obligation to inform the tax authority of the following:
- The software they use for issuing invoices, including complex Enterprise Resource Planning (ERP) systems that are able to issue invoices
- Online invoicing systems

Reporting should be done on the relevant form within 30 days after obtaining or starting to use the program whether the software was acquired from a supplier or was developed in-house. Discontinuing the use of an invoicing program or online invoicing service should also be reported to the tax authority within 30 days. Invoicing software registration is planned to be abolished once the online invoicing regime (please see below) becomes effective as of 1 July 2018.

Taxpayers using invoicing software should possess detailed documentation of the software in Hungarian, English, German or French, such as a user manual, and retain it until the expiry of the software license. The manual does not have to be submitted to the tax authority but must be available for review during a tax audit. The documentation should contain a detailed description of the software's operation and functions. The invoicing software should be able to perform only those functions detailed in the user documentation.

The invoicing software should furthermore comply with Hungarian invoicing rules, and the user documentation should contain descriptions accordingly, even if the issuer of the invoice is a foreign enterprise having only a VAT number in Hungary or uses the company group's invoicing software developed abroad.

Data export function integrated into invoicing software. From 1 January 2016, invoicing software and ERP systems of taxpayers with Hungarian VAT numbers must have a special data export function. Taxpayers will need to use this function to perform data queries concerning invoicing-related information upon the request of the tax authority. The range of data to be included in the report created by the ERP system or invoicing software and the data structure of the report are predefined by law.

Online reporting of invoice data directly from invoicing software. As of 1 July 2018, taxpayers will have to provide the tax authority with prescribed invoice data electronically, directly from their own invoicing system. This obligation will become mandatory for all taxpayers. (Data relating to invoices amended or canceled will also have to be provided to the tax authority in the same way.)

I. VAT returns and payment

In general, Hungarian taxable persons must file quarterly tax returns. However, three categories of taxable persons must file monthly returns (and EC listings):
- Newly registered taxpayers during the first two calendar years after registration
- Taxable persons whose net VAT payable or reclaimable in the tax year in question, or in the second year before the year in question, exceeds HUF1 million
- VAT groups

Taxable persons whose VAT payable or reclaimable for the second year preceding the year in question does not exceed HUF250,000 may file VAT returns annually if they were not given an EU VAT identification number. However, they may opt to file quarterly returns.

Monthly and quarterly VAT returns must be filed by the 20th day of the month following the tax period. Annual returns are due by 15 February in the year following the tax year in question. Payment in full is required on the same date.

VAT liabilities must be paid in Hungarian forints.

Domestic Summary Report. Taxpayers must file reports on their domestic purchases of goods or services at invoice level. This obligation concerns those invoices on which the taxable person deducts input VAT in the tax period in question and the amount of VAT exceeds HUF100,000. Due to the introduction of the mandatory online reporting of invoice data from 1 July 2018, the Domestic VAT Summary Report will cover incoming invoices where the taxable person deducted input VAT, provided the VAT amount of that invoice exceeds HUF100,000.

Electronic control system on the movement of goods on the road (EKAER). Effective 1 January 2015, the EKAER system was introduced so that the tax authority can track the movement of goods on the road from the point of dispatch. Under this system, taxable persons have a reporting obligation in relation to the road transportation of goods executed with toll vehicles for certain transactions prior to the start of the transportation. The tax authority continually performs on-road audits by stopping trucks to check whether taxpayers have met this reporting obligation. In the case of noncompliance, the goods transported can be confiscated, a customs seal can be placed on the truck and a 40% penalty may be assessed based on the value of the goods. Carriers are obliged to keep the authority seal unbroken until the tax authority removes it. In the event of a road accident or other vis major events, the carrier must immediately report the damage of the seal to the National Tax and Customs Authority.

Special schemes. Not applicable.

Electronic filing and archiving. If a taxable person performs any intra-Community transactions or is required to submit Domestic Summary Reports in Hungary, it must file all of its tax returns electronically with the tax authority. To be able to file the tax returns electronically, a tax representative or employee of the taxable person must fill out a special registration in Hungarian and submit it in person in Hungary. Tax representatives can also be authorized to file the tax returns electronically on behalf of the taxpayer.

Electronically filed Intrastat reports should be prepared in CSV file format. The CSV file should be encrypted and signed with a specific program available on the website of the Hungarian Central Statistics Office. For encryption and signature purposes, the digital signature is also applicable.

Annual returns. Taxpayers that file quarterly or monthly returns do not file annual returns.

J. Penalties

A default penalty (maximum of HUF500,000) applies to the late submission of a VAT return, Intrastat return, Recapitulative Statement or Domestic Summary Report. Penalties of similar amount can be levied for other mistakes as well (e.g., for not complying with the invoicing rules; for a missing or inaccurate VAT return or Domestic Summary Report).

If the VAT liability is paid late, late-payment interest is charged. The interest rate used is double the prevailing prime rate of the Hungarian National Bank multiplied by 1/365 for each day late.

If the VAT liability is not reported by the due date and this is discovered during a tax audit, the tax penalty is 50% of the tax arrears, plus late-payment interest.

Late-payment interest is not imposed if the taxable person is able to justify the default. Based on the circumstances of the individual case, the default penalty may be reduced or canceled by the tax authorities.

From 1 January 2016, taxpayers significantly not complying with tax rules ("risky taxpayers") are subject to higher penalties, whereas taxpayers properly complying with the tax rules ("trusted taxpayers") are eligible for lower penalties.

K. EU filings

Intrastat. A taxable person that trades with other EU countries must complete statistical reports, known as Intrastat.

For 2019, the threshold for Intrastat Arrivals is HUF170 million and the threshold for Intrastat Dispatches is HUF100 million. Intrastat filing is to be filed on a monthly basis due the 15th of every month following the calendar month that they relate to.

The method of the filing is electronic, through the website of the Hungarian Statistical Office.

If the taxpayer fails to file the Intrastat report in time, the tax authority can levy default penalty up to HUF2 million in this regard.

Recapitulative statements. A taxable person must also file Recapitulative statements (EU Sales Lists and EU Acquisition Lists) for both goods and services.

Penalties may be imposed for a late, missing or inaccurate Intrastat return or Recapitulative Statement.

Iceland

ey.com/GlobalTaxGuides
ey.com/TaxGuidesApp

Reykjavík **GMT**

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A. At a glance

Name of the tax	Value-added tax (VAT)
Local name	Virðisaukaskattur
Date introduced	1 January 1990
Trading bloc membership	European Economic Area (EEA)
Administered by	Ministry of Finance and Economic Affairs (www.stjornarradid.is/raduneyti/fjarmala-og-efnahagsraduneytid)
VAT rates	
Standard	24%
Reduced	11% and zero-rated (0%)
Other	Exempt
VAT number format	12345
VAT return periods for persons subject to registration	Bimonthly Annual (turnover less than ISK4 million) Twice a year (agriculture) Monthly (output VAT habitually lower than input VAT) Weekly (fish processing)
Thresholds	
Registration	ISK2 million (registration optional if turnover is lower)
Recovery of VAT by non-established businesses	Yes

B. Scope of the tax

VAT applies to the following transactions:

- The supply of goods or services made in Iceland by a taxable person
- Withdrawals of goods and services from a registered enterprise, or an enterprise with a registration obligation, for use other than relating to sales of taxable goods and services, or for private use

- Reverse-charge services received by an Icelandic entity or person and used in whole or partially in Iceland
- The importation of goods, regardless of the status of the importer

C. Who is liable

A taxable person is any business entity or individual that makes taxable supplies of goods or services in Iceland in the course of a business.

The VAT registration threshold is ISK2 million during a 12-month period. Persons can apply for an annual VAT return if the turnover is less than ISK4 million during a 12-month period.

Voluntary registration. Icelandic VAT legislation provides an option for voluntary registration for VAT purposes for certain activities. Special registration is available for leasing real estate for use by a taxable business and construction activity at its own expense for the purpose of selling real property to registered persons.

Group registration. The Icelandic VAT Act provides that two or more limited companies may be jointly registered. The condition for joint registration is that not less than 90% of the share capital in the subsidiary companies be owned by the principal company that requests joint registration or that of other subsidiaries that also participate in the joint registration. All the companies must have the same accounting year. The joint registration must be in the name of the principal company and is in effect for a minimum of five years.

An application for joint registration must be filed with the Director of Internal Revenue no later than eight days before the beginning of the first accounting year subject to the joint registration.

Members of a VAT group are regarded as one taxable person liable for the payment of VAT. The principal company will be responsible for all duties regarding settlement, payment, and assessment of VAT on behalf of all the jointly registered companies. All of the participating companies are jointly and severally liable for the correct payment of VAT. Transactions between jointly registered companies are generally not subject to VAT. However, the withdrawal of taxable goods or services from a taxable part of the group's business may be subject to VAT.

Non-established businesses. A "non-established business" is a business that has no fixed establishment in Iceland. A non-established business must register for VAT if it makes taxable supplies of goods or services in Iceland in excess of the registration threshold.

VAT representatives. If a non-established business is required to register for VAT in Iceland, it must appoint a resident tax representative, unless it maintains a place of business or a registered office in Iceland.

Electronic services. Effective from 1 November 2011, nonresidents who supply electronic services to final consumers in Iceland (B2C supplies) are required to register for VAT and charge VAT on services supplied to Icelandic consumers not registered for VAT. For this purpose, electronic services include the supply of e-books, films, music and software. This rule only applies if the turnover is ISK2 million or more during a 12-month period.

Registration procedures. A taxable person applies for registration to the Director of Internal Revenue on form RSK 5.02. The form is available on the website http://www.rsk.is in Icelandic.

The RSK 5.02 can be submitted electronically by emailing the scanned form, signed by the taxpayer, to rsk@rsk.is.

If the form is correctly filled out, the application is processed by the Director of Internal Revenue within one week. A taxable person should register no later than eight days before starting taxable activities.

Simplified registration. Effective from 1 January 2019, foreign companies domiciled outside of Iceland, or with a permanent establishment outside of Iceland, selling electronic services, telecommunication services, television services, broadcasting services or subscriptions to papers and magazines in hard copies (i.e., non-electronic copies) to final consumers (B2C) can choose between a general registration (by submitting form RSK 5.02, see details above under "Registration procedures") or a simplified registration. The same registration procedures apply to foreign tour operators selling VAT-taxable services in Iceland to final consumers (B2C) and agents of the aforementioned foreign companies.

Simplified registration is made via an electronic registration system, operated by the Directorate of Internal Revenue. Registration (general or simplified) is only mandatory if the turnover is ISK2 million or more during a 12-month period.

A foreign company that chooses simplified registration cannot claim input VAT.

Late-registration penalties. No specific penalty applies to late VAT registration in Iceland; however, penalties are assessed if, as a result of the late registration, a taxable person submits a late VAT return or pays VAT late.

Reverse charge. Before 1 January 2019:

A person purchasing services, listed below, from abroad for use in part or in full in Iceland shall pay VAT on its value. The same applies to the service of a foreign person provided in Iceland, provided the foreign person does not operate a venue for business nor has an agent in this country.

The reverse-charge mechanism applies to the following services received by persons in Iceland:
- Sale or lease of copyright, patent rights, registered trademarks and copyrighted designs and the sale or lease of other comparable rights
- Advertising services
- Services of consultants, engineers, lawyers, accountants and other similar specialized services, except for labor or services related to liquid assets or real property located in Iceland
- Electronically provided services to registered buyers
- Obligations and duties related to business or production activity or the use of rights listed under this point
- Employment agency services
- Rental of liquid assets, except for means of transport
- Services of agents acting on behalf of others and for their account as regards the sale and delivery of services listed under this point
- Telecommunications services

Taxable persons record the self-assessed VAT as output VAT on the VAT return. If the VAT is classified as a deductible cost, the self-assessed VAT may be deducted on the same VAT return.

Nontaxable persons that are subject to the reverse charge must file form RSK 10.24.

From 1 January 2019:

A person whose operations (labor or services) are exempt from VAT (according to the Icelandic VAT Act) shall pay VAT on taxable services purchased from abroad.

A VAT taxable person shall pay VAT on services purchased from abroad, unless they can claim input VAT. However, a VAT-taxable person shall always pay VAT if the services purchased from abroad are in relation to the import of goods.

Other persons, e.g., individuals and other persons operating in nonprofit activities, purchasing any of the following services shall pay VAT if the value price reaches ISK10,000 or more, excluding VAT, during a VAT reporting period. The aforementioned rule applies to:

- Sale or lease of copyright, patent rights, registered trademarks and copyrighted designs, and the sale or lease of other comparable rights
- Advertising services
- Services of consultants, engineers, lawyers, accountants and other similar specialized services such as data processing and the provision of information
- Services of banks, financial corporations and insurance companies, other than those services that are exempt from VAT according to the VAT Act
- Employment agency services
- The rental of liquid assets, except for means of transport
- Obligations and duties related to business or production activity or the use of rights listed above
- The aforementioned rules on reverse charge do not apply if the foreign company, selling the services in question, is VAT-registered in Iceland or has an agent or other party representing the company that is VAT registered in Iceland

A company (business) domiciled or with permanent establishment abroad, selling electronic services, telecommunication services, television services and broadcasting services to final consumers (B2C) shall pay VAT on its price. Same applies to the foreign company's agent and other parties representing the company in Iceland.

Digital economy. For business-to-business transactions, the customer is generally obligated to self-assess VAT. The general rate is 24%; electronic books and music are subject to a lower rate of 11%.

For business-to-customer transactions, the nonresident business can be expected to register and account for the VAT. The general rate is 24%; electronic books and music are subject to a lower rate of 11%.

Deregistration. Taxable persons apply for deregistration to the Director of Internal Revenue on written form RSK 5.04. Deregistration is allowed when taxable activities are sold or ceased. The Director of Internal Revenue may deregister a taxable person if, for two or more consecutive return periods, the taxpayer fails to file a VAT return or fails to provide proper supporting documents.

Exemption from registration. The VAT law in Iceland does not contain any provision for exemption from registration.

D. VAT rates

The term "taxable supplies" refers to all supplies of goods and services that fall within the scope of the Icelandic VAT Act. This includes zero-rated supplies, when no VAT is due, but the supplier may recover input VAT related to the supplies.

The following are the VAT rates in Iceland:
- Standard rate: 24%
- Reduced rate: 11%
- Zero rate (0%)

The standard rate of VAT applies to all supplies of goods or services, unless a specific measure allows a reduced rate, the zero rate or an exemption.

Examples of goods and services taxable at 0%

- Export of goods and services
- Supplies delivered for use on board vessels on international journeys
- Sale and leasing of aircraft and ships, shipbuilding along with repair-and-maintenance work on ships and aircraft and their fixed equipment
- The design, planning and other comparable services related to construction and other real property abroad

- Contractual payments from the Treasury related to the production of milk and sheep farming
- Sales of services to foreign fishing vessels landing fish in Iceland
- Sales of services to persons neither domiciled nor having a venue of operation in Iceland, provided that the services are wholly used abroad
- Transportation of goods between countries or within the country when the transport takes place to or from Iceland

Examples of services taxable at 11%

- Radio and television licenses
- Rental of hotel rooms, guest rooms and other accommodation
- Sale, including subscription, of newspapers, periodicals, countryside and district newspapers and books, both hard copies and electronic copies
- Geothermal hot water, electricity and fuel oil used for heating
- Most food-related items (including alcoholic beverages)
- CDs, records, magnetic tapes and other similar means of music recordings, other than visual records. Also electronic versions of music, without visual records
- Access to road facilities
- Condoms
- Reusable diapers and diaper lining
- The services of travel agents
- Transportation of passengers, whether by land, air or sea, including coaches and bus trips. (But transportation of passengers to and from the country is considered granted abroad and such services are exempt.)
- Admission to spas, saunas, etc.

The terms "exempt" and "outside the scope" are used for supplies of goods and services that are not liable to VAT and that do not give rise to a right of input tax deduction (see Section F).

Examples of exempt supplies of goods and services (also called outside the scope of the VAT Act)

- Financial services
- Insurance
- Lease of residential property
- Medical services
- Social services
- Educational services
- Real estate transactions
- Specified cultural and sporting events
- Public transport
- Postal services
- Lotteries and betting pools
- Funeral services

Option to tax for exempt supplies. When leasing real estate for use in taxable activities and for construction activity financed by the taxpayer for the purpose of selling real property to registered persons, the taxpayer has the option to register and pay VAT on those otherwise exempt supplies.

E. Time of supply

The basic time of supply for goods or services is when an invoice is issued (usually at the time of delivery). In case goods or services are delivered and no invoice has been issued, it is the time of delivery that decides.

If an invoice is issued due to delivery, the delivery is deemed to have taken place on the date of issue of the invoice, provided the invoice is issued before or at the same time as the delivery takes place.

When payment is rendered in full or in part before delivery takes place, 80.65% of the payment received shall be counted as part of taxable turnover during the period when payment is rendered, or 90.09% in the case of a sale of goods/services subject to 11% VAT.

Goods delivered on a handling or agent basis may either be accounted for as part of taxable turnover during the accounting period when delivery takes place or the accounting period when the accounts are settled with the handling or commission agent. In the case of the latter method, an invoice may not be issued until the settlement of accounts takes place.

When goods sold are returned to the seller, a credit invoice for value received shall always be issued with reference to the former invoice. The same applies to a discount given after an invoice has been issued, as well as corrections of earlier invoices.

Accordingly, VAT shall be reported on the VAT return in the VAT period when the invoice has been issued. Service suppliers, apart from suppliers who provide services almost exclusively to final consumers, are authorized to issue invoices at the end of each month.

Reverse-charge services. VAT payable through the reverse-charge mechanism is due on the date of the invoice if the invoice is issued in accordance with the generally accepted accounting principles in the country of the service provider.

Imported goods. The time of supply is upon customs clearance.

Deposits and prepayments. The time of supply rule for deposits and prepayments is when the payment is received by the supplier, even if no supply has been made. Consequently, the supplier shall account for VAT when the deposit/prepayment is received.

Goods sent on approval for sale or return. There are no special time of supply rules in Iceland for supplies of goods sent on approval for sale or return. As such, the general time of supply rules apply (as outlined above) which may require corrective invoices to be issued once the final position is determined.

Leased assets. There are no special time of supply rules in Iceland for supplies of leased assets. As such, the general time of supply rules apply (as outlined above).

Continuous supplies. There are no special time of supply rules in Iceland for continuous supplies. As such, the general time of supply rules apply (as outlined above).

F. Recovery of VAT by taxable persons

A taxable person may recover VAT that is charged on goods and services supplied to it for business purposes. A taxable person generally recovers input VAT by deducting it from output VAT, which is VAT charged on supplies made.

Input VAT includes VAT charged on goods and services supplied in Iceland, VAT paid on imports of goods and VAT self-assessed for reverse-charge services received from outside Iceland.

The amount of the VAT reclaimed must be detailed on a valid VAT invoice. Consequently, VAT may not be deducted as input VAT before a VAT invoice is received. Input VAT that is not properly documented may not be deducted. The input VAT deduction must be reported in the VAT period in which the invoice is dated.

Nondeductible input VAT. Input VAT may not be recovered on purchases of goods and services that are not for use in a business that is subject to VAT (for example, goods acquired for private use).

In addition, input VAT may not be recovered for some items of business expenditure.

Examples of items for which input VAT is nondeductible

- The cafeteria or dining room of the taxable persons and all food purchases
- The acquisition or operation of living quarters for the owner and staff
- Perquisites for the owner and staff
- The acquisition and operation of vacation homes, children's nurseries and similar objects for the owner and staff
- Purchase and maintenance of passenger vehicles, with certain exemptions for taxi, car-lease companies and tour operators, which have been granted a license from the Icelandic Transporting Authority to provide passenger transportation in tourist services
- Entertainment costs and gifts

Partial exemption. Iceland operates a procedure for the recovery of input tax when a business makes both taxable and exempt supplies.

If Icelandic persons make both taxable and exempt supplies, they can deduct input tax from all supplies solely related to the taxable activity. No deduction is available for supplies used solely for exempt activity. For supplies received and used for both taxable and exempt supplies, input tax may be apportioned according to the turnover split between taxable and exempt transactions.

Refunds. If the amount of recoverable VAT exceeds the amount of output tax payable in that period, the relevant tax authority shall investigate the tax return. If the return is calculated correctly, the Treasury shall refund the difference.

If a return has been submitted on time, the refund shall take place within 21 days of the due date. A refund claim is triggered automatically if the VAT return shows a VAT credit.

Preregistration costs. VAT on costs incurred prior to VAT registration cannot be taken into account as input VAT.

G. Recovery of VAT by non-established businesses

The Icelandic tax authorities refund VAT incurred by businesses that are neither established in Iceland nor registered for VAT there. A non-established business may claim Icelandic VAT to the same extent that an Icelandic taxable person may deduct input VAT incurred in the course of a similar business in Iceland.

Iceland does not apply the reciprocity principle to refunds. Consequently, it does not exclude claimants based on the country where they are established.

Refund application. A claimant must submit the following documentation to obtain a VAT refund:

- Application form RSK 10.29
- Under the general rule, the original VAT invoices
- A declaration in regard to the purposes of the purchases
- A declaration that the enterprise has, during the reimbursement period in question, neither delivered goods nor rendered taxable services in Iceland for which the enterprise would be liable to registration and taxation
- The original invoices or receipts of payments from the customs authorities noting the amount of VAT paid
- A certificate of taxable status obtained from the competent tax authorities in the country, such certificate being valid for two years from date of issue, a period that may be extended by two years at a time if the applicant is otherwise compliant with regulations
- A power of attorney if the claimant uses the services of a third party to recover the VAT

The applications must be submitted at least 15 days after the period in question and not later than six years after the end of the calendar year to which the application refers. The forms must be

completed in Icelandic or English. The application must refer to purchases of goods and taxable services over a period of at least two months (e.g., January-February, March-April) and not exceeding one calendar year. The period may be less than two months where it is a question of the remaining part of a calendar year. The minimum claim amounts are ISK68,700 for a VAT application. Where the application covers a calendar year or the remainder of a calendar year, the amount shall be at least ISK13,300.

Applications for refunds of Icelandic VAT may be sent to the following address:

Ríkisskattstjóri
Laugavegur 166
150 Reykjavík
Iceland

Repayment interest. Claims for VAT refunds are generally paid within one month and five days after the end of the repayment period. Applications received after the deadline will be processed with the application pertaining to the next payment period. Interest is not paid on late refunds.

H. Invoicing

VAT invoices and credit notes. As a general principle, VAT invoices and credit notes must be issued by the supplier. An Icelandic taxable person must generally provide a VAT invoice for all taxable supplies and exports made. Invoices must support claims for input tax made by Icelandic taxable persons and VAT refunds claimed by non-established businesses.

The invoice shall include a date of issue, the name and national identity number of the purchaser and seller, the registry number of the seller, type of sale, quantity, unit price and total price. Invoice forms shall be numbered in advance in consecutive numerical order. The invoice shall state clearly whether the value-added tax is included in its sum total or not. Furthermore, the amount of the value-added tax shall be stated separately, or that the value-added tax amounts to 19.35% of the total price, or 9.91% in the case of a sale in the lower rate of VAT.

The amount of VAT must be on the invoice, for supplies by taxable persons. When payment is made in full or in part before delivery takes place, the recipient shall issue a receipt to the customer. When goods sold are returned to the seller, a credit invoice for value received shall always be issued with reference to the former invoice. The same applies to a discount given after an invoice has been issued, as well as corrections of earlier invoices.

In the case of sales that are partially taxable and partially tax-exempt, the part of the sale that is taxable shall be clearly separated on an invoice from other transactions. Taxable sales shall also be separated on an invoice by tax rates so that the total sales value of goods and services, including value-added tax, appears separately for each tax rate.

The seller shall safeguard a copy of invoices and receipts.

A VAT credit note may be used to reduce the VAT charged and reclaimed on a supply. The document should be marked “credit note” and it must refer to the original invoice.

Proof of exports. Goods and services exported to countries outside Iceland are exempt from VAT with input tax credit. To qualify as VAT-free, the supplier must prove that the goods have been exported. Suitable proof includes a Customs Export Declaration.

Foreign-currency invoices. The value-added tax must be in Icelandic krona (ISK), but the underlying trade may be in any known currency for VAT purposes. The invoice must include the VAT amount in ISK. The currency conversion must use the exchange rate of the Icelandic Central Bank on the date of supply.

B2C. The supplier shall issue a VAT invoice for every taxable supply, except in the case of cash transactions by retailers and similar persons, where full VAT invoices are not required to be issued.

Electronic invoicing. Electronic invoicing is not mandatory in Iceland but is allowed. Each issuer of electronic invoices shall ensure that each invoice system generates invoices in sequential numerical order. Taxpayers do not have to apply to the tax authorities to use electronic invoicing, but the invoice must be in accordance with the regulations on electronic bookkeeping.

In the case of bookkeeping, a signed declaration must be made that the relevant accounting system meets the conditions imposed by them, from the seller or designer of the accounting system concerned. The conditions are as follows:

- A written description is made of the accounting structure when electronic accounting is provided and written descriptions for the data transfers themselves and their business transactions attributable to them. The above descriptions shall give a clear picture of the safety and traceability of entries, whether in the accounting system itself or a special data processing system for data transmission.
- When records in the accounts originate from data transmission, information must be provided on how the persons involved in such electronic business conduct their relations, listing in data journal. If the persons have concluded relations with their counterparty for data transmission, they must be available.

I. VAT returns and payment

VAT returns. In general, Icelandic taxable persons file bimonthly VAT returns. Persons engaged in fish processing are permitted to file a temporary settlement of one week from Monday to Sunday. Farmers file VAT returns twice a year. Businesses with taxable turnover of less than ISK4 million may opt to file annual returns. Persons whose output VAT is habitually lower than their input VAT may obtain permission to file monthly VAT returns.

VAT groups submit a single, joint VAT return.

To ease cash flow, businesses that receive regular VAT refunds may request shorter VAT return periods. Taxable persons must contact the Directorate of Internal Revenue to register for annual returns or permission to use shorter VAT return periods.

For bimonthly VAT returns, the VAT due for each period must be reported and paid in full within one month and five days after the end of the VAT period. Return liabilities must be paid in Icelandic krona.

Special schemes. Not applicable.

Electronic filing and archiving. VAT returns should be filed electronically. The Director of Internal Revenue can authorize for one year at a time that a VAT return be filed on paper if there are valid grounds therefore.

Taxable persons shall manage their accounts and their settlement in such a manner that tax authorities can always verify VAT returns.

All books, settlements and data related to VAT returns shall be safeguarded for seven years from the closure of the relevant accounting year. Those who use cash registers are not obligated to keep paper registers longer than three years from the close of the relevant accounting year, provided the accounts have been fully closed, and signed annual accounts are at hand.

Annual returns. Taxable persons shall file annual VAT return RSK 10.25 if they have not filed tax return RSK 1.04.

J. Penalties

If VAT is not paid on time, the persons is subject to a surcharge. The same applies if a VAT return has not been submitted or has been deficient and the VAT therefore estimated, or a reimbursement has been excessive.

The surcharge is 1% of the amount not paid in full for every day beginning the next day after the due date, although no higher than 10%. This applies for the 5th to 15th day of the payment month. If VAT is not paid within a month of the due date, interest on arrears must be paid.

If a VAT return is filed following an estimated assessment, the Director of Internal Revenue will impose a charge of ISK5,000 for each VAT return that has been filed instead of an estimate.

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A. At a glance

Names of the taxes	GST (consists of central tax, state tax or union territory tax, integrated tax and GST compensations cess) Customs duty (consists of basic customs duty, integrated tax and compensation cess (applicable on specified goods))
Date introduced	1 July 2017 (GST) 1962 (Customs duty)
Trading bloc membership	Asia-Pacific Trade Agreement (APTA), South Asia Free Trade Area (SAFTA), Bay of Bengal Initiative for Multi-Sectorial Technical and Economic Cooperation (BIMSTEC)
Administered by	GST: Central tax and integrated tax are levied and administered by the Central Government; State/Union Territory (UT) tax is levied and administered by the respective State Government/ UT. The GST Council consists of representatives from the Central and State Governments. It is authorized to make recommendations to the Central and State Governments on important issues in GST such as determining the rate of tax

	applicable to different goods and services, granting exemption to a category of supply, and determining threshold limits for registration and composition schemes. Customs duty: Levied and administered by the Central Government
Rates	
GST	5%, 12%, 18% and 28% (Items made of gold and precious stones attract lower GST rate of 3%/0.25%)
Customs	Different tariff rates apply for goods
GST identification number format	The GSTIN is a PAN (Permanent Account Number) based on a 15 digit number in which the first two digits denote the State code. PAN is a unique identification code issued under the Indian Income Tax legislation.
GST return periods	Quarterly (for businesses opting for the composition scheme and businesses with turnover not exceeding INR15 million) Monthly (for all other tax payers)
Thresholds	
GST Registration	INR1 million for specified special category States INR2 million in all other States
Recovery of VAT by non-established businesses	No

B. Scope of the tax

GST. Goods and services tax (GST) is effective from 1 July 2017. GST has subsumed various indirect taxes that existed in the earlier regime, such as excise duty, countervailing duty (CVD), special additional duty (SAD), Service tax, State value-added tax (VAT), Central sales tax (CST) and others and also several cesses (a special kind of tax, which generates revenue utilized for a specific purpose) and surcharges.

India is a federal country where both the governments for the Centre and the States have been assigned concurrent powers under the Constitution to levy and collect taxes through appropriate legislation. Thus, a dual GST model is implemented in India where taxes are levied by both Central and State Governments on a common base.

GST levied by the Centre is known as central tax (CGST) and that levied by States or Union Territories is known as state tax (SGST) or union territory tax (UTGST). Intra-State supply of goods and services attract CGST and SGST/UTGST in equal proportion.

Further, integrated tax (IGST) is levied by the Central Government on inter-State supply of taxable goods and services. It is equivalent to sum of CGST and SGST.

Additionally, in order to compensate the States for the loss in tax revenue on account of subsuming some of the state taxes in GST, compensation cess is levied on certain specified supplies, such as luxury and sin products.

The CGST and SGST/UTGST or IGST applies to all supplies of goods and services except the exempt supplies and the supplies which are outside the purview of GST like alcohol for human consumption, petroleum products and real estate.

The scope of supply for levy of GST is very wide. It includes all forms of supply such as sale, transfer, barter, exchange, etc., made or agreed to be made for a consideration by a person in the course or furtherance of business. Import of services for a consideration is considered a supply, whether or not it is in course or furtherance of business. Certain prescribed activities are treated

as supply even if they are made without consideration. Examples of such activities include the supply of goods or services between related or distinct persons, between principal and agent, permanent transfer or disposal of business assets on which input tax credit has been availed. Certain transactions are specified to be treated as a supply of goods or a supply of services. A few transactions are specified to be neither treated as a supply of goods nor supply of services, thus making them nontaxable. Such transactions include services by an employee to the employer in course of employment, sale of land or completed buildings.

Alcoholic liquor for human consumption has been kept out of the scope of GST. Instead, it attracts State excise duty and VAT. In addition to GST, tobacco continues to attract Central excise duty. GST will be levied on petroleum products namely, crude petroleum, high speed diesel, motor spirit, natural gas and aviation turbine fuel, following recommendation by the GST Council; until such recommendation, these products will continue to attract Central excise duty and VAT.

Territoriality. Specific provisions determine the place of supply of goods or services under the GST legislation. The place of supply is important for determining whether a supply is inter-State or intra-State. If the location of the supplier and the place of supply are in different States, the transaction is treated as an inter-State supply.

Generally, for a supply of goods, the place of supply is the location of the goods when the movement of goods terminates for delivery to the recipient.

For services, the place of supply is generally, the location of the recipient of the service. For certain supplies, separate provisions determine the place of supply and the general provision does not apply. For example, the place of supply for services supplied in relation to an immovable property, is the location of the immovable property. In case of freight charged on import of goods, the place of supply is the destination of the goods.

Customs duty. Customs duty is levied on import of goods into India and on export of certain specified products.

The following components are included in customs duty:
- Basic Customs duty (BCD)
- Social Welfare Surcharge levied at 10% of BCD
- IGST
- GST compensation cess (on certain specified goods)

Prior to the introduction of GST, CVD and SAD were levied as a part of Customs duties on the importation of goods in lieu of Excise duty and VAT. After the introduction of GST, CVD and SAD have been replaced by IGST. However, CVD and SAD will continue to be levied on the goods which are not covered under the GST rules.

C. Who is liable

GST. A person who is registered under GST is liable to pay tax. The liability to pay tax is generally the obligation of the supplier. However, in certain specific cases prescribed under the GST law, the recipient of goods or services is obliged to pay the tax.

Compulsory registration. All suppliers whose aggregate turnover in a financial year exceeds the prescribed turnover threshold are required to register for GST. The threshold limit for persons making supplies from any of the specified special category States is INR1 million. For all other persons, the threshold limit is INR2 million.

The following persons are required to register, irrespective of their turnover:
- Casual taxable persons making taxable supplies. A casual taxable person is any person who occasionally undertakes transactions of supply in a State or a Union territory where the person has no fixed place of business

- Persons who are required to pay tax under the reverse charge provisions
- Persons making inter-State supplies of goods (except handicraft goods)
- Nonresident taxable persons making taxable supplies

Thus, any person who has no fixed place of business or residence in India, but who occasionally undertakes transactions of supply of goods or services in India, has to mandatorily obtain GST registration.

- Persons who are required to deduct tax at source.
- Persons who make taxable supplies of goods or services or both on behalf of other taxable persons whether as an agent or otherwise.
- Input service distributors.
- Electronic commerce operators who are required to collect tax at source. This item was included in the GST Amendment Act passed by Parliament and will be effective from 1 February 2019.
- Persons supplying online information and database access or retrieval services from a place outside India to an unregistered person in India.
- Persons supplying goods through electronic commerce operators.

Voluntary registration. An entity that has turnover below the threshold may apply to register for GST voluntarily.

Registration procedures. The application for GST registration must be completed online. Scanned copies of the documents prescribed by law must be submitted along with the application for registration. After undertaking a review of the application and the documents submitted with it, the relevant authorities grant a GST registration certificate to the applicant.

Branch registration. A person who is liable to be registered must register for GST in all the States from where it makes taxable supply of goods or services. A person is granted a single registration for all branches in a State or Union territory. However, a taxable person can opt to have a separate GST registration for each place of business. The "place of business" item was included in the GST Amendment Act passed by Parliament and will be effective from 1 February 2019.

An establishment of a registered person located in one State and an establishment of the same person located in another State are treated as distinct taxable persons for GST purposes.

Tax representatives. Practicing chartered accountants, advocates, employees of a taxable person and other persons set out in the law can be authorized to represent a taxable person before the tax administration and courts of law. However in India it is not mandatory to appoint a tax representative. A nonresident business can directly register for GST or can also appoint a tax representative. Hence, both the options are available.

Late-registration penalties. A penalty of INR20,000 may apply for failure to obtain a registration.

Group registration. Group GST registration is not allowed in India. However a single registration can be obtained for all business units of the same legal entity within a State. This is for business verticals of the same legal entity. As such, different legal entities under the same group cannot register as a single person.

Non-established businesses. A "nonresident taxable person" means any person who occasionally undertakes transactions involving the supply of goods or services or both, whether as principal or agent or in any other capacity, but who has no fixed place of business or residence in India. If such a person makes any taxable supplies in India, it is required to obtain a GST registration in India. Such a person can register for GST on its own, or it can appoint a tax representative to register it on its behalf. Appointing a tax representative is optional, and not mandatory for the non-established business.

Reverse charge. For certain supplies of goods and services prescribed in law, the tax due is payable by the recipient under the reverse-charge mechanism. Examples of such supplies include services performed by a goods transport agency for the transportation of goods by road, and services provided by an advocate. Even in case of import of services, the recipient importer is required to discharge the GST on a reverse-charge basis.

There is also a provision requiring the recipient procuring goods or services from any unregistered person to pay tax under the reverse charge. However, this provision would be made applicable only to certain class of taxpayers who will be notified by the Government in future.

Digital economy. For online information and database retrieval services provided by a person located in a nontaxable territory to unregistered recipient in India (B2C), the tax is payable by such nonresident supplier by registering for GST in India.

For B2B supplies of e-services, the tax is payable by the GST registered recipient, under the reverse-charge mechanism.

Online information and database retrieval services include services such as online advertising and providing cloud services, etc.

Deregistration. A GST registration can be cancelled if the business is discontinued or transferred fully or if there is a change in the constitution of the business or if the person is no longer liable for compulsory registration.

Exemption from registration. The following persons are not liable to register for GST:
- Any person engaged exclusively in the business of supplying goods or services that are not liable to tax or that are wholly exempt from tax
- An agriculturist (farmer), to the extent of the supply of produce resulting from the cultivation of land

Customs duty. Every company or company branch premises that is involved in the importation or exportation of goods is required to obtain an Import Export Code (IEC) from the Directorate General of Foreign Trade. Without an IEC, an importer or exporter may not be allowed to move goods across borders.

D. Rates

GST. The GST rates for goods and services are 0.25%, 3%, 5%, 12%, 18% and 28%. Some goods and services are exempt from tax, while items of gold and precious stones attract lower GST rates of 0.25% and 3%, respectively. GST compensation cess at varying rates is levied on supplies of certain specified goods and services.

Examples of exempt supplies

- Unbranded cereals
- Fruits and vegetables
- Accommodation in hotels where value of supply is below INR1,000, per unit per day
- Renting of residential dwelling for use as residence
- The transfer of a going concern

Examples of goods taxable at the 0.25% and 3% rates

- Diamonds and other precious stones
- Gold
- Silver

Examples of supplies taxable at the 5% rate

- Branded cereals
- Air transport of passengers in economy class
- Restaurants

Examples of supplies taxable at the 12% and 18% rates

- Electrical apparatus for radio and television broadcasting
- Accommodation in hotels where value of supply is greater than INR1,000 but less than INR7,500 per unit per day
- Intellectual property rights
- Construction services
- Banking services

Examples of supplies taxable at the 28% rate

- Motor cars
- Air-conditioners
- Aerated drinks
- Accommodation in hotels where value of supply is INR7,500 or more per unit per day

Examples of supplies attracting compensation cess

- Tobacco and tobacco products
- Motor cars

Zero-rated supplies. Exports and supplies to a special economic zone (SEZ) unit or SEZ developer are termed as zero-rated supplies. The net incidence of tax in the case of zero-rated supplies is nil. A registered person may make zero-rated supplies without payment of tax under a bond or Letter of Undertaking. Subsequently, the supplier can claim refund of unutilized input tax credit. Alternatively, a zero-rated supply can be made on payment of tax, which can be claimed as refund subsequently.

This is because goods or services which are exported cannot be taxed and as such exports should be free of taxes, as per the Government Policy, and therefore all the taxes that are paid in relation to exports are ultimately refunded. In some cases, either the exporter or the supplier to a SEZ may not want to get into the process of filing a bond or Letter of Undertaking, in which case, they may prefer to pay tax on export (or supply to a SEZ) by way of utilization of the input tax credit on procurements and then claim the cash refund of tax so paid.

Flat rate. Manufacturers, traders and restaurants with turnover up to INR15 million* may opt for taxation under the "composition scheme." Under this scheme, suppliers pay tax at a flat rate on all their supplies, with no right of input tax credit for the tax paid on their purchases. The flat rate for manufacturers and traders is 1%. For restaurants, the tax rate is 5%. Certain conditions are prescribed for opting for composition scheme, like the supplier is not engaged in making inter-State supply of goods or the supply of goods through e-commerce operator. The service provider (except restaurant services) cannot avail the composition scheme. However, the scheme gives leeway to a manufacturer or trader, who can provide services up to a certain specified limit. The "specific limit" item was included in the GST Amendment Act passed by Parliament and will be effective from 1 February 2019.

Option to tax for exempt supplies. An option to tax exempt supplies is not available.

E. Time of supply

The time of supply for goods is the date an invoice is issued or the last date on which invoice is required to be issued.

For services, the time of supply is the date of the invoice or receipt of the consideration, whichever is earlier. However, if the invoice is not issued within a prescribed time limit, the time of supply is the date of provision of the service or receipt of the consideration, whichever is earlier.

Imported goods. IGST and compensation cess (if applicable) are levied at the time of importation for imported goods and they are collected as a part of customs duty.

Imported services. For taxable services provided by a supplier located outside India and received in India, IGST must be paid by the recipient in India under the reverse charge. The time of supply is the date when payment is made to the foreign supplier. If the payment is not made within 60 days of the date of invoice, the time of supply is the date immediately following the end of the 60 day period.

For transactions with associated enterprises, the time of supply is the date of entry in the books of account of the recipient or the date of payment, whichever is earlier.

Reverse charge

*Domestic supply of good*s. The time of supply is the earliest of the date of receipt of the goods, or the date of payment, or the date immediately following 30 days from the date of the invoice.

Domestic supply of services. The time of supply is the date of payment. If the payment is not made within 60 days of the date of the invoice, the time of supply is the date immediately following the end of the 60-day period.

Vouchers. If the supply is identifiable at the time of issuance of the voucher, the time of supply is the date of issue of the voucher, otherwise, the time of supply is the date of redemption of the voucher.

Deposits and prepayments. A deposit given in respect of a supply of goods or services or both is not considered as payment made for that supply unless the supplier treats the deposit as consideration for the supply. Prepayments for a supply of goods does not trigger tax payment. However, prepayment for a supply of service triggers a tax payment (as discussed in the sections above).

Goods sent on approval for sale or return. The time of supply is linked only to the issuance of an invoice. The issuance of an invoice is not required at the time of sending goods for sale on approval basis (therefore, no tax point is triggered at that time).

Leased assets. There are no special time of supply rules in India for supplies of leased assets. As such, the general time of supply rules (as outlined above) apply.

Continuous supplies. The time of supply is linked only to the issuance of an invoice. There are separate provisions for the issuance of an invoice in the case of continuous supplies. See Section H. *Invoicing* below).

Valuation and discounts. Generally, the transaction value is considered as the taxable value for applying GST. Certain items that must be included in the taxable value are prescribed under the GST legislation. They include any interest or penalty for delayed payment of the consideration for a supply, incidental expenses including commission and charges for packing charged by the supplier to the recipient of supply.

Discounts. Discounts are not included in the taxable value, if they are duly recorded in the invoice. Any post-sale discount, should be in accordance with the contractual terms and be specifically linked to the relevant invoice.

Related parties. In cases where the supplier and the recipient are related persons or the price is not the sole consideration for the supply, the taxable value is to be determined under the prescribed valuation rules.

Persons are deemed to be "related" for these purposes if the following conditions apply:
- The persons are officers or directors of one another's businesses
- The persons are legally recognized partners in business
- The persons are employer and employee
- Any person directly or indirectly owns, controls or holds 25% or more of the outstanding voting stock or shares of both of the entities

- One of them directly or indirectly controls the other
- Both of them are directly or indirectly controlled by a third person
- Together they directly or indirectly control a third person
- They are members of the same family

Persons who are associated in the business of one another, in which one is the sole agent or sole distributor or sole concessionaire, are also deemed to be related.

If a person with the same PAN, has two or more GST registrations (whether in the same State or different States), each such registered establishment must be treated as establishments of distinct persons.

Supplies between related or distinct persons are to be valued at open market value. If the recipient is eligible for full input tax credit, the value declared on invoice is deemed to be the open market value.

F. Recovery of GST by taxable persons

A registered person is entitled to take credit for tax charged on goods or services procured by him, provided that the goods are procured in the course or furtherance of business; this tax is called input tax credit ("ITC"). IGST and compensation cess (if applicable) paid at the time of import are also available as input tax credit. Such input tax credit can be utilized to discharge the taxable person's liability for GST on sales (output tax).

A valid tax invoice and the actual receipt of the goods or services are mandatory conditions for claiming input tax credit. Further, if the recipient fails to pay the value of the supply and GST charged thereon to the supplier within a period of 180 days from the date the invoice was issued, the credit that has been used needs to be reversed along with a payment of interest. However, the credit can be reclaimed subsequently when payment is made to the supplier.

The recipient of a supply is not eligible to claim an input tax credit if the supplier has not paid the output tax on that supply to the Government.

The input tax credit cannot be claimed beyond a stipulated time frame. This time frame is the earlier of:
- Due date of filing return for the month of September following the end of financial year to which the invoice relates
- Submission of the relevant annual return for the financial year to which the invoice relates

An input tax credit for IGST should be first be utilized to discharge output tax on account of IGST, CGST and SGST, in that order.

After utilizing the IGST credit fully, the ITC of CGST can be utilized against output tax of CGST and then IGST. In the same manner, SGST credit can be utilized for payment of SGST first and then IGST.

CGST credit cannot be utilized for payment of SGST and vice versa.

Non-creditable goods and services. The GST law specifies a list of goods and services for which no input tax credit is allowed. Some examples are:
- Motor vehicles for transportation of persons with seating capacity up to 13 persons (except in specified circumstances). This item was included in the GST Amendment Act passed by Parliament and will be effective from 1 February 2019.
- Membership of a club, heath or fitness center.
- Goods or services for the construction of immovable property (except plant and machinery) on own account. For this purpose, plant and machinery excludes land, building or any other civil structure, telecommunication tower and pipelines laid outside a factory.

- Goods or services used for personal consumption.
- Goods lost, stolen, destroyed, written off or disposed of as a gift or free sample.

In addition, tax charged by a taxpayer who has opted for the composition scheme is not eligible as input tax credit.

Input tax credit is not available for goods and services used for making exempt supplies or for a non-business purpose. For this purpose, the value of exempt supplies includes supplies on which the recipient is liable to pay tax on the reverse-charge basis, transactions in securities and the sale of land or completed buildings and excludes interest on loans and deposits (other than in the case of banks and financial institutions).

Nonbusiness use. If goods or services are used by a registered person partly for business purposes and partly for other purposes, the amount of credit must be restricted to the amount of the input tax credit that is attributable to the purposes of the taxable person's business activities.

Partial exemption. If the goods or services acquired by a business are used for making both taxable and exempt supplies, the input tax credit is allowed proportionately to the extent of the value of the taxable supplies made.

A banking company or a financial institution engaged in supplying services by way of accepting deposits, extending loans or advances has the option to either claim a proportionate credit or use 50% of the eligible input tax credit.

Capital goods. Input tax credit on capital goods can be used fully once the goods are received by the recipient.

Pre-registration costs. A registered person who is newly registered for GST is entitled to take credit for input tax in respect of inputs held in stock and inputs contained in semi-finished or finished goods held in stock on the day immediately preceding the date the registration is granted.

Refunds. Refunds can be claimed for tax paid on zero-rated supplies or deemed export supplies. Refunds of unutilized input tax credit can be claimed if the purchases are used in making zero-rated supplies or if the credit has been accumulated because the tax rate on inputs acquired by the taxable person is higher than the tax rate on the person's output supplies.

Certain supplies (such as the supply of goods to an export oriented unit) are treated as deemed exports. For deemed exports, either the recipient or the supplier can claim a refund of the tax paid.

Zero-rated supplies. Exports and supplies to a special economic zone (SEZ) unit or SEZ developer are termed zero-rated supplies. The net incidence of tax for zero-rated supplies is nil. A registered person may make zero-rated supplies without payment of tax under a bond or Letter of Undertaking. Subsequently, it can claim a refund of any excess input tax. Alternatively, a zero-rated supply can be made with the payment of tax, which can be claimed as a refund subsequently.

This is because goods or services which are exported cannot be taxed and as such exports should be free of taxes, as per the Government Policy, and therefore all the taxes that are paid in relation to exports are ultimately refunded. In some cases, either the exporter or the supplier to a SEZ may not want to get into the process of filing a bond or Letter of Undertaking, in which case, they may prefer to pay tax on export (or supply to a SEZ) by way of utilization of the input tax credit on procurements and then claim the cash refund of tax so paid.

G. Recovery by non-established businesses

Only entities that are registered under GST can recover GST suffered on procurement of goods and services. This applies to non-established businesses that are registered for GST. No GST recovery can be done by non-registered business entities.

H. Invoicing

Tax invoices and credit notes. A registered taxable person must issue a tax invoice for all supplies of taxable goods or services. For exempt supplies, or supplies made by a person who has opted for the composition scheme, a "bill of supply" must be issued instead of a tax invoice. A registered person making both taxable as well as exempt supplies to an unregistered person may issue a consolidated invoice/bill of supply.

While no standard format has been prescribed for invoices and bills of supply, certain details must be included in the relevant document (such as a description of the supply, the value, details of the recipient, and the Harmonized System of Nomenclature (HSN) code, etc.).

The time limit for issuing an invoice depends on the nature of the supply, specifically, whether it is a supply of goods or services.

For a supply of goods, a tax invoice should be issued before or at the time of:
- Removal of goods (where supply involves movement of goods)
  Or
- Delivery or making goods available to the recipient

For services, a tax invoice should be issued within 30 days of provision of the services.

For a continuous supply of goods, where successive statements of account or successive payments are involved, the invoice should be issued before or at the time when the periodic statement is issued or payment is received.

For a continuous supply of services, if the due date for payment is ascertainable from the contract, the invoice should be issued on or before the due date for payment. If the due date of payment is not ascertainable from the contract, the invoice should be issued before or at the time when the supplier of the service receives the payment. If the payment is linked to the completion of an event, the invoice should be issued on or before the date of completion of that event.

For goods sent on approval for sale or return, the invoice should be issued before or at the time of supply or six months from the date of removal, whichever is earlier.

Whenever a registered person receives an advance payment with respect to any supply of goods or services or both, it must issue a receipt voucher evidencing the receipt of the payment. If a receipt voucher is issued, but subsequently no supply is made and no tax invoice is issued, a registered person who has received an advance payment can issue a refund voucher against the payment.

Adjustments such as an increase or reduction in the taxable value can be done through debit notes and credit notes. Any credit notes should be issued no later than September of the year following that in which the supply was made or by the date of filing of the relevant annual return, whichever is earlier.

Proof of exports. Exports are treated as zero-rated supplies for GST purposes. A registered person has the option to export goods or services or both without payment of tax under a bond or Letter of Undertaking, and claim a refund of unutilized input tax credit or he may export goods or services or both on payment of tax and then claim a refund of such tax paid. Export invoices must carry an endorsement indicating the option exercised by the exporter and must contain the name and address of the recipient, address of delivery, and the name of the country of destination.

Taking goods out of India for delivery to a place outside India is considered to be an export of goods. For an export of goods, a valid export invoice and shipping documents are generally considered sufficient proof.

For an export of services, specific rules determine whether a service qualifies as an export. These rules are based on the following criteria:
- The supplier of service is located in India.
- The recipient of service is located outside India.
- The place of supply, as determined by specific rules, is outside India.
- The payment is received in convertible foreign currency (receipt in INR will be considered where permitted by Reserve Bank of India). This item was included in the GST Amendment Act passed by Parliament and will be effective from 1 February 2019.
- The supplier of the services and the recipient are not merely an establishment of distinct persons. This means that for instance, if the same legal entity has an office in India and also an office outside India, such offices are treated as establishments of distinct persons.

Foreign currency invoices. Generally, invoices are issued in the local currency. However, for exports, the invoices may be issued in foreign currency. In such cases, GST rules provide for adopting a rate of exchange for determining taxable value.

For goods, the rate of exchange will be the rate notified by Central Board of Excise and Customs under the Customs Act. For services, the rate of exchange will be the rate determined as per generally accepted accounting principles on the day on which the services are supplied.

Electronic invoices. In India electronic invoicing is not mandatory, but is allowed. Where invoices are generated electronically, they should contain the digital signature of the supplier or its authorized representative.

B2C. A registered person is not required to issue a tax invoice if the value of the supply to unregistered persons is less than INR200 and the recipient does not require an invoice. For a supply made by a registered person to an unregistered person below the value of INR50,000, the supplier is allowed issue a document without the name and address of the recipient of the supply and the address of delivery.

I. Returns and payment

GST. At present, a return containing a summary of inward and outward transactions has to be filed and GST payment is to be made on a monthly basis. Also, a return containing invoice details of outward supplies is to be filed on monthly or quarterly basis, as applicable.

A registered taxable person with a turnover of not more than INR15 million and a person who has opted to pay tax under the composition scheme is required to file a GST return on a quarterly basis. All other registered persons are required to file returns on a monthly basis.

As per the procedure prescribed by law, the details of every inward supply provided by a registered recipient for a tax period was required to be matched with the corresponding details of the outward supply provided by the registered supplier. However, this procedure is currently not fully operational.

Further, the Government is considering to introduce a new simplified return filing process. As per the new process, all taxpayers will be required to file only one return containing details of outward and inward supplies. Further, ITC shall be available to recipients based on invoices uploaded by the supplier from time to time. During the transition phase of six months after the implementation of the new filing system, the recipient would be able to avail ITC on a self-declaration basis even in respect of invoices not uploaded by the supplier within the prescribed time.

Under the new system, taxpayers having a turnover up to INR50 million in the last financial year shall have an option to file a quarterly return with monthly payment of taxes.

The date from when the new return filing system will be implemented is yet to be determined.

Interest. Interest is levied with respect to non-payments or late payments of tax. The rate of interest for a delay in payment of tax is 18% per annum.

Special schemes. The Government has devised a scheme (budgetary support) under GST for taxpayers who were availing incentives through area based exemption sunder the previous regime.

Electronic filing and archiving. Periodic returns are mandatorily required to be filed electronically.

Annual returns. Every registered person must submit an annual return for each financial year by 31 December following the end of the financial year.

Tax payment. The tax due can be paid using internet banking, credit or debit cards, national electronic fund transfer, real-time gross settlement or any other prescribed method.

J. Penalties

GST. Penalties may apply to a range of offenses. The nonpayment of tax, an incomplete tax payment, an incorrect refund, or incorrect use of input tax credits is liable to a penalty of INR20,000 or 10% of the tax due, whichever is higher. However, if any of these offenses is carried out with fraudulent intention, the penalty is INR20,000 or an amount equivalent to the tax due, whichever is higher.

A penalty is also imposed on other offenses including the following: issuing incorrect or fake invoices, providing erroneous information or the non-provision of information or documents requested by the appropriate tax authority with the intention of tax fraud, tax evasion, noncompliance while transporting goods, distribution of input tax credits by an input service distributor by not following prescribed provisions and non-maintenance of books that must be maintained by law. Most of these offenses attract a penalty at INR20,000 or an amount equivalent to the tax amount involved, whichever is higher.

A penalty of INR50,000 is levied on any person aiding the commission of these offenses and for any offenses for which no specific penalty has been provided.

The late filing of periodic returns also attracts a penalty calculated on a daily basis with maximum cap of INR10,000.

Relief from the penalty due is provided if the defaulter pays the tax due with interest as and when a "show cause" notice or demand order is issued by the appropriate authority. The penalty must be paid only in cash (i.e., an input tax credit cannot be used to pay the tax due).

Customs. For customs duty, the penalty is generally applied at an amount equal to the duty demand. However, for a serious offense, the penalty may, at the discretion of the Customs officer, be five times the value of the goods involved. For the contravention of any provision of the Customs Act for which no specific penalty has been prescribed, the defaulter is liable to a penalty of up to INR100,000. In the case of an improper importation or an attempt to export goods improperly, the goods may also be confiscated.

Indonesia

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A. At a glance

Name of the tax	Value-added tax (VAT)
Local name	Pajak Pertambahan Nilai (PPN)
Date introduced	1 January 1984
Trading bloc membership	None
Administered by	The Directorate General of Taxation (http://www.pajak.go.id)
VAT rates	
Standard	10%
Other	Zero-rated and exempt
VAT number format	11.111.111.1-111.111
VAT return periods	Monthly
Thresholds	
Registration for small entrepreneurs	IDR4.8 billion of supplies of goods or services
Recovery of VAT by non-established businesses	No

B. Scope of the tax

VAT applies to the following transactions:

- Supplies of taxable goods and taxable services made in the Indonesia Customs Area in the course of a business by a taxable entrepreneur.
- Imports of taxable goods into Indonesia, regardless of the status of the importer.
- The use of taxable services and intangible goods provided by overseas entities inside the Indonesia Customs Area.
- Export of taxable goods (tangible or intangible) and/or taxable services by a taxable entrepreneur.
- Self-construction activities performed outside the course of business or work by an individual or company if the results are for the person's own use or for use by others.

- Deliveries of assets not originally acquired for sale. An exemption applies if the input VAT on acquisition cannot be credited because the purchase was not related to business or because it was a purchase of a luxury car.

C. Who is liable

All businesses engaged in supplies of goods or services subject to VAT are required to register for VAT as "taxable entrepreneurs," unless they qualify as "small entrepreneurs." This requirement also applies to any permanent establishment of a nonresident business located in Indonesia.

Small entrepreneurs. A business qualifies as a small entrepreneur if its gross annual turnover (from supplies of goods or services) does not exceed IDR4.8 billion.

Nonresident businesses and tax representatives. A legal requirement to appoint a fiscal representative in Indonesia is not imposed. However, a taxable entrepreneur may appoint a proxy to handle its VAT refunds or audits.

Registration procedures. Taxpayers who meet the definition of "taxable entrepreneur" must register with one of these two tax authorities:
- The tax office whose jurisdiction includes the taxpayer's residence or domicile or place of business
- Another tax office assigned to that taxpayer by the provisions of tax laws and regulations

In the event that a taxpayer's business is resident in two or more tax office jurisdictions, the Directorate General of Taxation (DGT) can stipulate where the taxpayer must register.

The application should be submitted using the hard copy form prescribed by the tax office, which shall verify the application and issue a VAT Registration Number no later than five working days after a fully completed application is received.

During the verification process, the tax office may conduct a visit to the taxpayer's office.

Late-registration penalties. If a taxable entrepreneur registers late, penalties may be imposed on the supplies of taxable goods and services made before the date of registration. Input VAT (see Section F) incurred during the period before registration may not be claimed as a deduction against output VAT due after the registration date.

Reverse charge. VAT is imposed on utilization of taxable services and intangible taxable goods provided by overseas entities inside the Indonesia Customs Area. The VAT shall be self-assessed by the party that receives the taxable services and intangible taxable goods.

Utilization of intangible taxable goods and taxable services shall occur at the earliest of the following moments:
- The acquisition price is declared as debt by the party that receives them.
- The selling price of intangible taxable goods or reimbursement for taxable services is collected by the party who delivers them.
- The acquisition price of intangible taxable goods or taxable services is paid, entirely or in part, by the party who utilizes them.

Depending on the status of the party who utilizes the taxable service or intangible taxable goods, the paid self-assessed VAT shall be claimed as tax credit or claimed as cost.

Digital economy. For business-to-business transactions, the customer is expected to self-assess VAT of 10% on its payment to the overseas principal. This self-assessed VAT normally serves as input VAT and is credited against the output VAT of the customer, subject to certain requirements.

For business-to-consumer transactions, the individual customer is expected to self-assess VAT of 10% on the payment to the overseas principal. In general, a non-VAT-registrant individual consumer cannot recover the paid VAT.

The VAT law in Indonesia does not govern specific reverse-charge treatment for the digital economy.

Deregistration. The Directorate General of Taxation (DGT) ex-officio or upon application of the registered taxpayer can revoke the VAT Registration Number in the event that one of the following circumstances arises:
- The taxable entrepreneur changes address to the jurisdiction of a different tax office.
- The taxable entrepreneur's stock value or gross receipts for an accounting year does not exceed IDR4.8 billion.
- The taxable entrepreneur's place of VAT payment has been centralized in other places.
- The taxable entrepreneur misuses the VAT Registration Number.

The revocation of a VAT Registration Number shall be performed by verification or audit, and it shall not eliminate any VAT obligation of the taxable entrepreneur.

Exemption from registration. The VAT law in Indonesia does not contain any provision for exemption from registration.

Voluntary registration. It is possible for a taxable business that is not required to register for VAT under the VAT law in Indonesia (e.g. because it makes supplies within the scope of VAT but its turnover is lower than any registration threshold) to register for VAT on a voluntary basis (e.g., because all its supplies are made to other businesses and it wants to recover input VAT on its purchases). The VAT law does not govern specific circumstances, as well as conditions or restrictions.

Group registration. The VAT law in Indonesia does not allow group registration. Legal entities that are closely connected must register for VAT separately.

D. VAT rates

The term "taxable supplies" refers to supplies of goods and services that are liable to VAT, including at the zero rate. The two VAT rates are the standard rate of 10% and the zero rate (0%), which applies to exported taxable goods (tangible or intangible) and taxable services.

Nontaxable goods include mining or drilling products extracted from source, basic commodities for public necessities (rice, corn, sago, soybean, iodized and non-iodized salt, fresh meat, eggs, milk, fruits and vegetables), food and beverages served in hotels, restaurants, food courts and such other places (dine-in or take-away, including catering), money, gold bars and valuable documents.

Nontaxable services include the following:
- Medical health services
- Social services (orphanages and funerals)
- Mail services with stamps (postal services)
- Financial services including fund raising and placement
- Financing services, including *shariah*-based financing (financial lease, factoring, credit card and consumer financing)
- Underwriting and mortgage
- Insurance services
- Religious services

- Educational services
- Commercial art and entertainment services that are subject to regional entertainment tax
- Broadcasting services for non-advertising (radio or television broadcasting performed by a government institution or private agency that does not constitute advertising and that is not financed by a sponsor for commercial purposes)
- Public transport on land or water
- Domestic air transport as an integrated part of international air services
- Manpower services
- Hotel services
- Public services provided by the government
- Parking space services
- Money order services
- Catering services

Examples of zero-rated supplies of goods

- Exports of taxable goods (tangible or intangible) and taxable services

However, the implementing regulation states that exports of services subject to zero-rated VAT, are limited to the following categories:

- Toll manufacturing services for overseas customers that meet certain requirements (in the toll manufacturing process, a contractor manufactures goods using raw materials provided by the party ordering the goods, and the manufactured goods are delivered to the ordering party or others appointed by the ordering party)
- Reparation and maintenance services relating to movable goods that are being used outside the Indonesia Customs Area
- Construction services, which include construction planning consultation services, construction execution work services and construction supervising consultation services, if these services are related to immovable goods located outside the Indonesia Customs Area

The term "exempt deliveries" refers to deliveries of certain taxable goods and taxable services that are exempt from VAT and that do not give rise to a right of input tax deduction or credit (see Section F).

VAT exemption also applies to deliveries or importation of goods that fall under the category of "strategic goods." These goods include, but are not limited to capital goods in the form of plant machinery and equipment, certain agricultural products, seeds for agriculture and electricity for houses.

Examples of exempt supplies of "strategic goods"

- Capital goods in the form of plant machinery and equipment, in either built-up or knock-down condition, not including spare parts
- Livestock, poultry, fish feed and raw materials for the manufacture of livestock, poultry and fish feed
- Agricultural produce (goods produced from business activities in the sectors of agriculture, plantations, forestry, livestock farming, hunting or trapping, or breeding fisheries, whether from fishing or cultivation)
- Seeds or sperm of agricultural, plantation, forestry, livestock, breeding or fishery products
- Clean water channeled through pipes by a potable water company
- Electricity, except for residences with power in excess of 6,600 watts

According to a Circular Letter published by the DGT in July 2014, the VAT exemption on agricultural products only applied for fruits and vegetables while other agricultural products such as plantation products, ornamental or medicinal products, and forestry products, which were exempted from VAT according to the previous regulation, are now subject to 10% VAT.

Examples of exempt supplies of goods and services

- Official textbooks
- Religious books
- Vaccines
- Certain ships, aircraft and trains
- Some real estate transactions
- Services supplied to local shipping companies
- Services supplied by the national army

The Free Trade Zone (FTZ) regimes provide a VAT exemption for the delivery of goods or services within the FTZ and the non-collection of VAT for the delivery of taxable goods or services to the FTZ. The areas that have been confirmed as FTZs are Batam Island, Sabang Island, and Bintan and Karimun Islands.

Option to tax for exempt supplies. Not applicable.

E. Time of supply

In Indonesia, VAT becomes payable at the earlier of the date on which the taxable goods or services are supplied or the date of receipt of advance payments. Tax invoices must be issued when the delivery of goods or services takes place, or on receipt of payment for a supply of goods or services, whichever is earlier.

Imported goods. The time of supply for imported goods is either the date of importation, or, for goods imported by companies determined to be bonded zone companies, the date on which the goods leave the bonded zone area.

Deposits and prepayments. In Indonesia, there is no requirement to account for VAT on deposits. For prepayments, the time of supply rules are the same as the normal time of supply rule outlined in the above section (E. Time of supply). The delivery of the goods is considered to take place when the title of the goods is transferred to the customer, or when the invoice is issued, whichever is earlier. Whereas, the supply of services is considered to take place when the invoice is issued.

Goods sent on approval for sale or return. For goods sent on approval for sale or return, the time of supply rules are the same as the normal time of supply rule outlined in the above section (E. Time of supply). The delivery of the goods is considered to take place when the title of the goods is transferred to the customer, or when the invoice is issued, whichever is earlier.

Leased assets. For leased assets, the time of supply is considered to take place when the invoice is issued or when the payment is received, whichever is earlier.

Reverse-charge services. For reverse-charge services, the time of supply rules are the same as the normal time of supply rule outlined in the above section (E. Time of supply). The supply of services is considered to take place when the invoice is issued.

Continuous supplies. For continuous supplies, the time of supply rules are the same as the normal time of supply rule outlined in the above section (E. Time of supply). The delivery of the goods is considered to take place when the title of the goods is transferred to the customer, or when the invoice is issued, whichever is earlier. Whereas, the supply of services is considered to take place when the invoice is issued.

F. Recovery of VAT by taxable persons

A taxable person may recover input tax, which is VAT charged on taxable goods and taxable services supplied to it for business purposes to the extent that costs corresponding to the input tax are for sales that are subject to VAT. A taxable person generally recovers input tax by deducting

it from output tax, which is VAT charged on supplies made. If the input VAT exceeds output VAT due, this excess tax can be claimed as a refund (see *Refunds*).

Input tax includes VAT charged on goods and services supplied in Indonesia, VAT paid on imports and self-paid VAT on the use of taxable services and intangible goods provided by overseas entities inside the Indonesia Customs Area (under the self-paid method, the party who uses the intangible goods or services may pay the 10% VAT directly to the state treasury on behalf of the overseas party).

A valid standard tax invoice or customs document must generally accompany a claim for input tax.

The export of "strategic goods" (including animal feed, raw materials for production of animal feed, agricultural products and seeds), is subject to 0% VAT. A taxpayer exporting "strategic goods" may claim an input VAT credit relating to export sales. This can be claimed as a tax refund if it results in a VAT credit (that is, the balance of the input VAT credit is greater than the amount of output VAT).

Non-creditable input tax. In general, a credit may not be claimed for input tax on purchases of goods and services that are not used for business purposes (for example, goods acquired for private use by an entrepreneur).

In addition, input tax on purchases of goods and services that were made before the taxable entrepreneur started to deliver taxable goods or services cannot be credited either, except for input VAT on capital goods that can still be claimed as a tax credit.

Input VAT on capital goods purchased or imported that were credited and refunded during the preproduction stage by a VAT-able firm must be repaid if the enterprise is unable to produce VAT-able goods within three years.

The following lists provide some examples of items of expenditure for which input tax is not creditable and examples of items for which input tax is creditable.

Examples of items for which input tax is non-creditable

- Purchases used for non-business purposes
- Business gifts
- Purchase, lease or hire of benefits in kind (such as employee accommodation or personal cars)

Examples of items for which input tax is creditable (if directly related to a taxable business use)

- Advertising
- Attending conferences and seminars
- Purchase, lease or hire of cars, vans or trucks
- Maintenance and fuel for vans and trucks
- Business travel expenses

Refunds. If the amount of input tax credits in a period exceeds the VAT payable in the same period, the excess amount is refundable. In general, refund claims must be made at the end of the year. However, certain taxpayers may claim refunds on a monthly basis. The Indonesian tax authorities conduct audits to ensure the validity of VAT refund claims. The tax audit must be concluded within one year after the date of the request for a refund.

If the tax audit confirms that the VAT refund claim is valid, the taxable person may recover the overpaid tax within one month after the date of the tax audit assessment letter.

The Indonesian tax authorities must pay an interest penalty for delays in making valid repayments, calculated at the rate of 2% per month of the tax refundable.

An accelerated refund process through a tax examination is provided for certain taxable entrepreneurs who meet the criteria for a compliant taxpayer meeting certain conditions (i.e., request for refund no more than IDR1 billion), or a low-risk taxpayer. The VAT overpayment is refunded within one month after the request for a refund is submitted to the local tax office. Any VAT underpayment assessed in a post-VAT audit should be paid back, plus a penalty of 100%.

Partial exemption. Not applicable.

Preregistration costs. Input tax paid prior to issuance of the VAT Registration Number is not creditable.

G. Recovery of VAT by nonresident businesses

Indonesia does not refund VAT incurred by businesses that are neither established nor registered for VAT in Indonesia. A permanent establishment of a nonresident business in Indonesia may request a VAT refund in the same manner as other Indonesian taxable persons.

H. Invoicing

VAT invoices and credit notes. A standard VAT invoice for all taxable supplies made must be provided by Indonesian taxable entrepreneurs except those who are engaged in retail business or are the end-users of the goods.

The VAT invoice number is determined by the Directorate General of Taxation (DGT). Indonesian taxable entrepreneurs are required to request the VAT invoice number from the DGT before issuing VAT invoices.

On 2 April 2015, the DGT issued a circular letter regarding the use of VAT invoice serial numbers and the procedure for issuing a VAT invoice. The regulation stipulates the following:

1. A VAT-able entrepreneur shall issue a VAT invoice using the VAT invoice serial number, which is determined by the DGT.
2. The VAT invoice serial number provided by the DGT should be used to issue the VAT invoice on or after the date of the VAT invoice serial number granting letter, within the calendar year indicated by the year code in the VAT invoice serial number.
3. If the date of the VAT invoice precedes the date of the VAT invoice serial number granting letter, the VAT invoice is considered incorrect and thus incomplete.
4. A VAT-able entrepreneur issuing an incomplete VAT invoice is subject to an administrative penalty of 2% of the VAT base.
5. To replace the incomplete VAT invoice as defined in point 3, the VAT-able entrepreneur may do the following:
   - Cancel the incomplete VAT invoice
   - Make a new VAT invoice using the same VAT invoice serial number as the cancelled VAT invoice
   - Make sure the date of the new VAT invoice does not precede the date of the VAT invoice serial number granting letter
6. If the VAT invoice as described in point 5 is issued before the date of the VAT invoice serial number granting letter, the VAT invoice is considered a late-issued VAT invoice.
7. If an invoice is issued more than three months before the date of the VAT invoice serial number granting letter, the invoice is considered not issued.
8. The cancellation of an incomplete VAT invoice and the issuance of a new VAT invoice as described in points 5 and 6 can be done if the monthly VAT return submitted has not been audited, an examination of open preliminary evidence has not been conducted, and the VAT-able entrepreneur has not yet received notification of verification results.
9. The late-issued VAT invoice as described in point 6 can be credited as VAT input as long as it meets the requirements in accordance with the prevailing regulations.

Indonesian taxable entrepreneurs are also required to submit a specimen of the signature of the authorized person who will sign VAT invoices.

A complete and correct standard VAT invoice is generally necessary to support a claim for input tax credit.

A purchaser who returns goods to a supplier or cancels services may issue a credit note or cancellation note. A credit note or cancellation note must refer to the original VAT invoice and clearly indicate details of the returned goods or cancelled services. A credit note or cancellation note may be used to adjust the amount of VAT due for a taxable supply of goods or services.

Proof of exports. Exports of goods are subject to VAT at the rate of 0%. However, export supplies must be supported with evidence that the goods were exported outside Indonesia. Valid evidence of export includes "Notification of Export Goods" (PEB) documents, issued by the customs office, for goods that have been approved for loading.

Foreign-currency invoices. For supplies denominated in a foreign currency, the amounts of output tax shown must be stated in Indonesian rupiah (IDR). The official exchange rate, issued by the Minister of Finance on the date on which the VAT invoice is issued, must be used to convert the currency.

Electronic invoicing. All taxpayers nationwide are required to use electronic VAT invoices. The use of an electronic VAT invoice is mandatory, and non-compliance will result in a defective VAT invoice subject to a fine equaling 2% of the VAT base.

B2C. There are no special rules for VAT invoices issued for supplies made by taxable persons to private consumers (e.g., no VAT invoice is required unless requested by the purchaser). However, there are special rules on supplies made to the public (e.g., toll receipts, tickets and supplies made through vending machines). The receipt and tickets issued may be deemed as a VAT invoice.

I. VAT returns and payment

VAT return. The due date for the submission of monthly VAT returns is the end of the following tax period. The VAT payable, if any, must be settled before the submission deadline of the monthly VAT returns.

VAT liabilities must be paid in Indonesian rupiah.

A new form of VAT return (SPT Masa PPN 1111) was introduced for VAT reporting periods beginning with the January 2011 period.

Under the new regulation, the VAT return application has been integrated with the electronic invoicing application.

Special VAT-free regimes. Other VAT regimes technically eliminate the payment of VAT due. These include the following:

- The non-collection of VAT payable to companies in bonded zone areas and to manufacturers of goods for export
- The non-collection of VAT payable arising from goods or services supplied by principal contractors of projects financed by foreign aid loans or grants

In this context, non-collection refers to the tax facility under which the VAT due is not collected for certain taxable goods and services. Under such tax facility, the related input VAT can still be claimed as a tax credit.

Electronic filing and archiving. From April 2018, the taxable entrepreneur must submit the VAT return electronically via DGT online or application service providers (ASPs) appointed by the DGT. The ASP must comply with the following requirements:

- It must be a legal entity.
- It must have a processing business license to be an ASP.
- It must have a processing Tax ID Number and already be stipulated as a taxable entrepreneur.
- It must sign an agreement with the DGT.

For electronic filing purposes, taxable entrepreneurs must apply for an Electronic Filing Identification Number (e-FIN) and obtain a digital certificate from the DGT. The local tax office must reply no later than one working day after receiving a correctly completed application.

A VAT return completed according to regulations shall be signed manually and submitted electronically through DGT online and ASP. Taxable entrepreneurs will receive proof of electronic receipt for every completed VAT return.

If there are additional documents that must accompany the VAT return but cannot be delivered electronically, the taxable entrepreneur must deliver them to the correct tax office (where it is registered) in person or by mail with a proof-of-delivery letter, or via courier or forwarder with a proof-of-delivery letter.

With regard to the VAT documents (both hard copy and electronic documents), these shall be archived for 10 years. In case of a VAT audit, the tax auditors will check the hard copy documents.

Annual returns. Not applicable.

J. Penalties

A penalty is charged at the rate of 2% per month on late payments of VAT. In the case of a tax audit, the maximum period is 24 months. An additional penalty of IDR500,000 is assessed for each VAT return submitted late.

A penalty, charged at a rate of 2% of the sales value, is imposed for the failure to issue a VAT invoice or for the issuance of a VAT invoice that is considered defective (including a VAT invoice that is issued late).

For severe evasion or fraud, criminal penalties apply. Two criminal offenses that may be charged with respect to VAT are described below.

Criminal offenses related to general tax administration excluding the issue related to a tax invoice. Criminal offenses related to general tax administration other than the issue related to the tax invoice that cause losses to the revenue of the state are punishable by imprisonment from six months to six years and a fine of twice the amount of the unpaid or underpaid taxes (minimum fine) or of four times the amount of unpaid or underpaid taxes (maximum fine). This criminal sanction may be doubled if the taxpayer commits another criminal tax offense before one-year elapses from the date of completion of the taxpayer's jail term.

Criminal offenses related to the issuance of a tax invoice. Criminal offenses related to the issuance of a tax invoice are punishable by imprisonment from two years to six years and a fine ranging from two times to six times the amount of tax declared in the tax invoice.

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A. At a glance

Name of the tax	Value-added tax (VAT)
Date introduced	1 November 1972
European Union (EU) Member State	Yes
Administered by	The Revenue Commissioners (http://www.revenue.ie)
VAT rates	
Standard	23%
Reduced	9% and 13.5%
Other	Zero-rated (0%) and exempt
VAT number format	IE 1234567 A
VAT return periods	Bimonthly (standard), triennially, biannually and annually, and Annual Return of Trading Details for all businesses
Thresholds	
Registration	
For persons supplying services	EUR37,500
For persons supplying goods	EUR75,000
Non-established businesses	None
Distance selling	EUR35,000

Intra-Community acquisitions	EUR41,000
Recovery of VAT by non-established businesses	Yes

B. Scope of the tax

VAT applies to the following transactions:
- The supply of goods or services made in Ireland by a taxable person
- The intra-Community acquisition of goods from another EU Member State by an accountable person
- Reverse-charge services received by a taxable person in Ireland
- The importation of goods from outside the EU, regardless of the status of the importer

C. Who is liable

The term "accountable person" refers to any individual or entity that is or should be registered for VAT. A liability to register arises from making "taxable supplies," which include the supply of goods or services, intra-Community acquisitions and distance sales made in the course of a business in Ireland. An entity that exclusively makes exempt supplies is generally not treated as an accountable person.

The VAT registration thresholds in Ireland depend on the type of supplies made. For an Irish resident business or a fixed establishment of a foreign business, the following are the thresholds:
- EUR37,500 for persons supplying services
- EUR75,000 for persons supplying goods
  EUR35,000 for persons making mail order or distance sales into Ireland
- EUR41,000 for persons making intra-Community acquisitions

A business is required to register for VAT as soon as its turnover is likely to exceed the relevant threshold.

Voluntary registration. A business established in Ireland that generates turnover not exceeding the registration threshold is not required to register for VAT. However, a business that makes taxable supplies may opt to register in these circumstances.

Similarly, a new business may request registration in advance of making taxable supplies as soon as it is clear that it will become an accountable person.

Group registration. The Revenue Commissioners may grant group registration status to companies established in Ireland that are closely bound by "financial, economic and organizational links."

A VAT group is treated as a single taxable person. VAT is not charged on supplies between group members, with the exception of certain supplies of real estate. Group members are jointly and severally liable for all VAT liabilities.

Non-established businesses. A "non-established business" is a business that has no fixed establishment in Ireland. A "nil" VAT registration threshold applies to supplies made in Ireland by a non-established business. VAT registration is required if a non-established business makes any of the following supplies:
- Goods located in Ireland at the time of supply
- Supplies of certain services deemed for VAT purposes to have taken place in Ireland (that is, services connected with immovable property)
- Intra-Community acquisitions in excess of the annual threshold or acquisitions of services from non-Irish suppliers
- Distance sales in excess of the annual threshold (see the chapter on the EU)

Registration is not required if all of the supplies made by the non-established business are subject to the reverse charge (self-assessment for tax by the recipient of the supply). The reverse charge does not apply to supplies of goods or services made to private persons.

A non-established business may apply to register for VAT in Ireland at the following address:

Office of the Revenue Commissioners
Dublin City Centre/North City Revenue
District 9/10 Upper O'Connell Street
Dublin 1
Ireland

The Irish VAT authorities may require a non-established business to provide security in order to register for VAT.

Tax representatives. A non-established business is not required to appoint a tax representative in order to register for VAT in Ireland.

Registration procedures. Taxpayers apply for VAT registration through forms TR2 (companies) or TR2 (FT) (branches). Hard copies of these forms have to be sent to the Irish tax authorities. Obtaining VAT registration typically will take two to three weeks.

Late-registration penalties. A penalty of EUR4,000 can be assessed for a failure to register for VAT.

Reverse charge. If a non-established business supplies services to an Irish taxable person but does not register for VAT, the taxable person may be required to account for the VAT due under reverse-charge accounting. This means that the taxable person charges itself VAT. The self-assessed VAT may be deducted as input tax (that is, VAT on allowable purchases) depending on the taxable person's VAT recovery status (Section F refers). This measure applies only if the place of supply of the services is in Ireland.

Digital economy. The place of supply of telecommunications, broadcasting and e-services to nontaxable persons is the place where the customer is established, has a permanent address or usually resides. Taxable persons that make such supplies are generally obliged to register, charge and account for VAT in the Member State of the customer (see section below describing the Mini One-Stop Shop scheme).

Mini One-Stop Shop. In simple terms, the business registers for MOSS in one Member State, known as the Member State of identification, and electronically submits quarterly MOSS returns in respect of its supplies of telecommunications, broadcasting and e-services to nontaxable persons in Member States in which it is not established, known as the Member States of consumption, along with the VAT due to these Member States. These returns, along with the VAT paid, are then transmitted by the Member State of identification to the corresponding Member State(s) of consumption via a secure network.

There are two schemes within the Mini One-Stop Shop scheme:
- The non-Union scheme for taxable persons that have no establishment within the EU
- The Union scheme for taxable persons that have an establishment within the EU but are making supplies to Member States in which they are not established

If the taxpayer is already registered in Ireland for the current VAT on e-services scheme (VOES), registration for MOSS is unnecessary: the taxpayer's information is migrated to the new MOSS scheme. If further details are needed for the purposes of the MOSS, the Department of Revenue will contact the taxpayer directly. The registration number for MOSS is the same as the VOES number.

To register for the non-Union scheme in Ireland, it is necessary to log on to www.revenue.ie or Revenue On-line Service (ROS) and access the VAT MOSS link. Some basic identification information such as company name, trading name, address, website URLs, contact persons, national tax reference number and bank details should be provided. It will also be required to confirm that the person is not VAT-registered or registered for MOSS in any other Member State and has no establishment in the EU. Once this information has been provided, the next step is to create a verification code that will be needed later to retrieve the VAT MOSS Tax Registration Number and Digital Certificate.

To register for the Union scheme in Ireland, it is necessary to log on to ROS, enter the Manage Registrations page, select VAT MOSS and select Register. As Revenue will already have basic facts about the person in question, the application will be pre-populated with this information. It is possible to edit certain elements of that information for the purposes of MOSS registration. It will also be required to provide details of any fixed establishments the person has in other Member States and their VAT identification numbers in those other Member States. The VAT MOSS registration number will be the same as the VAT number of the person.

Deregistration. An accountable person that ceases to be eligible for VAT registration must cancel its registration. An accountable person may also request cancellation of its registration if the level of its taxable turnover falls below the annual registration threshold, or if the accountable person previously opted for registration and no longer wishes to be registered.

Exemption from registration. The VAT legislation in Ireland does not contain any provision for exemption from registration.

D. VAT rates

The term "taxable supplies" refers to supplies of goods and services that are liable for VAT at any rate, including supplies made at the zero rate. In Ireland, the following VAT rates apply:
- Standard rate of 23%
- Reduced rates 9% and 13.5%
- Zero rate (0%)

The standard rate of VAT applies to all supplies of goods or services, unless a specific provision allows a reduced rate, the zero rate or exemption.

Examples of goods and services taxable at 0%

- Books (hard copy)
- Most foodstuffs (excluding confectionery)
- Oral medicine
- Exports
- Children's clothing and footwear
- Goods and services supplied to frequent exporters under the "VAT 56 Scheme" (see Section F)

Examples of goods and services taxable at 9%

- Newspapers and magazines
- Electronic newspapers, magazines and e-books
- Admission to sporting facilities

Examples of goods and services taxable at 13.5%

- Electricity
- Holiday accommodation
- Restaurant and catering services
- Repair, cleaning and maintenance services
- Developed immovable property
- Building services

The term "exempt supplies" refers to supplies of goods and services that are not liable for tax. Exempt supplies do not give rise to a right of input tax deduction (see Section F). However, an exception applies to certain exempt services supplied outside the EU.

Examples of exempt supplies of goods and services

- Postal services
- Finance
- Insurance
- Leasing of immovable property (unless option to tax exercised by landlord)

Option to tax for exempt supplies. A landlord can generally opt to tax a letting (with certain exceptions such as residential property and lettings to connected parties with less than 90% VAT recovery).

A vendor of immovable goods and the purchaser of those immovable goods can jointly agree to tax the sales.

E. Time of supply

The time when VAT becomes due is called the "time of supply" or "tax point." The following is a general summary of the rules for determining when VAT is due:

- For supplies made to nontaxable persons, the due date is the date on which the supply is completed.
- For supplies made to taxable persons, the due date is the date on which the invoice is issued or the date on which the invoice should have been issued, whichever is earlier.

Prepayments. A prepayment is deemed to be a taxable supply, up to the value of the prepayment. The invoice for a prepayment must be issued within 15 days after the end of the month in which the prepayment is received.

A supplier that accounts for VAT on an invoice basis must account for VAT on a prepayment from a VAT-registered customer when the invoice is issued or when it should have been issued (that is, within 15 days after the end of the month in which the prepayment is received), whichever is earlier.

A supplier that accounts for VAT on a cash receipts basis must account for VAT on a prepayment from a VAT-registered customer when the payment is received.

The due date for a prepayment received from a nontaxable person is when the payment is received.

Intra-Community acquisitions of goods. The due date for intra-Community acquisitions of goods is the 15th day of the month following the month in which the goods arrive or the month in which the invoice is received, whichever is earlier.

Imported goods. The due date for imported goods is the date of importation or the date on which the goods leave a duty suspension regime.

Cash accounting. Some accountable persons are authorized to account for VAT on the basis of payments received rather than on the basis of invoices issued. This system is called "cash accounting." Effective since 1 May 2014, the turnover threshold for cash accounting is EUR2 million. For accountable persons using cash accounting, the liability to account for VAT arises on the date when payment is received for the supply. However, this does not change the basic tax point for the supply itself. The VAT rate applicable to a supply of goods or services is the rate in force on the date of the supply, not the rate in force on the date when payment is received.

Reverse-charge services. The time of supply is either the date the service performed is completed or the date of the tax invoice, whichever is earlier.

Continuous supplies of services. The time of supply for continuously supplied services is the date of the tax invoice.

Intra-Community supplies of goods. The time of supply for intra-Community supplies of goods is either the date of shipment/delivery or the date of the tax invoice, whichever is earlier.

Leased assets. Not applicable.

Goods sent on approval for sale or return. Ireland does not have a time of supply rule in relation to goods sent on approval for sale or return. The general place of supply of goods rules apply.

F. Recovery of VAT by accountable persons

An accountable person may recover input tax, which is VAT charged on goods and services supplied to it for business purposes. An accountable person generally recovers input tax by deducting it from output tax, which is VAT charged on supplies made.

Input tax includes VAT charged on goods and services supplied within Ireland, VAT paid on imports of goods and VAT that is self-assessed on the intra-Community acquisition of goods and reverse-charge services.

A valid tax invoice or customs document must generally accompany a claim for input tax.

Nondeductible input tax. Input tax may not be recovered on purchases of goods and services that are not made for business purposes, such as goods acquired for private use. If expenditure relates to business and private use, the input tax must be apportioned, and the amount related to business activities may be deducted.

In addition, input tax may not be deducted for some items of business expenditure, including the following items:

- The provision of food, drink and accommodation except for accommodation incurred in connection with attendance at a qualifying conference. A qualifying conference is a conference undertaken in the course or furtherance of business, organized to cater to 50 or more delegates. VAT may be claimed for a maximum period beginning with the night before the conference and ending on the date when the conference ends.
- Other personal services for taxable persons or their agents or employees.
- Entertainment expenses incurred by the taxable persons or their agents or employees.
- The purchase, hire or importation of passenger motor vehicles. However, 20% of VAT is recoverable on the purchase, hire, or importation of certain cars that have a low level of carbon dioxide emissions and that are used primarily for business purposes.
- The purchase of petrol (gasoline). However, diesel is deductible.

The following lists provide some examples of items of expenditure for which input tax is not deductible and examples of items for which input tax is deductible.

Examples of items for which input tax is nondeductible

- Hotel accommodation
- Food and drink
- Petrol
- Business entertainment

Examples of items for which input tax is deductible (if related to a taxable business use)

- Car maintenance costs
- Partial VAT recovery on lease, purchase and hire of most passenger cars subject to certain conditions
- Attendance at qualifying conferences and seminars
- Lease, purchase, hire and maintenance of vans and trucks

- Diesel for business use
- Business use of mobile telephones
- Parking
- Gas and electricity

Partial exemption. Input tax directly related to making exempt supplies is not generally recoverable. However, input tax related to making certain exempt supplies to non-EU customers (qualifying activities) is deductible. If an accountable person makes both exempt supplies and taxable supplies, it may not recover all the input tax incurred on goods or services acquired for both purposes. This situation is referred to as "partial exemption."

Input tax that directly relates to making exempt supplies is not recoverable. Input tax that directly relates to making taxable supplies is recoverable in full. For these purposes, the term "taxable supplies" includes zero-rated supplies and qualifying activities. Input tax that relates to taxable supplies and to exempt supplies is considered to have a dual use, and must be apportioned between taxable supplies and exempt supplies. The percentage of dual-use input tax that is attributable to making taxable supplies is recoverable. The recoverable percentage is rounded up to the nearest whole number. For example, a recovery percentage of 79.2% would be rounded up to 80%.

An Irish accountable person may use any calculation method to determine the recoverable percentage of dual-use input tax if the chosen method satisfies the following conditions:
- It results in a proportion of tax deductible that correctly reflects the extent to which dual-use inputs are used for the purposes of the person's deductible supplies or activities.
- It has due regard to the range of the accountable person's total supplies and activities.

Examples of possible apportionment methods include calculations based on the following:
- The ratio of turnover from taxable and qualifying activities to turnover from exempt activities
- The ratio of taxable transactions to exempt transactions
- The number of people involved in various activities

The Revenue Commissioners may require that a partially exempt accountable person uses a different calculation method if, in their view, the method adopted does not adequately reflect how input tax was used in the business or the activities undertaken.

Capital goods. Capital goods are items of capital expenditure that are used in a business over several years. Input tax is deducted in the VAT year in which the goods are acquired. The amount of input tax recovered depends on the accountable person's partial exemption recovery position in the VAT year of acquisition. In Ireland, no further adjustment is made to the amount of input tax recovered on the acquisition of capital goods with the exception of immovable goods, even if the ratio of taxable to exempt supplies changes in subsequent years.

Refunds. If the amount of input tax recoverable in a period exceeds the amount of output tax payable in that period, the accountable person has an input tax credit. An accountable person may claim a refund of the credit by submitting the VAT return for the period. If an accountable person normally receives refunds of VAT, it may request permission to submit monthly returns to improve cash flow.

Preregistration costs. VAT paid on costs incurred before registration are not recoverable.

Write-off of bad debts. The process of accounting for VAT on bad debts depends on whether the VAT was already paid to the supplier or if it was deducted but not yet paid.

In cases where VAT was already paid, the bad debt is allowable as a deduction for VAT if the following conditions are satisfied:
- The VAT paid was properly paid.
- The taxable person has taken all reasonable steps to recover the debt.

- The bad debt has been written off in the financial accounts of the taxable person.
- The person from whom the debt is due is not connected with the taxable person.

Where a person deducts VAT in a taxable period but has not, within six months of the end of that taxable period, paid the supplier for the goods or services, then the amount of VAT deductible will be reduced by the amount of VAT relating to the unpaid consideration, i.e., the VAT deducted relating to the unpaid consideration must be repaid to Revenue. A readjustment is provided for in the event of subsequent payment or part payment for the goods or services. The corresponding (re)adjustments should be declared on the corresponding periodic VAT return(s).

Noneconomic activities. Not applicable.

G. Recovery of VAT by non-established businesses

Ireland refunds VAT incurred by businesses that are not established in Ireland nor registered for VAT there. A non-established business may claim Irish VAT to the same extent as a VAT-registered business.

For businesses established in the EU, applications for refunds are made electronically to the tax authority in their Member States. For businesses established outside the EU, refunds are made under the terms of the EU 13th Directive. Ireland does not exclude claims by businesses established in any country.

For the general VAT refund rules of the EU 13th Directive refund scheme, see the chapter on the EU.

Refund application. For non-EU claimants, the deadline for refund claims is 30 June of the year following the year in which the tax was incurred. For EU claimants, the deadline is 30 September of such year.

The claim must be for a period of not less than a calendar quarter, unless it is for the final part of a year, and the period may not be longer than a calendar year. For claims covering a period of between three months and one year, the minimum claim amount is EUR400. The repayment is made by a check issued in euros or by direct deposit into a bank account.

Applications for refunds of Irish VAT by non-EU claimants may be sent to the following address:

VAT (Unregistered) Repayments
Office of the Revenue Commissioners
3rd Floor
River House
Charlotte's Quay
Limerick
Ireland

Repayment interest. Claims are normally paid within three to six months after submission of the claim. For Irish VAT recovery claims from EU-based entities, in certain circumstances, interest is paid on repayments at a rate of 0.011% per day if the payment falls outside specific legislative time limits. For Irish VAT recovery claims by non-EU entities, interest is not paid by the Irish tax authorities on late repayments.

H. Invoicing

VAT invoices and credit notes. An Irish accountable person must issue a VAT invoice for taxable supplies made to taxable customers, exempt persons, government departments, local authorities, and bodies established by statute. An Irish accountable person must also issue an invoice with respect to intra-Community supplies to businesses in other EU Member States and to sales to private individuals in other EU Member States under distance selling arrangements. A VAT

invoice must be issued within 15 days after the end of the month in which either the goods or services were supplied or an advance payment was received.

A VAT invoice is necessary to support a claim for input tax deduction or an Irish VAT refund application under the EU 13th Directive for non-EU businesses or under the VAT refund procedure applicable to EU businesses (see the chapter on the EU).

A VAT credit note must be used if the VAT payable on a supply is reduced because of a subsequent allowance or discount, unless the supplier and taxable customer agree that the VAT need not be adjusted. The credit note must be cross-referenced to the original VAT invoice and contain the same information.

Electronic invoicing. An accountable person may choose to issue an invoice in electronic format. The issue of electronic invoices is subject to the following conditions:
- There is prior agreement between the issuer and the recipient in relation to the issue and acceptance of electronic invoices.
- The electronic system must be able to produce, retain and store invoices in such form and containing such particulars as are required for VAT purposes.
- The system must be able to reproduce in paper or electronic format any electronic record or message required to be produced, retained or stored.
- The issuer and recipient of an electronic invoice have an obligation to ensure the authenticity of origin, the integrity of content and a reliable audit trail between the invoice and the supply.

Proof of exports and intra-Community supplies. VAT is chargeable at a zero rate on the supply of exported goods or on the intra-Community supply of goods (see the chapter on the EU). However, to qualify for a zero rate, exports and intra-Community supplies must be supported by evidence that confirms the goods have left Ireland. Acceptable proof includes the following documentation:
- For an export, a copy of the export document officially validated by customs showing the supplier as the exporter, together with shipping or air freight documents, and copies of commercial documentation (for example, orders, copy invoices, dispatch notes and delivery notes).
- For an intra-Community supply, a range of commercial documentation, including purchase orders, transport documentation, proof of payments received from abroad and contracts. The EU VAT registration number of the customer must also be quoted on the sales invoice.

Foreign-currency invoices. A VAT invoice may be issued in a foreign currency, but the actual VAT amount must be converted to euros and included on all VAT invoices issued. The invoice amounts must be converted using the latest selling rate recorded by the Irish Central Bank at the time of supply.

It is possible to agree on a different exchange rate method with the Irish VAT authorities. If an alternative method is used, the accountable person must use it for all foreign-currency transactions.

B2C. Certain rules apply to the place of supply for supplies of telecommunications, broadcasting and electronic services to non-VAT taxable customers. For further details of the VAT rules on electronic services in the EU, please refer to the European Union chapter.

For domestic B2C sales there are no requirements to issue any documentation (i.e., full VAT invoices). For distance sales supplies, full VAT invoices must be issued.

I. VAT returns and payment

VAT returns. Irish VAT returns are generally submitted on a bi-monthly basis. All VAT returns must be filed electronically in Ireland. Returns and full payment of the VAT due must be made online and by the 23rd day of the month following the return period.

Bi-annual or four-monthly VAT returns may be submitted by traders whose total VAT payment for the year is less than EUR3,000 or between EUR3,000 and EUR14,000, respectively.

An accountable person that receives regular repayments of VAT may request to submit monthly returns.

Annual Return of Trading Details. All accountable persons must submit an Annual Return of Trading Details, which outlines sales and purchases for the year, broken down by VAT rate. It is a statistical return. Consequently, no VAT liability is attached to such return. The return is due to be filed 23 days following the financial year-end of the taxpayer, for example, a taxpayer with a financial year-end of 31 December 2019 is due to file the return by 23 January 2020.

Annual accounting. Some accountable persons are permitted to submit VAT returns on an annual basis. This facility is granted at the discretion of the Irish VAT authorities. Accountable persons that submit annual returns must also complete the annual return of trading details.

An accountable person that is permitted to use the above facility may align its annual VAT return date with its commercial accounting year.

An accountable person that is permitted to submit annual returns must make monthly VAT payments by direct debit throughout the year. Interest may be chargeable if the sum of the monthly payments made is less than 80% of the total VAT payable for the year.

Special schemes. Farmers who are not VAT registered can charge a flat rate addition of 4.8% to VAT-registered purchasers on supplies including, for example, livestock and greyhounds.

Special treatment for frequent exporters. A business that exports goods to persons outside the EU or to taxable persons in other EU Member States does not charge VAT on these transactions. However, it pays VAT on the goods and services it purchases locally or acquires from other EU Member States and on imports. Consequently, a business that predominantly trades with other countries would generally be in a net VAT repayment position for each period. This may have a negative impact on its cash flow position.

To help ease cash flow for businesses involved in international trade, exporters benefit from a special treatment for purchases. This provision is commonly known as the "VAT 56 Scheme" (formerly the "VAT 13A Scheme"). For these purposes, a qualifying exporter is an accountable person that derives at least 75% of its turnover from exports of goods from Ireland and from intra-Community supplies of goods from Ireland to persons registered for VAT in other EU Member States. Qualifying exporters may apply for certification of their entitlement to relief. Copies of the certification must be provided to suppliers that are required to supply most goods and services to qualifying exporters at the zero rate.

The VAT 56 zero rating applies to most domestic purchases of goods and services, imports and intra-Community acquisitions. The zero rating does not apply to the supply or hire of passenger cars, petrol (gasoline) for cars, food, drink, accommodation, nonbusiness purchases or any other expenses for which the input tax is not deductible.

Electronic filing and archiving. It is not required to retain the paper originals of any third-party record where an electronic copy of the original record is generated, recorded and stored and the person is able to certify the following:

- The stored records were not damaged or amended.
- Proper security procedures were in place to prevent tampering.
- Programs are in place that will reproduce accurately the documents that are stored.
- A proper systems audit takes place annually to ensure that the instructions on the use of the system have been followed correctly and are in accordance with operational requirements.
- Copies of records must be accessible to Revenue in the way and format they may request.

J. Penalties

The basic penalty for the late submission of a VAT return is EUR4,000 per return. However, if the Irish VAT authorities determine that an error was made as a result of the taxpayer acting carelessly or deliberately defaulting, penalties may be imposed based on the amount of VAT underpaid or overclaimed. Such penalties can be between 3% and 100% of the VAT liability at issue.

Interest may also be levied on the amount of tax due at the rate of 0.0274% per day.

The Irish VAT authorities may mitigate penalties in certain circumstances.

K. EU filings

Intrastat. An accountable person that trades in goods with other EU countries must complete statistical reports, known as Intrastat, if the value of its intra-Community sales or purchases of goods exceeds certain thresholds. Separate reports are required for intra-Community acquisitions (Intrastat Arrivals) and intra-Community supplies (Intrastat Dispatches).

The threshold for Intrastat Arrivals for 2018 is EUR500,000. The threshold for Intrastat Dispatches for 2018 is EUR635,000.

The Intrastat return period is monthly. The submission deadline is the 23rd business day of the month following the return period. Intrastat returns must be filed electronically through the Revenue Online System (ROS). Returns must be completed in euros.

The penalty for a late or incorrect submission of an Intrastat return is EUR1,265 plus EUR60 per day that the return is outstanding.

EU Sales Lists (VAT Information Exchange System [VIES] statement). If an Irish accountable person makes intra-Community supplies of goods and/or services, it must submit an EU Sales List (ESL). No threshold applies to ESLs. If no intra-Community supplies are made in a period, a "nil" statement must be submitted for that period.

ESLs are submitted quarterly if the quarterly amount of intra-Community supplies of goods does not exceed EUR50,000. Otherwise, ESLs are submitted monthly. An accountable person that is entitled to submit ESLs on a quarterly basis may apply to submit ESLs monthly if it is more convenient to do so. The submission deadline is the 23rd day of the month following the end of the return period, and ESLs must be filed electronically.

The penalty for a late or incorrect submission of an ESL is EUR4,000.

Isle of Man

ey.com/GlobalTaxGuides
ey.com/TaxGuidesApp

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A. At a glance

Name of the tax	Value-added tax (VAT)
Date introduced	1 April 1973
Trading bloc membership	Part of the European Union (EU) for customs and VAT matters but not an EU Member State
Administered by	Isle of Man Customs and Excise Division (http://www.gov.im)
VAT rates	
Standard	20%
Reduced	5%
Other	Zero-rated, exempt and exempt with credit
VAT number format	GB 999.9999.99
VAT return period	Quarterly Monthly (if requested by a business that receives regular repayments) Annual (on request if annual taxable turnover is less than GBP1,350,000)
Thresholds	
Registration	GBP85,000; nil for non-established businesses
Deregistration	GBP83,000
Distance selling	GBP70,000
Intra-Community acquisitions	GBP85,000
Recovery of VAT by non-established businesses	Yes

B. Scope of the tax

The Isle of Man is an international financial center that is part of the territory of the United Kingdom for indirect tax purposes. However, the Customs and Excise Division in the Isle of Man operates independently from that of the United Kingdom, and the Isle of Man has its own VAT legislation. The United Kingdom and Isle of Man are considered one for VAT purposes, and the VAT laws of the two jurisdictions are very similar.

VAT applies to the following transactions:
- The supply of goods or services made in the Isle of Man or the United Kingdom by a taxable person
- The intra-Community acquisition of goods from another EU Member State by a taxable person (see the chapter on the EU)
- Reverse-charge services received by a taxable person in the Isle of Man
- The importation of goods from outside the EU, regardless of the status of the importer

C. Who is liable

A taxable person is any entity or person that is required to be registered for VAT. It includes any entity or individual that makes taxable supplies of goods or services, intra-Community acquisitions or distance sales in the Isle of Man in the course of a business in excess of the turnover thresholds.

Effective from 1 April 2018, the VAT registration threshold is GBP85,000; this threshold generally increases annually, however, this rate is currently set for two years. The VAT registration threshold previously applied to both Isle of Man domestic and non-established businesses. However, effective from 1 December 2012, the VAT registration threshold was removed for businesses not established in the Isle of Man or the United Kingdom so that a nil registration threshold now applies. As a result, any non-established business that makes taxable supplies in the Isle of Man is required to register for VAT. Non-established businesses involved only in distance sales of goods to Isle of Man residents who are not taxable persons (see the chapter on the EU) are not affected by the removal of the VAT registration threshold. The distance selling threshold is GBP70,000; this threshold is set by EU law and does not generally increase from year to year.

Exemption from registration. A taxable person whose turnover is wholly or principally zero-rated (see Section D) may request exemption from registration.

Voluntary registration. A business may register for VAT voluntarily if its taxable turnover is below the VAT registration threshold. A business may also register for VAT voluntarily in advance of making taxable supplies.

Group registration. Corporate bodies that are under "common control" and are established or have a fixed establishment in the Isle of Man or the United Kingdom may apply to register as a VAT group. A VAT group is treated as a single taxable person. The group members share a single VAT number and submit a single VAT return. VAT is not charged on supplies made between group members. Group members are jointly and severally liable for all VAT liabilities.

Non-established businesses. A "non-established business" is a business that has no fixed establishment in the Isle of Man or the United Kingdom. Effective from 1 December 2012, a non-established business must register for VAT if it makes any of the following supplies in the Isle of Man, regardless of the value of the supply:
- Goods located in the Isle of Man at the time of supply
- Intra-Community acquisitions of goods (see the chapter on the EU)
- Services to which the reverse charge (see *Reverse charge*) does not apply

A non-established business must also register for VAT if it makes distance sales of goods to Isle of Man residents in excess of the distance selling annual threshold.

A non-established business that registers for VAT may normally do so from its place of business outside the Isle of Man. The application form (VAT 1 MAN) may be sent to the following address:

Isle of Man Customs and Excise
P.O. Box 6
Custom House

North Quay
Douglas IM99 1AG
Isle of Man

Reverse charge. If a non-established business supplies services to an Isle of Man taxable person but does not register for VAT, the taxable person may be required to account for the VAT due under "reverse-charge" accounting. This means that the taxable person charges itself VAT. The self-assessed VAT may be deducted as input tax (that is, VAT on allowable purchases) depending on the taxable person's partial exemption status (see Section F). This provision does not apply in all circumstances. For example, it applies only if the place of supply of the services is the Isle of Man.

Electronic communication services. From 1 February 2016, a "domestic reverse charge" was introduced for wholesale supplies of electronic communication services. The reverse charge applies to the services of routing telephone calls and associated data (text, images) over landlines, mobile networks and the internet. It does not apply to non-wholesale supplies or to businesses not registered or not liable to be registered for VAT.

Domestic supplies of mobile phones and computer chips. A domestic reverse charge with respect to specified goods is designed to combat missing trader fraud. The reverse charge applies, with some exclusions, to supplies of mobile phones and computer chips that are valued at GBP5,000 or more and that are supplied in the United Kingdom or Isle of Man by a VAT-registered business to another VAT-registered business. Under the reverse-charge accounting mechanism, it is the responsibility of the customer, rather than the supplier, to account for VAT on supplies of the specified goods.

Domestic supplies of emissions allowances. Purchasers of specified emissions allowances must account for VAT under a domestic reverse-charge accounting procedure, rather than paying VAT to the supplier. Only those compliance market credits that can be used to meet obligations under the EU Emissions Trading Scheme (EUETS) are subject to the reverse-charge mechanism. These currently comprise EU Allowances, some Certified Emission Reductions (CER) and some Emission Reduction Units (ERU), as defined in Directive 2003/87/EC (as amended).

Domestic wholesale supplies of gas and electricity. Purchasers of wholesale supplies of gas and electricity are required to account for VAT under a domestic reverse-charge accounting procedure, rather than paying VAT to the supplier. VAT-registered businesses that do not resell or trade the gas or electricity are not affected. No additional notification or reporting requirements apply to these transactions.

Construction services. A domestic reverse charge on certain building and construction services will come into effect on 1 October 2019. The reverse charge will apply throughout the supply chain where payments are required to be reported through the Construction Industry Scheme (CIS) up to the point where the customer receiving the supply is no longer a business that makes supplies of specified services these — businesses are referred to as "end users." The reverse charge will include goods, where those goods are supplied with the specified services. The reverse charge will exclude businesses that supply specified services to connected parties within a corporate group structure or with a common interest in land. Zero-rated supplies of construction services are not affected.

Tax representatives. A non-established business may choose to appoint a tax representative or agent to act on its behalf in VAT matters in the Isle of Man.

The Isle of Man VAT authorities may require that a non-established person appoint a tax representative. However, this condition may be imposed only if the business is established in a country outside the EU that has not agreed on mutual assistance provisions with the Isle of Man.

Annual accounting. Businesses with annual turnover of less than GBP1.35 million may apply to complete an annual VAT return. Businesses that use annual accounting must make either three quarterly or nine monthly VAT payments, depending on the level of turnover. Any balancing payment must be made with the annual return. The annual return is due by the last day of the second month following the end of the taxable person's VAT year.

Special accounting. A flat-rate scheme exists for businesses with an annual taxable turnover of less than GBP150,000. Under the scheme, eligible businesses may opt to calculate VAT due based on a fixed percentage of their total turnover. The percentages range from 4% to 14.5%, depending on the trade sector of the business.

Other special accounting schemes exist for retailers, including secondhand goods retailers, tour operators, gold traders and farmers.

Registration procedures. To register for VAT, form VAT 1 MAN should be completed and submitted along with supporting documentation to:

Isle of Man Customs and Excise
P.O. Box 6
Custom House
North Quay
Douglas IM99 1AG
Isle of Man

A VAT registration can usually be processed within 7 to 10 working days.

Late-registration penalties. A penalty is assessed for late VAT registration, which is calculated as a percentage of the VAT due (output tax less input tax).

If the liability to register for VAT arises before 1 April 2010, the penalty rate that applies depends on the length of time between when a business should have been registered and when it registers. If this period is less than nine months, the penalty is 5% of the VAT due. If the period is between 9 and 18 months, the penalty increases to 10% of the VAT due. For businesses that register more than 18 months late, the penalty rate is 15% of the VAT due. The minimum penalty is GBP50.

If the liability arises on or after 1 April 2010, the penalty rate that applies may range from 30% (in most cases) to 100% (for deliberate and concealed acts) of the VAT due. However, measures exist for the reduction of such penalties if the business discloses the failure to register to the VAT authorities. The degree of mitigation depends on the "quality" of the disclosure.

Penalties apply to a range of other offenses (see Section J).

Digital economy. From 1 January 2015, the place of supply for digital services business to consumer (B2C) is where the customer belongs.

This requires any taxpayers making B2C supplies of digital services to register for VAT in each EU Member State where they have customers or register for the Mini One-Stop Shop (see *Mini One-Stop Shop*).

Effective from 1 January 2019, a threshold of (sterling equivalent) EUR10,000 is implemented for total supplies to the EU in a year of digital services sales. This change means businesses will only be subject to the VAT rules of their home country if their relevant sales across the EU in a year (and the preceding year) fall below this threshold. If the total taxable turnover of the business is below the VAT registration threshold, they will be able to de-register from VAT. Businesses can continue to apply the previous rules if they choose to do so.

Effective from 1 January 2019 non-EU businesses, which are registered for VAT for other purposes, are allowed to use the Mini One-Stop Shop scheme to account for VAT on sales of digital services to EU Member States.

Mini One-Stop Shop. The Mini One-Stop Shop (MOSS scheme) became available from 1 January 2015. EU taxable persons supplying electronic services to nontaxable customers will have a requirement to register for VAT in the EU Member State where the nontaxable customer belongs. Registration for the MOSS scheme enables EU taxable persons to file a single VAT return and make a single payment.

Deregistration. A taxable person that ceases to be eligible for VAT registration must deregister. A taxable person may also request deregistration if its taxable turnover drops below the deregistration threshold (GBP83,000 in 2016) or if its taxable turnover is wholly or principally zero-rated (see Section D). However, deregistration is not compulsory in these circumstances.

D. VAT rates

In the Isle of Man, the term "taxable supplies" refers to supplies of goods and services that are liable to a rate of VAT, including the zero rate.

If an Isle of Man company is not required to register for VAT but the beneficial owner is a non-Isle of Man or non-UK resident, look-through provisions may apply. In 1983, the Isle of Man reached agreement with the UK government to introduce measures to look through the fact that a company is resident in the Isle of Man and to consider the place of residence of the beneficial owner. Consequently, if a package of corporate administration services is provided to an Isle of Man company in these circumstances, the supply is not subject to VAT.

In the Isle of Man, the following three rates of VAT apply:
- Standard rate: 20%
- Reduced rate: 5%
- Zero rate: 0%

The standard rate of VAT applies to all supplies of goods or services, unless a specific measure provides for the zero rate, the reduced rate or an exemption.

Some differences exist between the Isle of Man and the United Kingdom with respect to the supplies that are eligible for zero rating and the reduced rate.

Examples of goods and services taxable at 0%

- Books, newspapers and periodicals
- Certain foodstuffs
- Children's clothing and footwear
- Drugs and medicines supplied on prescription
- New housing
- Transport services
- Passenger transport (including yachts)
- Exports of goods and related services

Examples of goods and services taxable at 5%

- Fuel and power supplied to domestic users and charities
- Energy-saving materials
- Building materials for residential conversions
- Sanitary protection products
- Children's car seats
- Domestic property repairs
- Holiday accommodation

The term "exempt supplies" refers to supplies of goods and services that are not liable to tax and that do not give rise to a right of input tax deduction (see Section F). In addition, some supplies are classified as "exempt with credit." Exempt-with-credit supplies are effectively treated as if they were zero-rated, but they are not within the scope of VAT. This means that no VAT is chargeable, but the supplier may recover related input tax. Exempt-with-credit supplies include services supplied to taxable persons in the EU and to customers outside the EU.

Examples of exempt supplies of goods and services

- Betting and gaming
- Education
- Finance
- Insurance
- Land and buildings (in most cases)
- Public postal services
- Human blood products
- Medical services

Option to tax for exempt supplies. An option to tax can be made in respect of commercial land and property. Where an option to tax is made, supplies of interest in the land and property will become taxable with VAT chargeable at the standard rate of VAT and in return, input tax in relation to the taxable supply will be recoverable subject to the normal rules.

E. Time of supply

The time when VAT becomes due is called the "time of supply" or "tax point." The "basic" tax point under Isle of Man law is the point when the goods are either removed from the supplier's premises or made available to the customer, or when the services are performed.

The basic tax point may be overridden by the creation of an "actual" tax point. An actual tax point may occur before or after the basic tax point.

Before the basic tax point. If the supplier issues a VAT invoice or receives payment with respect to the supply, a tax point is created to the extent covered by the invoice or payment.

After the basic tax point. If an invoice is issued up to 14 days after the supply, the date of the invoice becomes the tax point. Taxable persons may request permission to extend the period for this invoicing tax point to up to a maximum of 30 days after the basic tax point.

Deposits and prepayments. The receipt of a deposit or prepayment normally creates an actual tax point if the amount is paid in the expectation that it will form part of the total payment for a particular supply. A tax point is created only to the extent of the payment received.

Intra-Community acquisitions. The time of supply for an intra-Community acquisition of goods is the 15th day of the month following the month when the acquisition occurred. If the supplier issues an invoice before this date, the tax point is when the invoice is issued.

Intra-Community supplies of goods. For intra-Community supplies of goods, the time of supply is the earlier of the 15th day of the month following the month when the goods are removed from the supplier or the date on which the VAT invoice is issued.

Imported goods. The time of supply for imported goods is the date of importation or the date on which the goods leave a duty suspension regime.

Goods sent on approval or for sale or return. The tax point for goods sent on approval or for sale or return is the earlier of when the goods are accepted by the customer or 12 months after their removal from the supplier. However, if a VAT invoice is issued before these dates, the invoice creates an actual tax point, up to the amount invoiced.

Continuous supplies of services. If services are supplied continuously, a tax point is created each time a payment is made or a VAT invoice is issued, whichever occurs earlier. Where payments are made at regular intervals, a VAT invoice can be issued in advance. However, the customer cannot recover input tax until the first payment is due or has been paid. Where payments are not made at regular intervals, an invoice should be issued annually to create a tax point.

Reverse-charge services. The tax point for reverse-charge services is primarily when the service is performed. For single services, this is when the service is completed or when payment for the service is made, whichever is earlier. For a continuous supply of services, the tax point is the end of each periodic billing or payment period or when payment is made, whichever is earlier. For continuous supplies that are not subject to billing or payment periods, the tax point is 31 December each year unless a payment creates an earlier tax point.

Cash accounting. Businesses with annual turnover of less than GBP1.35 million may apply to use cash accounting. Under the cash accounting scheme, businesses account for output VAT and reclaim input VAT on the basis of cash received and paid, rather than on the basis of invoices issued and received.

Leased assets. The same general rules apply as with the continuous supply of services provided that legal title to the goods does not pass to the recipient and there is no express contemplation that title will transfer at some point in the future. Goods supplied on terms that expressly contemplate that title will transfer at some point in the future (e.g., under hire-purchase or conditional sale agreements) are treated in the same way as a normal sale of goods where title passes at the outset. Unless a VAT invoice is issued, the time of supply will be linked to the basic tax point (see above). This means the full amount of VAT becomes payable at the outset rather than being due on the installment payments.

F. Recovery of VAT by taxable persons

A taxable person may recover input tax, which is VAT charged on goods and services supplied to it for business purposes. Input tax is generally recovered by being deducted from output tax, which is VAT charged on supplies made.

Input tax includes VAT charged on goods and services supplied in the Isle of Man or the United Kingdom, VAT paid on imports of goods into the Isle of Man or the United Kingdom, and self-assessed VAT on intra-Community acquisitions of goods and reverse-charge services (see the chapter on the EU).

A valid tax invoice or customs document must generally accompany a claim for input tax.

Special rules apply to the recovery of input tax on expenditure incurred before registration and after deregistration.

Nondeductible input tax. Input tax may not be recovered on purchases of goods and services that are not used for business purposes (for example, goods acquired for private use). In addition, input tax may not be recovered for some items of business expenditure.

The following lists provide some examples of items of expenditure for which input tax is not deductible and examples of items for which input tax is deductible if the expenditure is related to a taxable business use.

Examples of items for which input tax is nondeductible

- Purchase of a car (unless the car is available exclusively for business use)
- Fifty percent of VAT incurred on the rental or lease of a car used for mixed business and private purposes
- Private expenditure
- Business entertainment and hospitality (except when provided to overseas customers)

Examples of items for which input tax is deductible (if related to a taxable business use)

- Conferences, exhibitions, training and seminars
- Taxi services
- Restaurant expenses for employees
- Accommodation
- Motoring expenses and fuel for business purposes
- Business use of a home telephone

Partial exemption. Input tax directly related to making exempt supplies is generally not recoverable. If a taxable person makes both exempt and taxable supplies, it may not recover input tax in full. This situation is referred to as "partial exemption."

An Isle of Man taxable person that makes exempt supplies may calculate the amount of VAT that it may recover in several ways. The standard partial exemption calculation method is a two-stage calculation. The following are the two stages of the calculation:

- The first stage identifies the input VAT that may be directly allocated to taxable and to exempt supplies. Input tax directly allocated to taxable supplies is deductible, while input tax directly related to exempt supplies is not deductible. Supplies that are exempt with credit are treated as taxable supplies for these purposes.
- The second stage identifies the amount of the remaining input tax (for example, input tax on general business overhead) that may be allocated to taxable supplies and recovered. The calculation of recoverable VAT may be performed using the general pro rata method based on the respective value of taxable and exempt supplies made.

If the standard calculation provides an unfair or distortive result, a special calculation method may be agreed with the VAT authorities. In some cases, the authorities may impose the use of a special calculation method.

Capital goods scheme (CGS). Capital goods are items of capital expenditure that are used in a business over several years. A taxable person does not have to be partly exempt or (for capital costs incurred after 1 January 2011) have nonbusiness activities when costs are incurred for the CGS to apply. The value of a capital item is the VAT-exclusive value of the item. Only the value of standard or reduced-rated taxable supplies is considered. Before 1 January 2011, the value of a capital item was determined by reference to the business-related expenditure. Effective 1 January 2011, the value is determined by reference to total expenditure on an asset. This includes both business and nonbusiness expenditure on an asset.

Input tax is deducted in the VAT year in which the goods are acquired. The amount of input tax recovered depends on the taxable person's business use in the VAT year of acquisition. The scheme requires adjustments to be made to the initial amount of VAT claimed. This reflects the differences in the use of capital items over a period of time. This period is known as the "adjustment period." If, during the adjustment period, there is any change in the proportion of taxable use, then the taxable person must make a corresponding adjustment to input tax.

In the Isle of Man, the capital goods adjustment applies to the following assets for the number of intervals (normally a year) indicated:

- Land and buildings and related property expenditure valued at GBP250,000 or more are adjusted for a period of 10 intervals.
- Individual computer hardware valued at GBP50,000 or more is adjusted for a period of five intervals.
- Effective 1 January 2011, the CGS was extended to apply to ships and aircraft valued at GBP50,000 or more; the adjustment period is five intervals.

If, in any subsequent interval, the amount that the item is used to make taxable supplies increases or decreases compared with its use in the original deduction period, a CGS adjustment is required in that subsequent interval. No retrospective adjustments are made after the end of the first interval. The actual input tax adjustment (if any) required in a subsequent interval is calculated by dividing the total input tax (or total VAT if incurred after 1 January 2011) on the capital item by the total number of intervals in the adjustment period (usually either 5 or 10) and then multiplying by the adjustment percentage.

Refunds. If the amount of VAT recoverable exceeds the amount of VAT payable in a period, a refund may be claimed. This is done automatically through the submission of the periodic VAT return. A taxable person that receives regular repayments of VAT may request permission to submit monthly returns to improve cash flow.

Preregistration costs. VAT incurred on the purchase of goods for your taxable business still on hand at the time of VAT registration can be recovered, subject to the normal rules, up to four years prior to the effective date of VAT registration. VAT incurred on services purchased for your taxable business can be recovered, subject to the normal rules, up to six months prior to the effective date of VAT registration.

Write-off of bad debts. Where a business has made supplies to its customers and has not been paid, it can claim relief for the VAT on bad debts provided a number of conditions are met. The main conditions for claiming VAT bad debt relief are that the business must already have accounted for the VAT on the supplies and paid it to the VAT authorities, the business must have written off the debt in its VAT accounts, and the debt must have remained unpaid for a period of six months after the date of the supply and the date payment was due, whichever is later. If, however, payment is subsequently received, VAT must once again be accounted for.

Noneconomic activities. Generally, VAT incurred in relation to noneconomic activities is not recoverable.

G. Recovery of VAT by non-established businesses

The Isle of Man refunds VAT incurred by businesses that are neither established nor registered for VAT in the Isle of Man. Non-established businesses may reclaim VAT to the same extent as VAT-registered businesses. For the general VAT refund rules, see the chapter on the EU.

EU businesses. An electronic VAT refund procedure applies across the EU. EU businesses must submit their claims for Isle of Man VAT through an electronic interface to their local VAT authorities.

Refunds are based on the calendar year. The final deadline for refund claims is 30 September of the year following the year in which the tax was incurred. Claims must be accompanied by the appropriate documentation (see the chapter on the EU).

Non-EU businesses. For businesses established outside the EU, refunds are made in accordance with the terms of the EU 13th Directive. The Isle of Man does not generally exclude businesses from any country from eligibility.

Refunds are based on the period from 1 July to 30 June (a prescribed year), and the final deadline for refund claims is 31 December following the end of the prescribed year in which the tax was incurred.

Applications for 13th Directive refunds of Isle of Man VAT must be submitted in English and must be accompanied by the appropriate documentation (see the chapter on the EU). The minimum claim period is three months and the maximum period is one prescribed year. The minimum claim for a period of less than a year is GBP130. For an annual claim, the minimum amount is GBP16.

Applications must be sent to the following address:

HM Revenue and Customs
Compliance Centres
VAT Overseas Repayment Unit
S1250
Benton Park View
Newcastle Upon Tyne
NE98 1YX

H. Invoicing

VAT invoices and credit notes. An Isle of Man taxable person must generally provide a VAT invoice for all taxable supplies made to other taxable persons, including exports and intra-Community supplies (see the chapter on the EU). Invoices are not automatically required for B2C supplies, such as retail transactions, unless requested by the customer.

A VAT invoice is necessary to support a claim for input tax deduction or refund.

A VAT credit note may be used to reduce the VAT charged and reclaimed on a supply. The credit note must reflect a genuine mistake, an overcharge or an agreed reduction in the value of the original supply. A credit note must be issued within one month after the discovery of the mistake or overcharge, and it must be cross-referenced to the original VAT invoice.

Electronic invoicing. Electronic invoices are permitted in accordance with EU Directive 210/45/EU.

Proof of exports and intra-Community supplies. Isle of Man VAT is not chargeable on supplies of exported goods or on intra-Community supplies of goods except distance sales (see the chapter on the EU). However, to qualify as VAT-free, exports and intra-Community supplies must be supported by evidence that proves the goods have left the Isle of Man/United Kingdom. Acceptable proof includes the following documentation:

- For an export, official customs documentation and commercial documentation, such as consignment notes and airway bills
- For an intra-Community supply, a range of commercial documentation, such as customer orders, sales invoices, transport documentation and packing lists

In all cases, the evidence must clearly identify the supplier, the customer, the goods and the destination. The evidence must be obtained within three months after the time of supply and be retained for at least six years.

Foreign-currency invoices. If a VAT invoice is issued in a foreign currency, the VAT value must be converted into pounds sterling (GBP), using an acceptable exchange rate, and stated in the invoice. Suppliers may use any of the following rates:

- The United Kingdom market selling rate at the time of supply
- The United Kingdom VAT authorities' published exchange rate for the period
- Any other acceptable commercial rate agreed to in writing with the VAT authorities

B2C. Effective 1 January 2015, new rules applied to the place of supply for supplies of telecommunications, broadcasting and electronic services to non-VAT taxable customers. For further details of the VAT rules on electronic services in the EU, please refer to the European Union chapter.

Aside from the above, invoices are not automatically required for B2C supplies, such as retail transactions, unless requested by the customer.

I. VAT returns and payment

VAT returns. VAT returns are generally submitted quarterly. VAT return quarters are staggered into three cycles to ease the VAT authorities' administration. The following are the cycles:
- March, June, September and December
- February, May, August and November
- January, April, July and October

At the time of registration, each taxable person is applied about the return cycle that it must use. However, the Isle of Man VAT authorities may consider a request to use VAT return periods that correspond with a taxable person's financial year. In addition, a taxable person whose accounting dates are not based on calendar months may request permission to adopt nonstandard tax periods.

Taxable persons that receive regular repayments of VAT may request permission to submit monthly returns to improve cash flow.

Returns must be submitted by the last day of the month following the end of the return period. They may be submitted by mail or electronically. Payment in full is also due by the same date. However, taxable persons that pay their VAT return liabilities electronically have an additional 7 days after the normal due date to make payments.

VAT returns must be completed in pounds sterling, but return liabilities may be paid in pounds sterling or euros.

Payments on account. Taxable persons whose annual VAT liability is greater than GBP2.3 million must make payments on account, which are interim payments made at the end of the second and third months of each VAT quarter. The balance of VAT payable for the period is made at the end of the quarter. The amount of the payment is generally based on the taxable person's VAT liability for the preceding 12 months. Electronic transfers must be used for all payments on account.

Special schemes. Not applicable. There are no special schemes available in the Isle of Man.

Electronic filing and archiving. Electronic filing is permitted, and electronic archiving is permitted with approval from Isle of Man Customs. *At the time of preparing this chapter, there are no plans to implement the Making Tax Digital regime, unlike the UK.*

Annual returns. Not applicable.

J. Penalties

If a business with a turnover of GBP150,000 or more submits a VAT return or payment late, the taxable person is in default and is issued a Surcharge Liability Notice. The surcharge liability period initially lasts for 12 months from the date of the notice. Any further default within this period triggers a penalty and extends the notice period. The penalty is a percentage of the VAT due.

The following are the percentage penalties:
- For the first further default in the notice period: a penalty of 2% of the VAT due
- For the second further default in the notice period: a penalty of 5% of the VAT due
- For the third further default in the notice period: a penalty of 10% of the VAT due
- For the fourth and subsequent further defaults in the notice period: a penalty of 15% of the VAT due (for each further default)

In the 2% and 5% penalty bands, penalties are not imposed on amounts of less than GBP400. A minimum penalty of GBP30 is imposed for the 10% and 15% penalty bands. If payment is made on time, but the return is submitted late, no penalty is levied. However, the surcharge liability notice period is extended.

For businesses with turnover of less than GBP150,000, a help letter is issued at the first default stage. If the business defaults again within the next 12 months, a Surcharge Liability Notice is issued, followed by the same penalties listed above for further defaults.

Penalties for errors made on VAT returns. Under the current penalty regime (applying to inaccuracies on VAT returns for returns due for submission on or after 1 April 2009), if a business makes an error on a VAT return despite taking "reasonable care," it should not be liable to a penalty. Otherwise, the penalty rate depends on the behavior giving rise to the error (rather than the size of the error) and may range from 30% (for "careless" errors) to 100% (for "deliberate and concealed" acts) of the VAT due. However, provisions exist for the reduction of such penalties if the business makes an unprompted disclosure to the VAT authorities. The degree of mitigation also depends on the "quality" of the disclosure.

K. EU filings

Intrastat. An Isle of Man taxable person that trades in goods with other EU countries (excluding the United Kingdom) must complete statistical reports, known as Intrastat, if the value of its sales or purchases exceeds certain thresholds. Separate reports are required for intra-Community acquisitions (Intrastat Arrivals) and intra-Community supplies (Intrastat Dispatches).

The 2018 threshold for Intrastat Arrivals is GBP1.5 million. The 2018 threshold for Intrastat Dispatches is GBP250,000.

A taxable person whose intra-Community trade exceeds GBP24 million (for either Arrivals or Dispatches) must also provide additional information concerning terms of delivery.

Intrastat declarations must be submitted monthly and completed in pounds sterling. The submission deadline is the 21st day following the end of the Intrastat return period (normally a month) to which they relate.

Penalties may be imposed if a taxable person's Intrastat declarations are persistently late, missing or inaccurate.

EU Sales Lists. An Isle of Man taxable person must submit an EU Sales List (ESL) if they make either or both of the following types of supply:

- Intra-Community supplies of goods to business customer in other EU Member States
- Intra-Community supplies of services in other EU Member States if the place of supply is the customer's Member State and if the customer is required to account for the VAT due on the supply under the reverse-charge procedure

The information to be included on the ESL includes the country code and VAT registration number of the customer, the total value of those supplies in pounds sterling and an indicator to identify the supply as one of goods or services.

An ESL is not required for any period in which the taxable person does not make any intra-Community supplies.

Monthly submission of ESLs is required if the value of supplies of intra-Community goods exceeds GBP35,000 in the current quarter or any of the previous four quarters. Otherwise ESLs are submitted on a quarterly basis.

Quarterly submission of ESLs is required for supplies of intra-Community services, but businesses may elect to submit them on a monthly basis.

Small businesses with a taxable turnover of less than GBP106,500 submitting annual VAT returns that make intra-Community supplies of less than GBP11,000 per year may request to submit annual ESLs.

For paper returns, ESLs must be submitted within 14 days after the end of the reporting period. For electronic returns, they must be filed within 21 days after the end of the reporting period.

Penalties are assessed for the late submission of ESLs and for material inaccuracies in ESLs.

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A. At a glance

Name of the tax	Value-added tax (VAT)
Local name	Mass erech mussaf (Ma'am)
Date introduced	1 July 1976
Trading bloc membership	None
Administered by	(https://taxes.gov.il/english/Pages/HomePageENG.aspx)
VAT rates	
Standard	17%
Other	Zero-rated (0%) and exempt
VAT number format	XXXXXXXXX
VAT return period	
Bimonthly	Taxable persons with annual turnover below ILS1.51 million
Monthly	General rule
Threshold	
Registration	Annual turnover of ILS99,003; for lower turnover registration as an "exempted VAT-registered entity" is required
Recovery of VAT by non-established businesses	No

B. Scope of the tax

VAT is charged on the following transactions:

- A sale of an asset including real estate, by a taxable person in the course of its business, if the asset is located in, delivered in or exported from Israel (delivery from a location outside Israel to another location outside Israel is out of the scope of the Israeli VAT law; this has implications for the input VAT deduction. See Section F.)
- Sale of intangibles or the provision of services by a taxable person in the course of its business
- Sale of an asset if the input tax on its purchase or import has been deducted
- An occasional transaction with respect to real estate (depends on the status of the seller and the purchaser and the classification of the asset sold) and including incidental service or sale of goods for commercial purposes.

- Provision of "services" by non-Israeli suppliers to Israeli customers
- Support, benefit or subsidy — including those not directly linked to the price of any supply (this may even extend to debt forgiveness) — provided to a taxable person unless an exemption applies
- Importation of goods (including intangible property) into Israel

The term "taxable person" refers to a person or an entity that sells assets or provides services in the course of its business, provided that it is not a nonprofit organization or a financial institution, which are subject to different tax regimes. (In general, a nonprofit organization is subject to salary tax at the rate of 7.5%, which is calculated based on its salary expenses. A financial institution is subject, in addition to salary tax at the rate of 17%, to profit tax at the rate of 17%, which is calculated based on its profits.) Taxable persons also include entities that make occasional transactions. An entity that has annual turnover not exceeding ILS99,003 and that does not fall under the list of exceptions (for example, advisors and professionals) is not liable to VAT register as a trader, but must nevertheless register as an exempt entity for VAT purposes.

The term "asset" includes real estate and goods. "Goods" include all kinds of tangible and intangible property and all kinds of rights or interests but not securities, shares or similar negotiable instruments.

The term "service" includes all types of services provided to others for a consideration — including, importantly, credit transactions and money deposits. It does not include services provided by an employee to his or her employer.

An occasional transaction is the supply of goods or services in the course of a commercial activity. For real estate, it includes the sale of real estate by entities that are not in the real estate business to taxable persons, as well as the sale of land (excluding certain residential properties) by such sellers to nonprofit organizations, financial institutions or to certain purchasers specified in the Real Estate Tax Act.

C. Who is liable

A taxable person is liable for VAT on the sale of assets or the supply of services.

Several exceptions to the above rule exist, such as the following:
- For supplies of services or intangible property by non-Israeli suppliers to Israeli customers, see below under *Reverse charge*.
- Similarly, for certain purchases of real estate, the purchaser is liable to reverse charge the VAT.

For imported goods, the importer of record is liable for VAT.

Group registration. Registration as a VAT group is possible for two or more VAT-registered entities that are the following:
- A company and its subsidiaries
- Two or more subsidiaries owned by the same parent company
- A partnership and a partner that holds 50% or more of the rights in the partnership
- Entities whose bookkeeping is done jointly

The group members share a group VAT number and submit a single monthly or bimonthly VAT report. In addition, each member must submit an annual detailed digital VAT report, detailing the annual sum of output VAT and input VAT with respect to intra-group supplies and also the sum of output VAT and input VAT with respect to third parties. VAT is not charged on supplies made between group members, unless the VAT is not deductible as input tax. Group members are jointly and severally liable for each other's VAT liabilities. In practice, they may also be liable for other tax liabilities in certain circumstances.

Non-established businesses (foreign residents). A foreign resident that makes transactions in Israel, as defined in the VAT Law, or that acts as a financial institution or nonprofit organization in Israel must register for VAT in Israel and appoint a local representative (see below) to act on its behalf with respect to VAT matters within 30 days of beginning to carry on such activities in Israel.

The term foreign resident means an individual who permanently resides outside Israel or a company that is registered or incorporated outside of Israel.

For the purpose of zero-rate VAT for supplies made to foreign residents, additional requirements apply to meet the definition of "foreign resident" (see Section D).

Tax representatives. Where a foreign resident is liable to register for VAT in Israel, for example, because it plans to make taxable supplies, it also has to appoint a local representative, being both an Israeli citizen and resident, which would be liable to the tax authorities jointly and severally with the foreign resident.

Registration procedures. Online registration is not possible for overseas taxable persons, though it is for Israeli taxable persons. Hard copies — for some documents, the original is required — must be submitted. Relevant documents include appropriate forms, articles of association, proof of registration with the Israeli Companies Registrar as a foreign resident corporation carrying on business in Israel, proof of the existence of an Israeli bank account, etc.

Late-registration penalties. These may be up 1% of the taxable turnover, on top of the VAT itself, plus interest, and adjusted for inflation.

Reverse charge. Supplies of services received from overseas must be self-accounted by the Israeli recipient. As for supplies of intangible property from overseas, the VAT on this should generally be withheld by the Israeli bank transferring payment to the overseas supplier. Failing that, the VAT should be self-accounted.

As for domestic reverse charge, this applies in various scenarios, such as where certain services are supplied by a nontaxable person to a taxable person and also where land is sold or leased by a nontaxable person, so as to amount to an occasional transaction, etc.

Digital economy. The Israeli tax authorities have published a circular regarding internet activity of foreign entities in Israel. According to the circular, if it has been established that a foreign entity provides services via the internet to Israeli customers and the services are connected to Israel, it is required to register for VAT purposes in Israel. Under these circumstances, the foreign entity will be subject to the provisions of the Israeli VAT law. Such a position may be established via certain indicators, such as the fact that the services are directed and aimed at Israeli customers, it has been established that the foreign entity has a permanent establishment in Israel for income tax purposes, the foreign entity has a business mechanism in Israel, economic presence in Israel, etc.

It should be noted that if a foreign entity that provides internet services to Israeli customers is required to register for Israeli VAT in accordance with the circular, it will not be considered as a "foreign resident" for certain VAT issues, and therefore services rendered to it by Israeli service providers as well as intangibles sold to it by Israeli vendors will be subject to VAT at the full rate.

In addition, the Israeli Ministry of Finance has published a draft bill to amend the Israeli VAT Law, according to which foreign companies that provide "digital services" (as defined in the bill) to nontaxable persons, i.e., private consumers that are not business/nonprofit organizations/financial institutions (business-to-consumer, B2C transactions), will be required to register in Israel. The registration will not be a "regular VAT registration" but rather a special designated registration only regarding this specific activity. Please note that the bill has yet to pass and is not yet enacted and enforced.

Deregistration. Israel has no separate registration and deregistration thresholds. A business whose turnover falls below the registration threshold may be deregistered.

Exemption from registration. The Israeli VAT law does not contain any provision for exemption from registration. However, there might be a circumstance under which a business can apply to the Israeli VAT tax authorities in order to receive approval that it is not required to register for VAT in Israel. Such an approval depends on the specific circumstances, and is given on a case-by-case basis.

Voluntary registration. The VAT law in Israel does not contain any provision for voluntary VAT registration.

D. VAT rates

VAT at the standard rate of 17% applies to the supplies of goods and services that fall within the scope of VAT as well as to the importation of goods, unless zero-rate VAT or a specific exemption applies.

Moreover, profit tax and salary tax at the rate of 17% apply to financial institutions, and salary tax at the rate of 7.5% applies to nonprofit organizations.

Zero-rate VAT allows input VAT deduction, but an exemption does not allow input VAT deduction.

Examples of zero-rated transactions

- Exports of goods
- Supplies of intangibles to foreign residents
- Supplies of services to foreign residents, subject to broad use and enjoyment restrictions (for example, the services do not relate to assets in Israel, and the services are not also provided to an Israeli resident in Israel)
- Hotel accommodation for tourists
- Leasing private cars to tourists
- Tourist transportation
- Supply of monitor services, as well as inspection and coordination services, with regard to clinical trials conducted in Israel

For the purpose of zero-rate VAT relief on the provision of services or the sale of intangibles to foreign residents, the term "foreign resident" is defined as an individual who permanently resides outside Israel or an entrepreneur that is registered or incorporated outside Israel, provided that the individual or entrepreneur is not engaged in a business activity in Israel.

Examples of exempt transactions

- Leasing of apartments for residence purposes for a period that does not exceed 25 years
- Transactions made by a business that is below the registration threshold
- Sales of diamonds and precious stones

Option to tax for exempt supplies. Israeli law offers taxpayers no option to tax exempt supplies.

E. Time of supply

Supply of goods. Generally speaking, the chargeable event takes place upon delivery—except for qualifying small manufacturers; these use the cash basis.

Supply of services. The cash basis generally applies. However, the chargeable event takes place when the services are supplied in the following circumstances:

- The consideration of services is affected by the fact that the transaction is between related parties.
- The consideration has not been agreed.

- At least some of the consideration is not in cash.
- The services are supplied by certain businesses whose annual turnover is over ILS15 million.

Where the services are supplied in parts, a chargeable event occurs in respect of each part. Where services cannot be said to be made up of different parts, a chargeable event takes place upon each payment being made, in respect of that amount, or on completion of the services, whichever happens first.

These are general rules; specific rules apply to particular types of transactions.

Real estate transactions. For real estate transactions, VAT is due when the possession of the asset is transferred to the purchaser or when the asset is registered in the name of the buyer, whichever is earlier. For construction work, the tax is due when the work is completed or when the possession of the asset is transferred to the customer, whichever is earlier.

In addition, with respect to the above rules, if a payment is made before the above dates, VAT is due for that payment on the date of payment.

Imported goods. VAT is due when the goods are cleared through customs.

A tax clearance mechanism is in place between Israel and the Palestine Autonomous Areas for transfers of goods between their territories. VAT, purchase taxes and import taxes are based on the actual transfer of goods (not on the reported transfer of goods).

Deposits and prepayments. In general, an amount paid as a deposit or as a guarantee to return borrowed goods or to assure the performance of a transaction or the rights of a person connected to a transaction, will be deemed part of the transaction price after six months from the day they were paid, unless they have been returned or became part of the price of the transaction previously. However, if the parties agreed in writing that the deposit or guarantee will be for a period longer than six months, then they shall be deemed part of the price one month after the end of the agreed period.

Goods sent on approval for sale or return. In Israel, there are no special time of supply rules for supplies of goods sent on approval for sale or return. Therefore, the general time of supply rules (as outlined above) applies, and the time of supply is when the delivery of goods takes place.

However, in cases of consignment, if agreed in writing that not more than 10% of the consideration (or a higher percentage set by the Minister of Finance) shall be paid before the sale of the goods, and if not sold they can be returned, the time of supply will be deemed when the goods are sold by the consignee.

Leased assets. Leasing of assets is included within the definition of a "sale." However, the chargeable event takes place on a cash basis, i.e., upon each payment, in respect of the amount paid.

Reverse-charge services. Both for supplies of services received from overseas and those that fall within domestic reverse-charge rules, the chargeable event takes place upon each payment in respect of the amount paid, or on completion of the services, whichever happens first.

Continuous supplies. Where the services are supplied in parts, a chargeable event occurs in respect of each part. However, where services cannot be said to be made up of different parts, a chargeable event takes place upon each payment made, in respect of the amount paid, or on completion of the services, whichever happens first.

F. Recovery of VAT by a taxable person

A taxable person may recover input tax, which is the VAT charged on assets (purchased locally or imported) or services supplied to that taxable person for business purposes, if such items are

used or will be used for taxable transactions. This excludes, for example, private expenditures, and expenditures that are used for out-of-scope transactions or exempt transactions.

A taxable person generally recovers input tax by deducting it from output tax, which is the VAT charged on supplies made by it, provided that the proper tax invoices or importation documents are received in support of the input VAT deduction and that the deduction is claimed within six months after the date of issuance of these documents (a procedure for an extension is available).

Nondeductible input tax. This includes certain types of business and staff entertainment, input tax attributable to particular transactions such as costs related to share transactions, certain preregistration costs (see below), etc.

Refunds. If the amount of VAT recoverable exceeds the amount of VAT payable in a reporting period, the excess amount may be refunded within 30 days. A refund can be obtained by submitting the periodic VAT report, the additional detailed digital report and copies of the tax invoices exceeding the relevant amount if requested by the authorities. The authorities may postpone the refund and conduct an examination or audit.

Partial exemption. Partial exemption is generally calculated on a pro rata basis. Unless rebutted, it is presumed that where most of the taxpayer's turnover is taxable, two-thirds of input tax is used for making taxable supplies, and is therefore deductible; whereas, if the taxable person's turnover is mostly nontaxable, only one quarter of input VAT may be deductible.

Preregistration costs. Input tax on such costs is generally nondeductible. However, on application by a taxpayer, the tax authorities may allow input VAT incurred before registration to be deducted, where the authorities are satisfied that the relevant inputs are set-up costs, i.e., inputs bought at a time when the business was being set up, and used for that purpose.

G. Recovery of VAT by non-established businesses

While Israeli law has no mechanism that allows for this per se, i.e., any equivalent to the EU's 13th Directive, the scope of certain types of relief under Israeli law is broader than under EU law, with the result that non-established businesses may not incur VAT on supplies that would attract VAT in their home jurisdictions. One example of this is hotel accommodation supplied to foreign resident persons, including incidental supplies such as catering.

H. Invoicing

Only a taxable person may issue a tax invoice, and it must do so if requested by the customer. A tax invoice is required to support a claim for input tax deduction (see Section F). The invoice must be issued within 14 days.

The authorities intend to assign invoice numbers to each VAT-registered entity.

A VAT credit note may be used to reduce the amount of VAT charged on a supply. The credit note must reflect a genuine mistake, an overcharge or an agreed reduction in the value of the original supply. A credit note may also be used in a case of bad debts if all reasonable efforts have been exhausted to collect the debt and if all of the regulation requirements are fulfilled.

Foreign-currency invoices. The taxable amount must generally be stated in New Israeli Shekels. A foreign currency may be shown in addition, provided that the exchange rate on the day the invoice is raised is also shown. Alternatively, businesses may apply to the authorities for permission to raise foreign-currency-only invoices.

Electronic invoices. Electronic invoicing is not mandatory in Israel, but it is allowed. It may only be used subject to strict technical rules concerning digital signature, electronic delivery, recordkeeping, etc.

Proof of export. The export declaration issued by Israeli Customs and the commercial invoice are generally enough.

B2C. There are no special rules regarding invoices issued for supplies made by taxable persons to private consumers.

I. Reports and payments

Reports. VAT reports must be submitted on a monthly basis if annual turnover exceeds ILS1.51 million or on a bimonthly basis if annual turnover does not exceed ILS1.51 million. Reports must be submitted by the 15th day of the month following the end of the reporting period. Payment in full is also due by the same date.

Electronic filing. An online detailed digital report is required if annual turnover exceeds ILS2.5 million or if the taxable person is required to keep his books in accordance with the dual accounting system. Electronic reports must be submitted by the 23rd day of the month following the end of the reporting period. Payment in full is also due by the same date.

Special schemes. The taxable amount for certain types of supplies may only be the profit margin on the sale. This includes supplies of secondhand movable goods, works of art and certain residential properties, where any of these supplies are made by a qualifying dealer.

Annual returns. There is no obligation to file an annual return applying to all taxable persons. That said, VAT group members must file a certain type of annual return (see Section C above) as to taxable persons in the Eilat free trade zone.

J. Penalties

Penalties for noncompliance with VAT obligations include fines and imprisonment.

A VAT-registered entity that fails to submit a report when required is liable to pay a fine of ILS211 for every two weeks of tardiness.

If a VAT-registered entity fails to pay an amount of tax when required, linkage differentials (such amount multiplied by the rate of increase of the consumer price index during the period in question) and interest are payable on the amount unpaid.

Penalties may also apply in certain other circumstances.

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A. At a glance

Name of the tax	Value-added tax (VAT)
Local name	Imposta sul valore aggiunto (IVA)
Date introduced	1 January 1973
Trading bloc membership	European Union (EU) Member State
Administered by	Ministry of Finance (http://www.finanze.it)
VAT rates	
Standard	22%
Reduced	4%, 5% and 10%
Other	Exempt and exempt with credit
VAT number format	IT 0 4 1 9 6 7 6 0 0 1 3
VAT returns	Annual (all businesses)
Thresholds	
Registration	None
Deregistration	None
Distance selling	EUR35,000
Intra-Community acquisitions	None
Recovery of VAT by non-established businesses	Yes

B. Scope of the tax

VAT applies to the following transactions:
- Supplies of goods or services made in Italy by a taxable person)
- Intra-Community acquisitions of goods from another EU Member State by a taxable person
- Reverse-charge services received by a taxable person in Italy (that is, services for which the recipient is liable for the VAT due)
- Imports of goods from outside the EU, regardless of the status of the importer

For VAT purposes, Italy consists of the territory of the Republic of Italy excluding the municipalities of Livigno and Campione d'Italia and the Italian waters of Lake Lugano. Special arrangements apply to goods imported into Italy from the Vatican City and the Republic of San Marino, which do not form part of the territory of the Republic of Italy.

C. Who is liable

The term "taxable person" refers to any individual or legal entity that makes supplies of goods or services in the course of a business, or that performs an artistic or professional activity in Italy.

The occasional supply of goods or services is not generally within the scope of Italian VAT. However, any supply of goods or services made by a corporate entity is regarded as a business activity, unless it is specifically treated as a nonbusiness activity by the Italian VAT authorities.

Group registration. Two different VAT grouping arrangements are available.

The first one is an optional administrative scheme, whereby group members retain separate VAT numbers and VAT is chargeable on supplies made between group members. The optional scheme allows the offsetting VAT payments and repayments among group members. A corporate body that controls one or more other companies may apply to form a VAT group. The controlling company must form part of the group, but it is not necessary for all the companies that it controls to be included. Under this scheme, the VAT group is not treated as a single taxable person. EU entities that are registered for VAT in Italy may be part of an Italian VAT group.

The second one is an optional scheme whereby all group members lose their distinct VAT status and the group becomes a single taxable person for transactions with third parties. All transactions between group members are disregarded for VAT purposes.

The second option is effective as of 1 January 2019 for those taxpayers that have exercised the relevant option before 15 November 2018. For those taxpayers that exercise the option after such deadline, but before 30 September of each calendar year, the VAT grouping is effective as of the following 1 January (e.g., the option exercised by 30 September 2019 will be effective as of 1 January 2020; the option exercised from 1 October 2019 up to 30 September 2020 will be effective as of 1 January 2021).

Relevant law provisions bring within the scope of VAT certain head office-to-branch and branch-to-branch transactions, where one or both are members of a VAT group. The provisions reflect the decision in the Skandia case, which held that VAT groups are separate taxpayers for VAT purposes.

This clarification forms part of the provisions related to Italian VAT grouping rules. Specifically:
- Transactions (both supplies of goods and services), made by an Italian VAT-grouped company (or branch) to its overseas branch (or head office) are treated as supplies made by the Italian VAT group to a third party. Likewise, supplies from the overseas branch (or head office) to its Italian VAT-grouped head office (or branch) are also within the scope of VAT.
- Transactions made by an Italian company or branch to its overseas branch (or head office) that is part of a VAT group in another EU Member State are supplies for VAT purposes. Similarly, supplies made by an overseas branch or company that is VAT grouped in another EU Member State to its Italian branch(es) or head office (whether grouped or not in Italy) are within the scope of VAT. This is commonly referred to as the "reverse Skandia" principle.

The provisions also state that, if a consideration is not provided for the transactions, the taxable amount must be the open market value pursuant to Article 13, paragraphs 1 and 2 of the Italian VAT Act Law implementing Article 80 of the EU VAT Directive.

Non-established businesses. A "non-established business" is a business that has neither the main establishment nor a fixed establishment in Italy. A non-established business must register for Italian VAT if it makes certain supplies, such as the following:
- Supplies of goods located in Italy at the time of supply to nontaxable persons or other non-established businesses
- Intra-Community acquisitions in Italy or intra-Community sales from Italy
- Distance sales in excess of the annual threshold (see the chapter on the EU)
- Supplies of services taxable in Italy to nontaxable persons or other non-established businesses

If a non-established business supplies goods or services to an Italian taxable person, the Italian-established taxable person is liable to account for the VAT due, under reverse-charge. Under this type of accounting, the taxable customer must self-assess the tax due. However, in such a case, a taxable person established in a non-EU country that does not register may not recover any Italian VAT charged to it unless the VAT is refundable under the terms of the EU 13th VAT Directive (for example, companies resident in Israel, Norway and Switzerland; see the chapter on the EU). A taxable person established in an EU country that does not register may recover any Italian VAT charged to it under the terms of the EU 8th Directive.

A non-established business that receives taxable supplies of goods or services in Italy may choose to register for Italian VAT even if registration is not compulsory.

In any case, non-established entities registered for VAT in Italy cannot issue invoices applying Italian VAT to Italian-established VAT taxpayers.

Tax representatives. A foreign business that is established in another EU Member State or in a non-EU country that has suitable mutual-assistance provisions with the EU (currently no countries have such mutual-assistance provisions) may directly register in Italy for VAT without the appointment of a VAT representative.

Foreign businesses established in countries other than the countries mentioned above must appoint a VAT representative to register for VAT. The representative must be granted a power of attorney to act on behalf of the non-established business.

Registration procedures. Legal entities established in Italy or permanent establishments in Italy of foreign businesses must register for VAT purposes by submitting the AA7/10 form at the tax office competent for their tax domicile. The form must be submitted within 30 days of the commencement of economic activities.

Form AA7/10 is included in the comprehensive form called "ComUnica", which has been compulsory since 1 April 2010 for the establishment of a company. The ComUnica form must be submitted to the Italian Business Register electronically or in digital form. It includes all the forms necessary to satisfy all administrative requirements to be entered in the Italian Business Register, and it is valid for VAT registration.

This registration procedure usually takes one or two days.

Artists, professionals and individual businesses resident in Italy must fill in Form AA9/12 and file it in one of the following ways:
- In duplicate, submitted in person or by a duly delegated person if necessary, to one of the Revenue Agency's offices, regardless of the tax domicile of the entity
- A single copy by registered post, enclosing a photocopy of an identity document of the declarant, to be sent to any one of the Revenue Agency's offices regardless of the tax domicile of the entity (deemed submitted on the date mailed)
- Electronically, submitted by the taxpayer or by the person or entity entrusted with its electronic submission

The form must be submitted within 30 days of the commencement of economic activities, and the registration procedure usually takes one or two days. For foreign businesses established in a non-EU country, a VAT representative (see *Tax representatives* above) follows the same procedure as artists, professionals or individual businesses resident in Italy, filing Form AA9/12, with all the same requirements.

Direct VAT registration (only for taxpayers established in an EU Member State) is accomplished by submitting Form ANR/3 to the Italian Revenue Operational Centre in Pescara, which has exclusive competence in such matters, in the following ways:
- In person, to the office (by the taxpayer or a duly delegated person)

- By registered post, also enclosing a copy of an identity document of the declarant, together with a certificate demonstrating the VAT-taxable status held by the requesting person in the Member State of establishment and delivered to the following address:

  Agenzia delle Entrate — Centro operativo di Pescara
  Servizio identificazione soggetti non residenti
  Via Rio Sparto, n. 21
  65129 Pescara
  Italy

The registration procedure must be completed before the commencement of economic activities and usually takes from three to four weeks.

Late-registration penalties. Late registration for VAT may result in the imposition of various penalties, depending on the errors committed. Penalties include the following:

- Failure to inform the Italian VAT authorities regarding the beginning of activities: a penalty ranging from EUR500 to EUR2,000.
- Failure to issue and record invoices for taxable transactions: a penalty ranging from 90% to 180% of the VAT not invoiced or posted.
- Failure to issue and record invoices for exempt and exempt-with-credit transactions or certain transactions not subject to VAT: a penalty ranging from 5% to 10% of the amount not invoiced or posted. However, if the violation is not relevant for the assessment of the income, a penalty ranging from EUR250 to EUR2,000 applies.
- Failure to make payments of VAT: a penalty of 30% of the payment not made, plus interest on the late payment.
- Failure to maintain VAT records: a penalty ranging from EUR1,000 to EUR8,000.
- Failure to file the annual VAT return: a penalty ranging from 120% to 240% of the VAT due, a minimum amount of EUR250, applies. However, if the VAT return is filed within the legal term foreseen for the submission of the VAT return relevant for the following year and, in any case, before any audit is started, the penalty is reduced to half (i.e., ranging from 60% to 120% of VAT due), with a minimum amount of EUR200.

Reverse charge. The reverse-charge mechanism applies to taxable supplies of goods and services by non-established persons to taxable persons established in Italy and to intra-Community acquisitions of goods.

Supplies of business-to-business (B2B) services as per Article 44 of the EU VAT Directive. Under the Italian VAT law, a domestic reverse charge applies in the following cases (i.e., the reverse charge applies to all affected transactions, irrespective of where the supplier or the recipient is established):

- Sale of industrial gold for which the seller opted for the application of VAT
- Services rendered under a subcontractor agreement in the construction industry
- Sale of residential buildings or commercial buildings for which the seller opted for the application of VAT
- Sale of mobile phones and microprocessors
- Sale of PCs, laptops, tablets and game consoles
- Sale of scrap, waste and residue of ferrous metals, shredded paper, bone waste, skin waste, glass waste, rubber and plastic waste, deemed to include even those related to the aforementioned goods which have been recleaned, selected, cut, compacted, transformed into ingots or subjected to other treatments to facilitate their use, transport and storage without modifying their nature; and scrap, waste and residue of non-ferrous metals included in specific categories such as refined copper and raw nickel
- The provision of cleaning services, building demolition services, provision of installation systems and the services related to the completion of a building
- Certain transactions in the energy sector

- The provision of services rendered by consortium members to consortiums acting as contractors toward public administrations (the effectiveness of this provision is subject to specific approval by the Council of the European Union)

Under the reverse charge mechanism, the Italian supplier must issue an invoice without VAT, and the taxable customer must self-assess the VAT due.

Digital economy. EU VAT place of supply rules apply to business-to-consumer (B2C) supplies (i.e., supplies to non-VAT-taxable customers) of digital services. Supplies of digital services to EU consumers are subject to VAT in the Member State where the customer belongs. Thus, where the customer belongs in Italy, Italian VAT will be due.

Web tax/digital services tax: The 2019 Budget Law introduces a new tax applicable to the provision of digital services (Italian digital services tax or Italian DST) by repealing the old measure introduced by the 2018 Budget Law (the "web tax"), which never entered into force. According to the new rules, the Italian DST shall be due by entrepreneurs (both resident or nonresident in Italy) carrying on business activities that, individually or at the group level, jointly meet the following thresholds in the financial year (the "taxable persons"):
- Total amount of revenues (wherever arising) not lower than EUR750 million
- An amount of revenue derived from digital services (arising in Italy only) not lower than EUR5.5 million

The Italian DST shall be applied only to revenues derived from the following digital services, except when they are supplied intragroup:
- Provision of advertising on a digital interface targeted to users of the same interface
- Provision of a digital multilateral interface aimed at allowing users to interact (also in order to facilitate the direct exchange of good and services)
- Transmission of data collected from users and generated by the use of a digital interface

The tax shall apply at a 3% rate on the gross amount of the revenues realized in Italy on the sale of digital services and shall be paid by the supplier of digital services on a quarterly basis by the end of the month following each quarter.

An implementing decree should be issued within four months following the entry into force of the Budget Law (i.e., by 30 April 2019) and the tax should be applicable starting from the 60th day following the one of publication of the implementing decree (i.e., it should be applicable starting from 30 June 2019).

Split payment. For supplies of goods and services supplied to certain public bodies, although invoices are issued with VAT, the related VAT amount is paid to the tax authorities by the recipient. As a consequence, the public body does not pay the amount of VAT to the supplier, but directly to the Italian Revenue. This procedure does not apply to transactions subject to the reverse-charge mechanism.

The split payment is applicable for supplies to:
1) National, regional and local economic public entities, including special companies and public service companies
2) Foundations owned by public administrations for an overall percentage of the endowment fund not lower than 70%
3) Companies controlled by the Government or by individual Ministries
4) Companies directly or indirectly controlled by public administrations or by the companies under 1), 2), 3) and 5)
5) Companies owned — for an overall percentage of capital not lower than 70% — by public administrations or by entities and companies under 1), 2), 3) and 4)
6) Listed companies included in the FTSE MIB index of Borsa Italiana (i.e., the Italian stock exchange) identified for VAT purposes

Public bodies, as well as entities that should be subject to the split-payment mechanism are listed in lists published by the Ministry of Economics and Finance (http://www1.finanze.gov.it/finanze2/split_payment/public/) available at the website indicepa.gov.it.

The validity period of the split-payment mechanism has been granted until 30 June 2020 by the European Council.

Mini One-Stop Shop. From 1 January 2015, the place of supply for business-to-consumer (B2C) supplies of telecommunications services, broadcasting services and e-services within the EU will be the Member State where the customer belongs. Taxpayers supplying electronic services to non-business customers in another Member State will have to charge and account for VAT according to the VAT rules of the customer's Member State.

Since 1 October 2014, businesses established in Italy and non-EU businesses can register for the Mini One-Stop Shop (MOSS) scheme through the Italian Revenue's website.

Deregistration. Taxpayers can cancel their registration for VAT purposes using the same forms used for obtaining a registration (see *Registration procedures* above). Taxpayers must deregister within 30 days of the end of business activity.

Exemption from registration. The VAT law in Italy does not contain any provision for exemption from registration.

Voluntary registration. The VAT law in Italy does not contain any provision for voluntary VAT registration, as there is no registration threshold (i.e., all entities that make taxable supplies are obliged to register for VAT).

D. VAT rates

"Taxable supplies" are supplies of goods and services that are liable to VAT at the following rates:
- Standard rate: 22%
- Reduced rates: 4%, 5% and 10%

The standard rate of VAT applies to all supplies of goods or services unless a specific provision allows a reduced rate or exemption.

The 2019 Budget Law foresees the following increases of VAT rates, precisely:
- 10% reduced VAT rate:
  — +3.0% (13%) as from 1 January 2020
- 22% standard VAT rate:
  — +3.2% (25.2%) as from 1 January 2020
  — +1.3% (26.5%) as from 1 January 2021

Examples of goods and services taxable at 4%

- Books, newspapers and periodicals
- Certain foodstuffs
- E-books and all other e-publishing materials identified with codes ISBN (International Standard Book Number) and ISSN (International Standard Serial Number)
- Medical equipment
- Supplies of food and drink in a staff restaurant

5% rate applies to services rendered by *Cooperative Sociali*

A reduced 5% VAT rate is applicable to the provision of social, health and education services (e.g., medical diagnostics, provision of hospital services and care) by *Cooperative Sociali* and their consortiums (i.e., special entities aimed at rehabilitation and care of socially disadvantaged persons) to certain categories of people, such as the elderly, the disabled, drug-addicted persons and AIDS patients.

Examples of goods and services taxable at 10%

- Medicines
- Supplies of food and drink in restaurants, bars and hotels
- Supplies of electricity, methane and liquid petroleum, all for domestic use
- Electricity and gas for use by extraction enterprises and industrial enterprises
- Accommodation services rendered by marina resorts

"Exempt supplies" are supplies of goods and services that are not liable to tax, and that do not give rise to a right of input tax deduction (see Section F). In addition, some supplies are "exempt with credit," which means that no VAT is chargeable but the supplier may recover related input VAT. Exempt-with-credit supplies include intra-Community supplies, exports of goods outside the EU and related services, and supplies of some services supplied to another taxable person established outside Italy.

Examples of exempt supplies of goods and services

- Education (under certain conditions)
- Finance
- Insurance
- Postal services
- Medical services

Option to tax for exempt supplies. Under certain circumstances, the seller can opt for the application of VAT to supplies that are listed as exempt, such as:

- Sale of social housing
- Sale of residential buildings where the seller is a construction company that has built or renovated the relevant property more than five years prior to the sale
- Sale of commercial buildings where the seller is not a construction company that built or renovated the relevant property
- Sale of commercial buildings where the seller is a construction company that has built or renovated the relevant property more than five years prior to the sale
- Renting or leasing of residential buildings carried out by a construction company that has built or renovated the relevant properties
- Rental or leasing of commercial buildings
- Sale of industrial gold and related intermediation activities

E. Time of supply

The time when VAT becomes due is called the "time of supply" or "tax point." Time-of-supply rules vary according to the nature of the transaction.

For immovable property, the time of supply is the date on which the agreement to transfer the property is signed. For movable property, the time of supply is the date of delivery or dispatch of the goods. The time of supply may be an earlier date if an invoice is issued or if full or partial payment is received before the goods are supplied.

The time of supply for services is the date of full or partial payment of the consideration. The time of supply may be earlier if an invoice is issued before the services are supplied. No time of supply is triggered on the date of performance or completion of the service, in the absence of any payment or invoice.

If the services are performed on a continuous basis over a period longer than one year, and they do not entail advance payments within the same period, even partial payments, the time of supply will be at the end of each calendar year up to the completion of the services.

For purchases of services under Article 44 of the EU VAT Directive (implemented in Italy by Article 7-ter of Italian VAT Law) from a non-established taxable person, the time of supply is the

date when the services are completed or, if the services are supplied periodically or on a continuous basis, when the consideration accrues.

If the consideration is wholly or partly paid in advance, i.e., before the services are completed or the consideration is accrued, VAT becomes chargeable at the time when the payment is made and for the amount of said payment. The same rule applies to cross-border services supplied by a taxable person established in Italy to a non-established taxable person, when not falling under derogation rules provided by Article 47 and following the EU Directive (implemented in Italy by Articles 7-quater and 7-quinquies of Italian VAT Law).

Deposits and prepayments. The receipt of a deposit or prepayment for a particular supply of goods or services creates a time of supply for up to the amount paid.

Goods sent on approval or for sale or return. The time of supply for goods sent on approval or for sale or return is the date on which the goods are accepted by the customer or 12 months after their removal, whichever is the earlier.

Intra-Community supplies. The time-of-supply rules for intra-Community supplies of goods are the same as those for domestic supplies.

Intra-Community supplies and acquisitions. The time of supply for intra-Community supplies and acquisitions of goods is the date when transport or dispatch of the goods to the customer begins in the territory of the Member State of departure, whether Italy or another Member State.

The time of supply may be an earlier date if an invoice is issued before the transport or dispatch of the goods begins.

Continuous intra-Community supplies and acquisitions of goods lasting for periods longer than one calendar month shall be regarded as being completed at the end of each calendar month.

Imported goods. The time of supply for imported goods is the date of importation or when the goods leave a duty suspension regime.

Cash accounting. Taxpayers can opt for cash accounting under specific circumstances if turnover did not exceed EUR2 million in the previous year, with reference to transactions carried out with taxable persons.

Under cash accounting, rules for the supplier are as follows:
- VAT is due when the supplier receives payment for supplies of goods or services (but in any case, not later than one year from the date in which the goods are supplied or the services are performed).
- VAT on purchases is recoverable when the consideration has been paid.

The invoice shall make specific reference to cash accounting and the pertaining legal provision.

A taxpayer that purchases goods or services from a supplier that has opted for cash accounting can deduct the relevant VAT when the transaction is deemed to be performed for VAT purposes, even if the payment for the supply has not yet been made.

Some supplies and purchases from a supplier that uses cash accounting are excluded from this regime.

Reverse-charge services. Under Article 44 of the EU VAT Directive (implemented by Article 7-ter of Italian VAT Law), the time of supply for services purchased from a non-established person by an Italian taxable person is the date when the services are completed.

If the consideration is wholly or partly paid in advance, VAT becomes chargeable at the time when the payment is made and for the amount of said payment. The same rule applies to cross-border services supplied by a taxable person established in Italy to a non-established taxable

person, when not falling under derogation rules provided by Article 47 and following the EU Directive (implemented by Articles 7-quater and 7-quinquies of Italian VAT Law).

Continuous supplies of services. For services under Article 44 of the EU VAT Directive (implemented by Article 7-ter of Italian VAT Law) supplied periodically or on a continuous basis, the time of supply is when the consideration accrues.

If the consideration is wholly or partially paid in advance, VAT becomes chargeable at the time when the payment is made and for the amount paid. If the services are performed on a continuous basis over a period longer than one year, and they do not entail advance payments within the same period, even partial, the time of supply will be at the end of each calendar year up to the completion of the services.

Leased assets. Leasing of an asset is regarded as a supply of services for VAT purposes. The time of supply is the same as per other services, i.e., if an invoice is issued or a consideration is wholly or partly paid, the transaction is deemed to be carried out, within the limits of the invoiced or paid amount, at the invoice date or at the date of payment.

For leasing of movable property, if the lease involves a non-established taxable person (this can be the lessor or lessee), the time of supply is the date when the consideration accrues, since leasing is a service typically supplied on a continuous basis. If the consideration is wholly or partly paid, the transaction is considered to be carried out, up to the amount of the payment, at the date of payment. This means that the normal tax point is when the consideration accrues, but if the payment comes before the consideration accrual, the tax point is then the time of payment.

F. Recovery of VAT by taxable persons

A taxable person may recover input tax, which is VAT charged on goods and services supplied to it for business purposes. Input tax is generally recovered by being deducted from output tax, which is VAT charged on supplies made.

Input tax includes VAT charged on goods and services in Italy, VAT paid on imports of goods and VAT self-assessed on intra-Community/domestic acquisitions of goods and reverse-charge transactions (see the chapter on the EU).

A valid tax invoice or customs document must generally accompany a claim for input tax.

Non-deductible input tax. Input tax may not be recovered on purchases of goods and services that are not used for business purposes.

Examples of items for which input tax is nondeductible

Input tax may not be recovered for the following items of business expenditure unless these goods or services are incurred by a taxable person in order to supply them in the course of its business activity.

- Passenger transportation services
- 60% of the VAT paid on the lease, rental or purchase of a car used for business purposes, maintenance costs, lubricants and fuel
- Costs relating to aircraft and leisure yachts
- Residential dwellings
- Food and beverages
- Representation expenses
- Business gift of which the costs exceed EUR50

Examples of items for which input tax is deductible (if related to a taxable business use)

- 100% VAT paid on the lease, rental or purchase of a car used for business purposes, maintenance costs and fuel
- 100% VAT paid on mobile phones

Partial exemption. Input tax directly related to making exempt supplies is generally not recoverable. If an Italian taxable person makes both exempt and taxable supplies it may not recover input tax in full. This situation is referred to as "partial exemption." Exempt with credit supplies are treated as taxable supplies for these purposes.

In Italy, the standard partial exemption calculation method is based on the *ratio* of taxable turnover to total turnover. Recovery percentages are rounded up or down to the nearest whole number (for example, a recovery percentage of 77.5% is rounded down to 77%, while a recovery percentage of 77.6% is rounded up to 78%).

Capital goods scheme. Capital goods are items of capital expenditure that are used in a business over several years. Input tax is deducted in the VAT year in which the goods are acquired. The amount of input tax recovered depends on the destination or use of the goods and/or on the taxable person's partial exemption recovery position in the VAT year of acquisition. However, the amount of input tax recovered for capital goods must be adjusted over time if the destination or use of the goods changes and/or the taxable person's partial exemption recovery percentage changes during the adjustment period by more than 10 percentage points.

In Italy, the capital goods adjustment applies to the following assets for the number of years indicated:
- Land and buildings (adjusted for a period of 10 years)
- Other capital assets as defined in the Italian civil code (adjusted for a period of five years)

The adjustment is applied each year following the year of acquisition to a fraction of the total input tax (1/10 for land and buildings and 1/5 for other capital assets). The adjustment may result in either an increase or a decrease of deductible input VAT, depending on, for example, whether the *ratio* of taxable supplies made by the business has increased or decreased compared with the year in which the capital goods were acquired.

Refunds to VAT-registered taxable persons. If the amount of input tax recoverable in a monthly period exceeds the amount of output tax payable in that period, the taxable person has an input tax credit. A refund of the credit may be claimed annually or quarterly if specific conditions are met, and if a taxpayer meets the conditions to claim both annually and quarterly, it may choose either. If the conditions for requesting a refund are not met, the input VAT credit may be carried forward to offset output VAT in the next VAT period.

Annual VAT refund. An annual VAT refund may be claimed if any of the following conditions are met:
- The average VAT rate paid by the taxable person on purchases exceeds the average VAT rate applied to its sales, increased by 10 percentage points.
- Exports, intra-Community supplies or international services make up more than 25% of the taxable person's total turnover.
- The VAT credit arises from purchases or imports of depreciable assets or purchases of goods and services for research and development (R&D) activities. However, the repayment is limited to the amount of VAT on purchased or imported depreciable assets and R&D goods and services.
- The majority of transactions are out of the scope of VAT under the place-of-supply rules.
- The taxpayer is a non-established business registered for VAT in Italy.
- The taxable person has an input tax credit in the annual VAT return for three consecutive years. In this case, the repayment is limited to the lowest of the credit amounts in the three years.

Quarterly VAT refund. A quarterly refund may be claimed if any of the following conditions are met:
- The average VAT rate paid by the taxable person on purchases exceeds the average VAT rate applied to the taxable person's sales, increased by 10 percentage points.
- Exports, intra-Community supplies or international services make up more than 25% of the taxable person's total turnover.

- The VAT credit arises from the purchase or import of depreciable assets, which represents more than 2/3 of the total amount of purchases subject to VAT. The repayment is limited to the amount of purchased depreciable assets.
- The taxpayer is a non-established business registered for VAT in Italy.
- The taxpayer renders to non-established taxable persons, for an amount higher than 50% of its total turnover, services related to tangible moveable goods, transport of goods and related intermediation services, services ancillary to transport of goods and related intermediation services, supply of banking, insurance and financial services to non-EU persons or regarding goods for exportation.

The VAT credit refund procedure may trigger the filing of a bank guarantee to the tax authorities. Starting from 2015, the bank guarantee is not due in case the VAT credit claimed for refund is lower than EUR30,000.

For VAT refunds higher than EUR30,000, under certain conditions, the filing of the bank guarantee can be replaced by a "certification" of the VAT credit by the auditing body or other authorized professionals. These professionals shall assess the existence and amount of the VAT credit through a check of the annual VAT return and of the VAT ledgers and proper bookkeeping. Moreover, the taxpayer should issue a self-declaration attesting to be an active business.

The obligation to file a bank guarantee for VAT refunds higher than EUR30,000 is instead still applicable in some specific cases:
- VAT refunds claimed by companies that started their business activity less than two years prior
- VAT refunds claimed by taxpayers that in the previous two years received a tax assessment regarding the amounts declared in the annual VAT return
- VAT refunds claimed by taxpayers that did not provide for the VAT credit certification or the self-declaration
- VAT refunds claimed by taxpayers in the last year of activity

In all the cases that require a bank guarantee, the legislation foresees that the taxable person asking for the VAT refund may receive a lump sum amount, as relief for costs sustained for the issuance of the bank guarantee itself, equal to 0.15% of the guaranteed amount for every year of validity of the bank warranty. This lump sum must be paid when it is recognized by the tax authorities that the taxpayer is entitled to receive the VAT reimbursement. This provision applies with effect from the VAT claims made through the annual VAT return related to fiscal year 2018 and quarterly VAT refund requests related to the first quarter of 2018. Taxable persons may use a VAT credit shown in the annual VAT return to offset other Italian tax liabilities:
Taxable persons may use a VAT credit shown in the annual VAT return to offset other Italian tax liabilities:
- For offsets higher than EUR5,000, the VAT credit must be "certified."
- The offset may not exceed EUR700,000 per year.

Recovery of the VAT incorrectly charged. A procedure for recovering VAT incorrectly charged by the supplier has been introduced into the Italian VAT Law. The new provision foresees that, in the case of a transaction that has been incorrectly subjected to VAT:

(i) The supplier can ask the tax authorities for a refund of the VAT wrongly charged and paid within two years:
   - From the payment date of the undue VAT; or, if subsequent
   - From the day when the VAT is repaid to a customer who has asked for restitution because it has received a definitive assessment from the tax authorities that VAT was wrongly charged, and is therefore non-recoverable as input tax

(ii) The customer can ask for the restitution of the VAT charged by the supplier within the ordinary time frame of 10 years.

For the sake of completeness, this reimbursement procedure does not apply in cases that may involve a tax fraud.

Frequent exporters regime. The Italian VAT law provides that repayments are made within three months after the deadline for the claim. However, particularly for credit amounts higher than EUR700,000, long delays are common because refunds exceeding this amount are subject to an audit process by the Revenue Agency. This delay may cause a severe cash flow problem for businesses involved in international trade because they are frequently in a VAT credit position. To ease the situation, the Italian VAT law provides that "frequent exporters" may purchase, import and acquire goods and services without payment of VAT.

To qualify as a "frequent exporter," export supplies must exceed 10% of a taxable person's annual turnover. VAT-free purchases are limited to the value of the taxable person's export supplies either in the preceding calendar year or in the preceding 12 months (at the option of the taxable person). For these purposes, exports include exports of goods, zero-rated services and intra-Community supplies.

Preregistration costs. Italian VAT law does not specifically provide for the recoverability of the VAT on preregistration costs. However, the Italian Revenue clarified that the input VAT incurred prior to registration can be recovered subject to the payment of penalties on late registration.

Write-off of bad debts. In principle, the VAT on bad debts can be recovered by issuing a credit note, subject to certain conditions.

If the adjustment occurs as a result of an agreement between the parties, an adjustment VAT credit note cannot be issued later than one year after the transaction was carried out.

In the case of a bankruptcy procedure or an individual enforcement procedure, in order to recover the relevant VAT, the credit note must be issued no later than the deadline to file the VAT return related to the year in which the right of deduction arises, i.e., the year in which the procedure is concluded. With respect to an "agreement for debt restructuring" (*accordo di ristrutturazione dei debiti*) or further to a debt plan certified and published by the Chamber of Commerce, no deadline for the issuance of VAT credit notes is provided.

Non-economic activities. Taxpayers carrying out both noneconomic activities and economic activities can recover the VAT paid on the purchases of goods and services only insofar as they relate to the economic activities.

G. Recovery of VAT by non-established businesses

Italy refunds VAT incurred by non-established businesses that are not registered for VAT in Italy. A non-established person may claim Italian VAT to the same extent as an Italian taxable person.

For businesses established in the EU, a refund is made under the terms of the EU 8th Directive. For businesses established outside the EU, a refund is made under the terms of the EU 13th Directive.

In accordance with the terms of the EU 13th VAT Directive, refunds to non-EU businesses are made on the condition of "reciprocity," which the Italian VAT authorities strictly impose. This means that VAT is refunded to businesses that are established in countries that make refunds of VAT or sales taxes to Italian businesses. Israel, Norway and Switzerland are included in this category. In practice, businesses from a large number of non-EU countries, including the United States, are excluded from receiving refunds. However, a business established in a country that is excluded from the EU 13th VAT Directive refund scheme may be able to recover Italian input tax by registering for Italian VAT through a VAT representative before making a purchase.

The deadline to file a claim for the refund of VAT paid in any year is 30 September of the next year.

For the general VAT refund rules contained in the VAT Directive and the EU 13th VAT Directive, see the chapter on the EU.

Repayment interest. Italian VAT law provides that payment of recoverable VAT must be made no later than six months after the date on which the application is filed. However, in practice, the refund procedure takes two or three years. Interest accrues at a rate of 2% per year effective from 2010. (The date when interest starts accruing varies.)

H. Invoicing

VAT invoices and credit notes. An Italian taxable person must generally provide a VAT invoice for all taxable and exempt supplies made, including exports and intra-Community supplies. Invoices are not automatically required for retail transactions, unless requested by the customer. If an Italian taxable person that purchases goods or services from an Italian supplier does not receive a correct invoice by the end of the fourth month following the month when the acquisition occurred, it must regularize the purchase by disclosing it and paying VAT to the tax authorities by the end of the fifth month following the supply.

A VAT invoice is necessary to support a claim for input tax deduction or a refund under the VAT Directive or EU 13th VAT Directive refund schemes (see the chapter on the EU).

A VAT credit note may be used to reduce the VAT charged and reclaimed on a supply. A credit note must reflect a genuine mistake or overcharge or an agreed reduction in the value of the original supply and must be issued only in the particular cases listed under Italian law. The document must be marked "credit note," it must be numbered and it must refer to the original VAT invoice.

Electronic invoicing. A general business-to-business (B2B) and business-to-consumer (B2C) electronic invoicing obligation applies, starting from 1 January 2019. The electronic invoicing obligation only applies to transactions between established/resident persons. For transactions not falling under mandatory electronic invoicing (e.g., supplies to a non-established person), it is necessary to file a monthly communication (so called "Esterometro") by the last day of the month following the invoice date.

For import and export transactions where a Customs bill is issued and for cross-border transactions where the supplier opted for electronic invoicing, the Esterometro communication is optional.

Electronic invoices must be archived electronically according to the requirements of Italian law. The Italian Revenue Agency offers a free-of-charge archiving service.

The following requirements are applicable for mandatory electronic invoicing:
- The electronic invoice shall be in the XML format without macroinstructions or executable codes that may impact the integrity of the invoice content.
- The transmission of the invoice must be via the Interchange System (SDI).
- The mandatory invoicing requirements also apply to electronic invoices.
- The electronic invoice delivery via the SDI can be made alternatively by:
  - Certified email (PEC)
  - Electronic services made available by the Italian tax authorities (web or app)
  - Web cooperation system (web service)
  - FTP protocol
- Both the web service and the FTP protocol require a specific application at the time of the registration with the SDI.

- The SDI performs some formal checks at the time of the delivery. If the checks are not passed, a reject report is issued within five days from the delivery/upload into the SDI. In this case, the invoice is considered not issued.
- The electronic invoice can be delivered by/to an intermediary on behalf of the taxpayer/recipient.
- Any request of issuance of a credit/debit note by the customer to the supplier is managed outside the SDI. The credit/debit note must be transmitted via the SDI.

Memorization and electronic submission of fiscal/cash receipts. From 1 January 2020, the electronic memorization and submission of fiscal receipts and cash receipts for retail trade taxpayers is mandatory.

The obligation will be mandatory as of 1 July 2019, for taxpayers with a yearly turnover higher than EUR400,000. The electronic procedure at stake must be performed through electronic means (so called *"registratori telematici"*).

Exports and exempt supplies. Invoices for exports, intra-Community supplies of goods and exempt supplies must mention "nontaxable transaction" and "exempt transaction" to support the fact that VAT has not been charged. Invoices may indicate the applicable provision of the Italian or EU law.

Proof of exports and intra-Community supplies. Italian VAT is not chargeable on supplies of exported goods or on intra-Community supplies of goods (see the chapter on the EU). However, to qualify as VAT-free, exports and intra-Community supplies must be supported by evidence proving that the goods have left Italy. Acceptable proof includes the following documentation:

- For exports, copies of the export documents or invoices officially validated by customs or indicating the Movement Reference Number (MRN)
- For intra-Community supplies, a range of commercial documentation, such as the Convention on the Contract for the International Carriage of Goods by Road (*Convention des Marchandises par Route*, or CMR) waybills, airway bills, consignment notes or transport documentation

Self-invoices for reverse-charge supplies. If an Italian established taxable person receives a supply of goods or services from a non-established person, reverse charge applies, and it must issue a self-invoice, showing all the details of an Italian tax invoice and the correct VAT due. The self-invoice must mention "self-invoice" and must be recorded in both the purchases and sales ledgers of the taxable person.

For Article 44 services received from an EU supplier, instead of issuing a self-invoice, Italian taxpayers must apply the reverse-charge mechanism via the "integration" of the invoice. In practice, the taxpayer must follow the same reverse-charge procedure that is applicable to intra-Community acquisitions of goods (see below).

Intra-Community acquisitions. To account for Italian VAT on an intra-EU acquisition, the Italian purchaser (VAT taxpayer) must "integrate" the foreign invoice, i.e., the applicable Italian VAT rate and the corresponding Italian VAT must be written on the foreign invoice. The invoice must be entered into the taxable person's purchases and sales ledgers. If the supplier does not issue an invoice for the transaction, the Italian acquirer of the goods must self-invoice by the 15th day of the third month following the month in which the acquisition occurred. Invoices issued in a foreign currency must be converted to euros (EUR).

Sales invoices must be issued in euros, rounding up to the eurocent. Invoices received from foreign suppliers and issued in foreign currency must be converted to euros by the recipient using the exchange rate at the time of the supply. If this information is unknown at the date of invoice, the conversion into euros may be made based on the exchange rate published by the European Central bank.

B2C. Rules apply to the place of supply for supplies of telecommunications, broadcasting and electronic services to non-VAT taxable customers. For further details of the VAT rules on electronic services in the EU, please refer to the European Union chapter.

Aside from the rules on supplies of telecommunications, broadcasting and electronic services, some types of taxpayers (i.e., those who carry out retail and similar businesses) are exempted from the obligation to issue full VAT invoices, if not expressly requested by the customer. However, where a full VAT invoice is not issued, it is mandatory to issue a simplified document instead, called a fiscal receipt. The fiscal receipt must include the following information:
- The progressive numbering by calendar year attributed to the fiscal receipt
- The date of issuance
- Company name or name and surname for physical persons, tax domicile, VAT number, location where the activity is carried out
- Nature, quality and quantity of the goods or services provided
- Amount including VAT

Foreign currency. In Italy, the amounts that appear on the invoice may be expressed in any currency, provided that the amount of VAT payable or to be adjusted is expressed in euros, using the official conversion rate for the date of supply.

Time of issuance of the invoice. Effective 1 July 2019, invoices can be issued within 10 days from the date in which the transaction takes place, by giving evidence of the time of supply on the document (i.e., both the date of supply and the date of issuance of the invoice should be mentioned, if different). The VAT will still be due with reference to the month in which the taxable event takes place.

A temporary penalty mitigation is applicable in case of late electronic invoicing until 30 June 2019, as follows:
- No penalties will apply for late electronic invoicing, provided that the invoice, even if not timely, is issued within the deadline for the VAT payment of the period in which the transaction was carried out.
- Penalties varying from 90% up to 180% of VAT are reduced by 80% if the invoice is issued within the deadline for the VAT payment of the period following the one in which the transaction was carried out. The second penalty mitigation is applicable up to 30 September 2019 for taxpayers who carry out the VAT computations on a monthly basis.

Timeline for VAT deduction. Taxpayers can exercise the right of deduction of the VAT into the VAT computation related to the period in which the transaction has been carried out, provided that the relevant purchase invoice has been received and duly booked within the 15th day of the month following the one in which the transaction is carried out. By way of example, the VAT deduction on a purchase invoice for a supply made on 30 January 2019 can be exercised with the VAT computation of January 2019, provided that the relevant purchase invoice is received and booked by 15 February 2019. This rule does not apply when the invoices received refer to transactions performed in the previous year; in such case, the relevant VAT must be deducted in the year in which the invoice has been received. As a general rule, taxpayers can exercise the relevant right of deduction of VAT when both the following circumstances occur:
- The VAT has become chargeable.
- The relevant invoice has been received.

Once both the above conditions are met, the right of deduction of VAT can be exercised by the taxpayer at the latest within the date of filing the annual VAT return for the financial year in which the relevant invoice has been received, provided that such document has been booked in the VAT ledgers within such term, in accordance with art. 25 of the Italian VAT Law.

I. VAT returns and payment

VAT payments. Italian taxable persons calculate VAT payments on a monthly or quarterly basis, depending on turnover, and pay the VAT. As of FY2018, all taxable persons have to communicate on a quarterly basis the data of periodic VAT liquidations, independent of their obligation to pay the VAT on a monthly or quarterly basis (please refer to the below section "*Quarterly communication of the data for periodic VAT calculations*"). VAT may be paid on a quarterly basis if the turnover realized during the previous year (or anticipated for the first year of activity) does not exceed EUR400,000 for supplies of services or EUR700,000 for supplies of goods. Interest at a rate of 1% must be added to quarterly VAT payments.

Monthly payments are due by the 16th day of the month following the month for which VAT is due.

Quarterly payments are due by the 16th day of the second month following the quarter for which VAT is due, except for the last quarter. The balance for the last quarter is due on 16 March of the following year if the taxpayer spontaneously opts for quarterly payments (that is, a taxpayer that has revenues under certain thresholds and that opts to calculate the VAT balance on a quarterly basis instead of a monthly basis).

An advance payment is due by 27 December of the current year. Different methods are available to calculate the advance payments (forecast, historical or transactions actually carried out).

Starting from 1 December 2012, taxable persons whose turnover did not exceed EUR2 million in the previous year can opt to account for VAT using cash accounting.

VAT returns. All Italian taxable persons must submit an annual VAT return. The VAT return period is the calendar year. The annual VAT return must be filed from 1 February through 30 April of the following year.

Communication of declarations of intent. Frequent exporters must file declarations of intent with the Italian Revenue.

Suppliers can issue zero-rated VAT invoices to frequent exporters only upon receipt of the declarations of intent from their customers and confirmation that the declaration was electronically filed with the Italian Revenue.

If no declaration of intent is received, fines ranging between 100% and 200% of the VAT not charged could apply.

As of 1 March 2018, the Italian Revenue Agency has modified the form of the declaration of intent. The updated version of the document foresees that a habitual exporter can file a declaration of intent for (i) "*a single transaction up to the amount of euro X*" or (ii) "*transactions up the amount of euro X*." Therefore, the possibility to file a declaration of intent for "*transactions carried out from–to*" (i.e., a specific period of time) has now been removed.

Quarterly communication of the data of the periodic VAT calculations. A taxpayer must electronically file a communication of the periodic VAT computations on a quarterly basis, irrespective of their obligation to pay the VAT on a monthly or quarterly basis.

The form must be filed electronically though the specific means accepted by the Italian tax authorities (i.e., Entratel and Fisconline).

The communication of data of the periodic VAT settlement must include:
- The reference period (month/quarter)
- The total taxable base amount for VAT sales/purchases (goods and services)
- The total VAT due on sales
- The total VAT deducted in the period on purchases

- The VAT net debt due to the tax authorities (if any) (or) VAT net credit due to the taxpayer (if any)
- The VAT debt of the previous period not higher than EUR25.82
- The VAT credit accrued during the previous period
- The VAT credit accrued during the previous fiscal year
- The amount of VAT paid in relation to the domestic supplies of vehicles previously the object of an intra-EU purchase (if any)
- Any other credit offset against the VAT debt during the quarter (if any)
- Any interest amount due as a result of the taxpayer opting for the quarterly VAT liquidation regime
- The VAT advanced payment amount (even if not paid yet)
- The VAT debt amount to be transferred to the controlling entity (for the VAT group regime only) and the VAT credit amount on purchases to be transferred to the controlling entity (for the VAT group regime only)

Taxpayers are requested to file this communication on a quarterly basis by the end of the second month following the quarter of reference:
- By 31 May for the quarter January-March
- By 16 September for the quarter April-June
- By 30 November for the quarter July-September
- By the last day of the month of February of the following year for the quarter October-December

Monthly Communication of transactions with foreign counterparties (monthly Esterometro). From 2019, the Italian VAT law has introduced a Communication that taxpayers must file with the Italian Revenue to report all transactions carried out with foreign counterparties (i.e., EU and Extra EU suppliers or customers). The form must be filed electronically, which is the specific means accepted by the Italian tax authorities.

According to the Italian Revenue provision, with reference to transactions (i.e., both sales and purchases of goods and services) carried out with foreign counterparties, the following data should be reported in the monthly Esterometro:
- General data of the supplier
- General data of the customer
- Document date
- Document booking date (only applicable for document received and related credit notes)
- Document number
- Taxable amount
- VAT rate
- VAT, or in case no VAT has been charged, the kind of transaction

The following transactions do not fall within the scope of the monthly Esterometro (the latter can be reported by option):
- Transactions documented with a custom bill
- Transactions for which an e-invoice (on an optional basis) has been issued

The data related to such transactions would be, in fact, already at the Italian Revenue's disposal.

The communication must be filed as follows:
- For invoices issued: within the last day of the month following the one in which they have been issued
- For the invoices received: within the last day of the month following the one in which they have been received and booked in the VAT ledgers

The new Communication will be due on a monthly basis.

The Communication must be sent to the Italian Revenue in XML format. The file should comply with the technical specification released by the Italian Revenue.

Special schemes. The Italian VAT Law provides special schemes for tour operators; dealers of secondhand goods, works of art, antiques or collectibles; publishers and telecommunications companies, among others.

Tour operator margin scheme. Travel agencies and tour operators who organize and sell tour packages comprising trips, holidays, "all-inclusive" packages and related services for their own account or through an agent, benefit from a special VAT scheme, as provided for in Articles 306-310 of EU VAT Directive 2006/112/EC, implemented in Italy by Article 74-ter of DPR 633/1972. Output VAT is applicable only on the margin, calculated as the difference between the amount received from the customer and the amount paid to the suppliers, gross of VAT. Businesses cannot recover, deduct or claim for refund the input VAT charged on such travel services and goods.

The margin scheme for secondhand goods, works of art, antiques or collectibles. The special scheme provided by Council Directive 94/5/CE has been implemented in Italy by Law Decree 14/1995 converted by Law 85/1995. Output VAT is applicable only on the margin calculated on the difference between the amount that the businesses receive from the customer and the amount they pay to their suppliers, including ancillary costs. Businesses cannot recover, deduct or claim for refund the input VAT on purchases of goods.

VAT scheme for publishers. Under Article 74 of DPR 633/1972, for sale of daily newspapers, periodicals, books, and the related additional media and catalogues, the VAT is due by publishers on the basis of the sale price to the public, in relation to the number of the copies sold. The tax may optionally be applied in relation to the number of copies delivered or posted, reduced by 70% for books and 80% for daily newspapers and periodicals, excluding pornographic material and the one supplied together with supplementary package.

VAT scheme for telecommunications providers. A special scheme is available for services rendered by public telephone service providers as well as for sales of any technical means, including the supply of access codes, for use of fixed or mobile telecommunication services, as well as electronic services. The VAT is due by the holder of the license or by the authorized service provider on the basis of the consideration due by the user or, if not already determined, on the basis of the average price for the sale to the public in relation to the amount of phone traffic made available by technical means.

The same provisions are applicable to nonresidents selling or distributing technical means in Italy through their permanent establishment or their tax representatives or through direct identification pursuant to Article 35-ter, as well as to agents, other intermediaries and third parties who sell or distribute in Italy technical means acquired from nonresidents.

Others. Special schemes also available for the following activities:
- Trading of salts and tobaccos
- Trading of matches
- Entertainment activities, games and the other activities under the tariff attached to Presidential Decree Nº 640 of 26 October 1972

Electronic filing and archiving. All VAT returns must be filed electronically directly by the taxpayer, using the Revenue Agency's electronic services (Entratel or Fisconline services) or through authorized intermediaries such as business consultants and accountants. The filing receipt is transmitted electronically by the Revenue Agency to the user who filed it.

Electronic storage of fiscal documents, including tax returns, is allowed provided that specific requirements are met, such as search criteria, a description of the archive and the archiving process, and a clear delegation plan for the responsibility of the archiving process.

The electronic archiving process must be completed within three months from the deadline for filing the related annual tax return.

Electronic archiving of electronic invoices is mandatory. The electronic archive can be located also in another State, provided that such State has a legal instrument to regulate reciprocal assistance with Italy.

The taxable person established in Italy ensures, for control reasons, the automatic access to the archive and that all documents and information contained therein, including those related to the guarantee of the authenticity and the integrity of the documents, are printable and transferable onto other electronic storage media.

J. Penalties

If the annual VAT return is omitted, the penalty is 120% to 240% of the VAT due. The minimum penalty is EUR250.

If the annual VAT return is submitted more than 90 days after the deadline but within one year from it, the penalty is 60% to 120% of the VAT due, if any. The minimum penalty is EUR200.

In the case of omitted, incomplete or inaccurate reports of the VAT calculations data, penalties ranging from a minimum of EUR500 to a maximum of EUR2,000 may apply.

Any penalty could be reduced to a half (i.e., ranging from EUR250 to EUR500) if, within 15 days from the statutory deadline for the submission, a taxpayer:
- Submits the previously omitted communication
  Or
- Amends the incorrect communication submitted in order to correct the mistakes made. In case penalties apply, taxpayers could, however, benefit from the spontaneous regularization mechanism (under conditions) to reduce mainly these fines

In the case of omitted or incorrect communication of transactions with foreign counterparties (the monthly Esterometro), a penalty of EUR2 for each invoice applies, with a maximum of EUR1,000 for each quarter of reference.

The penalty may be reduced to a half (i.e., EUR1 per invoice, with a maximum amount of EUR500 for each quarter) if, within 15 days from the statutory deadline for the submission, a taxpayer:
- Submits the previously omitted communication
  Or
- Amends the incorrect communication submitted in order to correct the mistakes made

The penalty for the late payment of VAT is equal to 30% of the VAT paid late. However, if the late payment does not exceed a period of 90 days from the statutory deadline, the penalty is reduced by half; if the late payment does not exceed 15 days from the statutory deadline, the penalty is reduced to an amount equal to 1/15 for every day of delay. In addition, interest is accrued or charged at an annual rate of 0.8% (starting 1 January 2019) in the case of voluntary settlement and 3.5% in the case of settlement of the tax audit report and in certain other circumstances.

If the annual VAT return is submitted with incorrect data, the penalty ranges from 90% to 180% of the amount of output VAT incorrectly declared or the VAT credit incorrectly used.

Penalties for violations of the VAT reverse-charge mechanism are as follows:
- Taxpayers with full right of VAT deduction who omit application of the VAT reverse-charge mechanism are subject to penalties ranging from EUR500 to EUR20,000.

- In some circumstances, proportional penalties also apply. For example, where transactions subject to the reverse-charge mechanism are not even registered by taxpayers for general accounting purposes, penalties ranging from 5% to 10% of the taxable amount apply, with a minimum penalty of EUR1,000.
- Taxpayers who omit the payment of VAT as a consequence of the infringement to the reverse-charge mechanism (e.g., taxpayers with a limited right of VAT deduction) will face the same penalties applicable for undue VAT deduction (90%) and for unfaithful annual VAT return filing (from 90% to 180%).
- The inappropriate application of the VAT reverse-charge mechanism by the supplier and/or the purchaser is subject to penalties ranging from EUR250 to EUR10,000 (except in the case of fraudulent intent of the parties, where penalties from 90% to 180% of relevant VAT may apply).

The terms of the statute of limitation rules are applicable to tax assessments issued by Italian tax authorities. A taxpayer could be subject to a tax assessment up to the end of the fifth year following the year of filing of the relevant tax return and up to seven years from the failure to file the tax return.

A taxpayer could be subject to a tax assessment up to the end of the fifth year following the year of filing of the relevant tax return and up to seven years from the failure to file the tax return.

K. EU filings

Intra-Community archive. Italian VAT taxpayers that intend to make intra-Community acquisitions or sales of goods must be included in the "Archive of Entities Authorized to Perform Intra-Community Transactions" (the Archive).

An entity that registers for VAT when it begins a business activity in Italy must inform the Italian tax authorities in writing if it intends to perform intra-Community transactions. VAT registration will be automatically included in the intra-Community archive, i.e., VIES; however, the VAT registration number will be excluded from the VIES archive, upon communication from the Italian Revenue, if the taxpayer does not file any Intrastat listings for four continuous quarters.

Intrastat. Italian taxable persons that trade with other EU Member States must complete fiscal and statistical reports, known as Intrastat. Separate reports apply to intra-Community supplies of goods and intra-Community supplies of services (Intrastat Dispatches), and simplifications for the completion of the Intrastat forms or exception from their submission apply, as follows:
• Intra-EU acquisitions of goods

The Intrastat return related to the intra-EU acquisitions of goods is mandatory on a monthly basis only for statistical purposes and only if the total amount of acquisitions is greater than EUR200,000 for at least one of the four previous quarters.

No Intrastat return for intra-EU acquisitions of goods has to be filed by taxpayers who do not exceed the above threshold, since all the relevant information will be acquired by the authorities through the other mandatory communications (please see communication of invoice data above).

Intra-EU purchases of services. The Intrastat return related to the intra-EU purchases of services will be mandatory only for statistical purposes on a monthly basis and only in case the total amount of intra-EU purchases of services for at least one of the four previous quarters is equal or higher than EUR100,000.

No Intrastat return for purchases of services has to be filed by taxpayers who do not exceed the above threshold since all the relevant information will be acquired by the authorities through the other mandatory communications (please see communication of invoice data above).

Intra-EU dispatches of goods. The Intrastat return related to intra-EU dispatches of goods remains mandatory. However, the submission of statistical information is optional for taxpayers who submit an Intrastat return on a monthly basis with a total amount of intra-EU supplies of goods, during at least one of the four previous quarters, less than EUR100,000.

Intra-EU supplies of services. The Intrastat return related to the intra-EU supplies of services remains mandatory. However, the service code necessary to identify the specific service supplied/purchased will be related to a simplified list of codes, which means that it should be easier to connect services with the related codes.

Statistical information is required from businesses that mainly file monthly reports. Columns (which is the section of the Intrastat return for the statistical value), delivery conditions and transport conditions must be filed if the threshold of EUR20 million is exceeded or in the case of a movement of goods without the transfer of property or similar rights.

Intrastat declarations must be filed in euros. Returns are due on a monthly basis, by the 25th day of the month following the return period (previously there was an option to submit the returns on a quarterly basis, under conditions, which is no longer in force).

Penalties. Mistaken or missing Intrastat returns are subject to a penalty ranging from EUR500 to EUR1,000 per return, which may be reduced by half if the return is filed within 30 days from the issuance of an official request issued by the tax authorities. Penalties may not apply in case a spontaneous regularization occurs.

Penalties for violations of a statistical nature will apply only to taxpayers that performed, in the month of reference, transactions equal to or higher than EUR750,000. Penalties will apply only once for each incorrect Intrastat form, regardless of the number of violations related to the Intrastat form.

However, if penalties apply, the taxpayer could benefit from the spontaneous regularization mechanism (subject to conditions) to largely reduce these fines.

EU Sales Lists. In Italy, all information related to intra-Community transactions is reported using the Intrastat form. No separate EU Sales List is used.

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A. At a glance

Name of the tax	Consumption tax (CT)
Local name	Shouhizei
Date introduced	1 April 1989
Trading bloc membership	None
Administered by	National Tax Agency Japan (http://www.nta.go.jp)
Consumption tax rates	
Standard	8% (expected to increase to 10% effective from 1 October 2019)
Other	Exempt (with input tax credit) and nontaxable (without input tax credit)
Consumption tax return periods	Monthly, quarterly, biannually and annually
Consumption tax number format	Not applicable
Thresholds	
Registration	JPY10 million of taxable transactions, subject to exceptions
Recovery of consumption tax by non-established businesses	Yes

B. Scope of the tax

CT applies to the following transactions:
- The supply of goods or services made in Japan by a "taxable person"
- The importation of goods into Japan
- The purchase of services subject to reverse charge

C. Who is liable

A "taxable person" is any business entity or individual that makes taxable supplies of goods or services in the course of doing business in Japan.

However, the CT legislation provides for a small business exemption, the application of which depends in the first place on the taxable turnover realized in previous fiscal years.

An entity qualifies for this exemption and is therefore not considered as a taxable person if it meets both following conditions:
- The taxable supplies (sales) in the "base period" (i.e., the fiscal year two years prior to the current fiscal year) did not exceed JPY10 million.
- The taxable supplies (sales) in the "specified period" (i.e., the first six months of the previous fiscal year, subject to exceptions) did not exceed JPY10 million. As an alternative condition, the enterprise may instead refer to the salaries paid in Japan during that period.

Other criteria apply to newly established companies. Moreover, if a newly formed corporation purchases certain assets during its first two fiscal years, the corporation may not be eligible for exemption for the subsequent two fiscal years.

Voluntary registration. A business falling under the small business exemption may elect for taxable person status (see detail above).

Group registration. The CT law does not allow closely related companies to register as a group for VAT purposes.

Non-established businesses. Non-established businesses can become a taxable person by appointing a tax representative residing in Japan and filing the appropriate form to the tax office (see *Tax representatives* section below).

Tax representatives. A foreign business qualifying as a taxable person must appoint a resident tax representative to deal with its CT obligations, by submitting the appropriate form to the tax office.

Reverse charge. Under the reverse-charge mechanism, the purchase of certain services constitutes a taxable transaction, with the consequence that the recipient may be required to declare and pay the CT due thereon. The reverse charge applies to the following services:
- B2B digital services provided by a foreign business (see *Digital economy*)
- Services by a foreign business to another business, which mainly consist in the provision of services by film or theatre actors, musicians, other entertainers and professional athletes

However, the recipient is not required to self-assess the CT in the following cases:
- If its taxable sales ratio is 95% or more
- The recipient applies the simplified system for calculating input tax deduction
- The recipient does not qualify as a CT taxpayer

Digital economy. Since 1 October 2015, cross-border digital services are subject to specific rules.

The notion of digital services covers most content and services provided through an electronic network, e.g., e-books, online newspapers, music, videos and software provided via the internet, online advertising, online language courses, etc.

The place of supply of digital services are where the recipient belongs, having regard to its address. For services to businesses, the place of supply is where the recipient has its head office, main office, or in certain circumstances an establishment situated in another country that purchases the services for the purpose of its activities in that country.

A distinction is made between B2B and B2C supplies, based on the nature of the service, as well as the terms and conditions of the contract. The classification of the supply as B2B or B2C impacts on the treatment applicable to cross-border digital services to customers in Japan:
- B2B digital services: a reverse-charge mechanism applies, whereby the recipient may be required to declare and pay the CT due on the purchase, depending on the CT status (see *Reverse charge*). The foreign business providing B2B digital services must inform the customer beforehand that the reverse-charge mechanism may be applicable.
- B2C digital services: the supplier is required to charge CT, file CT returns and pay the CT to the State unless he can benefit from the exemption for small businesses. Currently, Japanese businesses cannot credit input CT accounted for by overseas businesses on B2C digital services, unless the supplier is a "registered foreign business" (optional registration system specific to foreign suppliers of digital services).

Registration procedures. A taxable person is required to submit a taxable person notification form to the tax office promptly. A business qualifying for the small business exemption can elect to become a voluntary taxable person by filing a certain application to the tax office. The election becomes effective from the tax period following the tax period in which the application was made.

Deregistration. A voluntary taxable person can cancel its registration by filing a certain application to the tax office. However, the cancellation is not allowed for two years after the election was made.

When a taxable person who is not a voluntary taxable person becomes qualified for the small business exemption, it is required to submit a notification form that it is no longer a taxable person to the tax office promptly.

D. Consumption tax rates

The term "taxable supplies" refers to supplies of goods and services that are liable to consumption tax (CT). CT is charged at a flat rate of 8% (6.3% national tax and 1.7% local tax). There is currently no reduced rate available in Japan.

However, a rate increase to 10% is scheduled to take effect from 1 October 2019. At that time, the reduced rate of 8% will apply to the following supplies:
- Supplies of food and drinks, excluding alcoholic beverages and dining out
- Subscriptions to newspapers (limited to newspapers that are issued at least twice a week and feature information on general topics such as politics, economics, society and culture)

As a result of the introduction of the multiple rates system, new bookkeeping and invoicing requirements will be implemented in 2019 and 2023. The 5% tax rate that applied generally until 1 April 2014 continues to apply to certain situations related to construction contracts and property leases.

The term "exempt supplies" refers to supplies of goods and services that are not taxed, but give rise to a right of input tax deduction.

Examples of exempt supplies of goods and services

- Exports of goods
- Exports of services
- International transportation of passengers and cargo
- Sales in export shops
- Supplies to foreign embassies and legations situated in Japan

The term "nontaxable supplies" refers to supplies of goods and services that are not taxed and that do not give rise to a right of input tax deduction.

Examples of nontaxable supplies of goods and services

- Bank and financial services
- Insurance
- Educational services
- Sales and leases of land
- Social welfare services

Option to tax for exempt supplies. Not applicable.

E. Time of supply

The time when CT becomes due is called the "time of supply" or "tax point." CT is generally chargeable when ownership of goods is transferred, when a service is performed or when foreign cargo is removed from bonded areas.

Deposits and prepayments. The payment of deposits and prepayments is not subject to CT in Japan, but the payment of the original price after deducting them is subject to CT depending on the type of the original transaction. As such, no time of supply rules in Japan apply to deposits and prepayments.

Goods sent on approval for sale or return. The time of supply rule for supplies of goods sent on approval for sale or return is when ownership of the goods is transferred.

Leased assets. For finance lease transactions that are deemed as a transfer of leased assets under the provision of Japanese income tax law or corporate tax law, in principle, the time of supply is when the lessor delivered the leased assets to the lessee. For operating lease transactions, the time of supply is when the lessor should receive the lease fee.

Reverse-charge services. There are no special time of supply rules in Japan for supplies of reverse-charge services. As such, the general time of supply rules apply (as outlined above).

Continuous supplies. The time of supply rules for continuous supplies is when all the supplies have been delivered or completed.

Imported goods. There are no special time of supply rules in Japan for supplies of imported goods. As such, the general time of supply rules apply (as outlined above).

F. Recovery of consumption tax by taxable persons

A taxable person may have the right to recover input CT on imports and taxable supplies of goods and services made to it. Input CT is recovered by way of deduction from output CT. In order to be able to deduct input CT, the goods and services must be used for business purposes. In addition, it is required to keep books, invoices and customs documents. In this respect new requirements will be introduced in 2019 and 2023. The right to recover input CT may be limited for businesses carrying out nontaxable activities (see *Partial exemption* section below).

Nondeductible input tax. Input tax may not be recovered on purchases of goods and services that are not used for business purposes (for example, goods acquired for private use by an entrepreneur). The right to deduct input tax on business expenditure is subject to only one exception.

Examples of items for which input tax is nondeductible

- Purchase of B2C digital services from a foreign provider not registered as foreign business

Examples of items for which input tax is deductible (if related to a taxable business use)

- Purchase, lease, hire, maintenance and fuel for cars, vans and trucks
- Conferences and seminars
- Advertising

- Accommodation
- Mobile phones
- Business gifts
- Travel expenses
- Business entertainment

Partial exemption. Businesses carrying out nontaxable activities are subject to a limitation of the right to deduct CT if:
- Its taxable sales ratio is below 95%
- Its taxable turnover exceeds JPY500 million

The JCT legislation allows different methods to calculate the input tax credit:
- Proportional method (general pro rata method): the tax deductible is calculated by multiplying the total input tax by the "taxable sales ratio," i.e., the ratio between the turnover of taxable/exempt sales and the total turnover.
- Itemized method (direct allocation method): input tax attributable to taxable transactions can be fully deducted, while input tax attributable to nontaxable transactions is not deductible. Input tax relating to both categories of transactions can be credited according to the taxable sales ratio. Taxpayers can apply an alternative ratio based on reasonable factors, subject to prior authorization from the tax authorities.

A business with annual sales not exceeding JPY50 million may use a simplified formula to calculate the deductible CT. Under this system, the deductible tax is calculated by multiplying the output tax by a deemed purchase ratio. This ratio ranges from 40% to 90%, depending on the type of sales. A taxpayer that elects to use the simplified formula must use it for a minimum period of two years.

Refunds. If the amount of input tax recoverable in a taxable period exceeds the amount of output tax, the excess is refundable.

Preregistration costs. Not applicable.

G. Recovery of consumption tax by non-established businesses

Japan refunds CT incurred by businesses that are not established in Japan. To obtain a refund, a non-established business must appoint a resident tax representative and elect to be treated as a taxable business.

H. Invoicing

Tax invoices and credit notes. CT law does not explicitly require a taxable person to issue a tax invoice for taxable supplies made to other taxable persons (or a credit note for adjustments). However, in order to deduct input CT, the recipient must hold an invoice containing certain mandatory information. The CT must not be mentioned separately.

As a result of the introduction of multiple rates from 1 October 2019, new invoicing requirements will be implemented gradually.

Qualified invoice system. From 1 October 2023, holding a qualified invoice will in principle be required in order to deduct CT.

Qualified invoices will include the supplier's registration number, applicable rates, breakdown of the price by rate and the total amount of CT.

Only registered businesses will be allowed to issue qualified invoices. In order to be a registered business, taxpayers will have to file an application with the competent tax office. Information on registered businesses (name and registration number) will be published on NTA's website. Registered businesses will be obliged to issue qualified invoices (with some exceptions, such as

sales through vending machines) and keep a copy of invoices. Subject to conditions, certain suppliers will be allowed to issue simplified qualified invoices.

After the introduction of the qualified invoice method, the possibility to deduct CT on purchases from enterprises benefiting from the small business exemption will be limited and eventually removed.

From 1 October 2019 until the implementation of the qualified invoice system, transitional measures will be applicable, including accounting and invoicing requirements so as to distinguish sales and purchases according to the rate. Simplified methods of calculating input and output tax will be allowed for businesses facing difficulties in making the distinction.

Proof of exports. CT is not chargeable on supplies of exported goods. In order to qualify as exempt from CT, an export supply must be accompanied by official customs evidence stating that the goods have left Japan.

Foreign-currency invoices. If an invoice is issued in a foreign currency, the values must be converted to Japanese yen (JPY) for CT purposes based on an official bank rate on the date of the transaction.

B2C digital services. A foreign business providing B2C digital services is allowed to issue electronic invoices. As for input tax credit of the recipients of the services, invoices received from the foreign business can be kept in electronic form rather than in paper form.

Electronic invoicing. As described in the above section (*B2C digital services*), a foreign business providing B2C digital services is allowed to issue electronic invoices. In other cases, electronic invoices are not permitted in Japan.

I. Consumption tax returns and payment

Annual consumption tax returns. Taxable persons must file CT returns annually. An individual entrepreneur must file its CT return and pay the tax due by 31 March of the year following the end of the calendar year. A corporation must file its annual CT return and pay the tax due within two months after its fiscal year-end. Tax authorities do not grant an extension of the filing/payment deadline.

Interim consumption tax returns. Depending on the previous year's tax liability, a taxable person may be required to make interim CT returns and payments:
- If the national tax due exceeds JPY480,000: semiannually
- If the national tax due exceeds JPY4 million: quarterly
- If the national tax due exceeds JPY48 million: monthly

A taxable person who is not subject to this obligation may voluntarily make interim tax returns and payments.

Special schemes. Not applicable.

Electronic filing. Electronic filing is available under certain conditions, such as obtaining an ID number.

J. Penalties

Late registration. There are no penalties applicable for late registration. Penalties apply for late filing/payment (as outlined below).

Late-payment interest. In cases of late payment of CT, late-payment interest is imposed, calculated at the following rate:
- First two months: 7.3% or special standard rate + 1% per annum, whichever is lower
- After two months: 14.6% or special standard rate + 7.3% per annum, whichever is lower

The special standard rate applicable in a given year (Y) is announced by the Minister of Finance by 15 December of the previous year (Y-1). It corresponds to the annual average contractual interest rate on bank short-term loans of each month from October of the second preceding year (Y-2) and September of the previous year (Y-1), plus 1% per annum.

The special standard rate for 2018 is 1.6%.

Late filing. In case of late filing of the CT return, the following penalties are imposed:
- 5% if the CT return is filed voluntarily (i.e., before receiving an audit notice) after the due date
- 10% (or 15% for the portion exceeding JPY500,000) if the CT return is filed after receiving an audit notice but before the audit
- 15% (or 20% for the portion exceeding JPY500,000) if an error is found as a result of a tax audit
- 40% in case of fraud or tax evasion
- Furthermore, 10% will be added to both non-reporting penalties and fraud penalties, if the taxable person that has been subject to penalties for non-reporting or fraud due to anticipation of a correction in the last five years and files an amended tax return once again based on not filing the tax return, falsification or concealment

Understated tax. Where the tax declared in the CT return is understated, the following penalties are imposed:
- 0% in case of voluntary disclosure (i.e., before receiving an audit notice)
- 5% (or 10% of the excess portion of additional tax over JPY500,000 or the original amount, whichever is greater) if the taxable person makes a voluntary disclosure during the period from receiving an audit notice to anticipation of correction
- 10% (or 15% of the excess portion of additional tax over JPY500,000 or the original amount, whichever is greater) after anticipation of correction
- 35% in case of fraud or tax evasion
- Furthermore, 10% will be added to fraud penalties if the taxable person that has been subject to penalties for non-reporting or fraud due to anticipation of a correction in the last five years and files an amended tax return once again based on not filing the tax return, falsification or concealment

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A. At a glance

Name of the tax	Goods and services tax (GST)
Date introduced	6 May 2008
Trading bloc membership	Part of the EU for customs by agreement with the United Kingdom but not an EU Member State
Administered by	Comptroller of Taxes (http://www.gov.je/taxesmoney)
GST rates	
Standard	5%
Other	Zero-rated and exempt Flat rate International Services Entity (ISE) fee (predominantly financial services entities)
GST return periods	Quarterly Monthly (other periods on request)
GST registration number format	1234567
Thresholds	
Registration	JEP300,000
Recovery of GST by non-established businesses	Yes (subject to conditions)

B. Scope of the tax

GST applies to the following transactions:
- The supply of goods or services made in Jersey by a registered person
- The importation of goods into Jersey, regardless of the status of the importer
- The supply of a service outside Jersey if all of the following conditions apply:
  — The supply is a taxable supply

— The service is specified in schedule 3 of the GST law (reverse charge to GST)
— The recipient is a Jersey resident
— The service is performed in connection with a person, place or thing in Jersey, or is taken to be so performed

Businesses (predominantly in the financial services sector) may be exempted from GST accounting if they obtain approval for International Services Entity (ISE) status (see Section D).

C. Who is liable

A "registered person" is a business entity, including a branch or agency, or individual who makes taxable supplies of goods or services in the course of doing business in Jersey.

The GST registration threshold is JEP300,000.

The registration threshold is met if either of the following circumstances exists:
- If, at the end of any month, the business made taxable supplies in the preceding 12 months exceeding JEP300,000
- If, on any day, reasonable grounds exist for believing that the value of the taxable supplies made by the business in the 12 months after that date is likely to exceed JEP300,000

GST incurred before the incorporation of a company may be recovered if certain criteria are met.

International Services Entities. Certain entities, predominantly financial services entities, may opt out of the GST system by becoming an International Services Entity (ISE). Generally, an entity meets the requirements of an ISE if not more than 10% of its supplies are to individuals resident in Jersey. GST is not chargeable on supplies to ISEs. If the entity obtains approval for ISE status, it pays an annual fixed fee.

Trust companies can also be authorized to maintain a list of administered entities that are ISEs. Under the ISE regime, businesses are not required to account for GST on their supplies and are entitled to end-user relief under which they are not charged GST by GST-registered businesses.

A business may be charged on retail purchases of less than JEP1,000, but the GST may be refunded on application.

The following fees are payable for the 2018 calendar year for an ISE entity:
- Bank (deposit-taking business), JEP58,000
- Trust company business, JEP9,350 as an affiliation leader and JEP200 for each administered entity
- Fund service business not registered as a managed manager, JEP3,120
- Entity holding a Collective Investment Fund (CIF) permit as a functionary but not as a managed manager or collective investment fund, JEP3,120
- Entity holding a CIF permit as a managed manager, JEP625
- Collective investment fund if listed by the Comptroller of Taxes or Alternative Investment Fund, JEP200
- Entity that is a body corporate or partnership, limited partnership or limited liability partnership, which is not included above, JEP500

Voluntary registration. A small business with taxable turnover of less than JEP300,000 a year may voluntarily apply to become a registered person. However, the value of exempt supplies cannot be included in calculating the taxable turnover. If the only supplies of goods and/or services are exempt, it is not normally possible to register for GST.

Group registration. Group registration is allowed for corporations or other taxable persons that are under common control. One entity must be the representative member.

Transactions between group members are disregarded for GST purposes.

As an alternative to GST registration, businesses in the financial services industry that predominantly serve nonresident clients may opt to pay an annual fee and be listed as International Service Entities to reduce their compliance and administrative obligations (see above).

Registration procedures. For companies that already have an income tax reference number, the application can be submitted online (https://empret.jsytax.je/gst_main.aspx). For other companies, a form can be obtained from the Jersey Income Taxes Office.

A company will need to register once if it has made taxable supplies of JEP300,000 or more in the preceding 12 months or if it is believed that the value of taxable supplies for the following 12 months is likely to exceed JEP300,000. It may also choose to register voluntarily.

The information that will need to be supplied for the application include: details of the person or entity applying for registration; the trading name (if different); the business address; relevant telephone numbers; and the name and legal status of the person making the application. In addition, during the registration process the Jersey Taxes Office will request the expected annual taxable turnover; the nature of the business; and if there is any preference with regard to the months that the entity wishes to make its quarterly GST returns.

There is no restriction on who can make the registration on behalf of the company, but the registered person will be the legal entity that owns the business (for example, a limited company).

There is a different form for registering as an International Services Entity (ISE).

Late-registration penalties. Penalties are assessed for a range of GST offenses, including late registration.

Reverse charge. The reverse-charge regime applies to services specified by the law if the following conditions are satisfied:
- A supply of services is made by a nonresident to a resident.
- The supply would be taxable if made in Jersey.
- The recipient of the supply is registered (or is required to be registered).

An input tax credit may be claimed with respect to the reverse charge to the extent that the service was acquired for the purpose of making taxable supplies.

Non-established businesses. Please see Section G.

Digital economy. For business-to-business transactions, GST may apply. For GST purposes, electronically supplied services are considered to be supplied where the supply is received. As such, the customer is generally expected to self-assess for the GST due.

For business-to-consumer transactions, GST may apply. For GST purposes, electronically supplied services are considered to be supplied where the supply is received. As such, the customer is generally expected to self-assess for the GST due.

Deregistration. A taxable person that ceases to make taxable supplies must notify the Jersey GST authorities within 30 days after ceasing operations. If the GST authorities are satisfied that the taxable person's operations are not expected to recommence, they will cancel its GST registration.

A taxable person may deregister voluntarily if it can satisfactorily prove to the GST authorities that its taxable turnover for the foreseeable future is expected to be less than JEP300,000.

Exemption from registration. The GST law in Jersey does not contain any provision for exemption from registration.

Tax representatives. There is no option for a non-established business that registers for GST in Jersey to appoint a tax representative.

D. GST rates

The term "taxable supplies" refers to supplies of goods and services that are liable to GST. The standard rate of GST is 5%. Some supplies are zero-rated (taxed at 0%), but no other reduced rates apply.

Examples of goods and services taxable at 0%

- Supplies of dwellings
- Prescription medicines
- Exported services and related services
- Services performed outside Jersey

In addition, some activities are exempt from GST. For exempt activities, no GST is charged, but the supplier does not have the right to deduct any related input tax.

Examples of exempt supplies of goods and services

- Financial services
- Insurance
- Postal services
- Medical and paramedical supplies
- Supplies by charities
- Education
- Child care (supplied in registered day care accommodation under the Day Care of Children (Jersey) Law 2002)
- Burial and cremation

Option to tax for exempt supplies. Not applicable.

E. Time of supply

The time when GST becomes due is called the "time of supply." The general rule is that a supply of goods takes place when the goods are removed or made available and that a supply of services takes place when the service is performed. However, if an invoice is issued or payment is received by the supplier prior to these times, the earlier date of the invoice is the time of supply.

Imported goods. The time of supply is the date the goods are imported.

Reverse-charge services. The time of supply is the date the supply of services takes place.

Continuous supplies of services. The time of supply is the date payment is received, or if an invoice for the services is issued before the payment is made, the time of supply is the date of the invoice.

Prepayments. The time of supply is the date payment is received, or if an invoice is issued before the payment is made, the time of supply is the date of the invoice.

Leased assets. The time of supply is the date payment is received, or if an invoice is issued before the payment is made, the time of supply is the date of the invoice.

Goods sent on approval for sale or return. If the supply involved the removal of the goods, the supply of goods takes place at the time when the goods are removed. If the supply does not involve removal of the goods, the supply of goods takes place when the goods are made available to the person to whom they are supplied.

In the case of goods that are sent or taken on approval, on sale or return and are removed before it is known whether a supply will take place, the supply of the goods takes place when it becomes certain that the supply has taken place or, if sooner, 12 (twelve) months after the day when the removal occurred.

F. Recovery of GST by taxable persons

A taxable person may recover input tax, which is GST charged on goods and services supplied to it for business purposes. A taxable person generally recovers input tax by deducting it from output tax, which is GST charged on supplies made. Input tax includes GST charged on goods and services supplied in Jersey and GST paid on imports.

Nondeductible input tax. Input tax may not be recovered on purchases of goods and services that are not used for business purposes (for example, goods acquired for private use by an entrepreneur).

A registered person may recover GST in full if it acquires goods and services principally for the purpose of making taxable supplies.

Examples of items for which input tax is nondeductible

- Employee wages
- Private expenses or goods
- Certain goods incorporated in dwellings

Examples of items for which input tax is deductible (if related to a taxable business use)

- Raw materials used in the business
- Equipment (capital/office)
- Goods for resale
- Processing costs

Partial exemption. GST law provides for a partial exemption method if goods and services are acquired for making taxable supplies but are also used for making exempt supplies. One of the following methods of allocation may be used for making the input tax adjustment:

- A general pro rata method under which the taxable person's taxable ratio is based on the value of taxable supplies made compared with total supplies made. The taxable ratio is applied to the total amount of input tax incurred.
- A direct attribution method under which the taxable person's input tax is allocated to taxable and nontaxable supplies made. Input tax directly related to taxable supplies is deductible in full, while input tax directly related to nontaxable supplies is not deductible. The general pro rata method is used with respect to the remaining input tax that is not directly related to taxable or nontaxable supplies.
- A special calculation method agreed on with the Jersey GST authorities.

Capital purchases in excess of JEP1 million (excluding GST) that are not zero rated or exempt from GST must be considered over a five-year period.

Refunds. If the amount of input GST recoverable in a period exceeds the amount of output GST payable, a refund may be claimed. GST refunds are generally made promptly after the receipt of a correct return or held as a credit against future returns unless otherwise requested.

Visitors to the island who arrive on commercial flights are entitled to claim a refund of GST paid on goods bought from local retailers participating in the GST visitor refund scheme. The total value of the goods must exceed JEP300, the purchase must be made in a single transaction with a single retailer, and the visitor must leave Jersey with the goods within one month of the date of purchase.

Preregistration costs. Not applicable.

Capital goods. Not applicable.

Write-off of bad debts. GST will be refunded by the comptroller if certain conditions are satisfied when a claim is made.

Noneconomic activities. The comptroller has issued a direction to the law stating that a charity or nonprofit organization shall be relieved of charge to GST on goods imported into Jersey if it is established for:
- The advancement of education
- Relief of poverty
- Purposes benefiting the community
- Furtherance of religion
- Cultural or artistic objectives financially supported by the States of Jersey

G. Recovery of GST by non-established businesses

Entities that are registered for GST and that make taxable supplies in Jersey may recover GST incurred on goods and services that they acquire.

Effective from 1 January 2010, refunds are made to persons not established in Jersey with respect to GST on goods and services for business use. The supply on which the GST arose must have been for the purpose of a business carried on by the claimant. The claimant's home country must operate a similar refund scheme that is available to Jersey businesses.

Refunds are made by way of a claim in writing to the following:

Comptroller of Taxes
P.O. Box 56
Cyril Le Marquand House
The Parade
St. Helier
Jersey JE4 8PF

Jersey has not set a maximum amount that can be reclaimed. However, it has set a minimum reclaim amount of JEP50. Claims must be made within 12 months after the date of supply and must be made annually.

Claims must be accompanied by originals of all invoices, vouchers or receipts from suppliers. For amounts below JEP250, simplified invoices can be provided. Initial claims must also be accompanied by an official certificate showing that the claimant is registered for GST (or similar tax) in its home jurisdiction. A certificate must be provided annually thereafter.

H. Invoicing

A Jersey registered person must generally provide a tax invoice for all taxable supplies. A credit note may be used to reduce the GST charged and reclaimed on a supply if the value originally charged was incorrect. A credit note must indicate the reason why it was issued and must refer to both the GST originally charged and the corrected amount.

Foreign-currency invoices. Foreign-currency invoices must be translated into JEP invoices using the exchange rate effective on the date of the supply for inclusion on the GST return. The Taxes Office may request evidence to support the exchange rate used.

Electronic invoices. Not allowed.

Proof of export. Not applicable.

B2C. Not applicable for telecommunications broadcasting.

I. GST returns and payment

GST returns. GST returns are generally submitted quarterly. Three cycles of quarterly returns are provided to stagger submission dates. A taxable person may request a change in its GST return cycle to ease administration.

Taxable persons may opt to submit GST returns monthly if they receive regular repayments of GST.

GST return periods generally end on the last day of a month. However, taxable persons may request different periods to align with their accounting records. GST returns must be submitted, together with payment of any GST due, by the last business day of the month following the end of the return period. The GST return form indicates the due date for each return.

Special schemes. The GST annual accounting scheme for small businesses requires only one return per year. The scheme can be used if the entity's taxable turnover, excluding GST on sales, for the previous 12 months did not exceed JEP500,000. The scheme can continue to be used until the taxable turnover for a year exceeds JEP600,000.

The GST cash accounting scheme for small businesses allows entities not to pay GST on sales until payment is received from the customer. The scheme can be used if taxable turnover (excluding capital assets or GST) for the previous 12 months did not exceed GSP1 million. The scheme can continue to be used until the taxable turnover for a year exceeds JEP1.2 million.

Electronic filing. GST returns can be filed online. They can also be filed using the Tax Returns Submission System (TRSS), where returns are downloaded, completed offline and then submitted by email or data stream via a secure connection. Alternatively, they can be submitted in paper format.

Annual returns. See *Special schemes* above.

J. Penalties

A penalty is assessed for the late payment of GST. A penalty of 2.5% of the tax due is assessed on the day after the due date.

A penalty of JEP100 is charged for the late submission of a GST return.

A range of GST offenses are subject to fines and imprisonment, depending on the offense committed.

Jordan

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A. At a glance

Name of the tax	General Sales Tax (GST) (the GST Law provides for two types of taxes, which are the General Tax [GT] and the Special Tax [ST]; see Section B)
Local name	Addaryba al a'mma ala al mabia't
Date introduced	June 1994
Trading bloc membership	None
Administered by	Income and Sales Tax Department (ISTD) (http://www.istd.gov.jo)
GST rates	
GT rates	
Standard	16%
Reduced	4%, 5% and 10%
Other	Zero-rated and exempt
ST rates	Various (20 types of goods and one type of service are subject to percentage rates or fixed amounts set forth in Regulation No. 80 of 2000 and Regulation No. 97 of 2016)
GST number format	9999999
GT return periods	Two months
ST return periods	Monthly
Annual thresholds	
Goods (Trade)	JOD75,000
Services	JOD30,000
Manufacturing	JOD50,000
Manufacturing (ST applied)	JOD10,000

Imports of goods or services for nonpersonal purposes	Zero
Imports of goods or services for personal purposes	None
Recovery of GST by nonresident businesses	No

B. Scope of the tax

General Sales Tax (GST) applies to the following transactions:
- The supply of taxable goods or services made by a taxable person
- The importation of taxable goods or services

The GST Law contains two types of taxes, which are the General Tax (GT) and the Special Tax (ST). ST is part of the tax base for GT if ST applies.

C. Who is liable

A "taxable person" is any entity or individual that is registered or required to be registered for GST. A taxable person is required to register by the earlier of the following dates:
- On the commencement of a new business that makes taxable supplies if it appears to the person that the person's taxable turnover during the 12 months following the commencement date may exceed the threshold
- At the end of any month if taxable turnover during the preceding 12 consecutive months has reached the threshold
- At the end of any month if it appears that the person's taxable turnover during the 11 consecutive months ending with the subsequent month may reach the threshold

If a taxable person fails to register by the dates prescribed under the GST Law, the Income and Sales Tax Department (ISTD) may agree on request to register the person, effective from the date on which the person was required to register.

The following are the annual thresholds for GST registration:
- JOD10,000 for manufacturers producing goods subject to ST.
- JOD75,000 for suppliers of goods other than those subject to ST.
- JOD30,000 for service suppliers.
- JOD75,000 for goods (trade).
- JOD0 for imports of goods or services for nonpersonal purposes.
- None for imports of goods or services for personal purposes.
- No threshold for the recovery of GST by nonresident business.

If a person carries out more than one of the business activities mentioned above, the minimum limit is the applicable registration threshold.

A person who imports taxable goods or services must register within 30 days of the first taxable import, regardless of the amount of the import, unless the import is made for private purposes.

Voluntary registration. A business may register for GST voluntarily if its taxable turnover is below the GST registration threshold. A business may also register for GST voluntarily in advance of making taxable supplies.

Exemption from registration. A taxable person whose entire turnover is zero-rated may request exemption from registration.

Group registration. GST grouping is not allowed. Legal entities that are closely connected must register for GST separately.

Registration procedures. A taxable person is required to register by the earlier of the following dates:
- On the commencement of a new business that makes taxable supplies if it appears to the person that taxable turnover during the 12 months following the commencement date may exceed the threshold
- At the end of any month if taxable turnover during the preceding 12 consecutive months has reached the threshold
- At the end of any month if it appears that the person's taxable turnover during the 11 consecutive months ending with the subsequent month may reach the threshold

A person with power of attorney should sign the registration form and submit it to the tax department. Under some circumstances he can authorize another person to act on his behalf.

The registration form is a preprinted, hardcopy form that should be submitted to tax department. The registration process can be completed in about 30 minutes if the following supporting documents are available:
- A certified copy of the registration certificate of the legal entity showing the authorized signatories for the legal entity
- Personal identification documents for the authorized signatories
- A certified copy of the commercial record certificate by the authorized party
- A certified copy of the registration record of the commercial name and trademark, if available
- A certified copy of the effective vocational license that includes: the number of branches related to the main activity under registration, legal name of the branch(es) and name of warehouses and storage associated with the branches as well as the addresses
- If importer, a certified copy of the importation card

Please note that for the registration of the personal individual (i.e., not a legal entity/company) in addition to the above-mentioned requirements, a personal identification document that contains the national number for the Jordanian individual and a copy of the passport for the non-Jordanian is required as well.

Late-registration penalties. The following penalties are assessed for late registration:
- A penalty of two to three times the output tax plus a criminal penalty equal to JOD200 is imposed if the date of registration is more than 60 days from the date on which the business should have been registered.
- A penalty of JOD100 is imposed if the date of registration is less than 60 days from the date on which the business should have been registered.

Non-established businesses. Non-established businesses are not required to register for VAT for supplies of goods and services supplied from outside Jordan. However, if the business carries out supplies from inside the Jordanian jurisdiction, then the business would be required to register. A non-established business also does not have to register for GST in Jordan if a domestic GST payer accounts for GST under the reverse-charge mechanism (i.e., self-assessment).

A non-established business can voluntarily register for GST, where its supplies are under the registration threshold (e.g., so it can recover input tax charged on local supplies). The business would need to create an establishment with the Companies Controller Department of the Ministry of Trade & Industry and then with the tax department in order to be able to recover the GST charged on inputs.

If a non-established business registers for GST in Jordan, it is not required to appoint a fiscal representative. While it is not compulsory to do so, a non-established business can choose to appoint a representative. In respect of the procedure for appointing a tax representative in Jordan,

the taxable person must appear before the department, but it may appoint another person to represent them at the department. This is under written authorization and can be carried out for any of the tax audit procedures on the taxable person's income, purchases, sales, assessment and collection including filing of tax returns.

The following conditions must be met in order to be an authorized person:
- Must be Jordanian
- Holds a bachelor's degree in accounting or similar disciplines and has obtained this certificate for a period not less than five years
- Has not been issued a valid decision to prevent them from reviewing the department or not accepting their accounts in accordance with the provisions of the law

In order to apply to be an authorized person of a taxable person, a registration application must be submitted to the department according to the approved form for this purpose, accompanied by the following data:
- A personal document of proof for the person authorized to sign or appoint them in writing
- A certified copy of the registration certificate of the legal person at the competent authority indicating the names of the authorized signatories
- A certified copy of the certificate of registration of the trade name, if any
- A copy of the municipality license in the number of branches belonging to the original activity to be registered, its addresses, the names of its warehouses and their addresses
- Copy of the importer's card if he is an importer

Tax representatives. No specific requirements. However, see above section "non-established businesses" for detail on appointing a tax representative for non-established businesses.

Reverse-charge mechanism. If a non-established business supplies services to a Jordanian taxable person but does not register for GST, the taxable person may be required to account for the GST due under reverse-charge accounting. This means that the taxable person charges itself GST. The self-assessed GST may be deducted as input tax (that is, GST on allowable purchases). Under the reverse-charge mechanism the responsibility for the reporting of a GST transaction from the seller (non-registered person) to the buyer (registered-person/inside the Jordanian jurisdiction) of a service.

Digital economy. For business-to-business transactions, payments from the customer to the non-resident business are generally subject to 16% GST. The Jordanian customer is expected to self-assess the tax and submit tax returns and payments to the ISTD within one month from the date of payment of the invoice or within six months from receiving the service, whichever is earlier.

For business-to-customer transactions, payments from the customer to the nonresident business are generally subject to 16% GST. The Jordanian customer is expected to self-assess the tax and submit tax returns and payments to the ISTD within one month from the date of payment of the invoice or within six months from receiving the service, whichever is earlier.

Deregistration. A registered person who stops supplying goods and services must deregister.

A registered person is not required to deregister in the following circumstances but may request deregistration:
- Taxable turnover drops below the registration threshold.
- Turnover is entirely zero-rated.

D. GST rates

"Taxable goods and services" are goods and services that are liable to a rate of GST, including the zero rate. The term "exempted goods" refers to supplies of goods and services that are not liable to GST and do not give rise to a right of input tax deduction.

In Jordan, the following are three rates of GT:
- Standard rate: 16%
- Reduced rate: 4%, 5% and 10%
- Zero rate: (0%)

The standard rate of GT applies to all supplies of goods or services, unless a specific provision allows a reduced rate or an exemption.

Twenty types of goods and one type of service are subject to ST. ST is imposed at various percentage rates and in fixed amounts. These rates and amounts are provided in Regulation 80 of 2000 and Regulation No. 97 of 2016.

Some goods and services liable to GT rates could also be liable to ST rates at the same time. These goods and services are defined under Schedule 1 annexed to the GST Law.

The following lists provide some examples of goods and services exempt from GT, taxed at a zero rate or taxed at a 4% rate, and examples of goods and services subject to ST.

Examples of goods and services taxable at 0%
- Printing service for any party provided that all supplies (inks, paper and all supplies, etc.) are from the printing press itself
- Supplies used by the handicapped
- Veterinary medicines

Examples of goods and services taxable at 4%
- Oils and ghee
- School bags, except those manufactured from natural leather material
- School books and university lecture books
- School uniforms

Examples of goods and services taxable at 5%
- Corn

Examples of goods and services taxable at 10%
- Live animals
- Dairy products
- Gasoline octane 90
- Food salt

Examples of goods and services subject to ST
- Beer (including nonalcoholic beer)
- Tobacco and tobacco products
- Vehicles (cars)

Exempted goods are goods and services listed in Schedule 2 annexed to the decision issued on the basis of the Jordanian Council of Ministers that received a letter from the Minister of Finance/Income and Sales Tax and the recommendation of the Economic Development Committee and held their meeting on 3 January 2018. The Council of Ministers approved on 4 January 2018 a few amendments to the GST tables and schedules and other goods and services exempted under the provisions of the GST law. In addition, supplies to a person whose purchases are exempted are treated as exempted supplies even if these supplies are normally taxable. Other goods and services are called "nontaxable goods," which are goods and services that are not within the scope of GST.

Examples of exempt supplies of goods and services
- Wheat
- Bread
- Electrical energy

- Firefighting vehicles
- Education
- Medical services

Option to tax for exempt supplies. Not applicable.

E. Time of supply

GST becomes due at the time of supply, which is called the "tax point." The rules determining the tax point are discussed below.

GT or ST becomes due on the supply of goods at the earliest of the following events:
- Delivery of goods. However, the Director General of the Income and Sales Tax Department may consider the date of the tax invoice as the tax point if it is issued periodically or at the end of a certain period following the date of delivery.
- Issuance of a tax invoice.
- Receipt of the full or partial value of the goods, receipt of credit payment or any other receipt of value according to the agreed terms for payments.

Tax becomes due on the supply of services at the earlier of the following events:
- Issuance of a tax invoice
- Receipt of full or partial payment for the service

Tax is payable in the cases mentioned above by reference to the value covered by the invoice or the amount paid, whichever is higher.

Imported goods. Importers of goods must pay the tax due on the goods at the clearance stage to the Customs Department in accordance with the procedures applicable for the payment of customs duties. Clearance of these goods is not finalized until the tax due is paid in full.

A registered importer may obtain permission from the ISTD to defer the payment of the tax payable on the importation of goods. This postponement is granted if the importer has no record of fraud or customs smuggling and has submitted all returns in the last 12 months.

Imported services. Importers of services must pay the tax due at the earliest of the following dates:
- Within one month after the date of payment for the imported service or after the date of making a partial payment, limited to the amount paid
- When the means that include the services (for example, compact disks and tapes) are released from Customs
- Within six months after the date on which the service or any part of the service is received, limited to the amount related to the part received

Deposits and prepayments. There are no special time of supply rules in Jordan for deposits and prepayments. The general time of supply rules (as outlined above) applies.

Goods sent on approval for sale or return. There are no special time of supply rules in Jordan for supplies of goods sent on approval for sale or return. The general time of supply rules (as outlined above) applies.

Leased assets. There are no special time of supply rules in Jordan for supplies of leased assets. The general time of supply rules (as outlined above) applies.

Reverse-charge services. There are no special time of supply rules in Jordan for supplies of reverse-charge services. The general time of supply rules (as outlined above) applies.

Continuous supplies. There are no special time of supply rules in Jordan for continuous supplies. The general time of supply rules (as outlined above) applies.

F. Recovery of GST by taxable persons

A taxable person may recover input tax, which is GT charged on goods and services supplied to it for business purposes. Input tax is generally recovered by being deducted from output tax, which is GST charged on supplies made.

Input tax includes GT charged on goods and services supplied in Jordan and GT paid on imported goods and services into Jordan.

ST is also charged on goods supplied to produce goods subject to ST.

A valid tax invoice or customs documents must exist to recover input tax.

Special rules apply to the recovery of input GT on goods purchased or imported before registration.

Nondeductible input tax. Input tax may not be deducted on purchases or imports of goods and services that are not used for business purposes. In addition, input tax may not be recovered for some items of business expenditure.

The following lists provide some examples of items of expenditure for which input tax is not deductible and examples of items for which input tax is deductible if the expenditure is used for a taxable business purpose.

Examples of items for which input tax is nondeductible

- Goods and services used for nonbusiness purposes
- Goods and services attributable to exempt or nontaxable supplies
- Sporting and recreational activities, other than those used for supplying goods or services
- Restaurants and hotel services, other than those used for supplying goods or services
- Purchases accounted for as returned purchases
- The Special Tax paid on the items listed in Schedule (1) of the GST legislation (unless otherwise provided for)
- Goods and services that have been used for construction purposes, other than those used for renting of construction and destruction equipment
- Cars, other than cars purchased by car-trading businesses or for car rental purposes

Examples of items for which input tax is deductible (if related to a taxable business use)

- Business use of telephone and mobiles
- Accounting and tax consulting fees
- Cars purchased by car-trading businesses or for car rental purposes

Partial exemption. Input tax directly related to making exempt supplies is not recoverable. If a taxable person makes both exempt and taxable goods and services, it may recover input tax partially.

If the same taxable inputs are attributable to both taxable and nontaxable supplies (whether exempted or for nonbusiness use), the portion of the deductible general input tax is determined based on the production formula. If this is not possible, it is calculated based on the proportion of taxable supplies to total supplies.

Apart from the deduction of GT paid or charged on goods at hand at the time of registration, a registered person may not deduct the input tax paid more than three years earlier. However, a registered person that carries out a nontaxable business and that has already deducted tax paid on inputs relating to this business must prepare a debit note with respect to the already deducted tax on its purchases of taxable goods and services that were incorporated in nontaxable business supplies. The registered person must also undertake to calculate the tax due as a consequence of requiring adjusting in this manner, based on the production formula and pay the tax shown in the tax return for its fiscal year. However, if calculation of the tax due based on the production for-

mula is not possible, the tax is calculated based on the proportion of the nontaxable supplies to the total supplies.

Refunds. Tax is repaid within a period not exceeding three months after the date on which the claim for refund has been filed if any of the following circumstances exist:
- Tax is paid on goods or services exported or used in the manufacture of other goods that have been exported.
- Tax is collected by mistake.
- Recoverable input tax that was paid at least six months ago and that was carried forward as a credit has not yet been deducted from the tax charged on supplies made during that period.
- Tax was paid on goods that left the country in the possession of nonresident persons, and the tax amount to be refunded be not less than JOD50 but not more than JOD500.
- ST was previously paid on goods supplied to the bodies relieved from payment of tax under Article 21 of the GST Law (the King of Jordan, embassies, diplomats and consuls [subject to reciprocity] and international and regional organizations working in Jordan).

Capital goods. GST paid on capital goods is refundable. An exception is the GST paid on buildings and related expenditures, which is not recoverable. The GST paid on passenger cars is also not recoverable.

Preregistration costs. A newly registered person can recover GT paid or charged before registration on the goods at hand at the time it registers for GST. If the invoice for the purchases is not a tax invoice, half of the value of the invoice is multiplied by the GT rate to calculate the deductible tax. Only the tax paid or charged on goods at hand is deductible.

Write-off of bad debts. VAT-registered persons can claim relief for the VAT on bad debts in the following cases:
- If the purchaser dies without leaving assets sufficient to pay the tax
- If the purchaser declares that his funds are not sufficient to pay the debts in full or in part, of if he fails to pay or communicate about the debt for two years
- If the seller has exhausted all legal means to collect the debt, including the tax, with no success
- If the seller has proved that the buyer has declared bankruptcy

Noneconomic activities. Not applicable.

G. Recovery of GST by non-established businesses

No recovery is possible. However, a non-established business can voluntarily register for GST, even if not required to do so (e.g., so it can recover input tax charged on local supplies). Please see Section C. *Who is liable*, for more detail about how the non-established business would need to create an establishment in Jordan.

H. Invoicing

A registered person who supplies taxable goods or services to another registered person is required to make out a triplicate tax invoice containing the following details:
- The serial number and date of issuance of the tax invoice
- Name, address and tax number of the registered person
- Name, address and tax number of the purchaser
- A statement regarding the supplied item that provides the type, quantity, value, and rate and amount of the tax, together with a statement of the total amount of the invoice

The original invoice must be provided to the purchaser, and the copies must be maintained by the registered person.

If the exporter is not registered, in addition to the procedures described above, the procedures concerning the deduction or refund of the tax must also be followed. Under Instruction No. 4, a non-registered refund applicant must enclose the following documents together with the refund application:
- The serial number and date of the invoice
- Name, address and tax number of the registered person
- A statement regarding the supplied item that provides the type, quantity and value, together with a statement of the total amount of the invoice

The original invoice must be provided to the purchaser and the copies must be maintained by the registered person.

If a tax point results from a delivery of goods or services, or receipt of payment, the registered person must issue a tax invoice within the following time limits:
- Immediately after the delivery of goods or the receipt of payment if the supplier does not keep delivery notes or inventory cards.
- Within a maximum period of one month after the date on which the services are performed, or immediately on the receipt of payment.
- By the end of the day if the supplier keeps delivery notes and inventory cards.
- Immediately after the delivery of goods or services, or the receipt of payment if the supplier keeps a cash register machine. In this case, the cash register roll is considered an invoice.

Exports. To export goods outside Jordan and to the duty-free estates, zones and shops, the following conditions must be met:
- A customs declaration of the goods to be exported must be prepared with a minimum of three copies of the invoice attached to it.
- The Customs Center must check the contents of the invoice against the relevant customs declaration, certify the copy of the invoice, and affix the number and date of the declaration on the invoice, which is stamped by the Customs Center.
- The exporter must retain a copy of the invoice referred to in the bullet above together with a copy of the customs declaration produced and endorsed pursuant to the customs proceedings for the purposes of future audit.

If the exporter is not registered, in addition to the procedures described above, the procedures concerning the deduction or refund of the tax must also be followed. Under Instruction No. 4, a non-registered refund applicant must enclose the following documents together with the refund application:
- A completed refund form numbered 6/B, approved by the Income and Sales Tax Department (ISTD) and submitted by the concerned person or a legally authorized person.
- A copy of the supplier's tax return signed and certified by the ISTD, which contains the relevant invoice numbers for the amounts claimed. This must be attached later by the concerned directorate in the ISTD.
- The original of the tax invoice for local goods and services. However, if acceptable reasons prevent the issuance of an authenticated invoice and if the applicant undertakes that the applicant has never claimed and will never claim the tax in question when the original copy is found, the Director General of the ISTD may accept a certified copy of the invoice.
- A copy of the import declaration in the name of the exporter (the first copy), if the original declaration is requested from the customs department together with all the relevant attachments.
- A copy of the export invoice of which the number is fixed on the import declaration.
- A production formula approved by the customs department or the General Sales Tax Department concerning the materials incorporated in the production of exported goods.

The above procedures must be followed to export goods to Aqaba Special Economic Zone (SEZ) if the cost of the exported goods exceeds JOD10,000, regardless of whether the exporter is registered for GST. However, if the cost of the goods to be exported to the Aqaba SEZ is JOD10,000 or less, the following procedures must be followed:

- The exporter must produce a detailed invoice showing the cost and quantity of every exported item.
- The Customs Center must check and inspect the goods to be exported against the contents of the invoice and ascertain their exit of the goods to the zone. A customs employee then signifies the approval of the export invoices by affixing on the invoices the phrase "seen upon exiting."

All goods leaving Jordan in the possession of the passengers, or those shipped abroad with a value not exceeding JOD500, may be exported without the need to produce a customs declaration if the exportation is substantiated in a manner satisfactory to the department. If the value of the goods does not exceed JOD1,000, the goods may be exported through the Jordan Export Development Commercial Corporation or via express mail, or it may be exported to the free zones, without the need to produce a customs declaration. In such a case it is sufficient to prepare a triplicate invoice or a bill of lading, stamped by the customs officer to substantiate the exportation. However, if the exported goods are valued at more than JOD1,000, the export must be made using the relevant transfer statement certified for this purpose.

To export services outside Jordan, the following conditions must be met:

- The beneficiary of the service must be a foreigner or a Jordanian who is not resident in Jordan.
- The place where the service is received must be outside Jordan.
- The service supplier must produce a contract substantiating the exportation of the service.
- The exporter must prove that the payment for the service has been transferred to Jordan.

To export services to the Aqaba SEZ, the following conditions must be met:

- The importer of the service must be a corporation registered in the Aqaba SEZ.
- The supplier must produce a service supply contract signed by both parties, which are the supplier and the purchaser located in the Aqaba SEZ.
- The supplier must produce an invoice showing the type and nature of the service supplied, as well as the name of the purchaser of this service.

To export services to the free estates, zones and duty-free shops, the following conditions must be met:

- The service must be provided to a person who is licensed to practice a business activity within the free estates, zones and duty-free shops.
- The service must be intended for the sole purpose of exercising this activity.
- The supplier must produce a service supply contract signed by both parties, which are the supplier and the purchaser of the exported service.
- The supplier must produce an invoice showing the type and nature of the service supplied, as well as the name of the purchaser of this service.

Foreign-currency invoices. If the supply of taxable goods or services is for a consideration determined in a foreign currency, the value must be converted into Jordanian dinars (JOD), according to the exchange rate at the time of supply.

B2C. If taxable goods or services are supplied by a registered person to a person that is not registered for GST, the taxable person (i.e., the supplier) must issue an ordinary invoice to the non-GST registered customer. However, the taxable person may issue a tax-inclusive invoice showing the quantity and the tax-inclusive price of the goods or services supplied, while this practice requires the approval of the Director General of the Tax Department.

The original invoice must be provided to the purchaser, and the copies must be maintained by the registered person.

Electronic invoicing. According to the provisions of the law and its instructions, there is no clear guidance regarding the release of electronic invoices. However, in practice, taxpayers can use electronic invoicing in Jordan. Taxpayers must maintain at least two (2) copies of the tax invoice. A copy sent to the customer while the other is retained in the entity's records.

In addition, the law stipulates that a taxpayer may use computers in the organization of his records, documents and financial statements under certain conditions.

I. GST returns and payments

A tax return, either completed in writing (manually) or filed electronically, must be submitted by the registered person using the forms prepared by the ISTD for this purpose. A registered person must submit the required return within one month following the end of its tax period, as prescribed in the registration letter issued by the ISTD.

If a registered person realizes that it has made an error in a GST return that has already been submitted, it may amend the return through a written notice submitted to the ISTD. In this case, the registered person is not considered to have breached the provisions of the GST Law unless the ISTD discovered the error before the registered person declared it. However, the registered person must pay the underdeclared amount of tax, together with the late payment penalty imposed for that error, calculated for every week or any part thereof.

If a tax return adopted by the ISTD is submitted to a bank, it is deemed to be a tax return submitted to the ISTD.

If the tax return is submitted in a manner that violates the provisions of the GST Law, the return is considered to be canceled and the registered person is liable for the penalties provided for under the GST Law.

If the registered person submits more than one return for the same period, the ISTD accepts only the return submitted first. The other returns are considered cancelled except for any amendment notices submitted afterwards.

Annual returns. Annual returns are not required to be filed in Jordan.

A registered person subject to the general tax shall be required to file a two-month tax return (bimonthly) of its supplies showing the relevant value and the amount of the due tax. The two-months period shall be treated as a single tax period.

A registered person subject to the special tax shall be required to file a one-month tax return of supplies showing the relevant value and the amount of the due tax. The one-month period shall be treated as a single tax period.

Special schemes. The GST law in Jordan does not provide for any special GST accounting schemes or GST returns for certain groups of taxable persons. However, in certain cases, the director may extend the tax period provided, but the extended period shouldn't exceed six months.

Electronic filing. The Income and Sales Tax Department (ISTD) has issued new instructions related to the submission of the tax returns, the new instructions to come into effect on 1 January 2018 that mandate that all taxpayers will have to submit their returns through the department's official website (www.istd.gov.jo), by using the username and password provided by the department.

In addition, as from 1 January 2018, the ISTD will stop receiving any payments in excess of JOD5,000 whether in cash, checks or wire transfers from taxpayers. Instead, tax payments in excess of JOD5,000 will be accepted if only made via the electronic payment system (www.efawateer.com).

J. Penalties

Apart from the criminal tax offenses provided for in the GST Law, a penalty not less than JOD100 and not more than JOD500 is levied on misdemeanors committed in connection with the GST Law.

A person who commits a criminal tax fraud offense is liable for a civil compensation penalty payable to the ISTD of not less than twice and not more than three times the tax due, and a criminal penalty of not less than JOD200 and not more than JOD1,000. For a second offense, the criminal penalty imposed is doubled. If the offense occurs again within one year thereafter, the court may impose the highest criminal fine or a term of imprisonment for a period not less than three months and not exceeding six months, or both.

Penalties and interest on certain unpaid taxes and claims. On 5 November 2018, the Jordanian Council of Ministers issued Decision No. (1767), which waives penalties and interest applicable on certain unpaid taxes and claims. The Decision, covering sales tax penalties and effective 1 November 2018, will remain in force through 31 March 2019.

The decision enables ISTD to waive between 50% and 100% of the value of penalties and interest due, depending on both the payment date and penalties/interest amount. Taxpayers looking to benefit from this waiver should refer to ISTD's guidance before approaching the relevant authorities to understand the extent of coverage of the waiver to their claims and the mechanism for the waiver's application.

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A. At a glance

Name of the tax	Value-added tax (VAT)
Local name	Nalog na dobavlennuyu stoimost (NDS) Kosylgan kun salygy (KKS)
Date introduced	24 December 1991
European Union (EU) Member State	No
Administered by	Ministry of Finance (http://www.minfin.gov.kz) State Revenue Committee of the Ministry of Finance (http://kgd.gov.kz)
VAT rates	
Standard	12%
Other	Zero-rated (0%) and exempt
VAT number format	Number of certificate of registration for VAT (series with five digits and number of VAT registration certificate with seven digits)
VAT return periods	
General period	Quarterly
Imports of goods from Belarus, Kyrgyzstan, Armenia and Russian Federation	Monthly
Thresholds	
Registration	Annual turnover of 30,000 times the minimum calculated index (MCI), approximately USD200,000 for 2019
Recovery of VAT by non-established businesses	No

B. Scope of the tax

VAT applies to the following transactions:
- Supplies of goods, work and services in Kazakhstan
- Imports of goods

For VAT purposes, taxable turnover is the total of practically all types of supplies (for example, sales, exchanges or gifts) of goods, work and services. Goods include practically all forms of property or property rights. Taxable supplies of services are any supplies of work or services that are made for consideration or made free of charge or anything that is performed for consideration and is not a supply of goods.

Goods and services are subject to VAT if, under the place of supply rules, they are deemed to be supplied in Kazakhstan.

The place of supply of goods is deemed to be the following:
- Goods sent by the supplier, the recipient or a third party: the place where the transportation of the goods begins
- For all other cases: the place where the goods are handed over to the purchaser

The place of supply of work and services is determined based on the nature of the executed transactions. Work and services connected with immovable property (for example, buildings and installations) are deemed to be supplied in Kazakhstan if such property is located in Kazakhstan. The place of supply of certain services that are provided outside Kazakhstan is deemed to be in Kazakhstan. Such services include, but are not limited to, the following:
- The transfer of rights to use items of intellectual property, for maintenance and software update
- Provision of access to online resources
- Consulting
- Audit
- Advertising and marketing services
- Staff provision
- The leasing of movable property (other than means of transport)
- Agency services connected with the purchase of goods, work and services
- Consent to limit or terminate entrepreneurial activities for consideration
- Communication services
- Radio and television services
- Rent of freight wagons and containers

C. Who is liable

Taxpayers are legal entities and non-resident legal entities that are registered for VAT purposes as well as importers of goods into Kazakhstan.

Registration procedures. VAT registration, a process separate from tax registration, is either compulsory or voluntary.

Resident legal entities, branches or representative offices of nonresidents legal entities and private entrepreneurs must register for VAT if turnover during the calendar year exceeds 30,000 times the MCI. The threshold is approximately USD200,000 for 2019. The MCI is established by the state budget law for each year. For 2019, the MCI is KZT2,525 (approximately USD6.7). The deadline for VAT registration is within 10 business days after the end of the month in which the turnover threshold is exceeded on paper in person or electronically.

Legal entities that are not subject to compulsory VAT registration have the right to submit an application for VAT registration to the tax authority at their location in person or electronically.

Whether the applicant is required to register or is registering voluntarily, several rules are the same:
- The tax authority shall within one working day from the submission of an application for VAT registration register the taxpayer by issuing a certificate of VAT registration.
- The applicant becomes a VAT payer from the date of submission of the application.

Late-registration penalty. The penalty for late registration is 50 MCI (approximately USD334 for 2019).

Group registration. Not applicable.

Non-established businesses. Foreign legal entities, which do not have a registered branch/representative office in Kazakhstan, cannot be registered for VAT in Kazakhstan. The rules are the same for supplies of goods and services, and B2B and B2C supplies.

If a foreign business has a branch/representative office in Kazakhstan, then it can register for VAT voluntarily (no thresholds). However, where a foreign business has a branch/representative office, then it must register for VAT where its turnover exceeds during the calendar year 30,000 times the MCI (approximately USD200,000 for 2019). The registration procedure is as per the details above. Once registered for VAT, the foreign business can recover input tax on local supplies (subject to normal rules).

Tax representatives. Not applicable. The Kazakhstan VAT legislation does include a fiscal representative concept.

Reverse charge. If a nonresident that is not registered for VAT purposes in Kazakhstan renders services for which the place of supply is Kazakhstan to a Kazakhstan purchaser and if the purchaser is a VAT payer, the purchaser must self-assess and pay VAT through a reverse-charge mechanism. A Kazakhstan purchaser of the services is allowed to offset the amount of the reverse-charge VAT paid, subject to the general offset procedure.

Digital economy. Starting from 1 January 2018, provision of access to online resources was added to the services for which the place of supply is deemed to be in Kazakhstan (see *Section B. Scope of the tax).* There are no other special rules that apply for the digital economy from a VAT perspective.

Deregistration. A VAT payer may submit an application for VAT deregistration to the local tax authorities if the following conditions are simultaneously met:
- The taxable turnover for the calendar year preceding the year in which the tax application is submitted did not exceed approximately USD200,000.
- The taxable turnover for the period from the beginning of the current calendar year in which the tax application is submitted did not exceed approximately USD200,000.

The following documents should be submitted for VAT deregistration:
- An application for VAT deregistration
- A liquidation VAT declaration

Tax authorities should deregister a taxpayer within five working days from the date of submission of a tax application. The date of VAT deregistration shall be the date of submission of the tax application to the tax authority.

The tax authorities will deregister the VAT payer without notification if, for example:
- The VAT declaration is not submitted within six months after the due date established by the Tax Code
- The VAT payer is declared to be abeyant
- The reregistration of the legal entity is recognized to be invalid based on the effective Court's decision

Exemption from registration. Kazakhstan tax legislation does not contain any provisions for exemption from VAT registration.

Voluntary registration. Voluntary VAT registration is possible in Kazakhstan. However, individuals, who are not individual entrepreneurs; government agencies; nonresidents acting without a branch or representative office, structural subdivisions of legal entities-residents and gambling businesses do not have the right to voluntarily register for VAT purposes.

D. VAT rates

The term "taxable supplies" refers to supplies of goods, work and services that are liable to a rate of VAT, including the zero rate.

The following are the VAT rates in Kazakhstan:
- Standard rate: 12%
- Zero rate: (0%)

The standard rate of VAT applies to all supplies of goods, work and services except for supplies taxable at the zero rate and those exempt from VAT.

For imports of goods by individuals under the simplified procedure, VAT may be paid as part of the aggregate customs payment, the amount of which is determined in accordance with the customs law of Kazakhstan.

Examples of goods and services taxable at 0%

- Export sales of goods, except for those that are exempt from VAT
- International transportation services
- Sale of oil and lubricants by airports when fueling aircraft of a foreign air carrier performing international flights
- Sale of fine gold
- Sale of goods to the territory of Special Economic Zones

Exempt supplies. The term "exempt supplies" refers to supplies of goods, work and services not liable to tax and that do not give rise to a right to input tax deduction.

Examples of exempt supplies of goods and services

- Turnover associated with land and residential buildings
- Specified financial services
- Transfers of assets under financial leasing
- Services rendered by noncommercial organizations
- Services in the areas of culture, science and education
- Goods and services related to medical and veterinary activities
- Import of certain assets (a list is issued by the government)
- Goods imported by individuals not for entrepreneurial purposes
- Turnovers related to international transportation services
- Import of goods from the territory of the Eurasian Economic Union member country within the same legal entity (e.g., intra-entity transaction)

Option to tax for exempt supplies. Not applicable.

E. Time of supply

The time of supply is the date that a sale of goods, work or services is completed, which is the date on which the goods are shipped (transferred), work is performed or services are rendered. The date of the performance of work or the rendering of services is the date of signing of an act of acceptance for work performed or services rendered.

For goods that are not shipped, the date of completion of a sale is the date on which ownership of the goods is transferred to the purchaser.

Deposits and prepayments. There are no special time of supply rules for deposits and prepayments in Kazakhstan. As such, the general time of supply rules apply (as outlined above).

Goods sent on approval for sale or return. There are no special time of supply rules for supplies of goods sent on "approval" or for "sale or return" conditions of sale. As such, the general time of supply rules apply (as outlined above).

Leased assets. There are no special time of supply rules for operational leases. As such, the general time of supply rules apply (as outlined above).

The time of supply for financial leases depends on the type of the arrangement, as per the following:

- The date of receipt of the periodic lease payment established by the leasing agreement, without taking into account the amount of remuneration
- The date of transferring the property to financial leasing

Reverse-charge services. The reverse-charge mechanism is triggered by one of the following documents:

(i) Act of works (services) acceptance
(ii) In the absence of the above, a document (except for the VAT invoice), confirming the performance of the work, with the document prepared in compliance with the Kazakhstan legislation on accounting and financial reporting

The date of signing of one of the above documents should be considered as the time of supply, when VAT is due to be accounted for on the supply by way of the reverse-charge mechanism.

Continuous supplies. The time of supply for certain continuous supplies is the last day of the calendar month in which the goods are delivered, work is performed or services are rendered.

Imported goods. The time of supply is the date of importation of goods on to Kazakhstan.

F. Recovery of VAT by taxpayers

The VAT liability of a taxpayer equals output VAT (VAT charged by a taxpayer) less input VAT (VAT paid by a taxpayer to its suppliers) in a reporting period.

VAT paid on services and goods purchased by a VAT payer (input VAT) including reverse-charge VAT paid and VAT paid at customs is generally available for offset (credit) in determining a taxpayer's VAT liability to the budget. However, offset is not available for VAT incurred for the purpose of making supplies that are either exempt or deemed to be supplied outside Kazakhstan.

The excess of input VAT over output VAT may generally be carried forward for offset against future VAT liabilities.

Non-recoverable input VAT. Input VAT is not allowed for offset in several instances.

Examples of items for which input tax is nondeductible

- Receipt of goods, work and services not related to taxable turnover
- Receipt of passenger cars that are purchased as fixed assets
- VAT invoice does not meet the set requirements of the Tax Code
- Goods and services purchased in cash for the amount exceeding 1,000 MCI (inclusive of VAT) irrespective of the frequency of the payment
- Purchase of goods, work and services from suppliers recognized by courts as invalid
- Purchase of goods, work and services that are recognized by courts as executed by private business entities without an actual intent to carry out entrepreneurial activities

Examples of items for which input tax is deductible (if related to a taxable business use)

- Capital assets
- Intangible and biological assets
- Investments in immovable property

Refunds. Generally, in practice, obtaining refunds requires significant effort. However, the rules prescribe a procedure for refunds under certain conditions.

Under the tax code of the Republic of Kazakhstan, currently in effect, the following amounts are refundable to a taxpayer from the budget:

- Input VAT exceeding the amount of tax assessed not related to zero-rated turnover, up to the amount of reverse charge VAT
- VAT paid to suppliers of goods, services that were used for the purposes of zero-rated turnovers
- VAT paid to suppliers of goods, work and services that were acquired using a grant
- VAT paid by diplomatic and equivalent representations accredited in Kazakhstan and by persons who are members of the diplomatic, administrative and technical staff of these representations, including members of their families who reside with them, to suppliers of goods, work and services acquired in Kazakhstan
- The amount of any cash overpayment of VAT to the budget

Under current tax legislation, the excess of input VAT related to zero-rated turnover is refundable if the following conditions are met simultaneously:

- The VAT payer sells zero-rated goods, work and services on a continuous basis.
- Zero-rated sales account for at least 70% of the total taxable sales of the payer for the tax period in which the zero-rated sales occurred and for which a refund of excess VAT is claimed in a VAT return.

Excess VAT must be refunded to a taxpayer on the basis of a refund claim made in the VAT return for a tax period.

Excess VAT confirmed by a tax audit must be refunded:

- Within 30 calendar days – for the taxpayers who:
  - (i) Issue and receive exclusively electronic VAT invoices for the tax period for which a refund of excess VAT is claimed in a VAT return
  - (ii) Not assigned to the category of taxpayers who are in the risk zone determined in accordance with the Kazakhstan legislation
- Within 50 calendar days – for the taxpayers who have zero-rated sales account for at least 70% of the total taxable sales for the tax period in which the zero-rated sales occurred and for which a refund of excess VAT is claimed in a VAT return
- Within 155 calendar days – in all other cases

Refund of excess VAT through the control account. With effect from 1 January 2019, certain VAT payers being members of the official online system of the tax authorities, which is specifically designated for receiving and processing of electronic VAT invoices, may open a control account on a voluntary basis. The control account is a bank account at commercial Kazakhstani bank for VAT transactions (e.g., payment to the state budget, payment to suppliers).

The following taxpayers may claim VAT refund using a control account, for example:

- Taxpayers using acquired (received) goods (leased assets) in the production of other goods. The list of acquired goods (leased assets) is approved by the authorized body
- Taxpayers selling goods for export
- Taxpayers who realize goods on the territory of a Special Economic Zone, which are fully consumed for the purposes of activities that meet the objectives of such Special Economic Zones

Partial exemption. Not applicable.

Preregistration costs. Recovery of preregistration input tax is not allowed in Kazakhstan.

G. Recovery of VAT by non-established businesses

Non-established businesses cannot recover input VAT paid.

H. Invoicing

VAT invoices. In general, the VAT invoice is a compulsory document for all VAT payers. No input VAT is allowed without an appropriate VAT invoice.

The amount of taxable turnover can be adjusted if the cost of goods, work or services changes in certain circumstances, including the following:
- The goods are returned in whole or in part
- The conditions of a transaction change
- The price or amount of compensation for goods, work or services sold is changed

Adjustments to the amount of taxable turnover can be made if both of the following conditions are satisfied:
- Accounting documentation is available
- A corrected VAT invoice is issued or receipt of cash register is available in specified cases

The cost of goods, work and services and the amount of VAT must be stated in the VAT invoice in the national currency of Kazakhstan, except for goods, work and services sold under foreign-trade contracts and in other circumstances provided for by law.

Credit notes. A credit note is an additional VAT invoice issued by a supplier of goods, work and services in some circumstances, such as in the following cases:
- Return of goods
- Where the value of sold goods, work or services change in either direction

The adjustment of the amount of taxable turnover shall take place in the tax period in which such adjustment took place.

Proof of exports. To confirm the applicability of zero-rated VAT for turnover, the supplier must collect supporting documents that are stipulated in the tax law of Kazakhstan.

Foreign-currency invoices. Values in VAT invoices should be indicated in the national currency (tenge). In certain cases, it is allowed to indicate the values in foreign currency.

Electronic invoices. With effect from 1 January 2019, all VAT payers are obliged to issue invoices in electronic format.

Issuance of an electronic VAT invoice is only possible by using the official online system of the tax authorities, which is specifically designated for receiving and processing of electronic VAT invoices. Electronic VAT invoices have an established format and should be signed by means of electronic signature. Generally, electronic invoices should be issued within 15 calendar days from the date of a taxable turnover.

B2C. There are no special rules for VAT invoices issued to private consumers, and as such, full VAT invoices must be issued for all supplies.

Virtual warehouses. With effect from 1 January 2019 the full module of "virtual warehouse" is introduced and obligatory for reporting of goods included into the list of exemptions (e.g., motor vehicles, certain household equipment, sugar, etc.). The "virtual warehouse" is created for the purposes of systematization of inventory accounting, automatic calculation of inventory ending

balance and monitoring of the transfer of goods from entry into Kazakhstan to the final consumer.

I. VAT returns and payments

VAT returns. VAT payers must file a VAT return with the tax authorities for each tax period by the 15th day of the second month following the reporting tax period (quarter) and the respective liability must be paid to the budget by the 25th day of the second month following the reporting tax period.

A VAT return for the import of goods into Kazakhstan from other EAEU member countries must be filed with the tax authorities and the respective liability paid to the budget by the 20th day of the month following the tax period (month).

VAT on imported goods must be paid within the deadlines specified by the customs law of Kazakhstan for the payment of customs payments.

Special schemes. The only special scheme available in Kazakhstan is that VAT payers may pay a remaining amount of import VAT by offset method or take the amount of import VAT already paid under temporary import and a remaining amount of import VAT for offset.

Electronic filing and archiving. There is a special online system designated for electronic filing (http://cabinet.salyk.kz). All taxpayers can file tax returns and some tax applications via this online system provided they have obtained a special electronic key (electronic signature). All tax returns are kept and archived within this online system and have their own status (draft, filed, received).

Annual returns. Not applicable.

J. Penalties

The following administrative fines can be assessed with respect to VAT:
- Failure to file a tax return: penalty up to 70 MCI (approximately USD467 in 2019)
- Understatement of tax payments: penalty up to 50%-80% (depending on the size of the taxpayer) of the underpaid tax
- Issue of fictitious invoice: penalty up to 200%-300% (depending on the size of the taxpayer) of the input VAT included in the invoice
- Nonpayment of tax for export and import of goods, work and services in the Eurasian Economic Union: penalty up to 50 MCI (approximately USD334 for 2019)
- Non-issuance of electronic VAT invoice: for a first time leads to a warning, committed repeatedly within a year penalty up to MCI 40-MCI 150 (approximately USD267-USD1,001 in 2019)

The annual interest rate charged on late payments is equal to 1.25 times the official refinancing rate established by the National Bank of the Republic of Kazakhstan. The value of the official refinancing rate is equal to the value of the base rate established on the relevant date, effective December 2018; the official refinancing rate is 9.25%, so the late-payment interest rate is 11.6% per annum.

Additional assessments made by the state revenue authorities as a result of a tax audit may serve as grounds for initiation of criminal proceedings and imposition of criminal liability on the management of the taxpayer.

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A. At a glance

Name of the tax	Value-added tax (VAT)
Date introduced	1 January 1990
Trading bloc membership	East Africa Community (EAC) Member
Administered by	Kenya Revenue Authority (www.revenue.go.ke)
VAT rates	
Standard	16%
Special rate	8%
Other	Zero-rated and exempt
VAT number format	P000111111A
VAT return periods	Monthly
Thresholds	
Registration	KES5 million (in 12 months)
Recovery of VAT by non-established businesses	No

B. Scope of the tax

Since the enactment of a new VAT Act, which took effect 2 September 2013, VAT applies to the following transactions:

- The supply of goods and services in Kenya by a taxable person
- Taxable imported services received by a taxable person in Kenya to the extent that they relate to exempt supplies
- The importation of goods from outside Kenya, regardless of the status of the importer (unless the importer is listed as zero-rated in Part B of the Second Schedule to the VAT Act)

The exportation of goods and taxable services is zero-rated if, subject to the satisfaction of the Commissioner of Domestic Taxes, the supply takes place in the course of a registered person's business.

C. Who is liable

VAT is paid by consumers of taxable goods and services. It is collected by registered taxpayers (traders) that act as the agents of the government. VAT on imported goods is collected by the Commissioner of Customs Services Department, while the Commissioner of Domestic Taxes collects local VAT and VAT on imported services.

VAT registration is dependent on the attainment of a turnover threshold of KES5 million with respect to all taxable supplies. Businesses that do not attain this turnover threshold are subject to turnover tax at a rate of 3% of their turnover up to a maximum turnover of KES5 million. After reaching this threshold, they must register for VAT. Within 30 days after becoming a taxable person, a person should apply to the Commissioner of Domestic Taxes to be registered in the prescribed manner. Businesses whose turnover is less than the registration threshold can voluntarily apply to the commissioner for registration.

Registration procedures. The registration process involves a person making an online application for a Personal Identification Number (PIN). During this process, an entity is required to state its tax obligations including VAT.

Registration for all taxes is currently done online via the Kenya Revenue Authority (KRA) i-Tax portal (https://itax.kra.go.ke/KRA-Portal/). On average, tax registration can take one to five days depending on the availability of information required for registration.

Group registration. The Kenyan VAT Act allows group registration. However, in practice, group registration is allowed only under special circumstances.

Non-established businesses. A "non-established business" is a business that has no fixed establishment in Kenya. A foreign business that meets the registration requirements in Kenya and does not have a fixed place of business in Kenya is required to appoint a tax representative. A permanent establishment of a foreign business must register for VAT if it makes taxable supplies of goods or services.

Tax representatives. A person who is required to apply for VAT registration but who does not have a fixed place of business in Kenya should appoint a tax representative.

The registration of the tax representative shall be in the name of the nonresident person being represented.

The tax representative of a nonresident person shall:
- Be a person normally residing in Kenya
- Have the responsibility for doing all things required of the nonresident
- With the nonresident person, be jointly and severally liable for the payment of all taxes, fines, penalties and interest imposed

Late-registration penalties. A penalty of KES200,000 or imprisonment for a period not exceeding two years (or both) is imposed in the event of late registration by traders who meet the turnover threshold.

Penalties apply to a range of other VAT offenses (see Section I).

Reverse charge. Reverse-charge VAT is applicable on importation of taxable services to the extent it relates to the provision of exempt supplies. Registered persons are only required to account for reverse-charge VAT to the extent it relates to the provision of exempt supplies.

Digital economy. Taxation of electronic services is provided for in the VAT Act of 2013. "Electronic services" means any of the following services, when provided or delivered on or through a telecommunications network:
- Websites, web hosting or remote maintenance of programs and equipment

- Software and the updating of software
- Images, text and information
- Access to databases
- Self-education packages
- Music, films and games, including games of chance
- Political, cultural, artistic, sporting, scientific and other broadcasts and events, including broadcast television

A supply of electronic services is made in Kenya if the place of business of the supplier from which the services are supplied is in Kenya.

If the place of business of the supplier is not in Kenya, the supply of the services shall be deemed to be made in Kenya if the recipient of the supply is not a registered person and the electronic services are delivered to a person in Kenya at the time of supply.

Deregistration. A registered person may apply to the commissioner for deregistration under the following circumstances:
- If the registered person ceases to make taxable supplies
- If the registered person's annual value of taxable supplies no longer exceeds the registration threshold

The commissioner shall, by notice in writing, cancel the registration of a person in the following circumstances:
- The person has applied for cancellation and the commissioner is satisfied that the person has ceased to make taxable supplies.
- The person has not applied for cancellation but the commissioner is satisfied that the person has ceased to make taxable supplies and is not otherwise required to be registered.

The commissioner may cancel the registration of a person who is no longer required to be registered under the following circumstances:
- If the commissioner is satisfied that the person has failed to keep proper tax records
- If the commissioner is satisfied that the person has failed to furnish regular and reliable returns
- If the commissioner is satisfied that the person has failed to comply with obligations under other revenue laws
- If there are reasonable grounds to believe that the person will not keep proper records or furnish regular and reliable returns

Exemption from registration. The VAT law in Kenya does not contain any provision for exemption from registration.

Voluntary registration. The VAT act provides for voluntary VAT registration for business providing taxable supplies but have not exceeded the turnover threshold for VAT registration. The registration is granted under the following conditions:
- The person is making or shall make taxable supplies.
- The person has a fixed place of business.
- The person has kept proper books of accounts, if he has commenced business, or there are reasonable grounds to believe that the person will keep proper books of accounts, if he has not commenced business.

D. VAT rates

The term "taxable supplies" refers to supplies of goods and services that are not included in the First Schedule to the VAT Act, which specifies exempt supplies.

The following are the VAT rates in Kenya:
- Standard rate: 16%

- Special rate: 8%
- Zero rate: (0%)

Supplies listed in the Second Schedule to the VAT Act are zero-rated, which means VAT is charged at 0% on the sale, and input tax incurred in making the sale is deducted against output tax.

Examples of zero-rated supplies

- Exportation of goods and taxable services
- Goods and services supplied to export-processing zones
- International transportation of passengers
- Goods and services supplied to special economic zones
- Supply of liquefied petroleum gas (LPG)

Zero-rated supplies to specific persons

- Supplies to the Commonwealth
- Supplies to other governments
- Supplies to diplomats

The term "exempt supplies" refers to supplies of goods and services that are not liable to tax. Persons that make exempt supplies are not entitled to input tax deduction (see Section F).

Examples of exempt goods

- Unprocessed agricultural products
- Airplanes and other aircraft
- Direction-finding compasses
- Taxable goods for direct and exclusive use for the construction of tourism facilities of 50 acres or more
- Passenger baggage

Examples of goods subject to 8% VAT

- Motor fuel (regular and premium gasoline)
- Aviation fuel
- Gas oil
- Natural gas

Examples of exempt services

- Financial services
- Insurance
- Medical services
- Agricultural and horticultural services and animal husbandry
- Transportation of passengers (excluding transportation for hire)
- Taxable services for direct and exclusive use for the construction of tourism facilities of 50 acres or more
- Entry fees into national parks and national reserves
- The services of tour operators excluding in-house supplies

Option to tax for exempt supplies. Not applicable.

E. Time of supply

The time when VAT becomes due is called the "time of supply" or "tax point." In Kenya, the tax point is the earliest of the following events:

- The goods or services are supplied.
- A certificate is issued by an architect, surveyor or a consultant.
- An invoice is issued.
- Payment is received for all or part of the supply.

Other tax points apply in a variety of specific situations.

Imports. The time of the supply for imported goods is either the date of importation, or the date on which the goods leave a duty suspension regime.

Deposits and prepayments. VAT is due on deposits and prepayments provided one is able to determine the type of payments the supply relates to.

Goods sent on approval for sale or return. There are no special time of supply rules in Kenya for supplies of goods sent on approval for sale or return. As such the general time of supply rules apply (see above).

Leased assets. VAT is due on lease rentals at the earlier of when the invoice is raised or when the payment is made.

Reverse-charge services. Reverse-charge VAT is due on the importation of taxable services to the extent that the services relate to the provision of exempt supplies. Where imported taxable services relate to provision of taxable supplies, the reverse-charge VAT payable is zero-rated. The tax is due at the time of supply.

Continuous supplies. For continuous supplies, the time of supply is upon determination of the supply or meter reading.

F. Recovery of VAT by taxable persons

A taxable person may recover input tax, which is VAT charged on goods and services supplied to it for business purposes. Input tax is claimed by deducting it from output tax, which is VAT charged on supplies made. Taxable persons must claim input tax within six months after incurring the expense.

Input tax includes VAT charged on goods and services purchased in Kenya and VAT paid on imports of goods.

Examples of items for which input tax is deductible (if related to a taxable business use)

- Professional fees
- Utility costs

Nondeductible input tax. VAT may not be recovered on purchases of goods and services that are not used for business purposes (for example, goods acquired for private use by an entrepreneur). In addition, input tax may not be recovered on certain business expenses.

Input tax recovery is restricted with respect to business expenses incurred on the following items:

- Passenger cars or minibuses and the repair and maintenance thereof, including spare parts, unless the passenger cars and minibuses are acquired by the registered person exclusively for the purpose of making a taxable supply in the ordinary course of a continuous and regular business of selling and dealing in or hiring of passenger cars and minibuses
- Entertainment, restaurant and accommodation services unless:
  - — The services are provided in the ordinary course of the business carried on by the person to provide the services, and the services are not supplied to an associate or employee
  - — The services are provided while the recipient is away from home for the purposes of the business of the recipient or the recipient's employer

Partial exemption. VAT directly related to making exempt supplies is not recoverable. A registered person who makes both exempt and taxable supplies cannot recover VAT tax in full. This situation is referred to as "partial exemption."

Under the VAT Act, if a taxable person supplies both taxable and exempt goods and services, only input tax attributable to taxable supplies may be recovered. The following are the attribution rules:

- Input tax directly attributable to taxable goods purchased and sold in the same condition is deductible in full.
- Input tax directly attributable to exempt outputs may not be deducted.
- Attributable to both taxable and exempt supplies is partially deductible. The recoverable amount is calculated using a simple pro rata method based on the value of taxable and exempt supplies made.

If the exempt supplies are less than 10% of the total supplies, the input tax may be claimed in full. Where the exempt supplies constitute more than 90%, the registered person shall not be allowed any input tax attributable to taxable supplies.

Refunds. A taxable person may claim a refund of input tax in excess of output tax if the Commissioner General is satisfied that the excess arises from making zero-rated supplies.

Claims in excess of KES1 million must be accompanied by an auditors' certificate. However, in practice, the VAT Department requires an auditors' certificate for refunds in excess of KES200,000 to facilitate speedy processing.

The commissioner may refund tax where the tax has been paid in error.

A claim for tax paid in error must be filed within a period of one year (12 months) after the date on which the tax was paid.

VAT on bad debts accounted for and paid by a registered person can be claimed after a period of three years from the date of such supply or it can be claimed if the person liable to pay the tax has become legally insolvent. However, it must be claimed no later than five years after the date of the supply. If legal insolvency does not apply, evidence of the effort to recover the tax is required to support such claims.

Preregistration costs. On the date a person is registered, and for the next three months, the taxable person may recover preregistration input VAT paid on taxable supplies intended for use in making taxable supplies, provided that those purchases of taxable supplies were completed no more than 24 months before the date of registration.

G. Recovery of VAT by nonresidents

Kenya does not refund VAT incurred by a foreign business, unless the foreign business has a permanent establishment in Kenya and it is registered for VAT in Kenya.

H. Invoicing

VAT invoices and credit notes. A supplier of taxable goods and services must issue a tax invoice to the purchaser at the time of supply. Simplified tax invoices may be used. A credit note may be used to reduce the VAT charged on a supply of goods or services. Credit notes must show the same information as a tax invoice.

Proof of exports. Goods and taxable services exported from Kenya are zero-rated. However, to qualify for zero rating, exports of goods must be supported by evidence that proves the goods left Kenya. Suitable evidence includes the following documents:

- A sales invoice
- A bill of lading, road manifest or airway bill
- A certified (endorsed) export entry (Form C17 [formerly Form C63])
- For sugar and other excisable goods, a certificate of exportation signed by the Commissioner of Customs and Excise

A service exported out of Kenya means a service provided for use or consumption outside Kenya. However, to qualify for zero rating, exports of services must be supported by a copy of the invoice showing the sale of the services to the purchaser.

Foreign-currency invoices. Foreign-currency invoices are dealt with in the same way as invoices in local currency. The tax authorities do not require a standard exchange rate to be used to convert the value of foreign invoices into Kenyan shillings (KES). In practice, they accept the rate used by the taxable person, if the rate used is within the prevailing market exchange rates.

Electronic invoices. Registered persons must keep records, including copies of tax invoices in an electronic manner or otherwise. An invoice may be generated electronically or manually, provided it meets the prescribed conditions of a valid tax invoice.

B2C. There are no special rules for invoices issued for supplies made by taxable persons to private consumers.

I. VAT returns and payment

VAT returns. The VAT tax period is one month. Returns must be filed by the 20th day after the end of the tax period. Payment is due in full by the same date. A "nil" return must be filed if no VAT is payable (either because the taxable person has made no supplies or because input tax exceeds output tax in the period).

If the normal filing date falls on a public holiday or on a weekend, the VAT return must be submitted on the last working day before that day.

VAT returns are now being submitted online.

A person may apply to the commissioner before the due date for submission of return for an extension of time to submit a return.

Special schemes. Taxable supplies to appointed withholding VAT agents are subject to withholding VAT at 6% of the taxable value. Appointed withholding VAT agents include government ministries, parastatals, financial institutions and most of the major taxpayers, as they may be appointed by the Commissioner.

Electronic filing and archiving. From 1 August 2015, the tax authority does not accept manual VAT returns. All returns must be filed electronically via the Kenya Revenue Authority (KRA) i-Tax portal.

Every registered person is required to keep records either electronically or otherwise for a period of five years.

Annual returns. VAT returns are filed monthly. There is no provision for annual VAT returns.

J. Penalties

The late submission of a return is subject to a penalty of KES20,000 or 5% of tax due, whichever is higher, plus late payment interest charged at a rate of 1% per month, simple interest. Other penalties for VAT offenses include the following:

- Failure to keep, retain or maintain documents without reasonable cause for a reporting period: penalty of KES100,000 or 10% of the amount of tax payable under the Act to which the document relates for the reporting period to which the failure relates whichever is higher
- Failure to display registration certificate: a fine of up to KES200,000 or a maximum sentence of two years' imprisonment, or both
- Failure to apply for registration or deregistration: penalty of KES200,000 or a maximum sentence of two years' imprisonment, or both
- Making a fraudulent claim for a refund of tax: two times the amount of claim

- Unauthorized access to or improper use of tax computerized system: in case of an individual, maximum of KES400,000 or a maximum sentence of two years' imprisonment, or both. In case of a body corporate, fine not exceeding one million shillings
- Unauthorized access to or improper use of tax computerized system: maximum of KES400,000 or a maximum sentence of two years' imprisonment, or both
- Interference with tax computerized system: maximum of KES800,000 or a maximum sentence of three years' imprisonment, or both
- Other offenses: maximum fine of KES1 million or a maximum sentence of three years' imprisonment

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A. At a glance

Name of the tax	Value-added tax (VAT)
Local name	Boo-ga-ga-chi-se
Date introduced	1 July 1977
Trading bloc membership	None
Administered by	National Tax Service (http://www.nts.go.kr)
VAT rates	
Standard	10%
Other	Zero-rated and exempt
VAT number format	000-00-00000 (showing tax office location, legal entity type and serial number)
VAT return periods	Quarterly
Registration thresholds	None (except for simplified taxation)
Simplified taxation	Individual businesses with prescribed categories and with turnover less than KRW48 million in previous calendar year
Recovery of VAT by non-established businesses	Yes

B. Scope of the tax

VAT applies to the following transactions:
• The supply of goods and services by a taxable person
• Reverse-charge services received by an exempt business person in Korea
• The importation of goods, regardless of the status of the importer

C. Who is liable

Any person that independently undertakes the supply of taxable goods or services in the course of business, whether or not for profit, is liable for VAT.

Reverse charge. Reverse charge generally applies where a business receives a supply of taxable services and intangible properties from a nonresident or foreign corporation and uses the services

and intangible properties for its tax-exempt business. The recipient of such taxable services and intangible properties must collect the VAT at the time of the payment and pay the amount to the government.

If a business receives a supply of taxable services and intangible properties from a nonresident or foreign corporation, and such supplies are used for both its taxable and tax-exempt activities, VAT on the reverse charge is calculated by reference to the ratio of turnover related to exempt supplies for the year compared to total turnover.

A nonresident or foreign corporation for VAT purposes is one of the following:
- A nonresident or foreign corporation that does not have a place of business in Korea
- A nonresident or foreign corporation with a domestic place of business, provided that the supply of services is not rendered through the domestic place of business

Tax representatives. In certain circumstances, an individual taxpayer must designate a tax administrator to deal with filing tax returns, making tax payments, requesting refunds and handling other necessary matters. Information about the tax administrator must be reported to the competent tax office.

Registration procedures. Any person that begins a business must register the place of business with the district tax office within 20 days after the date of business commencement. The business may be registered before the date of business commencement. The tax office that has jurisdiction over the business location issues a business registration certificate. Where a taxpayer operates more than one business place, the taxpayer is allowed to register two or more business places as a single business unit for VAT purposes.

Late-registration penalties. If a person fails to register a business within 20 days after business commencement, a penalty tax equal to 1% of the value of supplies made is imposed. If a taxpayer provides goods or services without registration or with late registration, the penalty applies to the value of the supplies made during the period beginning on the business commencement date ending on the day before the date on which the registration is made. The penalty amount will adjust the amount of tax payable or deductible. The penalty is capped at KRW100 million (KRW50 million for small and medium-sized enterprises [SMEs]). The cap covers every six-month period.

Group registration. Not applicable.

Non-established businesses. "Non-established business" refers to a business that has no fixed establishment in Korea. A non-established business is not required to register for VAT in Korea unless it provides certain electronic services to Korean customers.

Digital economy. Effective 1 July 2015, South Korea applies VAT on electronic services purchased by South Korean customers from abroad. Foreign providers of electronic services must register with the South Korean tax authorities through the simplified business registration system.

The VAT on electronic services will not apply if the electronic services are rendered to a domestic entity that is registered for VAT purposes in Korea (i.e., in business-to-business transactions).

Deregistration. A registered business that ceases to operate is required to deregister by returning its business registration certificate to the tax office.

Exemption from registration. The VAT law in Korea does not contain any provision for exemption from registration.

Voluntary registration. The VAT law in Korea does not contain any provision for voluntary VAT registration, as there is no registration threshold (i.e., all entities that make taxable supplies are obliged to register for VAT).

D. VAT rates

In Korea, the VAT rates are the standard rate of 10% and the zero rate (0%). The standard rate of VAT applies to all supplies of goods or services, unless a specific measure provides for the zero rate or an exemption.

Examples of goods and services taxable at 0%

- Exported goods
- Services rendered outside Korea
- International transportation services by ships and aircraft
- Other goods or services supplied for foreign currency

Examples of exempt supplies of goods and services

- Social welfare services (for example, medical and health services and education services)
- Goods or services related to culture (for example, books, newspapers, magazines, official gazettes and communications, artistic works, and admission to libraries)
- Personal services similar to labor (for example, by actors, singers and academic research services)
- Postage stamps
- Basic life necessities and services (for example, unprocessed foodstuffs such as agricultural products, livestock products, marine products, forest products, piped water, briquette and anthracite coal)
- Services supplied by the government
- Finance and insurance services
- Supplies of land

Option to tax for exempt supplies. A business that supplies certain goods and services that are exempt under the Korean law may choose to tax these supplies by filing a report on waiver of VAT exemption.

E. Time of supply

The time when VAT becomes due is called the "time of supply" or "tax point."

Goods are deemed to be supplied at the following times (also, see the next paragraph):

- A supply of goods that requires the goods to be moved: when the goods are delivered
- A supply of goods that does not require the goods to be moved: when the goods are made available
- For other cases: when the supply of goods is confirmed

The following are the times of supply for specified types of supplies:

- Cash or credit sales: when goods are delivered or made available
- Sales made for long-term installment payments: when each portion of the proceeds are received
- Supply of goods under the payment term of percentage of work completed, or under terms of partial payments: when each portion of the proceeds are received
- Processing deemed to be a supply of goods: when the processed goods are delivered
- Self-supplies or the supply of goods for personal use or for a gift: when the goods are consumed or used
- Business closure: the date of closure
- Goods supplied through vending machines: when the taxpayer takes money from the machine
- Exports: the date of shipment
- Goods that are considered imported goods and that are supplied by a business in a bonded area to outside the bonded area: the date of the import declaration

The time of supply for services is as follows:

- General rule: when the services are completely rendered

- Services provided under terms of payment based on the percentage of work completed, partial payment, deferred payment, or any other payment terms: when each portion of the payments is to be received
- A deemed rent deposit for a lease or advance or deferred payment of rent for the leasing of land, buildings or other structures built on the land: when the preliminary tax return or the tax period has been completed
- Other cases: when the services have been completely rendered and the value of the supply is determined

If a business receives partial or full payment of the consideration for a supply of goods or services and issues a tax invoice or receipt for the payment before the general time of supply occurs (as described above), the time of supply is deemed to be the date that the tax invoice or receipt is issued.

Imported goods. The time of importation for goods shall be the time when an import declaration under the Customs Act is accepted.

Deposits and prepayments. In Korea, there are no provisions in the Korean VAT law relating to deposits. There is only a system for prepayments.

If the supplier has received a prepayment (a partial or full payment), which takes place before the general time of supply rules for goods and services (i.e., when the goods are delivered/services are completed or when the goods become available/facilities or rights are used), then the time of supply is when the prepayment (a partial or full payment) is received.

Tax invoices must be issued when the time of supply for the prepayment takes place. This is to prevent the customer from issuing VAT invoices in advance without making the prepayment and receiving an unfair deduction of input VAT. The supplier has to account for VAT in the same VAT return filing period when the prepayment is made, and based on the tax invoice issued.

Where a prepayment is refunded to the customer, or the supply does not take place, there is generally no requirement to account for VAT. If the supplier has already declared the VAT on its VAT return, then the supplier needs to make an adjustment on its next VAT return.

Goods sent on approval for sale or return. For goods sent on approval for sale or return, and other conditional sales and time limit sales, the time of supply shall be when such conditions are fully satisfied or sales become certain after expiration (this is where the supplier has given the customer a certain number of days to use the goods before the sale, and this period has now passed).

If the goods are sold on a returnable basis, in general, the supplier will provide the customer with a specific time period to return the goods. The time of supply is when the customer expresses its intention to purchase the goods. Otherwise the time of supply shall be when the customer fails to return the item after the set period has expired.

Leased assets. Under Korean VAT law, there is no specific provision in respect to time of supply for leased assets. However, in accordance with the view of the tax authority, a supply of goods only applies to a financial lease, and shall comply with general time of supply rules for goods.

Reverse-charge services. VAT shall be accounted for by the customer, through the reverse-charge mechanism, at the time of payment on the relevant services supplied by a nonresident or foreign businesses.

Continuous supplies. If a person is supplying goods or services on an installment of payments (as outlined below), the time of supply shall be at the time when each portion of the proceeds are received. If the tax invoice or receipt is issued in advance, the time of supply shall be at the time of issuing tax invoice or receipt:

- Supplying goods or services on long-term installment sales or on condition (a long-term installment)
- Supplying goods continuously that a single business unit is not compatible such as electricity, etc.
- Supplying services continuously that a single business unit is not compatible

F. Recovery of VAT by taxable persons

A taxable person may recover input tax, which is VAT charged on goods and services supplied to it for business purposes. The basic rule for VAT recovery in Korea requires a supply of goods or services to be made by a taxable person in the course of business. Any VAT claimed must be supported by a valid VAT tax invoice, customs document or similar document.

Deductibility of input tax. Input tax may not be recovered on purchases of goods and services that are not used for business purposes. Input tax incurred on expenses directly related to the business is generally recoverable.

Examples of items for which input tax is deductible (if related to a taxable business use)

- The value-added tax amount on goods or services that are used by taxpayers for their own business
- The value-added tax amount on the importation of goods that are used by taxpayers for their own business or imported by them for such use

However, certain input tax is not recoverable.

Examples of items for which input tax is nondeductible

- Input tax on expenses not directly related to the business
- Input tax on the purchase and maintenance of small automobiles used for nonprofit purposes
- Input tax on the purchase of goods or services that are used in VAT-exempt business
- Input tax on entertainment expenses or similar expenses outlined in the Presidential Decree governing VAT recovery
- Input tax amount incurred before the date of registration

Partial exemption. If goods or services purchased by a taxpayer are used both for taxable and exempt business, the creditable input tax is calculated based on the ratio of turnover related to supplies entitled to a VAT credit compared to the taxpayer's total turnover.

Capital goods. Capital goods are items of capital expenditure that are depreciated and used in a business over several years. Input tax is deducted in the VAT taxable period in which the goods are acquired. The amount of input tax recovered depends on the taxpayer's partial exemption recovery position in the VAT taxable period of acquisition. However, the amount of input tax recovered for capital goods must be adjusted over time if the taxpayer's partial exemption recovery percentage changes to a certain extent during the adjustment period.

Refunds. If a taxpayer is entitled to a refund, the competent tax office refunds the amount of tax refundable for each tax period concerned. This is generally done automatically through the submission of the periodic VAT return.

The tax office may refund the amount of tax due to a taxpayer within 15 days after the date of preliminary return and final return if 1) the taxpayer makes zero-rated supplies, 2) the taxpayer operates a newly established business, or 3) the taxpayer acquires, expands or extends its business facilities. This procedure is referred to as an early refund.

Preregistration costs. Not applicable.

G. Recovery of VAT by non-established businesses

Korea refunds VAT incurred by businesses that are neither established nor registered for VAT in Korea. A non-established business may reclaim VAT to the same extent as a VAT-registered business, but only if the resident country of the non-established business provides VAT refunds to non-established Korean businesses in that country on a reciprocal basis.

A foreign company that is engaged in business in its home country but does not have a permanent establishment in Korea may reclaim the VAT incurred on the purchase of the following goods and services pursuant to the Tax Incentives Limitation Law:
- Meals and hotel charges
- Advertisements
- Electricity and telecommunications
- Real estate rentals and leases
- Certain goods and services necessary for the maintenance of an office in Korea

Refund application. A foreign company that seeks to reclaim VAT paid in Korea must submit an application, together with the required documents, to the district National Tax Service (NTS) by 30 June of the year following the calendar year covered by the claim. The district NTS must refund eligible VAT by 31 December of the year in which the application is submitted. The following documents must accompany the claim:
- A certificate that proves the foreign company is a registered business in its home country
- A detailed transaction list
- All original tax invoices
- A power of attorney, if necessary

H. Invoicing

Tax invoice. When a taxpayer supplies goods or services, it must issue a tax invoice to the other party to the transaction. The tax invoice must contain the following information:
- The registration number and the name of the individual or corporate taxpayer
- The registration number of the other party to the supply
- The value of the supply and the VAT charged
- The date, month and year in which the tax invoice is issued
- Other particulars as prescribed by the Presidential Decree

Monthly tax invoices. If it is deemed necessary, a taxpayer may prepare and issue a tax invoice by aggregating the total receivable transactions to the end of the month. The invoice must be issued by the 10th day of the following month.

Import documentation. The Customs Office is required to prepare and issue import tax invoices for imported goods. The documents must be given to individuals and companies that make imports and must be issued in accordance with the provisions of the Customs Law.

Exemption from the obligation to issue tax invoices. Taxpayers that carry on any of the following activities are exempt from the obligation to prepare and issue tax invoices:
- Self-supplies of goods, personal use of goods, donations for a business purpose, supplies in the course of the closure of a business and self-supplies of services
- Exportations of goods, supplies of services abroad, and other specific supplies of goods or services that earn foreign currency and that are subject to the zero rate

Electronic tax invoice system. The electronic tax invoice (ETI) is a tax invoice that is electronically transmitted to the information network of the NTS through an accredited certification system that can confirm information, such as a supplier's identification and the details of tax invoices if changed.

All registered corporate taxpayers and individual taxpayers prescribed by Presidential Decree of VAT law must issue tax invoices under the ETI system and submit a statement of delivery to the NTS by the date specified by Presidential Decree of VAT law, which is currently the day immediately following the issuance date.

Self-issuance tax invoice. If the recipient of goods or services is not issued a tax invoice, the recipient may issue a self-billed tax invoice upon receiving confirmation from a tax officer that the supply of goods or services has actually taken place.

Credit note. If a tax invoice contains an error or if the taxpayer needs to make a correction to the submitted tax invoice after it has been issued, the taxpayer must prepare and reissue the tax invoice.

Foreign-currency considerations. If a VAT invoice is issued in a foreign currency, all values that are required on the invoice must be converted into Korean won (KRW), using the exchange rate at the time of supply. The exchange rate is contained in the Foreign Exchange Transaction Regulation, and it is generally the exchange rate announced by Seoul Money Brokerage Service Ltd. (http://www.smbs.biz).

Export documentation. A detailed statement is required for a supply to be qualified as an export. This document must be prepared by the taxpayer.

B2C. Under the Korean VAT law, there is no stipulation for supplies to private consumers. However, there is a provision that allows a taxable business to issue a receipt instead of a VAT invoice or exempting an obligation of a VAT invoice if it is considered too difficult to issue a VAT invoice or if it is deemed unnecessary. If a taxable person conforming to one of the following positions outlined below, supplies goods or services (except for VAT exempted supplies), at the time of supply, the taxable person must issue a receipt to the customer instead of issuing tax invoice:

- Simplified taxpayer
- A taxpayer supplying goods or services to non-business entity

I. VAT returns and payment

The VAT period is six months on a calendar-year basis (first VAT period: January through June; second VAT period: July through December). VAT returns must be filed on a quarterly basis, including preliminary returns.

VAT returns. A taxpayer is required to file preliminary returns for the first and third quarters of the year, which end in March and September, respectively. These preliminary returns must indicate the tax base and the tax amount payable or refundable. The preliminary return must be filed within 25 days following the last day of each preliminary return period. A taxpayer must pay the tax amount payable for the preliminary return period when the return is filed.

Taxpayers must file a final return for the quarters ended June and December for the second and fourth quarters of the year. The final return must be filed within 25 days following the end of the tax period. A taxpayer must pay the tax amount payable for the final return period at the time of filing the return.

VAT returns must be completed in Korean won (KRW), and VAT liabilities must be paid in Korean won.

Record retention. A taxpayer must keep the books in which the transactions are recorded for a period of five years after the date of the final return for the tax period in which the transactions occurred. The books must also contain details of tax invoices or receipts issued or received. Records may be kept in hard copy or in electronic format.

Payments. A taxable person must pay the VAT due at each business place at the time of filing the return. However, if a taxpayer has more than two business places, it may pay the entire VAT due at its principal place of business with the prior approval from the tax office that has jurisdiction over the principal business place.

Special schemes. Not applicable.

Electronic filing and archiving. Where a return is electronically submitted through the information network of the NTS, such return shall be treated as filed with the tax office at the time of submission to the information network of the NTS.

Businesses shall record all details of transactions related to their amount of tax payable or amount of tax refundable in their account books and maintain them at their own places of business for five years from the deadline for filing a final return for the taxable period of the relevant transactions. However, businesses that issue tax invoices using the ETI system are not required to maintain relevant records.

Annual returns. Not applicable.

J. Penalties

Penalties apply to the following VAT errors or offenses:

- Failure to register within 20 days from the establishment of a business: 1% of the value of supply.
- Failure to issue a correct tax invoice (including ETI) or to submit a correct list of tax invoices issued: 0.5%, 1% or 2% of the value of supply.
- Failure to transmit a list of ETIs issued: 0.5% or 1% of the value of supply.
- Failure to report a zero-rated VAT transaction in a VAT return: 0.5% of the tax base.
- Failure to file a tax return: 10% to 40% of the underpaid tax amount (overpaid tax refund).
- Underpayment and nonpayment of taxes or overestimated refund: underpaid tax amount (or overpaid tax refund) at a rate of 10.95% annually.
- Failure to comply with the requirement to make a proxy payment (reverse charge): 3% of the underpaid tax amount plus 0.03% of the underpaid tax amount on the number of days the payment is late. However, the penalty is capped at 10%.

Some of the individual penalties listed above are capped at KRW100 million (KRW50 million for SMEs). The cap covers every six-month period.

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A. At a glance

Name of the tax	Value-added tax (VAT)
Local name	Tatimi mbi Vleren e Shtuar (TVSH)
Date introduced	31 May 2001
Trading bloc membership	Customs-free access to the EUmarket based on the EU Autonomous Trade Preference (ATP) Regime; Central European Free Trade Agreement
Administered by	Tax Administration of Kosovo (TAK)
VAT rates	
Standard	18%
Reduced	8%
Other	Exempt with credit and exempt
VAT number format	1234567890
VAT return periods	Monthly
Registration thresholds	
Supply of domestic goods	Annual turnover of EUR30,000
Exporters and importers	Subject to registration regardless of turnover
Recovery of VAT by non-established businesses	No

B. Scope of the tax

VAT applies to the following transactions:
- The supply of goods and services performed by a taxable person in Kosovo
- Importation of goods in Kosovo, regardless of the status of the importer
- Services supplied to taxable persons in Kosovo by service providers whose place of business is outside Kosovo
- Certain supplies of services rendered by service providers whose place of business is outside Kosovo to non-taxable persons in Kosovo, such as digital services and services related to an immovable property located in Kosovo

C. Who is liable

Any person (entity or individual) who independently carries out any economic activity in a regular or non-regular manner, whatever the purpose or results of that economic activity, is liable to VAT.

Taxable activities also include "the exploitation of tangible or intangible property for the purposes of obtaining income therefrom on a continuing basis."

A taxable person established in Kosovo is obliged to register for VAT purposes and charge VAT when his annual turnover within a calendar year exceeds the threshold of EUR30,000. Any supply made by the taxable person after the threshold is exceeded shall be subject to VAT. In this case, the taxable person is required to apply for VAT registration within 15 days after exceeding the threshold. Consequently, the part of the supply that exceeded the threshold will be taken into account for purposes of VAT in the first tax period after registration.

Every person who meets all conditions of the definition of taxable person in Kosovo but does not exceed the VAT registration threshold may voluntarily register for VAT.

Persons involved in import or export activities and fixed establishments of nonresident persons must register for VAT regardless of the amount of turnover from the commencement of an economic activity in Kosovo.

VAT representatives. A non-established business must appoint a resident VAT representative to register for VAT purposes in Kosovo regardless of the amount of turnover, unless the reverse-charge mechanism applies. The VAT representative may act on behalf of the taxable person for all purposes related to VAT and is jointly and severally liable for compliance with all VAT obligations of the non-established business. *At the time of preparing this chapter, the draft VAT law is still under review by the Budget & Finance Commission and has not yet passed. It is expected to enter into force in 2019, where new legislation outlines that where the non-established business does not appoint a VAT representative in Kosovo, the nontaxable person or the taxable non-registered person that is the recipient of the supplies. will be liable for the VAT liabilities and penalties.*

Registration procedures. The application for registration cannot be done online. A person applying for VAT registration shall personally or through an authorized person submit the VAT registration form with the respective regional office of TAK. The VAT registration application form, which is available online at the following link:http://www.atk-ks.org/wp-content/uploads/2017/10/FRTVSH_en-US.pdf, must be accompanied by a copy of the business registration documents, the Certificate of the Fiscal Number and an official identification photo (passport, identity card, etc.).

The TAK determines whether to issue the VAT Registration Certificate or not within five working days from receipt of the application form, after ensuring that the information provided in the registration form is accurate and that the taxpayer has complied with all tax obligations.

Late-registration penalties. Every person who has not applied for registration in due time shall be registered by TAK with retroactive effect as of the date the threshold was exceeded and shall be liable for the VAT retroactively plus an administrative penalty, if failure to register is due to negligence. The penalty equals 15% or 25% of the VAT due, depending on whether the taxable supplies made prior to registration were less or more than EUR10,000. In addition, default interest is applicable.

Digital economy. Kosovo follows the destination principle with regard to cross-border digital services supplied to nontaxable persons in Kosovo. The place of supply of cross-border digital services to non-taxable persons is the place where the non-taxable person is established or where he has his permanent address or usually resides. Thus a foreign service supplier providing digital

services to a nontaxable person in Kosovo should register for VAT purposes in Kosovo by appointing a VAT representative in the country to account for and pay the VAT liability.

Group registration. The Kosovan VAT law does not allow group registration.

Non-established businesses. A "non-established business" is a business that does not have a fixed establishment in Kosovo. No VAT registration threshold applies to taxable supplies made in Kosovo by a non-established business.

A non-established business must register for VAT in Kosovo by appointing a VAT representative if it engages in any of the following taxable supplies:
- Supply of goods located in Kosovo at the time of supply
- Supply of certain services to nontaxable persons in Kosovo, such as digital services and services related to an immovable property located in Kosovo
- Import and export activities in Kosovo

Reverse charge. The reverse-charge mechanism applies to supplies of services made by non-established business to taxable persons in Kosovo. A non-established business is not required to register for VAT if all its supplies in Kosovo fall under the reverse-charge mechanism.

Deregistration. Every taxable person registered for VAT purposes may request to be deregistered if over the last calendar year the turnover fell below the VAT registration threshold. Taxable persons ceasing their economic activity are liable to request to be deregistered within 15 days from the termination of their activity. *At the time of preparing this chapter, draft VAT law it is still under review by the Budget & Finance Commission and has not yet passed. It is expected to enter into force in 2019, where new legislation outlines that the deregistration enters into force at the date of the deregistration request.*

Exemption from registration. The VAT law in Kosovo does not contain any provision for exemption from registration.

Voluntary registration. Persons may voluntarily apply for VAT registration regardless of their turnover and must remain registered for a minimum of one year after the registration year.

D. VAT rates

The term "taxable supplies" refers to supplies of goods and services and imports that are subject to VAT. The following VAT rates apply in Kosovo:
- Standard rate: 18%
- Reduced rate: 8%

The standard rate of VAT applies to all supplies of goods or services and imports, unless a specific measure allows a reduced rate or an exemption.

Examples of supplies of goods and services taxable at 8%

- Water, except bottled water
- Electricity, central heating, waste collection and other waste treatment
- Grains such as barley, corn, maize varieties, oats, rye, rice and wheat
- Products made from grain for human consumption
- Oils made from grains or oilseeds for use in cooking for human consumption
- Dairy and dairy products for human consumption
- Salt appropriate for human consumption
- Eggs for consumption
- Public transport services for passengers and their luggage as per the prices set out by the relevant state authority *(At the time of preparing this chapter, draft VAT law it is still under review by the Budget & Finance Commission and has not yet passed. It is expected to enter into force in 2019.)*

- Lending of books from libraries, including brochures, leaflets and similar printed materials; children's picture books; drawing and coloring books; music printed texts and manuscripts; and maps, hydrographic charts and similar materials
- Information technology equipment
- Supply of medicines, pharmaceutical products, instruments, and medical and surgical devices
- Medical equipment, ambulances, aids and other medical devices to facilitate activity or treat a disability for exclusive use by the disabled, including the repair of such goods and supplies

The standard rate of VAT applies to all supplies of goods and services, unless a provision of law introduces a reduced rate or a temporary higher rate for specific supplies of goods or services, which cannot be lower than 5% or higher than 21%.

The use of goods or services purchased or produced in the course of business activity for private purposes, or other non-business purposes, or their disposal free of charge (other than goods for business use as samples or as gifts of small value) shall be treated as taxable supplies, to the extent the VAT on those supplies was deductible.

The term "exempt supplies" refers to supplies of goods and services that are not subject to VAT and that do not give rise to an input VAT deduction.

Some supplies are treated as "exempt with credit," which means that no VAT is chargeable, but the supplier may recover the input VAT.

Examples of exempt supplies of goods and services without VAT credit

- Hospital services and medical care
- Education
- Health insurance, life insurance, reinsurance and related services performed by insurance brokers and agents
- Financial services
- Welfare services
- Betting, lotteries and other forms of gambling
- Supply of land
- Leasing of immovable property

Examples of exempt supplies of goods and services with VAT credit

- Export of goods
- International transport
- Supplies under diplomatic and consular arrangements
- The supply of goods or services to international and inter-governmental bodies
- Supply of gold to the Central Bank of Kosovo
- Related supply of services by intermediaries taking part in the above transactions

Option to tax for exempt supplies. Not applicable.

E. Time of supply

The time when VAT becomes due (or chargeable event occurs) is called the "time of supply." VAT is due when one of the following events occurs:

- Supply of goods or services
- Issuance of an invoice in respect of a supply of goods or services before the goods or services are supplied
- Receipt of advance payment before the goods or services are delivered

Special rules apply to continuous supplies of goods or services, which are considered as being completed at intervals of one month. Long-term contracts including long-term construction con-

tracts and long-term installation contracts shall be regarded as completed at regular intervals but at least at the end of each calendar year.

Imported goods. *At the time of preparing this chapter, the draft VAT law is still under review by the Budget & Finance Commission and has not yet passed. It is expected to enter into force in 2019, where new legislation outlines that the taxpayer may opt to settle the import VAT either at the date of import or at a later date as stipulated by the bylaws on VAT.*

Deposits and prepayments. When the payment is to be made or is made on account before the goods and services are supplied, VAT shall become chargeable when payment is received.

In case of any amount paid or retained in form of a guarantee deposit in relation to the performance of a supply of goods or service, VAT shall become chargeable at the moment the deposit is received. In case the amount of deposit is returned to the customer, then the necessary adjustment should be made for VAT purposes.

Exemption from the above is granted to the guarantees deposited in a bank deposit account or to a third party, without the right of use. In such case, VAT shall become chargeable at the moment the deposit guarantee is executed.

Goods sent on approval for sale or return. There are no special time of supply rules in Kosovo for supplies of goods sent on approval for sale or return. As such, the general time of supply rules apply (as outlined above).

Leased assets. In cases of leased assets, the VAT becomes due at the time when the periodic monthly payments are invoiced to the lessee. In cases of a financial lease, the VAT becomes due at the time of each periodic payment and at the time of final payment for the sale of the asset if the option to buy the leased assets is exercised.

Reverse-charge services. The VAT is due on the reverse-charge services in the month when the foreign invoice is received by the customer in Kosovo. VAT is not due until the invoice is issued.

Continuous supplies. Supplies of goods and services performed on a continuous basis, within a period of time, including construction operations, shall be deemed to have been made in the same month in which the invoice is issued.

F. Recovery of VAT by taxable persons

A taxable person may recover input tax, which is the VAT charged on taxable goods and services supplied to the person for business purposes. A taxable person generally recovers input tax by deducting it from output tax, which is the VAT charged on supplies that he makes.

Input tax includes VAT charged on goods and services supplied in Kosovo, VAT paid on imports of goods and VAT applied to reverse-charge services.

Non-deductible input tax. Generally, input tax may not be recovered on purchases of goods or services that are not used for business purposes.

The following list provides some examples of items of expenditure for which input tax is not deductible.

Examples of items for which input tax is not deductible

- Expenditure on yachts and boats intended for sport and recreation, private aircraft, cars and motorcycles used not for business purposes and fuels, lubricants, spare parts and services closely linked thereto
- Expenditure as regards cars used for both private and business purposes, with the right to deduct input VAT limited to 50%

- Expenditure for representation, which shall include costs for entertainment and amusement during business or social contacts, food costs including drinks and accommodation costs
- Expenditure for immovable property forming part of a taxable person's business assets that is used for both business and private purposes of the taxable person, used for his or her personnel, or used generally for non-business purposes, with the right to deduct the VAT only to the extent this property is used for business purposes of the taxable person

Partial exemption. If a supply of a good or service is used partly for purposes of taxable supplies and partly for exempt supplies, the taxable person may not deduct input tax in full. This situation is known as "partial exemption." The calculation of the amount of input tax that may be recovered is made on a pro rata basis by using the following formula:

$$\text{Amount of relevant input VAT} \times \frac{\text{turnover enabling VAT credit}}{\text{total annual turnover}}$$

Supplies of capital goods and the incidental supply of financial services are excluded from turnover for this purpose.

The pro rata of VAT shall be determined on an annual basis as a percentage, and shall be rounded up to the next whole number.

The pro rata VAT calculation is tentatively based on the preceding calendar year's results. It must be adjusted by 31 January of the following year in case of differences between the provisional pro rata and the actual pro rata. The pro rata is not based on the financial year of the company.

Taxable persons are invited to use a pro rata for each individual activity of their business separately, provided they maintain separate accounts for each individual activity and notify the tax authorities.

Capital goods. Capital goods are items of capital expenditure used for the production of other goods and services with a useful service life of one year or more and acquired for a cost price equal to or more than EUR1,000. The services which have the same attributes as the capital goods and of which the cost exceeds EUR20,000 should be considered as capital goods. Input tax is generally deducted in the VAT period in which the goods are acquired. If the business comprises both taxable and exempt supplies and the capital goods do not serve only taxable supplies, the amount of input tax recovered depends on the taxable person's partial exemption recovery position in the VAT year of acquisition. The amount of input tax recovered is adjusted over time if the taxable person's pro rata changes during the adjustment period.

The capital goods adjustment applies to the following assets for the number of years indicated:
- Immovable capital assets: 10 years
- Movable capital assets: five years

The adjustment is applied each year following the year in which the goods were used for the first time, to a fraction of the total input tax (1/5 for movable capital goods and 1/10 for immovable capital goods).

The adjustment is not made if the value of the adjustment is less than 3% of the input VAT amount.

Write-off of bad debts. Taxable persons who have not received partial or total payment for a taxable supply may claim VAT charged in respect of that supply after initiating court procedures for the recognition of the bad debt for amounts above EUR500.

The VAT deduction shall be allowed in each tax period after the debt becomes a bad debt and may start no sooner than six months after closing the tax period for which VAT has been applied in respect of the supply. *At the time of preparing this chapter, the draft VAT law is still under*

review by the Budget & Finance Commission and has not yet passed. It expected to enter into force in 2019, where new legislation outlines that the procedures for writing-off of the bad debt should be initiated within 24 months from the payment due date, otherwise the non-collected payment will not be considered as bad debt.

Refunds. A taxpayer may claim a VAT refund if the following conditions are met simultaneously:
- The taxpayer carried forward the relevant amount as a VAT credit balance for three consecutive months.
- The amount of VAT credit balance exceeds EUR3,000 for three consecutive months. *(At the time of preparing this chapter, the draft VAT law is still under review by the Budget & Finance Commission and has not yet passed. It is expected to enter into force in 2019, where new legislation outlines that this balance changes to EUR1,000.)*
- The taxpayer submitted all VAT declarations and declarations of other taxes for all previous tax periods.
- The taxpayer possesses sufficient documentation to prove the entitlement to the VAT reimbursement claim.

For exports, a refund may be claimed after each tax period provided that the following conditions are met:
- The amount of VAT credit exceeds EUR3,000 at the end of the tax period. *(At the time of preparing this chapter, draft VAT law is still under review by the Budget & Finance Commission and has not yet passed. It is expected to enter into force in 2019, where new legislation outlines that this balance changes to EUR1,000.)*
- The taxable person has complied with all applicable customs and VAT provisions.
- All VAT returns and other tax returns for all past periods have been duly submitted.
- The taxpayer possesses sufficient documentation to prove the VAT reimbursement claim.

At the time of preparing this chapter, the draft VAT law is still under review by the Budget & Finance Commission and has not yet passed. It is expected to enter into force in 2019, where new legislation outlines that the taxable person carrying the VAT credit from the first VAT period of the previous year has the right to request for VAT refund regardless of the VAT credit amount if all the VAT returns and returns of other taxes for all the previous tax periods have been submitted. The taxpayer must file a 'request for refund' form with the relevant tax office. The tax office must verify the fulfillment of the refund conditions and approve the refund within 60 days. Interest is applicable after exceeding the 60 days period if no reason for delay exists.

The Minister of Economy and Finance has to issue a relevant regulation to determine alternative procedures for refunding VAT to persons not required to submit VAT returns, to persons who cease their economic activity and to taxable persons and customers who are not established in Kosovo.

Preregistration costs. A taxable person cannot recover any input VAT incurred on goods or services supplied to it before the registration for VAT purposes.

G. Recovery of VAT by non-established businesses

Non-established businesses not registered for VAT in Kosovo may not recover Kosovo VAT incurred. The relevant regulation to determine the refund procedure for non-established businesses is still pending.

H. Invoicing

VAT invoices and credit notes. A Kosovan taxable person must issue invoices for all taxable supplies made, including exports. A VAT invoice is necessary to support a claim for input tax deduction or a refund. In order to qualify as valid an invoice should comply with the requirements set out in the Kosovan VAT law.

Taxable persons are allowed to issue summary invoices if they carry out several separate supplies of goods or services during a tax period that corresponds to a calendar month. A VAT credit note may be used to reduce the VAT charged on a supply of goods or services; a debit note may be used to increase the amount of VAT. Tax credit and debit notes must be cross-referenced to the original VAT invoice.

Electronic issuance of invoicing. The Kosovan VAT law permits electronic issue of invoices subject to acceptance by the recipient. The authenticity of the origin and the integrity of their content must be guaranteed by means of advanced electronic signature or by means of electronic data interchange EDI as defined by European arrangements and recommendations.

Foreign-currency invoices. Invoices may be issued in any currency, provided that the taxable amount and the amount of VAT due is expressed in euros. Where the taxable amount of a transaction, other than the importation of goods, is expressed in a foreign currency, the conversion of this amount into the domestic currency euro shall be the latest selling rate as defined by the Central Bank of Kosovo recorded at the time VAT becomes chargeable. Where the value and factors used to determine the taxable amount on importation are expressed in a foreign currency, the conversion of this amount into euro shall be made by applying the exchange rate determined in accordance with the Customs regulations governing the calculation of the value for customs purposes.

Language. There are no requirements with regard to the language of the invoice. However, for inspection purposes, the VAT authorities may ask for a translation of the invoice into an official language of Kosovo (Albanian and Serbian).

B2C. When a taxable person makes a supply of goods or services to private consumers, the taxable person issues a coupon from an electronic device instead of a fiscal invoice. However, in case the private consumer performs economic activities, it can request to the taxable person to issue a fiscal invoice.

Proof of export. All persons are required to obtain an export certificate prior to undertaking any export activities. Each export certificate will have a unique serial number.

Exports of goods shall be verified and documented with customs export documentation, as provided in the relevant legislation. Moreover, invoices related to an export sale should contain the legislative reference on export of goods in it.

I. VAT returns and payments

VAT returns. The tax period is a calendar month. The taxable persons must submit the VAT returns and remit the VAT due not later than the 20th of the calendar month following the end of each tax period. For imports, VAT is payable upon importation.

For a taxpayer that is newly registered the first tax period begins on the date of the registration, as stated in the certificate of registration. The last taxable period for a taxable person undergoing a deregistration procedure shall end on the date of the deregistration having begun on the first day of that month.

For a taxable person against whom a liquidation or bankruptcy procedures has been initiated, the tax period shall begin on the day of the opening of the liquidation or bankruptcy procedures and shall end on the date of the decision on the conclusions of such procedures.

Special scheme for travel agencies. This scheme applies to transactions where the travel agency deals with customers in its own name and uses the supplies of other taxable persons in the provision of travel services. The taxable amount and the price exclusive of VAT in respect of the single service provided by the travel agent shall be the travel agent's margin, being the difference between the total amount, exclusive of VAT, to be paid by the traveler and the actual cost to the

travel agent of supplies of goods or services provided by other taxable persons, where those transactions are for the direct benefit of the traveler.

The special scheme does not apply to travel agencies that act only as intermediary, in which case the supplies and services of other taxable persons can be treated as disbursements.

Special arrangements applicable to secondhand goods, works of art, collector's items and antiques: profit margin scheme and special arrangements for sales by public auction. The profit margin of the taxable dealer shall be equal to the difference between the selling price charged by the taxable dealer for the goods and the purchase price of these goods. The taxable amount in respect of the supply of secondhand goods, works of art, collector's items and antiques shall be the profit margin made by the taxable dealer, less the amount of VAT relating to the profit margin.

The Minister of Finance may apply special provisions different from the above in respect of the determination of the taxable amount of supplies of secondhand goods, works of art, collector's items or antiques effected by an organizer of sales by public auction, acting in his or her own name, pursuant to a contract under which commission is payable on the sale of those goods by public auction, on behalf of persons as will be determined with a sublegal act by the Minister of Finance. Special obligations shall be imposed on the organizer of the sale by public auction in respect of the issue of an invoice or a document in lieu to the purchaser as well as in respect of the content of such documents.

Flat rate scheme for farmers. This taxation scheme aims to offset the VAT charged on purchases of goods and services made by the flat rate farmers by adding an additional amount to the price of supply these farmers charge to their customers (taxable persons). This is calculated as a percentage of the price and shall be called the Flat Rate Percentage, which will differ depending on the agriculture category. The Flat Rate Percentages shall be defined based on statistical, relevant and macroeconomic data that enable the calculation of the VAT refund for purchases made by flat rate farmers.

Special scheme for electronically supplied services. The Minister of Finance may permit by sublegal act the use of this scheme by any non-established taxable person in Kosovo supplying electronic services to a non-taxable person who is established in Kosovo or who has his or her permanent address or usually resides in Kosovo. The information that the non-established taxable person must provide to TAK when they start a taxable activity shall contain the following details: name; postal address; electronic addresses, including websites; national tax number, if any; and a statement that the person is not identified for VAT purposes in Kosovo. The non-established taxable person shall notify TAK of any changes in the information provided.

Special scheme for investment gold. Special obligations exist for taxable persons trading in investment gold. The supply and importation of investment gold is an exempt supply with the right to opt for taxation. A taxable person making a subsequent supply of investment gold may deduct the input VAT incurred in respect of investment gold supplied to him or her by a person who opted for taxation. Taxable persons shall keep records of investment gold transactions and keep documentation for 10 years after the end of the year to which such documents refer, regardless of what is defined in the relevant law on tax administration and procedures.

Electronic filing and archiving. The TAK has developed the electronic declaration system (EDI), which enables taxpayers to open an online account that will enable them to declare and pay their tax liabilities, including VAT. This system also enables any correction of tax returns.

Annual returns. Not applicable.

J. Penalties

Taxable persons who make supplies without being registered shall be liable for the VAT due on those supplies plus an administrative penalty, if failure to register is due to negligence of the

person. The penalty equals 15% or 25% of the VAT due, depending on whether the taxable supplies made prior to registration were less or more than EUR10,000. In addition, default interest is applicable.

Failure to issue a VAT invoice or issuance of an inaccurate invoice that results in a decrease of the VAT due or an increase of the VAT credit shall be subject to a penalty of 15% of the VAT amount where this was due to the negligence of the taxable person. The penalty will increase to 25% in case of failure to issue an invoice for a taxable supply in excess of EUR1,000 or issuing an incorrect invoice that is more than EUR500 above or below the amount that should have been included in the invoice of the taxable person. In addition, default interest is applicable.

Late filing of VAT return is subject to a penalty of 5% of the tax due for each month of delay, capped at 25% of the unpaid tax liability. In addition, default interest is applicable.

Late payment of a tax obligation triggers a penalty amounting to 1% of tax due for each month or part of the month in delay up to maximum of 12 months. In addition, interest is applicable.

Erroneous completion of a tax filing or a tax refund claim is subject to a penalty of 15% of the undeclared tax liability or the excess tax refund claimed where such understatement or overstatements is 10% or less of the VAT due, or 25% where the understatement or overstatements is more than 10% of the VAT due. In addition, interest is applicable.

Criminal offenses carried out by taxpayers are penalized under the Criminal Code. These offenses relate to certain situations, including, but not limited to, the following:

- Taxpayers willfully evade partially or entirely the payment of taxes or gain unwarranted tax refunds or tax credits
- Taxpayers provide false information relevant for the collection of taxes
- Taxpayers act as a member of a group formed for the purpose of repeatedly committing tax evasion

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Kuwait is a Member State of the Gulf Cooperation Council (GCC). At the time of preparing this chapter the implementation date of VAT and the application of the provisions in the GCC VAT framework in Kuwait are not yet available. The only GCC Member States that have implemented VAT at the time of preparing this chapter are the United Arab Emirates, Saudi Arabia and Bahrain. General guidance can be found in the Gulf Cooperation Council section.

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A. At a glance

Name of the tax	Value-added tax (VAT)
Local name	Pievienotās vertības nodoklis
Date introduced	1 May 1995
Trading bloc membership	European Union (EU) Member State
Administered by	State Revenue Service (http://www.vid.gov.lv)
VAT rates	
Standard	21%
Reduced	12% % and 5%
Other	Zero-rated and exempt
VAT number format	LV12345678901
VAT return periods	Monthly and quarterly
Thresholds	
Registration	
Businesses established in Latvia	EUR40,000
Businesses established elsewhere	First taxable supply (specific exemptions apply)
Distance selling	EUR35,000
Intra-Community acquisitions	EUR10,000 (for nontaxable legal and private persons who perform business activities and are registered in Latvia)
Recovery of VAT by non-established businesses	Yes

B. Scope of the tax

VAT applies to the following transactions:
- The supply of goods, including the supply of goods within the EU and exports of goods
- The supply of services
- The intra-Community acquisition of goods in Latvia from another EU Member State

- The importation of goods into Latvia, regardless of the status of the importer
- The acquisition of new vehicles within the EU by a non-registered or nontaxable person
- The supply of new vehicles from Latvia to any other EU Member State
- Self-consumption of goods and services
- Reverse-charge services received by a taxable person established in Latvia
- Distance sales of goods in Latvia made to nontaxable persons

C. Who is liable

A taxable person is any natural or legal person or group of such persons bound by agreement, or the representative acting for a group of persons, who performs economic activities and who is registered with the State Revenue Service Register of VAT taxable persons. VAT groups and fiscal representatives are also considered to be taxable persons.

The VAT registration threshold for local businesses is turnover subject to VAT in excess of EUR40,000 in the preceding 12 months. If a business exceeds the VAT registration threshold, it must register for VAT by the 15th day of the month following the period in which the threshold is exceeded. However, voluntary VAT registration is possible before reaching the VAT registration threshold.

Mandatory VAT registration is also required prior to supplying services to taxable persons in another EU Member State, if the services are deemed to be supplied in that other Member State and the recipients of the services must account for VAT under the reverse-charge mechanism.

For intra-Community acquisitions, nontaxable legal persons and private individuals who perform economic activities but have not triggered the obligation to register for VAT (i.e., non-registered taxable persons), must register for VAT if the value of their intra-Community acquisi-tions (excluding VAT) in a calendar year is equal to or exceeds EUR10,000.

A state or municipal authority or a municipality that is not registered for VAT with the State Revenue Service and that has entered into a contract with a supplier of construction services for the supply of construction services according to the procurement procedure prescribed by the Public Procurement Law, or is involved in a public-private partnership project as a public partner according to the Public-Private Partnership Law shall be registered as a VAT taxable person with the State Revenue Service before these services are received.

Registration procedures. Taxable persons must register with the VAT authorities that are competent for the area where their place of business is located (i.e., the local branch of the tax authority). Nonresident taxable persons with a fixed establishment in Latvia must register with the competent VAT authorities according to the place where the fixed establishment is located.

Taxable persons are given a VAT identification number (13 digits), beginning with a two-digit country code (LV). VAT identification numbers are important in controlling the correct remittance of VAT to the tax authorities within the European Union.

Applicants submit the registration application form, which contains information on company/person, its authorized persons and business activities along with supplementary documentation (e.g., register of companies extract, passport/ID card copy(s) of signatory person(s), applicable power of attorneys). The decision on registration is taken by tax authorities within five business days from receipt of required information and documents.

Generally, there is an option to submit any documents (including VAT registration and deregistration documents) to the tax authorities via e-mail, however such documents shall be verified by sender using the "secure electronic signature," a form of advanced electronic signature that may be acquired from respective authorities in Latvia. However, this option is not commonly used, and generally the VAT registration documents are submitted as hard copies.

Additionally, taxpayers registered in Latvia are obliged to use the Electronic Declaration System (EDS) of the tax authorities, which is subject to an additional registration procedure.

Special rules apply to non-established businesses (see below).

Group registration. VAT groups are allowed in Latvia.

The following are the rules for the registration of VAT groups:
- The value of VAT taxable transactions of at least one member of the VAT group in the preceding 12 months was EUR350,000).
- Each member of the VAT group must be separately registered for VAT.
- A member of a VAT group cannot be a member of another VAT group.
- VAT group members can be capital companies belonging to the same group of companies as well as Latvian branches of foreign legal entities, provided that, under the Law on Groups of Companies, the foreign legal entity belongs to the group of companies comprising other members of the VAT group.
- The members establishing the VAT group must enter into a valid contract.
- The members of the VAT group must be reachable at their legal addresses.
- The group members are jointly and severally liable for VAT group tax liabilities.

The VAT cost-sharing exemption has been implemented. This provides an option to exempt support services that the cost-sharing group supplies to its members, providing certain conditions are met (in accordance with VAT Directive 2006/112/EEC Article 132(1)f and specific requirements laid out in Latvian VAT law).

Non-established businesses. A "non-established business" is a business that does not have a permanent establishment in Latvia. A non-established business must register for VAT if it makes supplies of goods or services for which it is liable to pay VAT in Latvia. If a non-established business performs intra-Community acquisitions of goods in Latvia or supplies of services and if it fails to register for VAT, in certain cases, the liability to account for reverse-charge VAT transfers to the recipient of the goods or services in Latvia (provided the recipient is a VAT-registered person). An entity registered for VAT in another EU Member State is not required to register for supplies made to taxable persons established in Latvia if the reverse charge applies (that is, the recipient of the service must account for the VAT on behalf of the supplier). The reverse charge does not apply to supplies made to private persons.

To register for VAT, a non-established business must submit the following documents to the State Revenue Service:
- A completed application form provided for in the Cabinet Regulations
- A copy of the registration certificate
- Confirmation of the address of the business in Latvia, if such an address exists

The person who submits the application must be either a person who has signature rights in the company or the applicant's authorized person. The person who submits the application must also present a passport or ID card as proof of identity.

Tax representatives. VAT fiscal representatives (called tax representatives in some other countries) are taxable persons who, based on a written contract, remit to the tax authorities the VAT due by a nonresident taxable person whom they represent, and fulfill on their behalf the administrative obligations relating to the following transactions:
- The importation of goods and the subsequent intra-Community supply of the imported goods
- The importation of goods and the subsequent domestic supply of the imported goods
- The receipt of goods in Latvia that are to be exported and that are stored under warehousing arrangements, and the subsequent exportation of those goods
- The intra-Community acquisition of goods that are to be exported and are stored under warehousing arrangements, and the subsequent exportation of those goods

VAT fiscal representatives must present a power of attorney, and they are responsible for payment of the VAT liabilities of the nonresident taxable person whom they represent. They must file monthly VAT returns in electronic format.

Persons established outside the EU are no longer required to appoint a fiscal representative to register for VAT purposes, and they can register in their own names. However, they may still opt to appoint a fiscal representative.

Late-registration penalties. No specific penalty applies to late registration. However, the following penalties may be assessed if VAT is not paid or if VAT returns are not filed as a result of late registration or non-registration:

- An administrative penalty in the amount of EUR210 to EUR350 may be imposed for non-registration in the VAT taxable person's register.
- A penalty may be imposed for undeclared VAT. In such circumstances, undeclared VAT must be paid, together with a penalty of up to 30% of the unpaid VAT and late payment fines of 0.05% per day.
- A penalty in the amount of 0.05% per day may be imposed for late VAT payments.

Domestic reverse charge

Timber products and related services. Domestic supply of timber products and related services are subject to the reverse-charge mechanism if the supplier and customer are registered taxable persons.

Scrap materials and related services. Domestic supplies of specified scrap materials and related services are subject to the reverse-charge mechanism if the supplier and customer are registered taxable persons and the customer is licensed to purchase scrap materials in Latvia or, lacking such a license, has obtained a permit for performing A- or B-category polluting activities or for collecting, handling, sorting or storing waste. Scrap materials include certain ferrous and nonferrous scrap, car wrecks, electrical and electronic waste, and batteries.

Construction services and construction related services. The domestic supply of construction services (such as construction of new buildings or reconstruction of a part or the whole of existing buildings) and construction-related services is subject to the reverse-charge mechanism if the supplier and customer are registered taxable persons.

Mobile phones, computer hardware and integrated circuits. The domestic supply of mobile phones, computer hardware and integrated circuits is subject to the reverse-charge mechanism if the supplier and customer are taxable persons. As of 1 January 2018, domestic reverse-charge mechanism shall be applicable also to supplies of game consoles.

Cereals and industrial crops. The domestic supply of cereals and industrial crops is subject to the reverse-charge mechanism if the supplier and customer are registered taxable persons.

Raw precious metals. The domestic supply of raw precious metals, precious metal alloys and precious clad metal is subject to the reverse-charge mechanism if the supplier and customer are registered taxable persons.

Metal products. Effective from 1 January 2018, the domestic supply of metal products and related services is subject to the reverse-charge mechanism if the supplier and customer are registered taxable persons.

Electronic and electric household appliances. Effective from 1 January 2018, the domestic supply of electronic and electric household appliances is subject to the reverse-charge mechanism if the supplier and customer are registered taxable persons.

Digital economy. In case of digital services, telecom services or broadcasting services supplied in a business-to-business (B2B) context, the place of supply is the place where the recipient is

established. No Latvian VAT should be charged, and reverse charge applies unless supplier and customer are established in Latvia.

In case of digital services, telecom services or broadcasting services supplied in a business-to-consumer (B2C) context Latvian VAT is always due in case of supply to customers established in Latvia, disregarding whether the supplier is established inside or outside the EU. See the section on the "Mini-One-Stop-Shop" (MOSS) below for more information.

Mini One-Stop Shop. On 1 January 2015, a new optional simplification measure called "Mini One-Stop Shop" (MOSS) entered into force with respect to telecommunications services, broadcasting services and electronically (TBE) supplied services.

The MOSS scheme allows all taxable persons supplying TBE services to nontaxable persons in EU Member States in which they do not have an establishment to account for the VAT due on those supplies via a web portal in the Member State in which they are identified.

This scheme was introduced in connection with the change to the place of supply rules with respect to electronically supplied TBE services rendered cross-border within the EU. Effective from 1 January 2015, the supply of these services is generally considered as taking place in the Member State of the customer, not the Member State of the supplier. The MOSS allows qualifying taxable persons to avoid registering in each Member State of consumption and it is available both for taxable persons established and not established in the EU.

The MOSS generally mirrors the scheme that is in place now for non-EU established suppliers of electronically supplied TBE services to customers. Persons already registered under the pre-existing scheme for electronically supplied TBE services, should retain their existing individual VAT identification numbers for the purposes of the MOSS.

Deregistration. The State Revenue Service has the right to exclude a person from the register of taxable persons if:
- The taxable person submits an application for removal from the VAT register.
- The taxable person has been liquidated or reorganized.
- The economic activity of the taxable person is suspended.
- The taxable person does not submit a VAT return within one month of the submission deadline, or he or she provides false information in a VAT return and does not correct this, following a written request to do so from the tax administration.
- The taxable person cannot be reached at his or her legal address or the declared place of residence (or if the address does not exist).
- A VAT group no longer complies with the registration conditions.

The State Revenue Service has the right to suspend a taxable person's registration number if possible fraudulent activities are identified.

In addition, the State Revenue Service has the right to exclude a person from the register of taxable persons if either of the following conditions exists:
- The taxpayer is considered to be a risk person.
- The taxpayer has not had economic activity for three months.

A person is excluded from the taxable persons register by the State Revenue Service if any of the following conditions exist:
- Material, technical or financial transactions of the taxable person do not match the field of its economic activity.
- The taxable person's registration number has been suspended and they do not apply for renewal of the registration code.
- The taxable person doesn't provide the State Revenue Service with requested information regarding its material, technical and financial activities.

Exemption from registration. In Latvia there are specific rules and conditions for exemption from registration, which are for Latvian taxable persons, taxable persons of other EU Member States and taxable persons of third countries/third territories.

Exemption from VAT registration for taxable persons established in Latvia. Taxable persons established in Latvia are not obliged to register for VAT if the total value of goods and services supplied by them in the preceding 12-month period does not exceed EUR40,000. This exemption does not apply if a taxable person established in Latvia, supplies services to a taxable person from other EU Member States, as well as if a taxable person established in Latvia receives services from a person from outside Latvia (i.e., from other EU Member States or from any third country/third territory), which does not conduct economic activity in Latvia.

The registration threshold of EUR40,000 shall not include the value of fixed assets and intangible investments supplied by a taxable person established in Latvia, if such a supply is carried out once within a time period of 12 months.

Taxable persons established in Latvia are not obligated to register for VAT purposes, if after one transaction the registration threshold of EUR40,000 is exceeded, but the taxable person does not intend to carry out other taxable transactions during the next 12 months. Taxable persons established in Latvia are also not obligated to register for VAT purposes if they occasionally supply new vehicles, which are dispatched or transported to the customer by the customer itself, the supplier, or by a third person on behalf of the supplier or the customer, to a destination outside Latvia but within the territory of the European Union.

Exemption from VAT registration for taxable persons of other EU Member States. A taxable person of other EU Member States is not obliged to register for VAT purposes, if:

- It carries out a supply of goods or services for which VAT is paid by the recipient of goods or services (i.e., subject to the reverse-charge mechanism)
- It carries out supplies of Community goods already undergoing export customs procedures or non-Community goods in customs warehouses or free zones
- It carries out such transactions where non-Community goods or Community goods for which exit customs procedures have been commenced are moved from one inland customs warehouse/free zone to another inland customs warehouse/free zone or customs warehouse/free zone of other EU Member States
- It supplies stocks of production goods or stocks of wholesale goods to a registered taxable person and, in accordance with an agreement entered into between such persons, the property right to the abovementioned goods shall be transferred to the registered taxable person, which is the recipient of goods only at the time of resale or use
- It carries out intra-Community acquisition of goods in Latvia and supplies of goods, that are part of a triangular supply chain
- It carries out the supply of goods which are dispatched or transported by the taxable person or another person on its behalf from Latvia to a destination outside the territory of the European Union, except goods that are intended for equipping or supplying pleasure boats, private aircraft or any other means of transport for private use
- It is represented by a fiscal representative in relation to the relevant resident transactions
- It supplies goods or services in Latvia to headquarters of allied forces recognized by the Republic of Latvia (effective from 1 January 2018)

Exemption from VAT registration for taxable persons of third countries/third territories. A taxable person of third country/third territory is not obliged to register for VAT purposes if:

- It carries out the supply of goods or services for which VAT is paid by the recipient of goods or services
- It carries out supplies of Community goods already undergoing export customs procedures or non-Community goods in customs warehouses or free zones

- It carries out such transactions where non-Community goods or Community goods for which exit customs procedures have been commenced are moved from one resident customs warehouse/free zone to other inland customs warehouse/free zone or customs warehouse/free zone of other EU Member States
- It is represented by a fiscal representative in relation to the relevant inland transactions
- It carries out the supply of goods that are dispatched or transported by the taxable person or another person on his behalf from inland to a destination outside the territory of the European Union, except goods that are intended for equipping or supplying pleasure boats, private aircraft or any other means of transport for private use
- It supplies goods or services inland to headquarters of allied forces recognized by the Republic of Latvia

Voluntary registration. A taxable person can register for VAT voluntarily even if it is not required to register for VAT under the VAT law in Latvia. No explicit restrictions for voluntary VAT registration are laid down in VAT law in Latvia.

D. VAT rates

The term "taxable supplies" refers to supplies of goods and services that are subject to VAT.

In Latvia, the following rates of VAT apply:
- Standard rate: 21%
- Reduced rate: 12% and 5%
- Zero rate: (0%)

The standard rate of VAT applies to all supplies of goods or services, unless a specific measure provides for the reduced rate, the zero rate or an exemption. When an exemption is granted, there may be an option to tax.

Examples of supplies of goods and services taxable at 0%

- Exports of goods and related services
- Intra-Community supply of goods
- International transport
- Tourism services provided outside Latvia

Examples of goods and services taxable at 12%

- Mass media and subscriptions thereto, except erotic material and pornography
- Specialized products for infants
- Medicines and medical devices (those authorized by state pharmaceutical authorities)
- Literature printed especially for schools and universities, as well as original literature (specified by Latvian National Library)
- Firewood and fuel wood supplied to natural persons
- Supply of thermal energy to natural persons
- Public transport services provided in Latvia
- Accommodation services provided in Latvia

Exempt supplies. The term "exempt supplies" refers to supplies of goods and services that are not subject to VAT and that do not give rise to a right of input VAT deduction. When an exemption is granted, there may be an option to tax.

Examples of goods and services taxable at 5%

The reduced rate of 5% is applicable to the supply of foodstuffs that are fresh fruit, berries and vegetables listed in the VAT law, including washed, peeled, shelled, cut and packed but not cooked or otherwise prepared (for example, frozen, salted, dried). The reduced rate of 5% is applicable until 31 December, 2020.

Examples of exempt supplies of goods and services

- Financial services
- Insurance and reinsurance services
- Health and welfare services
- Education and cultural services
- Postal services provided by Latvijas Pasts
- Betting and gambling and other forms of gambling, including gambling and lotteries that are organized through electronic communication services

Options to tax. Real estate transactions are generally exempt except for the sale of unused real estate or part of it and the sale of building land. In general, a plot of land is considered to be building land if building permission was issued after 31 December 2009. An option to tax is also in place for supplies of "used" real estate made to taxable persons.

E. Time of supply

In general, VAT is due when the following events occur:

- For local supplies and intra-Community supply of goods, the time when goods are delivered or service is performed, and the VAT invoice is issued.
- A prepayment is received in accordance with the prepayment invoice issued, except in the case of an intra-Community supply of goods.

However, for a supply of services subject to the new place of supply rules under EU Directive 2008/8/EC, VAT is due when the service is performed or the prepayment is received.

A VAT invoice must generally be issued within 15 days after services are rendered or goods are supplied. If the transaction is performed continuously over a long period of time, the VAT invoice may be issued for a period not exceeding 1, 6 or 12 months, depending on the type of transaction.

Intra-Community acquisitions. VAT related to the intra-Community acquisition of goods must be paid when the goods are received and the VAT invoice is issued.

If a tax invoice has not been issued within the allowed number of months, the VAT due must be included in the VAT declaration for the tax period following the period in which the intra-Community acquisition is made.

Imports. Import VAT becomes due when goods are released for free circulation.

VAT on imports that is paid to the state budget may be deducted as input VAT on VAT returns filed for the period in which the goods are released for free circulation, that is, when the import VAT has been paid into the state budget.

Under the Latvian VAT law, the principle of postponed accounting rules (declaration of VAT by way of reverse-charge mechanism) can be applied to the importation of fixed assets if the following conditions are satisfied:

- The importer of goods is a VAT taxable person, it performs the import of goods within the framework of its business activities and it has obtained the special authorization/permit from the tax authorities.
- The importer of goods is a fiscal representative representing VAT taxable person of another EU or non-EU country and it has obtained the special authorization/permit from the tax authorities.

Postponed VAT accounting corresponds to the principle that instead of physical payment of import VAT, the taxpayer may declare it by way of reverse-charge VAT. The postponed VAT accounting mechanism can also be applied to the importation of goods that are to be released in free circulation in the EU. However, a taxable person is entitled to apply the postponed account-

ing mechanism only if the person has received in advance a special permit from the Latvian State Revenue Service. To receive this permit, the following conditions must be satisfied:

Postponed VAT accounting corresponds to the principle that instead of physical payment of import VAT into the State budget, the taxpayer may declare it by way of reverse-charge VAT. Until 1 December 2009 such principle (under specific conditions) applied with respect to fixed assets (see above). However, under amendments to the Latvian VAT law, effective from 1 December 2009, the postponed VAT accounting mechanism can also be applied to the importation of goods that are to be released in free circulation in the EU. However, a taxable person is entitled to apply the postponed accounting mechanism only if the person has received in advance a special permit from the Latvian State Revenue Service. To receive this permit, the following conditions must be satisfied:

- The taxable person must have registered its economic activities in Latvia.
- The taxable person is a registered client of the State Revenue Service electronic reporting system.
- On the date of submission of the application to receive the permit, the taxable person does not have a tax debt relating to previous tax periods, or such tax debt is paid within five working days after the submission date of the application.
- The employee who has authority to sign the application has not been punished for criminal offenses of an economic nature.
- By a date specified by the State Revenue Service, the taxable person provides informative reports or additional information that is necessary to determine the amount of tax payable to the State budget or the amount of an overpayment.

Nevertheless, the taxable person is still authorized to apply the postponed accounting rules with respect to import of goods even without the special authorization/permit if the following conditions are met:

- The taxable person imports fixed assets, which are intended fully or partially for use in its taxable transactions within a period of at least 12 months from the time of importation of the fixed assets.
- The value of the fixed assets (excluding VAT) is at least EUR700.
- The taxable person does not have a tax debt for previous tax periods.

A passenger car would qualify as such a fixed asset if imported by a taxable person engaged in the basic activity of leasing or hire-purchase transactions with passenger cars or the provision of taxi services and vehicle driver training.

Cash accounting. Latvia operates a voluntary cash accounting scheme. To use cash accounting, a taxpayer's transactions (threshold) are generally not more than an annual turnover of EUR100,000. A threshold of up to EUR500,000 is applicable to taxable persons in specified industries, e.g., some types of farmers.

Additionally, the supply of residential house maintenance and management services is subject to the voluntary cash accounting scheme if the total value of transactions for a taxpayer in the previous taxation period is between EUR100,000 and EUR2 million.

Reverse-charge services. Generally, the reverse-charge VAT is also applicable to the purchase of services from other EU and non-EU VAT taxable persons, as well as on intra-Community acquisitions of goods. Additionally, the local reverse-charge mechanism applies to the transactions mentioned under *Domestic reverse charge* above.

Continuous supplies of services. If a local supply of services is performed without interruption over a long period of time, the tax shall become payable/declarable at the time payment for the service is received or the relevant filing period ends, but not less frequently than once in every six-month period.

Where an intra-Community supply of services is performed without interruption over a period of time that exceeds one year, and during this period no tax invoices are issued and no payments made, the tax becomes payable/declarable at the end of each year until the moment when the supply of services is fully completed.

Where an intra-Community acquisition of services is performed without interruption over a period of time that exceeds one year, and during this period no tax invoices are received and no payments made, the transaction becomes declarable at the end of each year until the moment when the purchase of services is fully completed.

Prepayments. VAT paid on goods supplied or services provided is to be paid into the State Budget during the filing period in which the goods were dispatched or the services provided and the tax invoice issued (except for intra-Community supply of services) or an advance payment made (except for intra-Community supply of goods) in accordance with the tax invoice. This means that if an advance payment or a pre-payment is received before the supply is performed, VAT is due at the end of the filing period in which the advanced consideration is received.

Intra-Community acquisitions. According to VAT law, intra-Community acquisition of goods is defined as acquisition of rights to dispose with goods as an owner, if respective goods are sent from one Member State to another Member State by the supplier, recipient or by third party on behalf of supplies or recipient.

The place where an intra-Community acquisition of goods takes place is the place where the goods are located at the end of the transportation to the person acquiring the goods, i.e., the place of an intra-Community acquisition of goods shall be Latvia if the goods are transported from another Member State to Latvia (inland). In addition, if the buyer is a taxable person established in Latvia and uses its Latvian VAT identification number in respect of the intra-Community acquisition, that intra-Community acquisition is also taxable in Latvia. However, this provision shall not be applicable if the buyer proves that the intra-Community acquisition was taxed in the state of arrival of the goods, namely, in case of triangular transactions.

The transfer of goods owned by a taxable person between Member States is treated as a deemed intra-Community acquisition of goods if the taxable person uses the goods for his or her own business purposes.

Intra-Community supplies of goods. An intra-Community supply of goods is one whereby the goods are dispatched or transported from Latvia to another Member State by or on behalf of the supplier or the person to whom the supply is made. To be able to apply the zero rate to such supplies, the supplier must have a valid VAT identification number from the customer issued by a Member State other than Latvia and evidence that the goods have actually left the territory of Latvia.

The transfer of goods owned by a taxable person between Member States is treated as a deemed intra-Community supply of goods if the taxable person uses the goods for their own business purposes.

Leased assets. The leasing or hiring of movable goods, including means of transport, is a supply of services in so far as the lease qualifies as an operational lease. According to the VAT law, a financial lease (lease of movable goods where at the end of the lease period the ownership of the movable goods is transferred to the lessee) is considered as a supply of goods.

Goods sent on approval for sale or return. The VAT law in Latvia does not contain any special provision on the time of supply for goods that are sent to the customer to be approved, before the goods are sold or then returned.

F. Recovery of VAT by taxable persons

A taxable person may deduct input VAT, which is the VAT charged on goods and services supplied to it for business purposes. A taxable person generally recovers input VAT by deducting it from output VAT, which is VAT charged on supplies made.

Input VAT includes VAT charged on goods and services supplied in Latvia, VAT paid on imports of goods, and VAT self-assessed for intra-Community acquisitions of goods, for reverse-charge services received from foreign persons, as well as for domestic reverse-charge services, namely, supplies of specified scrap materials, supply of timber products and related services, supply of electronics (e.g., mobile phones, computer hardware, integrated circuits, game consoles), provision of construction services and construction products, supply of cereals and industrial crops, supply of raw precious metals, precious metal alloys and precious clad metal, supply of metal products and related services, as well as supply of electronic and electric household appliances.

The amount of the VAT reclaimed must be supported by a valid VAT invoice.

Nondeductible input VAT. Input VAT may not be recovered on purchases of goods and services that are not used for business purposes (for example, goods acquired for the private use of an entrepreneur). In addition, input VAT may not be recovered for some items of business expenditure.

The following lists provide some examples of items of expenditure for which input VAT is not deductible and examples of items for which input VAT is deductible if the expenditure is related to a taxable business use.

Examples of items for which input VAT is nondeductible

- Hotel accommodation (if nonbusiness expenditure)
- Business gifts (except representation gifts with the company logo for which 40% of the input VAT is deductible)
- Taxi services (if nonbusiness expenditure)
- Business and employee entertainment

Examples of items for which input VAT is deductible (if related to a taxable business use)

- Purchase, lease and hire of vans and trucks
- Fuel for vans and trucks
- Purchase, lease and hire of cars, including maintenance costs such as fuel and repair costs
  - — 100% deductible if the car has fewer than eight passenger seats or a vehicle is up to 3,000 kg in weight and registered as a lorry, as well as the car's exclusive use in taxable transactions of the business is documented in accordance with the law's requirements
  - — 50% deductible if the car has fewer than eight passenger seats or a vehicle is up to 3,000 kg in weight that is registered as a lorry (Category N1) and that has more than three seats (including the driver's seat) and car's value is less than EUR50,000 (VAT excluded), i.e., not a luxury car
- Purchase, lease and hire of luxury cars, including maintenance costs such as fuel and repair costs (effective 1 January 2014):
  - — 100% deductible, if it can be proved that the luxury car is fully used in making taxable transactions of the business
  - — 0% deductible, if the taxpayer is not able to prove that the luxury car is fully used in taxable transactions of business
- Parking
- Mobile phones
- Advertising
- Books
- Taxi services

Partial exemption. Input VAT directly related to performing VAT-exempt supplies is not recoverable. If a taxable person established in Latvia makes both VAT-exempt supplies and taxable supplies, it may not deduct input VAT in full. This situation is referred to as "partial exemption."

The amount of input VAT that may be deducted by a partially exempt business is calculated based on the percentage of taxable supplies to total supplies made each month. The monthly calculation is adjusted annually.

The percentage of deductible input VAT is to be rounded up to the next whole number (e.g., 19.2% is rounded up to 20%).

If a taxable person makes both taxable and VAT-exempt supplies and if the value of its taxable supplies is greater than 95% of the total value of its supplies in the period, the taxable person may deduct input VAT in full (without applying the partial-exemption calculation) on a monthly basis. A taxable person that is in this position must adjust its input VAT deduction on an annual basis.

Partially exempt taxable persons must apply separate VAT accounting to allocate input tax to taxable and exempt supplies. The use of a pro rata calculation is allowed only in cases where separate accounting cannot be used.

Capital goods. Capital goods are items of capital expenditure that are used in a business over several years.

In Latvia, the capital goods adjustment applies to the following assets for the number of years indicated:
- Immovable property: 10 years
- Fixed assets that have a purchase or producing value (expenditure incurred to produce a fixed asset) exceeding EUR70,000 excluding VAT: five years

The amount of input tax recovered depends on the taxable person's partial exemption recovery position in the VAT year of construction, production or acquisition. However, the amount of input tax recovered for capital goods must be adjusted over time if the taxable person's partial exemption recovery percentage changes during the adjustment period.

During the construction, production or purchase phase for real estate or a fixed asset, the input VAT is deducted according to the normal rules. The adjustment is applied each year following the year of construction, production or acquisition, to a fraction of the total input tax (1/10 for immovable property and 1/5 for the fixed assets). The adjustment may result in either an increase or decrease of deductible input tax, depending on whether the ratio of taxable supplies made by the business has increased or decreased since the year in which the capital goods were acquired.

An adjustment is not made if the proportion does not change during the tax year.

If immovable property or a part of it is sold as VAT-exempt supply within a period of 10 years after its acquisition or acceptance for service, the taxable person must repay to the state budget an amount of input tax equal to an amount calculated by multiplying 1/10 of the deducted input tax by the number of years that remain in the 10-year adjustment period. This repayment is included in the value of the immovable property, and the purchaser may not deduct it as an input tax.

Refunds. The State Revenue Service may carry forward overpaid VAT incurred to the next tax period within 30 days after it receives the VAT return for the respective tax period.

The transfer of the overpaid VAT to the next tax period may occur after any other tax liabilities of the taxpayer are fulfilled.

If, after the fulfillment of other tax liabilities, an amount of overpaid VAT amount remains, the respective VAT amount may be forwarded to the following tax period.

If, at the end of the tax year, an amount of overpaid VAT for the taxpayer remains, the overpaid VAT is repaid to the taxpayer's bank account within 10 days after the State Revenue Service receives the VAT return for the final month of the respective tax year and approves the overpaid VAT amount.

The State Revenue Service refunds overpaid VAT incurred during the tax period if at least one of the following conditions is met:
- The total amount of the taxpayer's zero-rated transactions and the transactions that have a place of supply not in Latvia account for at least 90% of the total value of taxable transactions.
- The overpaid VAT amount exceeds EUR1,500, and the total amount of zero-rated transactions, reduced-rate transactions and transactions that have a place of supply not in Latvia account for at least 20% of the total value of taxable transactions.
- The overpaid VAT amount incurred for fixed assets exceeds EUR150, and the taxable person requests a refund of the VAT overpayment.
- The overpaid VAT amount exceeds EUR1,500 and it is incurred for goods and services purchased for transactions involving timber, scrap metal, electronics (e.g., mobile phones, computer hardware, integrated circuits, game consoles), cereals and industrial crops, provision of construction services and construction products, raw precious metals, precious metal alloys and precious clad metal, metal products and related services or electronic household appliances and electronic household apparatus.
- The overpaid VAT amount exceeds EUR5,000.

The State Revenue Service may delay the refund of an overpaid tax amount by notifying the taxpayer in writing if any of the following circumstances exist:
- A decision has been made to conduct examinations and audits regarding the transactions and to seek necessary information for such examinations and audits. The period of the delay extends to the date on which the tax administration completes its evaluation of the transactions and reaches a decision regarding the justification for the application.
- The taxpayer cannot provide documentary evidence justifying the application of the 0% tax rate. The period of the delay extends until the date on which the documents are submitted verifying the exports or otherwise confirming the application of the 0% tax rate.
- The overpaid tax must be reduced by the amount of the tax with respect to bad debts. The period of the delay extends to the date on which the reduction takes place.

Bad debts. Taxable persons who supply goods or provide services may recover VAT related to their bad debts if specific conditions are met. VAT recovery can be performed on an annual basis.

Preregistration costs. Input VAT may be subject to VAT recovery if the goods or services were acquired up to 15 months before an entity was registered as VAT payer. Administrative services such as rent of premises and fuel costs are excluded, and additional rules apply.

Noneconomic activities. The following activities are considered to be noneconomic activities:
- Employment (under employment contract)
- Activities of state and local government authorities (with certain exceptions)

G. Recovery of VAT by non-established businesses

Latvia refunds VAT incurred by businesses that are not established in Latvia nor are required to be registered for VAT there. Non-established businesses may claim Latvian VAT refunds to the same extent as VAT-registered businesses.

Refund application. For businesses established in the EU, refund is made under the terms of EU Directive 2008/9/EC; for businesses established outside the EU, refund is made under the terms of the EU 13th Directive.

The application form may be completed in Latvian or in English.

Refund claims may be made for the following periods:
- One calendar year or a period of less than three months if the claim is made for the last three months of the calendar year (that is, the period from 1 October to 31 December)
- A period of at least three calendar months and less than one calendar year

For non-EU taxable persons, a claim for a complete calendar year must exceed EUR50, and a claim for a period of less than a calendar year, but longer than three months, must exceed EUR400.

For EU taxable persons, the amount of the claim in an application for a complete calendar year must exceed EUR50, and the amount of claim in an application for a period shorter than a calendar year, but longer than three months, must exceed EUR400 or the equivalent in other currency.

For non-EU taxable persons, the documents must be submitted to the State Revenue Service within the following time limits:
- For a claim for one calendar year or a period of less than three months (limited to the last three calendar months of the year): by 30 September of the following year
- For a claim for a period of at least three calendar months but not longer than one calendar year: within three months after the end of the period indicated on the application form

The documents must be submitted to the State Revenue Service by 30 September of the period following the requested refund period if the request is for period of one year, or within three months from the end of request period if the request is for period less than one year. In practice, the VAT could be refunded within a four-month period from the date of submission of the documents. This period may be prolonged if the tax authorities ask for additional information. In such case, the State Revenue Service will make a decision on a tax refund within a period of four months from the date of receipt of all relevant documents and information additionally required and submitted by the respective taxable person.

For EU taxable persons, the VAT refund request must be submitted via the local tax authorities according to the principles provided by EU Directive 2008/9/EC.

The decision on the VAT refund for persons from other EU Member States is made within four to eight months, depending on whether additional information is required by the State Revenue Service or the tax authorities of the other EU Member States.

H. Invoicing

VAT invoices and credit notes. A taxable person must generally provide a VAT invoice for all taxable supplies made and for exports within 15 days after the supply has been made or advance payment has been received.

A VAT credit note may be used to reduce the VAT charged and claimed on a supply. The document must be clearly marked "credit note," and it should refer to the original invoice. It is recommended that a credit note also indicate the reason for the correction and any new items arising from it.

Electronic invoicing. Electronic invoicing is allowed in Latvia, in line with EU Directive 2010/45/EU.

Proof of exports. The zero VAT rate applies to exports of goods and intra-Community supplies of goods. Export supplies and intra-Community supplies of goods must be accompanied by evidence confirming that the goods have left the territory of Latvia. Suitable evidence includes the stamped customs exportation documentation or international transportation documents such as the CMR or bill of lading.

Invoices issued in a foreign currency. If an invoice is issued in a currency other than the euro, the amount of the VAT must be converted to euros. The conversion must be done using the official

exchange rate quoted by the European Central Bank on the date of the supply or on the date when the advanced payment has been received.

B2C. B2C invoices may be issued upon request of the customer. However, if no invoice is issued, a supplementary internal document shall be issued for accounting and reporting purposes.

Special rules apply to the place of supply for supplies of telecommunications, broadcasting and electronic services to non-VAT taxable customers. For further details of the VAT rules on electronic services in the EU, please refer to the European Union chapter.

I. VAT returns and payment

VAT returns. In general, VAT returns may be filed monthly or quarterly, depending on the amount of taxable supplies made by the taxable person and the transaction types. A VAT return must be filed by the 20th day of the month following the end of the tax period via the Electronic Declaration System.

VAT returns must be filed on a monthly basis (such tax period is retained for six calendar months after VAT registration) if the amount of taxable transactions performed by a taxable person during the year before the tax year or during the tax year exceeds EUR40,000 or if the taxable person supplies goods or services within the EU.

VAT returns must be filed quarterly if, during the year before the tax year, the amount of taxable transactions of the taxable person did not exceed EUR40,000, and if the taxable person did not perform intra-Community supplies of goods or supply services that had a place of supply in other EU Member States.

Special schemes. There are special schemes for small businesses; farmers; travel agents; dealers in secondhand goods, works of art, collectors' items and antiques; auctions, investment gold and electronically provided services.

Small businesses. The voluntary special regime for small businesses is applicable to a taxable person who complies with at least one of the following criteria:
- Taxable transactions in the previous tax year have not exceeded EUR100,000.
- At the time of VAT registration, there is no expectation that taxable transactions in excess of EUR100,000 will be performed in the tax year.

The special regime provides that small enterprises, as well as persons who produce agricultural products specified in the VAT law, can remit VAT to the State Budget in the tax period in which the payment for supplies of goods or services is received. However, input VAT can only be deducted in the period in which invoices from other taxable persons are paid.

Additionally, suppliers of residential house maintenance and management services that exceed the transaction threshold of EUR100,000 may also apply for this scheme if the total value of transactions does not exceed EUR2 million.

Farmers. The VAT law provides a special flat-rate scheme for legal and private persons that produce agricultural products and are not registered as taxable persons.

Farmers subject to the flat-rate scheme cannot deduct input VAT. They are also not allowed to charge VAT on their agricultural outputs. Input VAT is, therefore, a cost for this type of farmer. The flat-rate scheme is based on the economic assumption that the farmers will and can transfer the burden of VAT, i.e., the price of goods supplied by such farmers includes the nondeductible input VAT.

Farmers subject to the flat-rate scheme are indirectly compensated by their customers for their input VAT. To avoid the accumulation of VAT, the customer is entitled to deduct the average input

VAT burden on supplies made to him by the flat-rate farmer. The average VAT burden is set at a percentage of the supply price. The current flat rate is 14% of the farmer's supply price.

The scheme can only be applied to supplies of agricultural goods and services made by farmers in the course or furtherance of their agricultural business. If a farmer has voluntarily registered as a taxable person, the general rules regarding liability to VAT, issuing invoices and deducting input VAT apply.

If a flat-rate farmer also runs a non-agricultural business, the farmer's supplies of goods and services from the latter are taxed (unless exempt) according to the normal rules if the farmer is required to register as a taxable person.

If a flat-rate farmer supplies agricultural goods to a taxable person in another Member State, the acquisition is taxed in that other Member State.

If a flat-rate farmer is the recipient of an intra-Community supply of goods and the total of the farmer's purchases is less than EUR10,000, the supply is taxed in the Member State of supply. The flat-rate farmer must register as a taxable person and is liable for VAT in Latvia on acquisitions of goods over this threshold. According to VAT law, a flat-rate farmer can choose to be taxed in Latvia even if the value of the farmer's intra-Community acquisitions is less than EUR10,000.

A taxable person who has been registered as a taxable person for VAT purposes before exceeding the EUR10,000 threshold may submit to the State Revenue Service an application for exclusion from the VAT registry not earlier than two years after registering.

Travel agents. VAT law provides for a special arrangement with regard to the taxation of margins of tour operators. The tax shall be applied to the services provided by tour operators if the tour operator acts in its own name and in favor of a traveler, and uses supplies of goods and services provided by other persons for ensuring tourism services provided to the traveler.

All activities performed by inland tour operators related to travel shall be deemed to be a single service that the tour operator provides to the traveler. Such a service is taxable.

The taxable amount regarding services provided by tour operators shall be the difference between the total amount (without tax) paid by the recipient of the service (a traveler) and the actual costs of the supply of goods and services that are provided to the tour operator by other persons.

The tax calculated by a tour operator for the services that it provides (including compiling a travel package, publication of advertising brochures, etc.) shall be included in the total value of the travel package and collected from the recipient of the service. In calculating the amount of the tax payable into the budget, the tax paid for ensuring the tour operator's own services (including lease of premises, telephone calls, electricity, etc.) shall be deductible as input tax.

A tour operator must calculate the value of services provided and include it in the tax declaration for the taxable period in which the service was provided to the traveler and invoices were received from other persons in relation to the supply, but not later than in the next taxable period after the service has been provided to the traveler.

The tax for other tourism-related (travel-related) services (including services of hotels, transport, catering services, etc.), which are actually provided in Latvia by other taxable persons, shall be included in the total value of the charge for the travel services and is collectible from the recipient of the service. The amount of tax collected for these services is transferred, in full, by the tour operator to the actual providers of the services. A tour operator may not deduct this amount as input VAT.

The value of the services provided by a tour operator himself is taxable at the standard rate. If the services provided by tour operators are provided both within the territory of the European

Union and outside it, the 0% tax rate shall be applied only to that part of the services that is provided outside the territory of the European Union.

Secondhand goods, works of art, collectors' items and antiques. Taxable dealers are taxable persons who have, as their regular business, trade in secondhand goods, works of art, antiques and collectors' items. A taxable dealer who purchases goods falling within one of these categories from a person who did not or was not entitled to deduct the input VAT can use the difference between the selling price and the purchase price (the profit margin) as the taxable amount.

A taxable dealer who makes use of the margin scheme cannot show VAT on the invoice. As no VAT is shown on the invoice, the purchaser cannot deduct input VAT. The secondhand goods VAT scheme is optional; dealers may choose to apply the general VAT regime.

The margin scheme may be applied where a taxable dealer imports works of art, antiques and collectors' items, or when works of art are supplied to the dealer by the artist, by the successor in title or by a taxable person other than a taxable dealer.

The special margin scheme is not applicable to the supply of new means of transport.

The taxable dealer must issue a "purchase declaration" (iepirkuma akts) to the seller on the purchase of goods. The purchase declaration should contain the following data:
- The name and the VAT identification number of the taxable dealer
- The legal address of the taxable dealer
- The number and date of the purchase declaration
- The registration number in the accounting register of the purchaser
- The name, the registration number (if available VAT registration number) and the legal address of the seller
- A clear description of the goods (for cars and motorcycles: the make, the year of production, the chassis number, the unladen mass, the engine capacity and the color)
- The identification number of the goods; for cars and motorcycles, the state registration number assigned by the Road Traffic Safety Directorate (Ceļu satiksmes drošības direkcija)
- The purchase price of the goods
- The purchase price of the goods excluding VAT
- The VAT (if applicable)
- The purchase price including VAT
- The signatures of the taxable dealer and the seller

Supplies through auctions. If a bailiff enforcing an adjudication of a court sells the property of a taxable person, VAT is imposed on the market value (price) or the auction price of the property.

The tax on the sale of the property in the auction must be paid into the State Budget by the bailiff within 20 days of when the amount calculated is applied and cannot be appealed.

Investment gold. Articles 344-356 of the VAT Directive (Council Directive 2006/112) have been implemented into the Latvian VAT law so as to provide for a special arrangement for the supply of investment gold. Investment gold is defined as:
- Gold, in the form of bars and plates, with a purity of at least 995/1,000, whether or not in the form of securities
- Gold coins that:
  — Have a purity of at least 900/1,000
  — Were minted after 1800
  — Are or have been accepted as legal tender in the country of origin
  — Are usually sold at a price which does not exceed by more than 80% the open market value of the gold contained therein

According to the primary rule, the local and intra-Community supply of gold in the above forms is exempt from VAT. Imports and intra-Community acquisitions of investment gold are also exempt from VAT. In addition, the exemption applies to intermediary services supplied by agents.

The following suppliers of investment gold may opt for taxation according to the general VAT rules:
- A manufacturer of investment gold or a person modifying gold into investment gold
- A taxable person who supplies investment gold for industrial purposes in the course of his or her normal business
- An intermediary in the supply of investment gold, provided that the supplier has also opted to tax his or her supply

An option to tax must be made by notifying the tax authorities in advance in writing.

A supplier who does not opt for taxation but, rather, uses the exemption for the supply of investment gold can still deduct input VAT on the following:
- The acquisition of investment gold that was supplied by a taxable supplier (in Latvia and other Member States) who exercised an option to tax
- The acquisition of gold other than investment gold from taxable suppliers (in Latvia and other Member States), on the assumption that the supplier changes the gold into investment gold
- Services received for changing the shape, weight or content of investment or other gold

A taxable person who produces investment gold or changes gold into investment gold can deduct VAT in connection with the local acquisition, the import or the intra-Community acquisition of goods or services that have a connection with the production or the modification of that gold.

The reverse-charge mechanism is applicable if the option for taxation is applied.

With regard to a taxable person who performs transactions with investment gold, the documents that are associated with such transactions must be retained for five years after the end of the calendar year in which the transaction occurred.

A nonresident taxable person should submit, by electronic means, a VAT return in respect of each calendar quarter, whether or not electronic services have been supplied. The VAT return should be submitted within 20 days of the end of the calendar quarter that is covered by the return.

Third-country suppliers that supply electronic services and have chosen Latvia as the Member State of VAT identification can obtain a refund of the Latvian VAT related to their Latvian taxable activities based on the Thirteenth VAT Directive (Council Directive 86/560).

In addition, as of 1 January 2015 it will enter into force a new optional simplification measure called “Mini One-Stop Shop” (MOSS) with respect to telecommunications services, broadcasting services and electronically (TBE) supplied services. The MOSS scheme will allow all taxable persons supplying TBE services to nontaxable persons in EU Member States in which they do not have an establishment to account for the VAT due on those supplies via a web portal in the Member State in which they are identified.

This scheme is introduced in connection with the change to the place of supply rules with respect to TBE services rendered cross-border within the EU, effective from 1 January 2015, according to which the supply of these services shall generally take place in the Member State of the customer, and not the Member State of the supplier. The MOSS allows qualifying taxable persons to avoid registering in each Member State of consumption and it will be available both for taxable persons established and not established in the EU.

The MOSS generally mirrors the scheme that is in place now for non-EU established suppliers of TBE services to customers. Persons already registered under the pre-existing scheme for TBE

services, should retain their existing individual VAT identification numbers for the purposes of the MOSS.

Electronic filing and archiving. An entrepreneur must store duplicates of the invoices issued and invoices received for a period of five years, except with respect to invoices relating to immovable property. Regarding the latter, invoices shall be stored for a period of 10 years. The duplicates should be stored in Latvia, except when they are stored by electronic means and full on-line access to the data concerned is guaranteed to State Revenue Service representatives.

Annual returns. The taxable person must submit an annual VAT return in the following circumstances:
- The proportion of taxable and nontaxable transactions for the taxation year has changed and it is not provided otherwise by the VAT law.
- Any tax due or input tax deducted is adjusted according to the requirements listed in the VAT law.
- Financial services are performed/supplied.
- A deposit system is applied to reusable packaging according to the packaging regulation.

This must be submitted prior to 1 May of the following year. In addition, the respective tax amount also has to be paid prior to 1 May of the following year.

J. Penalties

An administrative penalty for the non-submission of a VAT return is payable to the state budget in an amount ranging from EUR70 to EUR700. In addition, the tax authorities can exclude the taxpayer from the registry of VAT-taxable persons.

Also, penalties may be imposed for undeclared VAT. In such case, the undeclared VAT must be paid, together with a penalty of up to 30% of the unpaid VAT amount and a late penalty fine in the amount of 0.05% per day.

A penalty for late VAT payment is imposed in the amount of 0.05% per day.

K. EU filings

Intrastat. A taxable person that trades with other EU countries must complete statistical reports, known as Intrastat, if the value of either its sales or purchases of goods exceeds certain thresholds. The applicable form, which must be submitted to the Central Statistical Bureau of the Republic of Latvia, depends on the threshold prescribed for acquisitions and supplies, respectively. The following are the Intrastat thresholds, effective from 1 January 2019:
- EUR200,000 for intra-Community acquisitions (if this threshold is met, Intrastat 1A must be submitted)
- EUR3 million for intra-Community acquisitions (if this threshold is met, Intrastat 1B must be submitted)
- EUR100,000 for intra-Community supplies (if this threshold is met, Intrastat 2A must be submitted)
- EUR4.5 million for intra-Community supplies (if this threshold is met, Intrastat 2B must be submitted)

The Intrastat return must generally be submitted on a monthly basis. The submission deadline is the 10th day of the month following the return period.

Penalties may be imposed for late, missing or inaccurate declarations.

EU Sales Lists and EU Purchase Lists. If a taxable person makes intra-Community supplies of goods and services in a return period, it must submit an EU Sales List (ESL) to the State Revenue Service. An ESL must be submitted as an appendix to the VAT return.

ESLs must be submitted electronically on a calendar monthly basis by the 20th day following the end of the month.

If a taxable person makes intra-Community acquisitions of goods and services in a return period, it must submit an EU Purchase List (EPL) listing intra-Community acquisitions of goods and services to the State Revenue Service. The EPL must be submitted as an appendix to the VAT return.

EPLs must be submitted electronically on a calendar monthly basis by the 20th day following the end of the month.

Penalties may be imposed for late, missing or inaccurate ESLs and EPLs.

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A. At a glance

Name of the tax	Value-added tax (VAT)
Date introduced	1 February 2002
Trading bloc membership	None
Administered by	Ministry of Finance (http://www.finance.gov.lb)
VAT rates	
Standard	11%
Other	Zero-rated (0%) and exempt
VAT number format	Tax identification number (TIN), followed by the VAT number (indicating whether the taxable person is an exporter; for example, 1473-601)
VAT return periods	Quarterly
Thresholds	LBP100 million in any period varying from 1 to 4 prior consecutive quarters. Importers and exporters of VAT-able or exempt with the right of deduction goods or services are now obliged to register with the Directorate of Value-Added Tax (DVAT) regardless of their turnover.
Recovery of VAT by non-established businesses	Yes, with certain conditions

B. Scope of the tax

VAT applies to the following transactions:
- The supply of goods or services made in Lebanon by a taxable person
- The importation of services by a person resident in Lebanon
- The importation of goods into Lebanon, regardless of the status of the importer

C. Who is liable

A taxable person is an entity or individual who makes taxable supplies of goods or services in the course of doing business in Lebanon, in excess of the registration threshold. In addition, a taxable person is an entity or individual who imports and exports VAT-able goods or services, regardless of their turnover. This definition includes a permanent establishment of a foreign business in Lebanon. The deadline for registration is two months following the last day of the quarter in which the liability to register arose.

The VAT registration threshold is total turnover of at least LBP100 million in any period varying from one to four consecutive quarters.

Importers and exporters of VAT-able or of goods or services that are exempt with the right of deduction are now obliged to register with the DVAT regardless of their turnover.

Voluntary registration. Any taxable person performing VAT-able activities or activities related to goods and services that are exempt with the right of deduction may voluntarily register for VAT, provided that the latter had a minimum turnover of LBP50 million in a period of one to four consecutive quarters.

Group registration. The Lebanese VAT law does not allow VAT group registration. Legal entities that are closely connected must register for VAT separately.

Registration procedures. A taxpayer registering with the DVAT is required to manually fill out hard copies of the necessary registration forms (K1-1, K11-1 and K12-1) along with other required documents and submit them to the DVAT within two months from the last day of the quarter in which the liability to register arose (in case of mandatory registration). The DVAT takes an average of one week to complete the registration.

Late-registration penalties. Late registration with the relevant tax department triggers the following penalties:
- LBP2 million for joint stock companies
- LBP1 million for limited liability companies
- LBP300,000 for sole proprietorships and other taxpayers

Non-established businesses. A "non-established business" is a business that has no fixed establishment in Lebanon. A non-established business must register for VAT if it makes taxable supplies in Lebanon.

Tax representatives. A non-established business must appoint a tax representative resident in Lebanon before it makes any supplies of goods or services there, regardless of its expected level of turnover. The tax representative is jointly and severally responsible for the payment of all VAT liabilities and penalties with the non-established business that it represents. The tax representative is solely responsible for complying with all of the other provisions of the Lebanese VAT law.

If a Lebanese resident receives a taxable supply of services from a non-established supplier that has not appointed a tax representative in Lebanon, the Lebanese resident is liable to pay VAT and any penalties due to the VAT authorities.

Reverse charge. Reverse charge is a transfer of liability to account for and pay the VAT on imported services from the person providing the service (the supplier) to the person receiving the service (the recipient). If services are being supplied by a foreign nonresident entity that has no agent in Lebanon to a Lebanese registered entity, it is the responsibility of the Lebanese taxpayer to book the VAT amount due on the service and declare it to the VAT department.

Digital economy. No special rules apply. However, non-established businesses should appoint a tax representative residing in Lebanon for all operations intended to be performed in Lebanon.

There is no obligation to appoint a tax representative if the services are performed abroad and provided to Lebanese residents.

Deregistration. A taxable person that ceases to carry on business in Lebanon must end its registration. A taxable person whose turnover falls below the compulsory registration limit may also deregister.

A taxable person that is registered voluntarily may request deregistration if its annual turnover does not exceed the compulsory VAT registration threshold.

Exemption from registration. The VAT law in Lebanon does not contain any provision for exemption from registration.

D. VAT rates

The term "taxable supplies" refers to supplies of goods and services that are liable to a rate of VAT, including the zero rate.

In Lebanon, the two rates of VAT are the standard rate of 11% and the zero rate (0%). The standard rate of VAT applies to all supplies of goods and services, unless a specific measure provides for the zero rate or an exemption.

Examples of goods and services taxable at 0%

- Exported goods
- Exported services
- International transport (from/to Lebanon)

The term "exempt supplies" refers to supplies of goods and services not liable to tax and that do not give rise to a right of input tax deduction (see Section F).

Examples of exempt supplies of goods and services

- Postal services and stamps
- Education
- Insurance
- Financial services
- Transfer of real estate
- Medical services and equipment
- Precious metals and precious and semiprecious stones
- Betting and gaming
- Collective transport of persons
- Agricultural activities and products, including livestock, seeds, animal feed and pesticides
- Books, newspapers and magazines
- Basic foodstuffs and baby food
- Diesel oil

Option to tax for exempt supplies. Not applicable.

E. Time of supply

The time when VAT becomes due is called the "time of supply" or "tax point." The tax point is the earliest of the following events:

- When the goods are delivered or the services are performed
- When the consideration is paid if this occurs before the goods are delivered or services are performed
- When the invoice is issued if this occurs before the goods are delivered or services are performed

The time of supply for imported goods is when the liability to pay customs duties arises, that is, either on the date of importation or when the goods leave a duty suspension regime.

A Lebanese resident who uses a service in Lebanon that is acquired from abroad must account for VAT on the service and pay VAT due to the VAT authorities. The tax point is when the service is received and the consideration is paid. The Lebanese VAT Law does not differentiate between companies and individuals. However, in practice, individuals do not self-account for the VAT, and no VAT is charged on the supply.

Deposits and prepayments. If, before the date of delivery of goods and services, the price has been partly or wholly paid by the customer, then the VAT is due at the date of payment based on the value of the amount paid.

Goods sent on approval for sale or return. In the case of a sale return, in order to be able to recover the output VAT already declared and paid, the supplier should repay the full amount received and get back the goods within three months from the date of supply, and a credit a note is required to be issued where the goods are returned.

Leased assets. VAT on leased assets classified as operational leases is payable upon payment of each installment. If the asset is transferred to the lessee at the end of the lease term, the VAT is computed based on the purchase price.

The time of supply differs if the asset is classified as a financial lease, under any of the below criteria:
1. Ownership transfers at the end of the lease (upon final payment or required buyout)
2. Written option for bargain purchase
3. The present value of the lease payments is equal or more than 90% of the fair value of the leased property
4. The lease term is equal or greater than 75% of the asset's economic life

When any of these criteria apply, the VAT is due upon the earlier of effective receipt of the asset, issuance of an invoice or payment of an amount.

Reverse-charge services. Please refer to the reverse-charge section above (Section C).

Continuous supplies. VAT is due on the earliest of either the invoice issuance, installment payment or installment due date.

Imported goods. VAT is paid at customs at the time of importation and clearance of goods.

F. Recovery of VAT by taxable persons

A VAT payer may recover input tax, which is VAT charged on goods and services supplied to it for business purposes. A VAT payer generally recovers input tax by deducting it from output tax, which is VAT charged on supplies made.

Input tax includes VAT charged on goods and services supplied in Lebanon and VAT paid on imports.

A valid tax invoice or customs document must generally accompany a claim for input tax.

Nondeductible input tax. Input tax may not be recovered on purchases of goods and services that are not used for business purposes (for example, goods acquired for private use by an entrepreneur). In addition, input tax may not be recovered for some items of business expenditure.

The following lists provide some examples of items of expenditure for which input tax is not deductible and examples of items for which input tax is deductible if the expenditure is related to a taxable business use.

Examples of items for which input tax is nondeductible

- Business entertainment
- Nonbusiness expenditure

Examples of items for which input tax is deductible (if related to a taxable business use)

- Accommodation
- Advertising
- Business gifts
- Conferences
- Purchase, lease and hire of cars, vans and trucks
- Business use of home telephone
- Mobile phones (80% provided that the invoices are in the name of the taxpayer)
- Taxis

Partial exemption. Input tax directly related to making exempt supplies is not generally recoverable. If a Lebanese taxable person makes both exempt and taxable supplies, it may not recover input tax in full. This situation is referred to as a "partial exemption." Zero-rated supplies (sometimes referred to as "exempt with the right of deduction" supplies) are treated as taxable supplies for these purposes.

A taxable person that makes both taxable and exempt supplies may generally recover input tax that is related to taxable supplies only. Input tax directly allocated to taxable supplies is deductible, while input tax directly related to exempt supplies is not deductible. The remaining input tax that is not allocated directly to exempt and taxable supplies is apportioned. The apportionment may be calculated based on the value of taxable supplies made compared with total turnover.

However, certain VAT exempt entities, including hospitals, educational institutions and nonprofit organizations, known as "Article 59 entities," are subject to a special VAT recovery regime. Article 59 entities use fixed recovery percentages for recovering input VAT, depending on the type of expenditure. The following are the fixed percentages:

- 100% recovery is allowed for purchases of fixed assets.
- 100% recovery is allowed for current expenses.

Refunds. If the amount of VAT recoverable in a quarter exceeds the amount of VAT payable, the taxable person earns a VAT credit. The VAT credit is generally carried forward to offset output tax in the following VAT period. A refund of any remaining VAT credit may be claimed at 20 days following year-end provided that the claimed amount would be a minimum of LBP5 million. However, exporters (i.e., anyone who exports) may claim a refund of the VAT credit at the end of each quarter.

The VAT authorities should resolve the refund request within three months from the submission deadline. They have the right to extend this period once, for an additional three months, in the case of a tax audit.

If the VAT authority accepted the refund request, then it should pay the taxable person the excess amount of VAT within four months (seven months in the case of a tax audit). Otherwise, interest equal to the average interest of one-year treasury bills is due, and this interest amount cannot exceed 9%.

Preregistration costs. A taxable person who purchases fixed assets and inventory at a date preceding VAT registration can request a refund of input tax on these items once registered. The taxpayer has to submit a letter to the Ministry of Finance in order to refund such VAT. The amount to be refunded is deducted from the VAT amount to be paid starting from the period following the taxable period in which the refund request is approved.

G. Recovery of VAT by non-established businesses

The Lebanese VAT authorities may refund the VAT incurred by businesses that are neither established nor registered for VAT in Lebanon under certain conditions.

H. Invoicing

VAT invoices and credit and debit notes. A taxable person must generally provide VAT invoices for all taxable supplies made to other taxable persons and for exports. Taxable persons that supply goods and services primarily to retail customers may issue cash receipts instead of full tax invoices subject to the VAT authorities' preapproval.

A VAT credit note may be used to reduce the VAT charged and reclaimed on a supply of goods or services. The value of the supply may be reduced if a supply is cancelled, goods are returned (in full or in part) or the contractual price is reduced. The amount of VAT credited must be separately itemized in the credit note. The credit note must be cross-referenced to the original VAT invoice and must contain generally the same information.

Proof of exports. Lebanese VAT is not chargeable on supplies of exported goods, which are zero-rated. However, to qualify as zero rated, an export supply must be accompanied by official customs evidence and port clearance documents, stating that the goods have left Lebanon.

Invoices issued in a foreign currency. As per Instruction No.167/S1 dated 21 January 2012, when the value of goods or services is set in a foreign currency, the taxpayer should calculate the counter value of the VAT in LBP by exchanging the foreign amount to LBP according to the official exchange rate at the date of transaction. If the official exchange rate at the date of the transaction could not be precisely determined, the taxpayer should use the Banque du Liban (BDL) rates published one day before issuing the invoice and apply this exchange rate.

Electronic invoices. Not applicable.

B2C. No special treatment applies to invoices for B2C supplies.

I. VAT returns and payment

VAT returns. Lebanese VAT returns are submitted for quarterly periods. VAT returns must be filed within 20 days after the end of each quarter. Payment in full is required at the same time. VAT liabilities must be paid in Lebanese pounds.

Special schemes. Not applicable.

Electronic filing and archiving. All taxpayers registered with the directorate of VAT should submit their quarterly declarations electronically starting the first quarter 2014. In order to do so, the taxpayer should register online and create an account with the Directorate of Value-Added Tax through the Ministry of Finance's website (www.finance.gov.lb).

Annual returns. Not applicable.

J. Penalties

A penalty is charged for the late submission of a VAT return at a rate of 5% of the tax due for each month or part of a month that the return is late. The minimum penalty is LBP750,000 for joint stock companies, LBP500,000 for limited liability companies and LBP100,000 for other taxpayers, and the maximum penalty is 100% of the tax due. For these purposes, a fraction of a month is considered to be a whole month.

A penalty is charged for late payment of tax at a rate of 1.5% per month or part of a month that the tax is unpaid.

Penalties apply to a range of other VAT errors and offenses, including the submission of incorrect tax returns (penalty is 20% of the difference between the tax due and tax paid), the issuance of incorrect VAT invoices (penalty is 25% of the tax due on the invoice), the issuance of invoices by unregistered taxpayers (penalty is three times the VAT amount in the invoice).

Liechtenstein, Principality of

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A legal agreement between Switzerland and the Principality of Liechtenstein, states that the Principality of Liechtenstein incorporates the substantive provisions of the Swiss Value-Added Tax Act into its State Law (agreement between the Swiss Confederation and the Principality of Liechtenstein on the contract regarding VAT in the Principality of Liechtenstein, completed on 12 July 2012, entered into force on 17 August 2012). As such, please refer to the Switzerland chapter for details on the VAT rules in Liechtenstein.

Lithuania

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A. At a glance

Name of the tax	Value-added tax (VAT)
Local name	Pridetines vertes mokestis (PVM)
Date introduced	1 May 1994
Trading bloc membership	European Union Member State
Administered by	Ministry of Finance (http://finmin.lrv.lt) State Tax Inspectorate (http://www.vmi.lt) Customs Department (http://www.cust.lt)
VAT rates	
Standard	21%
Reduced	5%, 9%
Other	Zero-rated (0%) and exempt
VAT number format	LT123456789 LT123456789012
VAT return periods	
Monthly	General return period
Semiannually	For natural persons; optional for legal persons with turnover not exceeding EUR60,000 in the preceding year (valid until 1 July 2019).
Quarterly	For non-EU persons who supply electronic services to nontaxable persons Effective 1 July 2019, for legal persons with turnover not exceeding EUR300,000 in the preceding year
Other	For members of international groups (period may not be longer than 60 days, and the entity's fiscal year must be the calendar year)
Thresholds	
Registration	
Businesses established in Lithuania	Revenue of EUR45,000 in the preceding 12 months

Businesses established elsewhere	First taxable supply (unless the reverse-charge applies)
Distance selling	EUR35,000 in the current or previous year
Recovery of VAT by non-established businesses	Yes

B. Scope of the tax

VAT applies to the following transactions:
- The supply of goods or services in Lithuania supplied for consideration by a taxable person performing economic activities
- The intra-Community acquisition of goods from another Member State (see the chapter on the EU)
- The importation of goods into Lithuania (subject to import VAT)
- Certain other cases linked to the international traffic of goods (for example, the supply of goods that are intended to be produced to customs and placed in temporary storage, the supply of goods that are intended to be placed in a free zone and the supply of goods that are intended to be placed under customs warehousing arrangements or special inward processing procedure)

C. Who is liable

Persons liable to VAT are:
- A taxable person, i.e., a business entity, an individual established in Lithuania or elsewhere or a collective investment undertaking (fund) that performs an economic activity in the course of its business in Lithuania
- A legal entity that is not a taxable person with respect to intra-EU acquisitions of goods or any person with respect to the intra-Community acquisition of new means of transport

The VAT registration threshold for Lithuanian entities is turnover in excess of EUR45,000 in the preceding 12 months. If the total turnover of all entities controlled by a single entity or by an individual exceeds EUR45,000, all entities are required to register for VAT, even if the turnover of each entity separately does not exceed the threshold.

The VAT registration threshold for Lithuanian and foreign entities is the amount of intra-EU acquisitions of goods exceeding EUR14,000 in the preceding 12 months.

Special rules apply to foreign or "non-established" businesses that have no fixed establishment in Lithuania.

Voluntary registration. Certain persons may register for VAT voluntarily. This possibility exists for 1) a business established in Lithuania that has turnover not exceeding the registration threshold (except when it is carrying out or intends to carry out only an activity for which input and/or import VAT on goods and/or services used could not be deductible under the provisions of Lithuanian VAT law) and 2) a person that acquires or plans to acquire goods from another EU Member State (except new means of transport or excise goods). In practice, persons established outside Lithuania may also voluntarily register for VAT.

Group registration. VAT group registration is not allowed under Lithuanian VAT law. Entities that are legally related must register for VAT individually.

Registration procedures. Applications for registration as a Lithuanian taxpayer and as a VAT payer can be filed electronically (recommended) or manually through the system Mano VMI. Registration as a Lithuanian taxpayer takes up to five working days, and registration as a Lithuanian VAT payer takes up to three working days.

A nonresident business that carries out taxable supplies of goods (services) in the territory of Lithuania must register for VAT through its fixed establishment in Lithuania or it must appoint a fiscal representative (also referred to as a tax representative). The requirement to appoint a fiscal

representative is not applicable to nonresident businesses that are based in other EU Member States. The requirement to appoint the fiscal representative is also not applicable to non-EU established businesses that are based in the territories where the provisions of Mutual assistance agreements are applied, which essentially are equivalent to the provisions of Directive No 2010/24/EU and Regulation No. 904/2010.

Late-registration penalties. Penalties and interest are not assessed for late registration or failure to register for VAT. However, if a business does not register for VAT, it still must calculate and pay VAT. Failure to comply with this obligation may result in penalties and interest, as well as status of an unreliable taxpayer. The concept of an unreliable taxpayer was brought into effect from 1 January 2019. If the taxpayer is deemed unreliable, the following consequences may occur:
- Information about unreliable taxpayer will be available for third parties.
- Longer limitation periods will be applied during the operational inspection.
- Unreliable taxpayers will lose the right to participate in public procurements.
- Unreliable taxpayers will not be able to obtain the status of a beneficiary or will lose the respective status.

Non-established businesses and tax representatives. A "non-established business" is a business that does not have a fixed establishment in Lithuania. A non-established business must register for VAT in Lithuania if it makes taxable supplies of goods or services in Lithuania. No VAT registration threshold applies to supplies made by foreign non-established businesses; that is, registration is required in the event a taxable supply is made in Lithuania, unless the reverse-charge applies or unless the supply is outside the scope of VAT or is exempt. A non-established business must register for VAT through a fixed establishment in Lithuania or appoint a fiscal representative (tax representative – see *Registration procedures*).

An EU taxable person must register for VAT if it makes distance sales of goods to customers in Lithuania in excess of EUR35,000 in the current or previous year.

Reverse charge. A non-established business that makes taxable supplies in Lithuania is not required to register for VAT if the reverse-charge rule applies to all its transactions. Under the reverse-charge rule, a Lithuanian customer that is a taxable person established in Lithuania is responsible for the calculation and payment of VAT, unless either of the following circumstances exists:
- The supply is used by a fixed establishment of the person outside Lithuania.
- The supply falls under the list of exceptions.

Under the reverse-charge rule, a customer that is a VAT-registered person in Lithuania is responsible for the calculation and payment of VAT with respect to supplies of the following:
- Natural gas and electricity
- Goods installed and assembled in Lithuania

The Lithuanian VAT law also provides for a reverse-charge procedure with respect to supplies between persons established in Lithuania, including the following:
- Supplies of goods and services while a supplier is under bankruptcy or a restructuring procedure
- Supplies of metal scrap and similar products
- Supplies of construction services as detailed in the law on construction and supplies of certain construction materials

Digital economy. For digital services, telecommunication services or broadcasting services supplied B2B (business-to-business), the place of supply is the place where the recipient is established. No Lithuanian VAT should be charged and the reverse charge may apply unless a supplier and a customer are both established in Lithuania.

For digital services, telecommunication services or broadcasting services, supplied to final consumers (B2C) context, effective 1 January 2015 until 31 December 2018, Lithuanian VAT was

due for supplies to customers that are permanent residents in Lithuania irrespective of where the supplier is established. Starting from 1 January 2019, different rules apply for nonresident and resident service providers.

Until 31 December 2018, a nonresident supplier that supplies B2C digital services was required to register for and charge Lithuanian VAT on these supplies. However, effective 1 January 2019, the digital services, telecommunication services or broadcasting services shall not be deemed to be provided in the territory of the country (i.e., no Lithuanian VAT shall be charged), when all the following conditions are met:

- Service provider is established in one EU Member State only and does not have a branch in any other EU Member States; or if service provider is established outside the EU and has a branch in one EU Member State only.
- The amount of the digital services, telecommunication services or broadcasting services supplied to nontaxable persons does not exceed EUR10,000 in the current and preceding calendar year.
- The service provider has not chosen to deem the place of supply of these services to be in Lithuania.

Effective 1 January 2019, when a resident supplier or a taxable person established outside the EU and having a branch in Lithuania only, provides telecommunication services or broadcasting services to nontaxable persons in other EU Member States, the place of supply of these services shall be deemed to be effected in the territory of Lithuania, if the value of the services provided does not exceed EUR10,000 in the current and previous calendar years. The above taxable persons shall have an option to choose paying the VAT due in another EU Member State rather than Lithuania. The tax authorities should be formally notified about the decision. This option shall apply for at least 24 months.

Mini One-Stop Shop. The optional simplification measure called the "Mini One-Stop Shop" (MOSS) with respect to digital services, telecommunication services and broadcasting services supplied in a B2C context. The supply of these services is generally considered as taking place in the Member State of the customer, not the Member State of the supplier.

The MOSS scheme allows all taxable persons supplying digital services, telecommunication services or broadcasting services to nontaxable persons in EU Member States in which they do not have an establishment, to account for the VAT due on those supplies via a web portal in the Member State in which they are identified.

The MOSS allows qualifying taxable persons to avoid registering in each Member State of consumption. The MOSS simplification is available both for taxable persons established in the EU and outside the EU.

The MOSS generally mirrored the scheme that was in place for non-EU established suppliers of electronically supplied digital services, telecommunication services or broadcasting services supplied to final consumers. Persons already registered under the pre-existing scheme for electronically supplied digital services, telecommunication services or broadcasting services, should retain their existing individual VAT identification numbers for the purposes of the MOSS.

Deregistration. A Lithuanian person who is a VAT payer has the right to deregister voluntarily, if:

- The VAT payer's total turnover does not exceed EUR45,000 in the preceding 12 months.
- The value of intra-EU acquisitions does not exceed EUR14,000 in the preceding 12 months.
- The VAT payer finishes its activities due to liquidation or reorganization.
- The VAT payer terminates its taxable activities.

A foreign person who is a Lithuanian VAT payer has the right to deregister voluntarily, if:

- The VAT payer finishes its activities in Lithuania.

- In the case of distance selling, the value of goods transported in Lithuania does not exceed EUR35,000 in the preceding 12 months.
- The VAT payer finishes its activities due to liquidation or reorganization.

Lithuanian VAT payers may be deregistered on the initiative of the tax administrator as well, if:
- The VAT payer does not perform economic activities or intra-EU acquisitions (e.g. the Lithuanian VAT payer does not submit the VAT returns or does not report taxable supplies), for two months in a row
- The VAT payer finishes its activities due to liquidation or reorganization.
- The VAT payer (natural person) is dead.

Exemption from registration. There are no exemptions from the VAT registration for Lithuanian entities if their turnover in Lithuania exceeds the EUR45,000 threshold in the preceding 12 months.

Foreign entities are not required to register for VAT if their transactions are exempt, outside the scope of VAT or zero-rated (taxable at 0%). However, for certain supplies, VAT registration is required even though the zero rate of VAT applies. These supplies include the following:
- Exports of goods
- Supplies of goods that are intended to be produced to customs and placed in temporary storage
- Supplies of goods that are intended to be placed in a free zone or in a free warehouse
- Supplies of goods that are intended to be placed under customs warehousing arrangements or special inward processing procedure
- Services linked to the above supplies
- Intra-Community supplies of goods
- Supplies of new vehicles that are transported to another EU Member State

Taxable persons established outside the EU that supply electronic services and taxable persons that supply electronic services through a fixed establishment outside the EU to nontaxable persons established in Lithuania must register for VAT (that is, if the service provider is not yet registered in another EU Member State).

D. VAT rates

The term "taxable supplies" refers to supplies of goods and services that are liable to a rate of VAT.

The standard rate of VAT applies to all supplies of goods or services, unless a specific measure provides a reduced rate, the zero rate or an exemption.

The VAT rates are as follows:
- Standard rate: 21%
- Reduced rates: 9% and 5%
- Zero rate: (0%)

Examples of supplies of goods and services taxable at 9%

- Supplies of books and printed non-periodical materials such as encyclopedias, dictionaries, children books and maps
- Heating and hot water supplies to residential premises
- Newspapers, magazines and other periodicals, with the exception of those with erotic or violent content or those that do not comply with professional ethics publications, as well as printed productions in which more than 4/5 of the content is paid advertising (valid until 31 December 2018)
- Passengers and their baggage transport services going on regular routes that are authorized by the Ministry of Transportation or the local authorities
- Accommodation services supplied according to the legislation regulating tourism activities (valid until 31 December 2022)
- Fuel wood and wood products intended for heating households (valid from 1 January 2019)

Examples of supplies of goods and services taxable at 5%

- Medicines and medical aid products, subject to full or partial compensation from the state medical insurance budget, as well as non-compensated prescription medicines
- Technical equipment that is used to assist persons with disabilities as well as for the repair services of such equipment
- Newspapers, magazines and other periodicals, with the exception of those with erotic or violent content or those that do not comply with professional ethics publications, as well as printed productions in which more than 4/5 of the content is paid advertising (valid from 1 January 2019)

Examples of supplies of goods and services taxable at 0%

- Exports of goods from the EU and related services
- International transport and related services
- Supplies related to ships and aircraft
- Intra-Community supplies of goods
- Work on movable tangible property (certain cases)
- Intermediary services for the above supplies

The term "exempt supplies" refers to supplies of goods and services that are not liable to tax and that do not give rise to a right of input tax deduction (see Section F). Goods and services that are outside the scope of VAT do not result in tax deductions.

Examples of exempt supplies

- Health care services and goods
- Real estate rent and disposals
- Insurance and reinsurance
- Certain financial services
- Cultural and sporting activities
- Educational services
- Betting and gaming services
- Universal post services
- Social and related services
- Radio and television services
- Imported goods (certain cases)
- Services supplied by independent groups, as referred in the Articles 132-134 of Directive 2006/112/EC

Option to tax for exempt supplies. A VAT payer may opt to charge VAT on the following supplies:

- Rent of real estate
- Disposal of real estate
- Certain financial services

The option is applied only if the above services are supplied to the VAT payer. The tax authorities should be formally notified about the decision. A VAT payer that has opted to charge VAT on any of the above services should charge VAT on all similar transactions for a period of not less than 24 months.

E. Time of supply

The time when VAT becomes due is called the "time of supply" or "tax point." The basic time of supply for goods and services is when the VAT invoice is issued. If an invoice is not issued, the time of supply is when the earlier of the following events occurs:

- Goods or services are supplied.
- Payment for goods or services is received.

A range of other situations have different time of supply rules. Some of these situations are described below.

Intra-Community acquisitions. The time of supply for the goods acquired from another EU Member State is the date on which the supplier issues an invoice, but not later than the 15th day of the month following the month during which the transport of goods began.

Prepayments. The time of supply for a prepayment received before the supply is made is when the prepayment or the total payment is received. This rule applies to contracts that provide for a supply after 12 months. If the prepayment is received and if the supply will be triggered earlier than 12 months beginning on the date of the signing of the contract, the taxable person may choose the date of receipt of prepayment as the time of supply and calculate the VAT on this prepayment.

If the invoice is issued upon the receipt of prepayment, the remuneration indicated in the final invoice shall be reduced by the amount of prepayment. If special margin schemes for travel agents and for secondhand goods, works of art, collectors' items and antiques are applied, the above treatment of prepayments does not apply.

Construction work. The time of supply for the self-construction of a building is the moment when the building begins to be used in economic activities. For an essential improvement on a building, the time of supply is the moment when the works are finished. The time of supply for construction services is when the invoice for the services is issued. If the invoice for construction services is not issued, the time of supply for the services is when the earliest of the following events occurs:
- The services are provided.
- The consideration is paid for the services provided.

Imported goods. Import VAT shall become chargeable upon the entry of the goods from a third country territory into the territory of Lithuania. Where the goods imported into the territory of Lithuania are subjected to certain actions, procedures or arrangements specified in VAT law, import VAT shall become chargeable upon cessation of the application of said actions, procedures or arrangements within the territory of Lithuania.

Postponed accounting. Postponed accounting for imports applies to imports made by taxable persons. The import VAT due is calculated by the customs authority, but the VAT is included and recovered on the VAT return in the same taxable period.

Reverse-charge services. The time of supply for reverse-charge services is the date on which the invoice for the services is issued. If an invoice for the services is not issued, the time of supply for the services is when the earliest of the following events occurs:
- The services are provided.
- The consideration is paid for the services provided.

Cash accounting. Lithuania has not implemented Article 167a from Directive 2006/112/EC. However, there is a similar optional regime applicable to agricultural producers. Under this regime, VAT on the supplied agricultural products becomes chargeable upon the payment of the consideration.

Continuous supplies of services. In the case where long-term services are supplied, i.e., services that are supplied for a certain continuous period such as telecommunications, leases, and also in the case of long-term supply of electricity, gas, heat and other types of energy, VAT shall become chargeable when the VAT invoice for the supply of goods or services during the accounting period is issued. In cases where the VAT invoice is not issued, VAT is chargeable upon receipt of the consideration for the amount of goods or services supplied during the accounting period.

Intra-Community supplies of goods. VAT shall become chargeable for the goods supplied to another Member State when the VAT invoice for the supply of goods is issued, but not later than the 15th day of the month following the month in which the goods were dispatched.

Leased assets. VAT shall become chargeable when the goods are transferred in cases where goods are transferred under a lease contract or other contract that provides for payment on deferred terms or by installments and under the terms of this transaction the major part of risk and benefit relating to the ownership of the goods as well as the ownership of the goods shall pass to the person to whom the goods have been transferred.

Goods sent on approval for sale or return. Lithuania has no separate time of supply rule for goods sent on approval or sale or return (the general time of supply rules set out above apply in these circumstances). Thus, businesses should consider other simplification measures that could possibly apply in these cases (e.g., call-off stock simplification), due to timing of charging VAT, issuing invoices and/or VAT registration obligations. If the goods are returned to the seller and to the same EU Member State, the transaction is deemed as annulled and it does not result in VAT obligations in Lithuania. If the goods are not sold but are not returned to the seller, the seller may be liable for VAT on the basis of making a fictitious intra-Community acquisition and a supply for private use.

F. Recovery of VAT by taxable persons

A taxable person that is registered for VAT and that performs economic activities may recover input tax, which is VAT charged on goods and services supplied to it for business purposes. A taxable person generally recovers input tax by deducting it from output tax, which is VAT charged on supplies made.

Input tax includes VAT charged on goods and services acquired in Lithuania, VAT paid on imports of goods and VAT self-assessed for reverse-charge services received.

The amount of the VAT reclaimed must be detailed on a valid VAT invoice or on cash receipts (for small amounts of VAT).

Specific rules apply for the recovery of VAT incurred before VAT registration in Lithuania.

Non-deductible input tax. Input tax may not be recovered on purchases of goods and services that are not used for business purposes (for example, goods acquired for private use by a business), are directly attributable to VAT exempt or out-of-scope activities. In addition, input tax may not be recovered for some items of business expenditure.

The following lists provides some examples of items of expenditure for which input tax is not deductible.

Examples of items for which input tax is nondeductible

- Purchase, lease and hire of cars
- Business gifts (if amount for "small gift" is exceeded)
- 50% of VAT for entertainment expenses provided the expenses do not exceed 2% of revenues, 100% of VAT for entertainment expenses in excess of this limit (as of 1 January 2018)

- VAT paid on behalf of a third party
- Tourism services if a special VAT scheme applies
- Secondhand and cultural value goods if a special VAT scheme applies

Examples of items for which input tax is deductible (if related to a taxable business use)

- Accommodation
- Advertising
- Books
- Conferences
- Fees from professional advisers such as accountants, lawyers and tax advisers
- Land and property
- Lease/purchase of vans and trucks
- Mobile phones
- Parking (on and off street)
- Petrol
- Petrol and maintenance costs of trucks and vans
- Subscriptions for periodicals and magazines (related to the business of the company)
- Telephone/faxes used in the office
- Travel expenses (air, rail, bus, boat)

Partial deduction. Input tax directly related to making exempt supplies is not generally recoverable. If a taxable person makes both exempt supplies and taxable supplies, it may not deduct input tax in full. This situation is referred to as "partial deduction."

The amount of input tax that may be deducted is generally calculated using the following two-stage calculation:

- The first stage identifies the input VAT that may be directly allocated to taxable and to exempt supplies. Input tax directly allocated to taxable supplies is deductible, while input tax directly related to exempt supplies is not deductible.
- The second stage identifies the amount of the remaining input tax (for example, input tax on general business overhead) that may be allocated to taxable supplies and recovered. The calculation is done using a pro rata method, based on the value of taxable supplies made in the period, compared with the value of total supplies made.

If a taxable person is not able to directly allocate VAT to taxable and exempt supplies, a pro rata calculation may be used for all input tax incurred.

A partially exempt taxable person may provisionally use the recovery percentage calculated for the previous year. If, at the end of the year, the taxable person's actual recovery percentage differs by more than 5% from the provisional percentage used, an adjustment calculation must be made.

Capital goods. Capital goods are items of capital expenditure that are used in a business for more than one year. Input tax is deducted in the VAT year in which the goods are acquired or first taken into use. The amount of input tax recovered depends on the taxable person's partial deduction recovery position in the VAT year of acquisition or first use. However, the amount of input tax recovered for capital goods must be adjusted over time if the taxable person's partial exemption recovery percentage changes during the adjustment period or if the capital goods are either used for nontaxable supplies or written off. The adjustment may result in either an increase or a decrease of deductible input VAT, depending on whether the taxable person's recovery percentage increased or decreased in the year, compared with the year in which the capital goods were acquired or first used.

In Lithuania, the capital goods adjustment applies to the following assets for the number of years indicated:
- Property immovable by its nature, including improvement of buildings or structures: adjusted for a period of 10 years
- Other types of tangible capital assets legally required to be depreciated over a period of at least four years for purposes of the taxes on profit or income: adjusted for a period of five years

The adjustment is applied each year following the year of acquisition, to a fraction of the total input tax (1/10 for immovable property and 1/5 for other tangible capital goods).

Refunds. If the amount of input tax that is deductible for a VAT period exceeds the amount of output tax that is chargeable in the same period, the taxable person has a VAT credit. The credit must first be used to offset other taxes payable. If the amount of VAT credit exceeds all taxes payable, the excess is refunded either on a monthly or semiannual basis.

Bad debts. Suppliers may be able to reduce the calculated payable VAT with the output VAT amount attributable to bad debts (not applicable to margin schemes and when the supplier of goods or provider of services is a related person). As indicated in VAT law, a receivable remuneration is considered as a bad debt (including output VAT), if the person cannot recover such remuneration for at least 12 calendar months from the taxation moment of the supplied goods or provided services and if the output VAT amount was calculated and declared.

Preregistration costs. Input VAT may be subject to VAT recovery in those cases where VAT was paid on goods or services acquired before an entity was registered as VAT payer. Special rules and procedures apply.

Non-economic activities. The following activities are considered as noneconomic activities:
- Employment (under employment contract)
- Activities of state and local government authorities (with exceptions)

G. Recovery of VAT by non-established businesses

Lithuania refunds VAT incurred by businesses that are neither established nor registered for VAT in Lithuania. Non-established businesses may claim Lithuanian VAT to the same extent as VAT-registered businesses.

For businesses established in the EU, a refund is made under the terms of the EU Directive 2008/9/EC. For businesses established outside the EU, a refund is made under the terms of the EU 13th Directive. The refund scheme for non-EU countries applies in accordance with the reciprocity principle and is currently in place with Armenia, Iceland, Norway, Canada, Switzerland and Turkey.

Effective since 1 January 2018, foreign taxable persons established in countries that are members of the Organization for Economic Cooperation and Development (OECD), but that do not have a VAT (or an identical tax) are entitled to apply for a VAT refund and claim the VAT paid in the Republic of Lithuania. Currently, this provision applies only to the taxable persons established in the United States.

To claim a refund, a non-established business must satisfy both of the following conditions:
- It must not have a business establishment in Lithuania through which activities are performed (or if the claimant is an individual, he or she must not be a permanent resident in Lithuania).
- It must not make taxable supplies of goods or services in Lithuania.

However, if the claimant supplies international transport services or sells goods that are taxed through the application of the reverse-charge mechanism, it may still apply for a VAT refund.

For the general VAT refund rules in the EU Directive 2008/9/EC and the EU 13th Directive refund schemes, see the chapter on the EU.

Refund application. The deadline for refund claims is 30 September of the year following the year when the input tax was incurred. The minimum claim period is three months, while the maximum period is one year. The minimum claim for a period of less than a year is EUR400. For an annual claim, the minimum amount is EUR49.

A taxable person that is not established in Lithuania (that is, registered in another EU Member State for VAT purposes) submits the VAT refund applications to the electronic VAT refund system through the home country tax authorities.

H. Invoicing

VAT invoices and credit notes. A Lithuanian taxable person must generally provide a VAT invoice for all taxable supplies made and for exports. A VAT invoice is necessary to support a claim for input tax deduction.

A VAT credit note may be used to reduce VAT charged and reclaimed on a supply if the taxable value changes (for example, if the customer returns the goods or the supplier grants a discount) or if the VAT rate changes.

Electronic invoicing. In line with EU Directive 2010/45/EU, electronic invoices that are received in electronic means are acceptable for the deduction of input VAT, even without an electronic signature. The authenticity of the original electronic invoice, the integrity of content and legibility must be ensured from the time of issue until the end of the 10-year archiving period. Businesses can decide individually how to ensure the authenticity of the original invoice, the integrity of content and legibility, provided that a reliable audit trail between the invoice and the service is established.

Proof of exports and intra-EU supplies. Supplies of exported goods or the intra-Community supply of goods are zero-rated. However, to qualify as VAT zero-rated, exports and intra-Community supplies must be supported by certain evidences and proofs. Acceptable proof inter alia includes the following documentation:

- In case of export supplies, a taxpayer should obtain documents substantiating that the goods were exported outside the EU, i.e., transportation documents (e.g., CMR, air waybill, bill of lading), exportation documents (e.g., export notification form IE559), payment documents. The documents should indicate that the transportation was arranged by the supplier or the purchaser or the other person on their behalf.
- In case of intra-EU supplies, a taxpayer should obtain transportation documents (e.g., CMR, air waybill, bill of lading) substantiating that the goods were transported outside the territory of Lithuania. The documents should indicate that the transportation was arranged by the supplier or the purchaser or the other person on their behalf. The taxpayer should also hold the proof that the customer had a valid VAT number in another EU Member State at the time of supply of goods.

It should be noted that the transportation documents mentioned above must be filled in as per the rules established.

Invoices issued in a foreign currency. If an invoice is issued in a foreign currency, the VAT amount must be converted to euros and be denoted in euros on the invoice.

B2C. Taxable persons must issue VAT invoices for supplies made to non-taxable persons, except for exceptions outlined in the local legislation. The exceptions do not apply to the supply of a new vehicle to another EU Member State. The exceptions are:

- The supply of goods (services) when a cash register receipt is issued or the use of a cash register is not required (e.g., public transport tickets, lottery tickets, produce sold at international fairs and exhibitions lasting for up to 10 days, payments received by libraries and schools, sale of goods in outdoor markets, etc.)

- Insurance services where an insurance policy is issued
- Financial services, provided that an accounting document is issued in compliance with specific regulation
- Long-term services that are supplied during a continuous period (e.g., telecommunication services, utilities, cold and hot water supplies, electricity, heating energy and gas supplies), provided that an accounting document is issued in compliance with specific regulation
- The supply of goods (services) through vending machines that comply with specific legal and technical requirements
- Services and goods supplied that are related to the renovation of apartments as specified in legislation
- The supply of digital services, telecommunication services, broadcasting services and (or) electronically supplied services under the MOSS scheme

If a cash register receipt is issued, the purchaser has the right to request a VAT invoice.

I. VAT returns and payment

VAT returns. Lithuanian taxable persons must generally file VAT returns monthly. A taxable person whose taxable supplies did not exceed EUR60,000 in the preceding calendar year may choose to file semiannually (valid until 1 July 2019). A legal taxable person whose taxable supplies did not exceed EUR300,000 in the preceding calendar year may choose to file quarterly (valid from 1 July 2019). Individuals generally file semiannually. However, they may request a different VAT period.

Members of international corporate groups may request to file VAT returns for a different period if the group uses accounting periods other than calendar months. However, the maximum allowable return period is 60 days. In addition, both the beginning of the first period and the end of the last period must coincide with the calendar year (that is, beginning on 1 January and ending on 31 December each year).

Only the monthly VAT return period shall apply to VAT payers acquiring goods from other EU Member States and services where the buyer is liable to calculate and pay VAT reverse charge under Article 95(2) of the Lithuanian Law on VAT (i.e., any other VAT return period shall not be applied).

In general, monthly VAT returns must be filed by the 25th day of the month following the end of the tax period (other dates may apply). Payment in full is required on the same date. VAT return liabilities must be paid in euros.

Special schemes. There are special schemes for farmers; travel agencies; investment gold; telecommunications, broadcasting and electronic services; and the sale of second-hand goods such as art, antiques and other collectibles.

Farmers. Farmers can receive 6% compensation from the buyers of their produced agricultural products. The receipt and payment of compensation should be declared to the tax authorities accordingly.

Travel agencies. Travel agencies calculate VAT on the margin of the services bought and sold to customers. Travel agencies have no right to deduct input VAT on travel services bought from the third parties. Travel services supplied by travel agencies outside Lithuania are taxed at the zero rate.

Investment gold. The supply of investment gold acquired from another Member State is exempt; agency services for supplies and acquisitions of investment gold are also exempt. However, VAT-registered persons manufacturing investment gold or reworking any gold into investment gold can choose to charge VAT on the supplies they perform. In those cases, agents can also charge VAT

for their services outlined above. Persons supplying investment gold that are not registered for VAT can register for VAT and make use of the provision outlined above.

Also, input VAT incurred on acquisitions of investment gold for which the VAT has been chosen to charge in the case outlined above, acquisition or import of any gold to be turned into investment gold, acquisition of gold form, weight and purity changing services can be deducted. Persons manufacturing investment gold or reworking any gold into investment gold can also deduct any input VAT incurred on acquisitions of any services or goods related to the processes named above.

Telecommunications, broadcasting and electronic services. Taxable persons supplying telecommunication, broadcasting and electronic services in the EU to nontaxable persons can choose to be registered for VAT purposes in Lithuania to fulfill their VAT obligations relating to these services supplied in any Member State.

The sale of secondhand goods such as art, antiques and other collectibles. VAT is calculated on the margin of the goods bought and sold, and if this scheme is adopted, the seller has no right to deduct input VAT. However, a seller (VAT payer) has the right to calculate VAT on the total value of goods, in which case the seller has the right to deduct input VAT paid, but not earlier than the date the goods are sold.

Vouchers. Effective 1 January 2019, Lithuania adopted provisions of the Council Directive (EU) 2016/1065. Changes in the local legislation defined single-purpose vouchers and multipurpose vouchers and set the rules on taxation with VAT of transactions in both cases. New rules shall apply to all vouchers released from 1 January 2019 and onward.

Single-purpose vouchers are defined as vouchers where the place of supply of the goods or services to which the voucher relates, and VAT due on those goods or services is known at the time of issue of the voucher. A multipurpose voucher is any voucher that is not a single-purpose voucher.

A transfer of a single-purpose voucher shall be treated as a supply of goods or services to which the voucher relates (i.e., it is treated as a supply), and VAT shall be accounted for accordingly. Multipurpose vouchers shall only be subject to VAT when the voucher is redeemed, i.e., no VAT shall be due when the voucher is transferred through the supply chain. The value on which VAT should be accounted for is either the price paid by the consumer, or if that is not known, the face value of the voucher, less the amount of VAT relating to the goods or services supplied.

Electronic filing and archiving. VAT returns may be filed to the tax authorities both manually or electronically. VAT returns and all other tax returns must be filed electronically by Lithuanian legal entities. Foreign taxable entities are eligible to submit the return either electronically or in paper. For electronic filing, registration in the Electronic Declaration System is required.

The retention period of VAT invoices is 10 years.

Standard Audit File for Tax (SAF-T). SAF-T contains the data about the taxpayer's economic activity extracted from its accounting system. SAF-T is one of eight integrated elements of intelligent tax administration systems called i.MAS, implemented to automate the tax data collection and analysis processes while helping to support the tax authorities during their tax audits and other tax administration functions.

Purpose of SAF-T is to standardize submission of accounting data for the users of information of internal and external accounting documents to ensure a faster and more efficient processing of economic events and economic transactions registered in the accounting system and a more accurate assessment thereof performed by the information users.

SAF-T file must be filed on request of the respective authorities (including tax authorities). Initially, SAF-T is compulsory for Lithuanian companies and for the foreign businesses having a branch in Lithuania following the schedule below:
- From 1 January 2019 when company's net sales revenue exceeds EUR300k in 2017
- From 1 January 2020 and later periods when company's net sales revenue exceeds EUR300k in year before preceding year

Establishing the accounting registers, the entities obliged or wishing to submit SAF-T shall follow the technical specification of SAF-T and the technical requirements. SAF-T is formed in XML (extensible markup language) format.

Taxpayers may be imposed with penalties for failing to submit the SAF-T file upon the request of the authorities.

Electronic VAT ledgers. Taxable persons registered for VAT must submit monthly data on sales and purchases invoices to the Lithuanian tax authorities by electronic means (i.SAF). i.SAF data include detailed information (e.g., general information about the legal person, taxable period, taxable amount, tax point, invoice number, information about suppliers, customers) about all performed and received supplies.

The system is designed to enable the tax authorities to cross-check the transactions reported by suppliers with the transactions reported by customers in order to identify suspicious chain supplies and VAT fraud for better VAT collection purposes.

i.SAF data may be submitted electronically as an XML data file in the tax authorities' integrated tax administration system or i.SAF data may be filed on the website. i.SAF data shall be submitted by the 20th day of the month following the reporting period.

Annual returns. Generally, a taxpayer is obliged to provide an annual VAT return only in cases where its partial exemption recovery percentage has changed or when adjustments in the context of the capital goods scheme are necessary.

J. Penalties

The penalty assessed for the late payment of VAT ranges from 10% to 50% of the unpaid tax. Effective as of 1 January 2019, the calculated fine is doubled for a taxpayer who has already been assessed any penalty for the violation of the same tax law during a period of statute of limitation.

In addition, late payment interest is calculated from the day following the due date for payment up to the date on which the payment is made. The late payment interest rate is 0.03% per day.

Based on the Lithuanian Code of Administrative Offences, not fulfilling with respective tax reporting obligations may lead to the following consequences:
- Failure to fill taxpayer's declaration procedures, late submission of declaration or failure to provide declarations to the Lithuanian tax authorities would cause a warning notice from the Lithuanian tax authorities or/and penalties ranging from EUR60 to EUR150.
- Failure to submit the individual taxpayer's declaration would cause a warning notice from the Lithuanian tax authorities or/and penalties ranging from EUR150 to EUR300.

Effective as of 1 January 2019, due to changes adopted on the Lithuanian Law on Tax Administration, minimum requirements for a reliable taxpayer were introduced.

A taxpayer will be given the status as unreliable, if the tax authorities impose a tax fine and calculate more than EUR15,000 of taxes for certain violation of tax laws, indicated in the Lithuanian Law on Tax Administration. See the Late registration penalties subsection above for more detail on unreliable taxpayers.

A taxpayer will also be recognized as unreliable if it is imposed with a fine for certain violations indicated in the Lithuanian Code of Administrative Offences and the fine is no less than EUR1,500, or a taxpayer is imposed with a fine repeatedly for the indicated violation. A taxpayer may also lose the status of a reliable taxpayer due to other certain violations (e.g., illegal work, fraud, financial crimes).

K. EU filings

A taxable person that trades with other EU countries must complete statistical reports, known as Intrastat, and EU Sales Lists (ESLs). Penalties may be imposed for late, missing and inaccurate Intrastat returns and ESLs.

Taxable persons must begin to report services provided to taxable persons established in other EU countries if these services are subject to VAT in those EU countries.

EU Sales List. No threshold is applied. However, in cases where there are no transactions in a given period that would need to be reported, it is not required to submit a nil EU Sales List. EU Sales Lists can be submitted either manually or by electronic means.

Intrastat. For the year 2019 the thresholds are as follows:
- If the amount of intra-EU acquisitions within the previous 12 months exceeds EUR250,000, the Intrastat form shall be filed to the Territorial Customs Office.
- If the amount of intra-EU supplies within the previous 12 months exceeds EUR150,000 the Intrastat form shall be filed to the Territorial Customs Office.

Also, additional statistical information needs to be provided in the Intrastat declaration (box 13) if the value of intra-EU supplies exceeds EUR6 million or the value of intra-EU acquisitions exceeds EUR3 million.

The deadline for submission of the Intrastat statement is the 10th working day after the end of the calendar month to which it relates.

Intrastat statements may be submitted both electronically and manually.

Luxembourg

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A. At a glance

Name of the tax	Value-added tax (VAT)
Local name	Taxe sur la valeur ajoutée (TVA)
Date introduced	5 August 1969
European Union (EU) Member State	Yes
Administered by	Ministry of Finance (http://www.aed.public.lu)
VAT rates	
Standard	17%
Reduced	3%, 8% or 14%
Other	Exempt without credit and exempt with credit
VAT number format	LU12345678
VAT return periods	
Monthly	Turnover of more than EUR620,000
Quarterly	Turnover between EUR112,000 and EUR620,000
Annual	All taxable persons, including those with turnover below EUR112,000
Thresholds	
Registration	None
Distance selling	EUR100,000
Intra-Community acquisitions	EUR10,000
Recovery of VAT by non-established businesses	Yes

B. Scope of the tax

VAT applies to the following transactions:
- The supply of goods or services made in Luxembourg by a taxable person
- The intra-Community acquisition of goods from another EU Member State by a taxable person or nontaxable legal person (see the chapter on the EU)
- The importation of goods from outside the EU, regardless of the status of the importer

C. Who is liable

A taxable person is any business entity or individual that carries out economic activities independently and regularly. Economic activities include activities such as supplies of goods or services, intra-Community acquisitions (see the chapter on the EU) and importations in the course of a business.

Effective 1 January 2010, for the purpose of applying the rules concerning the place of supply of services, a nontaxable legal person registered for VAT is regarded as a taxable person if it receives services from a taxable person. This rule does not affect the liability for and payment of the tax in the case of local supplies by a Luxembourg taxable person to a Luxembourg nontaxable legal person. However, for cross-border supplies of services, this rule leads to a shifting of the tax liability to a nontaxable legal person registered for VAT, which must self-assess and pay the VAT due in its country of establishment under the reverse-charge mechanism.

No VAT registration threshold applies in Luxembourg. A taxable person that begins activity in Luxembourg must notify the Luxembourg VAT authorities of its liability to register.

Special rules apply to foreign or "non-established businesses" (see *Non-established businesses*).

Group registration. VAT grouping is permitted under Luxembourg VAT law if entities are closely bound to one another by financial, economic and organizational links.

Non-established businesses. A "non-established business" is a business that has no fixed establishment in Luxembourg. A non-established business that makes taxable transactions in Luxembourg must register for VAT, unless it is not liable for VAT (for example, because its supplies to taxable persons may be taxed using the "reverse charge" mechanism). Under the reverse charge, the recipient of the supply must account for the tax. The reverse charge does not apply to supplies of goods and services made to private persons. A non-established business must register for Luxembourg VAT if it makes any of the following supplies, which are all subject to Luxembourg VAT (unless an exemption applies):

- Intra-Community supplies or acquisitions
- Distance sales in excess of the threshold (see the chapter on the EU)
- Supplies of goods and services to which the reverse charge does not apply

Tax representatives. Businesses established in the EU that are required to register for VAT in Luxembourg cannot appoint a tax representative.

Businesses established outside the EU may be required by the Luxembourg VAT authorities to provide a security deposit to secure their VAT liability. The deposit must be in the form of cash or a letter of indemnity provided by an approved bank.

The VAT registration application for non-established businesses must be sent to the following address:

Administration de l'Enregistrement et des Domaines
Bureau d'imposition 10
14, avenue de la Gare
L-1610 Luxembourg
BP 31
L-2010 Luxembourg

Registration procedures. The application file to register for VAT should be submitted in hard copy with the VAT authorities at the latest within 15 days after the start of the economic activity of the VAT taxable person. Online registration is not possible.

The application document should be accompanied by several documents, such as a copy of the articles of association of the company, a copy of the ID cards of the Directors of the company, a copy of a rental agreement or domiciliation agreement, and possibly others. After the filing of a complete application, it usually takes three to five weeks before the VAT number is actually granted.

Late-registration penalties. A penalty of between EUR250 and EUR10,000 may be assessed for late VAT registration.

Reverse charge. Except if obliged by the VAT Directive, in principle the Luxembourg VAT legislation does not foresee a reverse charge. Hence for local supplies, the supplier should charge VAT, even if it is a non-established business.

Digital economy. Electronically supplied services are deemed to take place where the customer is established. If the customer is a non-VAT taxable person, established in the EU, the supplier will be liable to charge the VAT of the countries of consumption and either have to register in the countries of consumption or to register under the Mini One-Stop Shop (MOSS) scheme.

Mini One-Stop Shop. By using the MOSS regime, taxpayers avoid the need to register for VAT in other EU Member States, and the revenue realized outside Luxembourg is reported in the same VAT return.

Deregistration. If a VAT taxable person stops performing the economic activity that had triggered the obligation to be registered, he or she should apply for a deregistration within 15 days after stopping the activity.

Exemption from registration. The VAT law in Luxembourg does not contain any provision for exemption from registration.

Voluntary registration. VAT taxable persons, established in Luxembourg, whose annual turnover does not exceed EUR30.000, are in principle not subject to the normal VAT rules and only have to notify the authorities their beginning of activity and inform the authorities of their turnover realized on an annual basis. However, they can opt to be subject to the normal VAT rules.

The VAT law in Luxembourg does not contain any other provisions for voluntary VAT registration.

D. VAT rates

The term "taxable supplies" refers to supplies of goods and services that are subject to VAT.

In Luxembourg, the following VAT rates apply:
- Standard rate: 17%
- Reduced rates: 3%, 8% and 14%

The standard rate of VAT applies to all supplies of goods or services unless a specific measure provides for a reduced rate or an exemption.

Examples of goods and services taxable at the super-reduced rate of 3%

- Food for human consumption, excluding alcohol
- Agricultural products
- Books, newspapers and periodicals, excluding e-books
- Shoes and clothes for children under age 14
- Sale of domestic accommodation
- Pharmaceutical products
- Restaurant services, excluding alcohol
- Water

- Transport of persons
- Admission to cultural events

Examples of goods and services taxable at the reduced rate of 8%

- Liquid gas for heating, lighting and fueling engines
- Electric energy
- Plants and other floriculture products
- Hairdressing
- Repair of bicycles, shoes and other leather goods
- Cleaning of private accommodation

Examples of goods and services taxable at the parking rate of 14%

- Wine of grapes with a concentration of alcohol up to 13 grades
- Solid mineral combustibles, mineral oil and wood used as fuel
- Advertising brochures and other prints
- Steam, heating and cooling
- Custody and management of securities
- Management of credits and credit guarantees by an entity other than the entity that granted the credit

The term "exempt supplies" refers to supplies of goods and services that fall within the scope of VAT but are not subject to a VAT rate. In principle, exempt supplies do not give rise to a right of input tax deduction (see Section F). Some supplies are classified as "exempt with credit," which means that no VAT is due, but the supplier may recover related input tax. Exempt-with-credit supplies include exports of goods and related services and intra-Community supplies of goods (see the chapter on the EU).

Examples of exempt supplies of goods and services (with and without VAT credit)

- Real estate transactions
- Supplies of postage and fiscal stamps at face value
- Services of doctors and dentists
- Finance
- Insurance
- Cultural and sporting services
- Welfare services
- Education

Option to tax for exempt supplies. Luxembourg operates an option to tax in respect of supplies and rent of real estate to the extent the purchaser or lessee will use the real estate predominantly for purposes which entitle the right to deduct input VAT. There are no other options to treat exempt supplies as taxable.

E. Time of supply

The time when VAT becomes due (or the chargeable event occurs) is called the "time of supply" or "tax point." For supplies of goods, the basic time of supply is when the goods are delivered and the power of disposal is transferred. The basic time of supply for services is when the services are completed.

The actual time of supply of goods or services, with the exception of services subject to VAT in the recipient country, may be delayed by the issuance of an invoice (if the issuance of an invoice is mandatory), but no later than the 15th day of the month following the month in which the basic time of supply occurs. If the supplier issues an invoice before this date, the time of supply is when

the invoice is issued. Specific rules apply to continuous supplies of services. For supplies of services subject to VAT in the recipient country, the time of supply is when the chargeable event occurs (that is, when the supply is completed).

Intra-Community acquisitions. The time of supply for an intra-Community acquisition of goods is the 15th day of the month following the month in which the acquisition takes place. If the supplier issues an invoice or a document serving as an invoice (other than relating to an installment) before such date, the time of supply is when the invoice is issued.

Imported goods. The time of the supply for imported goods is the date of importation or the date on which the goods leave a duty suspension regime.

Cash accounting. Luxembourg operates a cash accounting scheme with a maximum threshold of EUR500,000.

Reverse-charge services. For supplies of services subject to VAT in the recipient country, the chargeable event occurs when the supply is completed.

Continuous supplies of services. In case the customer is liable to self-assess VAT and no statements of account are issued and no payments are made, the VAT becomes due at the end of the calendar year.

Prepayments. If a prepayment is made in advance of a transaction, and there is no obligation to issue an invoice, then VAT becomes due at the time of the prepayment. However, if there is an obligation to issue an invoice, and it is issued with the prepayment, then VAT is due before the 15th of the month following the month during which the transaction takes place.

Intra-Community supplies of goods. Intra-Community supplies of goods are deemed to take place at the time the invoice is issued (at the latest the 15th of the month following the month during which the supply took place or when a payment on account is received) or when the invoice should have been issued if not issued timely.

Leased assets. There is no special time of supply rule for leased assets in Luxembourg.

Goods sent on approval for sale or return. The Luxembourg VAT law does not have a specific time of supply rule for supplies of goods sent on approval for sale or return, and so hence the general rules apply. The time of supply (when the VAT becomes due) is when the supply takes place.

In case the sale of the goods only takes place when the customer approves the sale, then the supply will take place at the time of the approval by the customer.

If the goods are not approved and are returned to the supplier, no supply will take place and there should be no VAT consequences related to the return of the goods.

If the goods are not approved, but are not returned to the supplier, the VAT consequences would depend on what the supplier will do with these goods. Where the goods stay in Luxembourg and are stored in a warehouse, then the supplier will have to perform an assimilated intra-Community acquisition of the goods and have to register for VAT. Where the goods are not stored and sold in Luxembourg (but, for example, destroyed), then no VAT consequences should occur.

F. Recovery of VAT by taxable persons

A taxable person may recover input tax, which is VAT charged on goods and services supplied to it for business purposes. A taxable person generally recovers input tax by deducting it from output tax, which is VAT charged on supplies of goods and services made.

Input tax includes VAT charged on goods and services supplied within Luxembourg, VAT paid on imports of goods and VAT self-assessed on intra-Community acquisitions of goods and reverse-charge services (see the chapter on the EU).

A valid tax invoice or customs document must generally accompany a claim for input tax.

Nondeductible input tax. In Luxembourg, input tax may be deducted in full for all items of business expenditure. Input tax may not be recovered on purchases of goods and services that are not used for business purposes (for example, the private use of an entrepreneur's home telephone or goods acquired for private use).

The following lists provide some examples of items of expenditure for which input tax is not deductible and examples of items for which input tax is deductible if the expenditure is related to a taxable business use.

Examples of items for which input tax is nondeductible

- Private expenditure

Examples of items for which input tax is deductible (if related to a taxable business use)

- Purchase, hire, lease, maintenance and fuel for cars, vans and trucks
- Parking
- Business gifts
- Attending conferences, seminars and training courses
- Business entertainment
- Business use of home telephone
- Advertising
- Transport

Partial exemption. If a Luxembourg-taxable person performs both exempt and taxable supplies, it may only recover a portion of input tax. This situation is referred to as "partial exemption."

The amount of input tax that may be recovered is calculated in the following two stages:

- The first stage identifies the input VAT that may be directly allocated either to exempt or to taxable supplies. Exempt-with-credit supplies are treated as taxable supplies for these purposes. Input tax directly allocated to exempt supplies is not deductible. Input tax directly allocated to taxable supplies is fully recoverable.
- The second stage prorates the input tax on mixed expenditures (relating to both taxable and exempt supplies) in order to allocate a portion to taxable supplies (which may be recovered). This treatment applies to the input tax on general business overhead expenses. Alternatively, the Luxembourg VAT authorities may also authorize or direct the use of a special deduction method for each sector of a single business or for certain sectors of the business.

The general pro rata method calculates the amount of recoverable VAT based on the ratio of turnover that entitles the taxable person to deduct input tax (that is, taxable turnover and exempt turnover with credit) to total turnover within the scope of VAT. Incidental supplies of capital goods and incidental real estate and financial transactions are excluded from turnover for these purposes. The recovery percentage is rounded up to the nearest whole number (for example, a recovery percentage of 77.2% is rounded up to 78%).

Alternatively, the Luxembourg VAT authorities may authorize a taxable person to use a special deduction method based on the direct allocation of all or certain goods and services used in making taxable and exempt supplies. The VAT authorities may direct a taxable person to use this method. The administration may also authorize or direct the use of a special deduction method for each sector of a single business or for certain sectors of the business.

Capital goods. Capital goods are items of capital expenditure that are used in a business over several years. Input tax is deducted in the VAT year in which the goods are acquired. The amount of input tax recovered depends on the taxable person's partial exemption recovery position in the VAT year of acquisition and first use. However, the amount of input tax recovered for capital

goods must be adjusted over time if the taxable person's partial exemption recovery percentage changes during the adjustment period.

In Luxembourg, capital goods are defined as tangible, movable or immovable goods that are subject to depreciation under income tax law. They also include work that qualifies as investment expenditure under the income tax law.

The capital goods adjustment applies to the following assets for the number of years indicated:
- Immovable capital assets (primarily, buildings): adjusted for a period of 10 years
- Movable capital assets: adjusted for a period of five years

For movable goods, the adjustment period starts on 1 January of the year in which the goods are manufactured or purchased. If the goods are first used in a later year, the period begins on 1 January of the year in which the goods are used for the first time. The adjustment is applied each year to 1/5 of the total input tax, unless the goods are sold. If the goods are sold, the adjustment is made once for the total remaining period. The adjustment may result in either an increase or a decrease of deductible input VAT, depending on whether the ratio of taxable supplies made by the business has increased or decreased compared with the year in which the capital goods were acquired (or used for the first time).

For immovable goods, the adjustment period starts on 1 January of the year in which the acquisition takes place or construction or refurbishment work ends or on 1 January of the year in which the immovable property is used for the first time if the year of first use differs from the year of acquisition or the year in which the construction or refurbishment work is finalized. The adjustment is applied each year to 1/10 of the total input tax, unless the immovable property is sold or if the VAT deduction depends on the rental status of the immovable property. In such cases, the adjustment is made once for the total remaining period. The adjustment may result in either an increase or a decrease of deductible input VAT, depending on whether the ratio of taxable supplies made by the business has increased or decreased compared with the year in which the immovable property was acquired, constructed or refurbished.

Refunds. If the amount of input tax recoverable in a monthly period exceeds the amount of output tax payable in that period, the taxable person has an input tax credit. This input tax credit may usually be carried forward to the next reporting period. However, a refund may be requested.

Preregistration costs. Input tax incurred on preregistration costs in Luxembourg is not recoverable.

Write-off of bad debts. If it can be reasonably expected that the customer will not pay (or not pay the full amount), the taxpayer is entitled to reclaim the VAT on the unpaid VAT amount.

Noneconomic activities. VAT related to noneconomic activities is not recoverable.

G. Recovery of VAT by non-established businesses

Luxembourg refunds VAT incurred by businesses that are neither deemed to be established in Luxembourg nor registered for VAT there. A non-established business may claim Luxembourg VAT to the same extent as a VAT-registered business. However, VAT may not be recovered on private expenditure.

For businesses established in the EU, a refund is made under the terms of EU Directive 2008/9/EC. For businesses established outside the EU, refund is made under the terms of the EU 13th Directive. Luxembourg does not exclude any non-EU country from the refund scheme (no reciprocity required).

For the general VAT refund rules of the EU Directive 2008/9/EC and the EU 13th Directive refund schemes, see the chapter on the EU.

Refund application. The deadline for submitting EU Directive 2008/9/EC refund claims is 30 September of the calendar year following the refund period.

For EU Directive 2008/9/EC claims, the minimum claim period is three months, and the maximum period is one year. The minimum claim for a period of less than a year is EUR400. For an annual claim, the minimum amount is EUR50.

Applications for refunds of Luxembourg VAT under EU Directive 2008/9/EC must be submitted to the EU Member State in which the claimant is established via the electronic portal set up by that EU Member State.

The deadline for EU 13th Directive refund claims is 30 June of the year following the calendar year in which the tax was incurred.

Claims must be submitted in English, French or German. The application for refund must be accompanied by the appropriate documentation.

For EU 13th Directive claims, the claim period is one year. The minimum claim amount is EUR250.

Applications for refunds of Luxembourg VAT under the EU 13th Directive must be sent to the following address:

Administration de l'Enregistrement et des Domaines
Bureau d'imposition XI
Remboursements et franchises
67-69, Rue Verte, L-2667 Luxembourg
BP 31
L-2010 Luxembourg

Repayment interest. The Luxembourg VAT authorities do not pay interest on late refunds of VAT made under the EU 13th Directive scheme.

H. Invoicing

VAT invoices and credit notes. A Luxembourg taxable person must generally provide a VAT invoice for all taxable supplies made, including exports and intra-Community supplies to other VAT taxable persons or to nontaxable legal persons. Invoices are not automatically required for retail transactions to private individuals, unless the supply is a distance sale or the customer requests an invoice.

A VAT invoice is required to support a claim for input tax deduction or a refund under the EU Directive 2008/9/EC or EU 13th Directive refund schemes (see the chapter on the EU).

A VAT credit note may be used to reduce the VAT charged and reclaimed on a supply of goods or services. It must be cross-referenced to the original VAT invoice and contain the same information.

Electronic invoicing. The VAT law permits electronic invoicing in line with EU Directive 2010/45/EU.

Proof of exports and intra-Community supplies. Luxembourg VAT is not due on supplies of exported goods or on the intra-Community supply of goods (see the chapter on the EU). However, to qualify as VAT-free, exports and intra-Community supplies must be supported by evidence proving that the goods have left Luxembourg. Acceptable proof includes the following documentation:

- For an export, a copy of the export document, officially validated by customs, showing the supplier as the exporter. The invoice must include the following language: "Not subject to Luxembourg VAT, article 43, 1, a of the Luxembourg VAT Law — export."

- For an intra-Community supply, a range of commercial documentation such as purchase orders, tax invoices, transport documentation, proof of payment and contracts. The invoice must include the following language: "Not subject to Luxembourg VAT, article 43, 1, d of the Luxembourg VAT Law — intra-Community supplies of goods."

Foreign-currency invoices. If an invoice is issued in a foreign currency, the VAT amount must be converted to euros (EUR) using the official rate in force on the date of the invoice, be published by an approved bank, and be indicated on the invoice.

B2C. Special rules apply to the place of supply for supplies of telecommunications, broadcasting and electronic services to non-VAT taxable customers. For further details of the VAT rules on electronic services in the EU, please refer to the European Union chapter.

I. VAT returns and payment

VAT returns. In principle, Luxembourg VAT returns must be filed on a monthly basis. However, the authorities can allow taxable persons whose annual turnover does not exceed EUR112,000 to file only a single annual return for the calendar year. The due date is 1 March of the following year.

Taxable persons whose annual turnover is between EUR112,000 and EUR620,000 may be allowed to submit periodic returns quarterly. In addition, they must file a recapitulative annual return. The due date for the periodic returns is the 15th day of the month following the end of the return period. The due date for the annual return is 1 May of the following year.

Taxable persons whose annual turnover exceeds EUR620,000 must submit periodic returns monthly, plus a recapitulative annual return. The due date for the periodic returns is the 15th day of the month following the end of the return period. The due date for the annual return is 1 May of the following year.

Filing extensions are automatically granted for both the periodic (two months) and the annual returns (eight months). However, these extensions apply exclusively to the filing of the returns. As a result, provisional VAT payments can be requested within the legal deadline.

Return liabilities must be paid in euros.

Electronic filing and archiving. Taxable persons that are required to submit VAT returns monthly or quarterly must file all returns (periodic and annual returns) and EC sales listings electronically, using the tax administration's electronic portal (eTVA).

In principle, all books, documents and information required by the VAT law should be stored in hard copy. However, electronic storage is allowed, if the data guaranteeing the authenticity of the origin and the integrity of the content are also stored electronically.

Special schemes. Not applicable.

Annual returns. Not applicable.

J. Penalties

Penalties are assessed for the late payment or late submission of a VAT return in the following amounts:

- For monthly or quarterly returns, the fine may vary from EUR250 to EUR10,000.
- For annual returns, the fine may vary from EUR250 to EUR10,000.

K. EU filings

Intrastat. A Luxembourg taxable person that trades with other EU countries must complete statistical reports, known as Intrastat returns, if the value of its sales or purchases of goods exceeds

certain thresholds. Separate reports are required for intra-Community acquisitions (Intrastat Arrivals) and for intra-Community supplies (Intrastat Dispatches). Electronic submissions via email are allowed.

The current threshold for Intrastat Arrivals is EUR200,000. The current threshold for Intrastat Dispatches is EUR150,000.

Luxembourg taxable persons must complete Intrastat declarations in euros.

Intrastat returns are due monthly by the 6th working day of the month following the period.

A penalty may be imposed for late submission or for missing or inaccurate declarations. The fine is generally EUR500 (although the statistical authorities may impose a penalty of between EUR251 and EUR2,500).

EU Sales Lists. If a Luxembourg VAT taxable person performs intra-Community supplies of goods, it must submit an EU Sales List (ESL) for goods.

In principle, ESLs for goods must be submitted by the 15th day of the month following the end of the month. However, ESLs for goods may be submitted quarterly if the threshold of EUR50,000 of intra-Community supplies of goods to other EU Member States is not exceeded during the concerned quarter or during the four preceding quarters. For a quarterly filing, the ESLs for goods must be submitted by the 15th day of the month following the concerned quarter.

A Luxembourg VAT taxable person must also file an ESL for services rendered. This ESL must provide information regarding services rendered to VAT taxable and nontaxable persons who satisfy the following conditions:

- They are registered for VAT in another EU Member State, and the services are rendered in the other EU Member State.
- The services are not exempt from VAT in the EU Member State where they are deemed to take by application of the basic business-to-business (B2B) rule.
- The recipients are liable to deal with the VAT in the other EU Member State.

ESLs for services must be filed on a monthly basis by the 15th day of each month. VAT taxable persons may file the lists on a quarterly basis by the 15th day of each quarter.

If no transactions reportable in ESLs are performed, no ESLs need to be filed for the concerned month or quarter.

A penalty may be imposed for late, missing or inaccurate ESLs. The penalty may vary from EUR250 to EUR10,000.

Macedonia, Former Yugoslav Republic of

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A. At a glance

Name of the tax	Value-added tax (VAT)
Local name	Danok na dodadena vrednost
Date introduced	1 April 2000
Trading bloc membership	EU, EFTA, CEFTA
Administered by	Ministry of Finance (http://www.finance.gov.mk)
VAT rates	
Standard	18%
Reduced	5%
Other	Zero-rated (0%) and exempt
VAT number format	MK 1 2 3 4 5 6 7 8 9 10 11 12 13
VAT return periods	
Monthly	Turnover in excess of MKD25 million in preceding calendar year
Quarterly	Turnover of MKD25 million or less in preceding calendar year
Thresholds	
Registration	MKD1 million
Recovery of VAT by non-established businesses	Yes (subject to reciprocity)

B. Scope of the tax

VAT applies to the following transactions:

- The supply of goods and services made in Macedonia by a taxpayer within the scope of its business activity
- The importation of goods into Macedonia (other than exempt importations)
- Reverse-charge supplies by foreign legal entities to Macedonian legal entities

C. Who is liable

A taxpayer is a person that permanently or temporarily performs an independent business activity, regardless of the purposes of and the results from such business activity.

Taxpayers must register for VAT when their total supplies in a year exceed MKD1 million. Also, they must register if, at the beginning of a business activity, they project the making of total annual supplies exceeding MKD1 million. Taxpayers may voluntarily register for VAT at the beginning of each calendar year or at the beginning of their business activity.

Group registration. Macedonian VAT law allows VAT group registration. Several VAT-registered entities may decide to be registered as a single VAT-registered taxpayer if they have a proprietary, organizational or managerial relationship. In addition, if the tax authorities detect violation of tax principles or the possibility for violation of such principles as a result of proprietary, organizational or managerial relationship among particular entities registered as separate VAT taxpayers, they can issue a decision ordering the entities to register as a single taxpayer.

Foreign legal entities (non-established businesses). Foreign traders may not have a VAT registration number. If a supply is made by a taxpayer that does not have headquarters or a branch office in Macedonia, the VAT reverse-charge mechanism applies.

Tax representatives. Not applicable.

Registration procedures. Taxpayers apply for VAT registration by filing a hard copy DDV-01 form with the tax authorities. No electronic VAT registration is possible. The relevant form can be submitted by the legal representative or by an authorized person of the taxpayer. The deadline for submission of the VAT registration form is 15 days from the day the taxpayer meets the VAT registration obligation. The average time for the tax authorities to complete registration is seven working days following the day the registration form is submitted.

Late-registration penalties. For late registration, a legal entity is fined EUR1,200, and the responsible person at the legal entity is fined 30% of the penalty imposed on the legal entity.

For failure to register, the fine is EUR2,500 for the legal entity and 30% of the penalty imposed on the legal entity for the legal representative.

Reverse charge. In Macedonia, the reverse charge applies to the following supplies:
- Supply of goods and services by foreign legal entities to Macedonian taxpayers
- Supply of construction services by a domestic constructor to an investor
- Supply of construction services by a domestic subconstructor to principal constructor
- Supply of waste and scrap

Under the reverse-charge mechanism, the recipient of the goods or services bears the responsibility for the calculation of VAT, the submission of a VAT tax return, the payment of tax and the payment of interest in the event of a late payment.

Digital economy. The VAT law does not stipulate specific rules relating to the taxation of the digital economy. Digital supplies, as any other supply, are taxable in Macedonia if the place of supply is deemed to be in Macedonia based on the general place of supply rules of the VAT law. Based on the law, the place of supply of telecommunication, broadcasting, software and engineering services is where the customer is established, has its permanent address or usually resides. Digital services other than the latter mentioned are generally taxable where the supplier is established, has its permanent address or usually resides.

Deregistration. Taxpayers stay VAT registered for at least five years following the year of VAT registration. If in the fifth year, the taxpayer does not reach the VAT registration threshold of MKD1 million, he is entitled to request to be deregistered at the beginning of the following year.

The tax authorities may deregister the taxpayer before the five-year period lapses in any of the following circumstances:
- During one calendar year the taxpayer submits tax returns with no supplies and input VAT.
- During two calendar years the taxpayer submits tax returns with no supplies, zero VAT supplies or input VAT from investments made or import of goods.
- The taxpayer fails to submit tax returns for two consecutive tax periods.
- The tax authorities cannot find the taxpayer at the business address reported by the taxpayer.
- The taxpayer is registered in a VAT group.

Exemption from registration. The VAT law in Macedonia does not contain any provision for exemption from registration.

Voluntary registration. Taxpayers may voluntarily register for VAT at the beginning of each calendar year or at the beginning of their business activity, regardless if they have reached the VAT registration threshold.

D. VAT rates

The term "taxable supplies" refers to supplies of goods and services and imports that are subject to VAT (either at the standard rate of 18% or the reduced rate of 5%). In Macedonia, the VAT rates are the standard rate of 18% and the reduced rate of 5%. The standard rate of VAT applies to all supplies of goods or services and imports, unless a specific measure allows a reduced rate or an exemption.

Examples of supplies of goods and services taxable at 5%

- Potable water from public water-supply entities
- Food products
- Computers
- Pharmaceuticals and medical devices
- Raw oil for production of food for human consumption
- First sale of new residential buildings (within the first five years)
- Services provided by commercial tourist facilities (hotels, motels and similar facilities)

The term "exempt supplies" refers to supplies of goods and services that are not subject to tax and that do not give rise to a right of input tax deduction (see Section F). Some supplies are classified as "exempt with credit," which means that no VAT is due, but the supplier may recover related input tax.

Examples of exempt supplies of goods and services (without credit)

- Rental of residential buildings and apartments that are used for housing
- Banking and financial services
- Insurance and reinsurance
- Games of chance
- Educational services

Examples of exempt supplies of goods and services with credit (0% rate)

- International air transport of passengers
- Supply of precious metals for the central bank
- Supply, repair and maintenance, chartering and leasing of aircraft

Option to tax for exempt supplies. Not applicable.

E. Time of supply

The moment when VAT becomes due is called the "time of supply" or the "tax point." The tax point is the earlier of the following two dates:

- The date on which goods are dispatched (transferred) and services are completely delivered
- The date on which the payment is received if the payment is made with respect to future supplies of goods or rendering of services

In the case of periodical or continuous supplies for which subsequent payments are prescribed, the tax point is the date on which the invoice is issued for the relevant period or, if earlier, the date on which the payment for the relevant period is received.

Reverse-charge services. Reverse-charge VAT applies to amounts charged for goods or services supplied by foreign legal entities to Macedonian legal entities. Under the reverse-charge mechanism, the recipient of the goods or services bears the responsibility for the calculation of VAT, the submission of a VAT return, the payment of tax and the payment of interest in the event of a late payment.

Imported goods. Imported goods are subject to VAT unless they are exempt from VAT under law. The import VAT is calculated by the customs authorities based on the customs value of goods, increased with the customs duty, excise duty and commission, transportation and insurance fee. The import VAT is paid to the customs office simultaneously with the payment of the customs and excise duties.

Deposits and prepayments. VAT becomes due on advance payments at the moment when the prepayment is received. The VAT is due proportionally on the amount of the payment made before the taxable event. The prepayment is considered to be VAT inclusive. The VAT should be charged and invoice should be issued within five days after receipt of the advance payment.

There is no difference in the time of supply rules for deposits and prepayments for supplies of goods or services, and also if the amounts are refundable or nonrefundable.

If the supply does not take place, and the prepayment is refunded, the supplier should correct the VAT charged on the prepayment and submit a corrective VAT return for the period in which the VAT was charged.

Goods sent on approval for sale or return. The VAT law in Macedonia does not contain specific provision for goods sent on approval for sale or return. Under the general tax point rules, VAT is due on the earliest of the supply of goods, the receipt of payment or the issue of invoice. In case of return of goods, the taxpayer is entitled to correct the VAT charged earlier by making appropriate correction of the VAT return of the tax period when the VAT was charged.

Leased assets. The time of supply for leased assets may vary in view of the type of lease and the specific contractual arrangements:

- Operational leases (rentals) are taxed for Macedonian VAT purposes as supplies of services. VAT becomes chargeable proportionately on each installment, and the time of supply follows the rules for periodic and continuous supplies (see below).
- Finance leases are taxed either as a supply of services (rentals) or as a supply of goods depending on the contractual arrangements. VAT becomes chargeable proportionately on each installment if the lease is considered a supply of rental service. A finance lease qualifies as a supply of goods (and the time of supply is upon handing over of the leased asset) if the legal title over the leased asset will transfer upon expiry of the lease term or an option for transferring the title on the leased asset is envisaged, but the total amount of the lease installments, less the interest payments, equals the fair value of the leased asset. VAT on the total price of the goods received under financial leasing with option to transfer their legal title, would be chargeable upon the

handing over of the goods if the total amount of the lease installments is identical to the fair value of the leased goods upon inception of the lease.

Continuous supplies. The time of supply for periodic or continuous supplies is the date of each payment or the date when the payment is due, whichever is the earlier. If a supply is rendered continuously for more than one year and if no payment is made or due during that period, the date of supply is considered the end of the calendar year.

F. Recovery of VAT by taxable persons

A taxpayer may recover input tax, which is VAT charged on goods and services supplied to it for business purposes. A taxpayer generally recovers input tax by deducting it from output VAT. The difference between the output and input VAT is refunded to the taxpayer based on a written claim stated in the taxpayer's tax return.

Input tax includes VAT charged on goods and services supplied in Macedonia, VAT paid on imports of goods, and VAT self-assessed under the reverse-charge mechanism with respect to goods or services supplied by non-established entities.

VAT is recoverable for supplies provided to taxpayers by other taxpayers if a valid invoice or a customs declaration containing a separate statement of the tax collected on the import is issued and if such document is recorded in the accounting books of the taxpayer.

Nondeductible input tax. Input tax may not be recovered on purchases of goods and services that are not used for business purposes (for example, goods acquired for private use by an entrepreneur). In addition, input tax may not be recovered for some items of business expenditure.

The following lists provide some examples of expenses for which input tax is not deductible and examples of expenses for which input tax is deductible if made for business purposes.

Examples of items for which input tax is not deductible

- Representation expenses
- Audio and video devices
- Hotels
- Restaurant meals

Examples of items for which input tax is deductible

- Advertising
- Consultancy services
- Telecommunication services
- Equipment

Partial exemption. Input tax directly related to taxable supplies is fully recoverable, while input tax directly related to exempt supplies is not recoverable. If the domestically supplied or imported goods or services are used by the taxpayer to make both supplies with the right to deduct input VAT and exempt supplies without the right to deduct input VAT, such person may deduct only the portion of the input VAT corresponding on a pro rata basis to the supplies giving rise to an input VAT deduction.

Refunds. If the amount of input tax recoverable in a tax period exceeds the amount of output tax in that period, the taxable person earns an input tax credit. In general, the input tax credit is carried forward to offset output tax in the following tax period. However, a taxable person may claim a refund of the input tax credit in the VAT return for the relevant tax period. The refund of the difference between the input and output tax is made within 30 days after the date of the submission of the tax return.

Preregistration costs. Input tax incurred on preregistration costs in Macedonia is not recoverable.

G. Recovery of VAT by non-established businesses

On the condition of reciprocity Macedonia refunds VAT incurred by businesses that do not have a headquarters or a branch office in the country and that satisfy the following additional conditions:

- They do not make any supplies in the country.
- They do not owe any outstanding VAT.

Refund application. The deadline for refund claims is 30 June of the year following the calendar year in which the tax becomes chargeable. The application for refund must be submitted to the Macedonian tax authorities and must be accompanied by the appropriate documentation.

A refund application must be processed within six months after the date of submission of the application and supporting documents.

The claim period varies between one month and several consecutive months in one calendar year. The minimum claim for these periods is MKD30,000. In the claims for the last month of the calendar year, input taxes from previous claim periods may also be taken into account. The minimum claim for this period is MKD15,000.

Claims are paid in domestic currency (MKD) into a bank account opened by the applicant in Macedonia.

H. Invoicing

VAT invoices and credit notes. A Macedonian taxpayer must issue invoices for all of its taxable supplies. A document qualifies as a valid invoice if it complies with the requirements set out in the Macedonian VAT Act. The invoice must be issued within five working days after the date of the supply.

If an invoice is issued both for taxable supplies and nontaxable supplies, each supply must be stated separately. If a nontaxable supply is made, it must be stated on the invoice that "The Value Added Tax is not calculated."

A taxpayer delivering taxable goods to recipients of goods or services who are not taxpayers (end consumers) must record the supply through a cash register and issue a receipt, regardless of whether the recipient of such goods or services requests a receipt.

A credit note may be used to reduce VAT charged and claimed back on a supply. A credit note must be cross-referenced to the original invoice. However, no official rules have been issued with respect to credit notes.

Foreign-currency invoices. In general, VAT invoices must be issued in domestic currency (denars [MKD]). If a VAT invoice is issued in a foreign currency, all values required for VAT purposes must be converted into denars for tax purposes, using the rate published by the National Bank of Macedonia on the date of the invoice.

Proof of exports. The taxpayer must hold an export customs clearance issued by the customs authorities as proof that the goods are exported from the country. If the export customs procedure does not require an export clearance to be issued, the taxpayer must hold a document issued by the customs authorities that displays the name and address of the taxpayer and the foreign recipient of the goods, trade name of the goods and the quantity of the goods exported, place and date of export.

B2C. A taxpayer delivering taxable goods or services to persons who are not taxpayers (private consumers) must record the supply through a cash register and issue a till receipt, regardless of whether the recipient of such goods or services requests a receipt.

Electronic invoicing. Electronic invoicing is permitted for Macedonian taxpayers. Based on the law, the supplier must obtain explicit written consent by the recipient of the electronic invoices, to allow them to receive electronic invoices. Electronic invoices should be protected from any subsequent alteration and modifications and signed with an electronic signature of the person authorized for signing invoices on behalf of the legal entity. The electronic signature of the authorized person must be issued by an authority authorized for issuance of electronic signatures.

I. VAT returns and payment

VAT returns. The tax period is the calendar month if the total turnover in the preceding calendar year exceeded MKD25 million. Taxpayers that had a total turnover in the preceding year of less than MKD25 million must file VAT returns and pay VAT quarterly. Newly registered taxpayers projecting an annual turnover of more than MKD1 million must register for VAT and make quarterly VAT return filings. Taxpayers must calculate the VAT for the relevant tax period for all supplies made that are subject to VAT. Taxpayers must submit a tax return within 25 days after the end of the relevant tax period.

Special schemes. Not applicable.

Electronic filing and archiving. All taxpayers must submit tax returns electronically. After the VAT registration and before the deadline for filing the first tax return, the taxpayers must register for electronic filing. Electronic archiving of the submitted tax returns and any related supporting documentation is permissible.

Annual returns. There is no requirement to file annual returns.

J. Penalties

A legal entity is fined the MKD equivalent of EUR1,200 for late VAT registration and of EUR1,500 for a late VAT return filing and for a late issuance of an invoice.

Failure to register or file a VAT return is subject to a fine of EUR2,500. The same penalties apply if the legal entity fails to pay the VAT into the authorities' bank account into which registered VAT payers must pay their VAT or if the legal entity makes inaccurate VAT accounting entries. Separate fines apply to the legal representative of the company. Criminal sanctions apply if the offenses are intentional.

Taxpayers that make a late VAT payment are liable to pay interest on the tax due at a rate of 0.03% for each day of delay.

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A. At a glance

Name of the tax	Value-added tax (VAT)
Date introduced	1962
Trading bloc membership	Common Market for Eastern and Southern Africa (COMESA); Tarif Préférentiel Spécial with China (TPS); Système Generalisé de Préférences (SGP); Commission de l`Océan Indien (COI); Accord de Partenariat Economique (APE); Southern African Development Community (SADC)
Administered by	Ministry of Finance and Budget (www.mefb.gov.mg)
VAT rates	
Standard	20%
Reduced	0%
Other treatment	Exempt; exempt with credit; special procurement contracts
VAT number format	Not applicable
VAT return periods	
Quarterly	No
Monthly	Yes
Annual	No
Thresholds	
Registration	MGA200 million (annual turnover exclusive of taxes)
Recovery of VAT by non-established businesses	No

B. Scope of the tax

VAT applies to legal persons carrying out economic activities habitually or occasionally in Madagascar, including such activities as:

- Trade
- Commercial, industrial, agricultural, handmade, mining, hotel activities
- Games exploitation
- Service delivery
- Liberal profession

- Import
- Supply of goods and services
- Construction
- Miscellaneous, except express exemption

The following are outside the scope of VAT and should not be included in the computation of taxable operations:
- Cash discounts and rebates mentioned in the invoice
- Compensation for damages
- Disbursements to service providers in repayment of expenditures paid on behalf of the client

C. Who is liable

Persons with an annual turnover equal to or more than MGA200 million are required to register for VAT.

Registration procedures. There is no specific VAT registration procedure provided by the General Tax Code, but the tax authority does maintain a roster of VAT-registered taxpayers.

From an administrative perspective, when the relevant person reaches the registration threshold it is automatically subject to VAT.

The procedure is that the person submits a letter to the tax authority applying for VAT registration. The tax authority will update the Standard Tax Identification Card with the mention of VAT registration. The tax authority does not assign the registrant a specific VAT identification number; the general tax identification number serves for VAT as well.

Exemption from registration. Persons with a total annual turnover less than MGA200 million are exempted from registering for VAT in Madagascar.

Group registration. Group registration is not applicable in Madagascar.

Non-established businesses. Persons with no fixed place of business in Madagascar but who perform taxable services in Madagascar may appoint a legal resident representative who is authorized to act for the nonresident service provider in complying with its VAT obligations.

In practice, the recipient of the service is responsible for the payment of the tax as well as for the filing of the return. This does not have any impact if the Madagascar located person is able to recover the VAT. It does not imply that the recipient will become the legal representative of the nonresident supplier without any official appointment. However, in case of compliance failure by the nonresident supplier, the VAT liabilities fall to the recipient of the service.

Reverse charge. Reverse charge is applicable to services performed in Madagascar by a nonresident service provider who does not have a fixed place of business in Madagascar.

The VAT is paid by the local recipient of the service to the tax authority before the 15th of the month following the month of payment for the service if the nonresident service provider does not have a legal representative in Madagascar.

Tax representatives. As described above, nonresident service suppliers with no fixed place of business in Madagascar may appoint a legal resident representative that acts on behalf of the taxpayer to comply with VAT obligations.

The appointment consists of sending an official letter to the Ministry of Finances and Budget appointing the tax representative to obtain a tax identification number for compliance obligations. This representative would be responsible for filing returns and paying the tax due. However, in practice, it is most commonly the recipient of supplies from a nonresident service provider who ensures VAT compliance and will be liable to tax assessment in case of noncompliance.

Deregistration. Companies registered for VAT whose turnover falls below the VAT registration threshold may automatically be exempted from VAT. However, upon request to the tax authority, these companies may remain registered and charge VAT.

Late-registration penalties. Penalties in case of late registration are the following:
- Fine for default of submission of the return: MGA100,000
- Delay interest penalty: 1% of the tax due per month

In case of deficiency, inaccuracy, omission, reduction or falsity in the VAT return, the fine would be 40% of the additional tax due. In the case of fraudulent practice or intentional noncompliance, the penalty is computed at 80% of the additional tax due. In case of misrepresentation on zero-rated taxable transactions and on exempted transactions, the applicable fine would be 40% of a fictitious tax calculated at a rate of 20%.

Digital economy. Business-to-business transactions by a nonresident entity are considered a supply of services. The customer is generally expected to self-assess VAT via the reverse-charge mechanism at a rate of 20% on the payment made by the customer to the supplier.

The VAT may be recovered by the customer as deductible input VAT in its own VAT filing.

For business-to-consumer transactions, the application of reverse charge on services supplied by a nonresident entity is not based on the status of the customer (business or individual) but on the nature of the transaction (service) and the status of the supplier (nonresident). Therefore, the reverse charge remains applicable at 20%.

As there is no physical good transmission but only an electronic transmission, such transaction would be treated as a supply of service.

For those supplies to individuals who are not registered for VAT, in practice while the reverse charge remains applicable, it is non-operational. The individual does not have the possibility to pay the VAT, or withhold it from their income tax, and as such no VAT is accounted for.

VAT on public procurement contracts. A specific tax applies to the activities of companies undertaking public procurement contracts that have an annual turnover of less that MGA200 million (contractors). It covers synthetic tax and it is deducted directly from the contractor's payments.

The tax is calculated at a rate of 8% of the total remuneration for the procurement contract, including taxes. The tax amount is withheld by the public accountant in charge of paying the contractor who must pay it directly to the tax authorities by the 15th day of the month following the month of deduction. The contractor is also required to declare the tax within the same time frame.

Voluntary registration. As of January 2019, taxpayers with annual turnover less than MGA200 million and taxed on 20% corporate income tax (CIT) regime can voluntarily opt for VAT registration. The registration is granted upon request to the tax authority.

D. VAT rates

The term "taxable supplies" refers to supplies of goods and services that are liable to a rate of VAT, including the zero rate. Madagascar's VAT rates are as follows:
- Standard rate: 20%
- Zero rate: (0%)

The standard rate of VAT applies to all supplies of goods or services, unless a specific measure provides for the zero rate or an exemption (see below).

Input tax is the VAT paid on goods and services supplied to the person for the purpose of making taxable supplies. This input tax paid may be recovered by a taxable person, whether those sup-

plies are taxed at the standard rate or the zero rate. All exports of goods or services are taxed at the zero rate, and those are the only zero-rated supplies.

The term "exempt supplies" refers to supplies of goods and services that are not liable to any rate of VAT. Suppliers of exempt supplies are generally not permitted to recover input tax, although some exempt supplies are designated as exempt with credit, meaning that input tax is recoverable (see Section F).

Examples of exempt supplies of goods and services

- School fees relating to general, technical and professional education
- Interest paid by the Public Treasury
- Certain operations linked to shares, bonds and other securities
- Interest from receivables, deposits and guarantees of banks having their headquarters in Madagascar, interest charged by credit on financing; interest received from deposits and loans granted to members of microfinance institutions
- Subscription of mixed popular insurance or insurance group linked to supplement retirement with an insurance company having its headquarters in Madagascar; reinsurance premiums granted by local insurance companies to insurance companies that do not have permanent establishment in Madagascar
- Consumption of water and electricity by individuals for their domestic use up to 10m3 for water and 100kWh for electricity
- Services provided regarding health profession
- Import and sales of drugs; material and inputs used for drugs manufacturing and packages involved
- Import and sales of newspapers and periodicals, excluding revenue from advertising
- Import and sales of stamps and legal currency
- Import and sales of books, brochures and educational and academic nature
- Import and sales of corrective lenses
- Import and sales of inputs exclusively used for agriculture
- Import and sales of potato seed, corn seed, wheat seed and soybean seed
- Import and sales of breeding stock, equipment and farm equipment, materials and sports facilities for public use, materials and equipment for the production of renewable energy
- Subject to reciprocity, goods or services earned by diplomatic agent and consular officers from taxable individuals
- Import and sales of mosquito nets and mosquitos
- Air and sea transport of people and goods to and from abroad
- Membership fees and contributions of members of management centers during their three first years; products of shares for training or information provided to members of the management centers
- Import and sales of kerosene
- Import and sales of rice and paddy
- Import and sales of wheelchairs and other invalid vehicles
- Import and sales of devices and equipment for hemodialysis
- Sale of denatured flammable ethanol locally produced
- Participation and entrance fees for visitors at the fair organized by one or more members of professional interest groups of the private sector
- Import and sales of ready-to-use therapeutic foods
- Training costs as part of the development of professional training, supported by the Ministry in charge of professional training, or engaged for the development of learning, by the National Industry Development agency or for training hosted by the Chamber of Commerce to help their members to develop their activities

Option to tax for exempt supplies. This is not applicable in Madagascar.

E. Time of supply

The moment when VAT becomes due is called the "time of supply," which in Madagascar depends on the good or service being supplied. For imports, the time of supply is the moment of clearance from customs. For operations subject to a special customs regime (warehouse, temporary admission, transit, transshipment, customs deposit), the time of supply is upon release for consumption. For general sales of goods, the time of supply is upon delivery of the goods. For both construction and service delivery, the time of supply is upon receipt of payment.

Deposits and prepayments. Deposits and prepayments are not subject to VAT because they do not consist of remuneration for the price of services or goods. However, when the supply of goods or services is acquired and not returned, deposits and prepayments are liable to VAT as if the additional payment had been made.

VAT is due on prepayment within the month of its receipt for supply of services and upon delivery for supply of goods.

Imported goods. VAT on imported goods is due upon customs clearance. The tax is paid directly to the customs office.

Goods sent on approval or for sale or return. VAT would apply only when the "goods sent on approval or for sale or return" are booked and recorded as delivered.

Continuous supplies of services. VAT on services is due on payment. However, the service provider can account for the tax on an accrual basis with the prior authorization of the tax authority.

Cash accounting. Cash accounting is only permitted for persons that satisfy two criteria:
- They have an annual turnover less than MGA200 million.
- They do not opt for 20% corporate income tax (CIT) regime.

Leased assets. In the case of leasing, the lessor is able to deduct input VAT applied on the acquisition of any kind of assets dedicated to leasing. In principle, input VAT is deductible for the lessee if the assets are used for the normal business of the lessee.

In general, for all types of leased assets, input VAT on the following is not deductible:
- Building not dedicated to industrial, commercial, hotel, restaurant, agricultural or mining activities
- Passenger vehicles (except those whose exclusive use is leasing)
- Furniture (except hotel and restaurant furniture)

Reverse-charge services. Recipients of services provided by nonresident suppliers must self-assess and account for the VAT due on the supply at the time of the payment of the service. The related VAT returns and payment are due on a monthly basis. The due date is the 15th of the month following the taxable month.

There is no reverse-charge mechanism applicable to the supply of goods, as those are imports and subject to the import VAT accounting rules.

F. Recovery of VAT by taxable persons

Input VAT may be recovered in the usual way by deducting it from output VAT due, or in limited cases, by refund.

When offsetting input VAT against output VAT, the following requirements should be respected:
- Input VAT must be clearly labeled on the invoices and linked to the company business
- Input VAT paid on imported goods linked to the company business
- Input VAT relating to the acquisition of goods in respect of leasing clearly identified

- Input VAT linked to goods held in stock and the portion of the tax paid clearly corresponding to the depreciated value of property, machinery and equipment for newly registered individuals/entities

The tax can only be deducted when the chargeability occurs at the supplier side and when the supplier is legally allowed to collect VAT.

VAT credit is the difference occurred when deductible input VAT is higher than the output VAT due. This credit can be carried forward to the following month's tax deadline. The non-cleared VAT credit of the company with taxable and nontaxable operations at the end of fiscal year can be reported as an expense.

For VAT repayment, only the companies listed below can receive a VAT refund:
- Free-zone companies
- Companies performing exclusive export activities
- Companies making investments that comply with the following conditions:
  — Being registered for VAT
  — Having VAT credit higher than MGA100 million in a month and in which VAT involved must not be less than MGA20 million
  — Concerned investments related to tangible capital assets necessary to the normal company business

Nondeductible input tax. Nondeductible tax is the tax that does not have a link with normal business of the company.

Examples of items for which input tax is nondeductible

- VAT on construction or acquisition of buildings, or on related services (not applicable to industrial, commercial, mining, craft, hotel and agricultural buildings)
- VAT on purchase of vehicles not used for rental or related services
- VAT on purchase of furniture or related services (not applicable to hotels and restaurants)
- VAT on purchase of energy unnecessary for the operation of the company
- VAT on purchase of food intended for consumption of the company
- VAT on purchase of oil products such as gasoline used for tourism, super fuel, gas-oil and fuel-oil (not applicable to companies in charge of processing and distribution of oil products, industrial companies, aquaculture farms, cargo and hydrocarbons carriers)

Examples of items for which input tax is deductible (if related to a taxable business use)

- VAT documented in an invoice (with the tax identification number of the provider) relating to nonexempt products and services that have a link with the normal business of the company
- VAT on import of goods that have a link with the normal business of the company
- VAT on goods representing intangible assets
- VAT on goods and services allocated to deductible operations
- VAT on goods relating to the acquisition of leased assets by the lessor; and VAT on rent paid by the lessee to the lessor
- VAT on import of oil products carried out by companies in charge of processing and distribution of oil products; VAT on purchase of oil products made by industrial companies for fixed motors used in their production operations; VAT on oil products used in aquaculture farms; VAT on purchase of oil products performed by professional carriers of hydrocarbon cargo
- VAT on goods held in stock and non-amortized machines and materials for newly taxable persons

Partial exemption. Where input VAT is attributable to both taxable and exempt supplies, only the portion of input tax attributable to taxable supplies is recoverable. The taxpayer must calculate and document taxable supplies as a percentage of total supplies.

Examples of partially exempt items

- Operations linked to shares, bonds and other securities are exempt, but operations relating to stock and management of shares, bonds and securities are taxable, as are securities representing goods and shares giving the holder de jure or de facto rights of possession of property or enjoyment of an immovable property.
- Consumption of water and electricity by individuals for their domestic use up to 10m3 for water and 100kWh for electricity is exempt, while consumption above those levels is taxable.
- Import and sales of newspapers and periodicals are exempt, but income from insertion of advertising is taxable.

Capital goods. Input VAT on capital goods dedicated to normal business of the company is accepted as deductible.

Refunds. Free-zone companies, companies performing export activities, certified financial lessors and companies making a specified amount of investment are allowed to apply for a VAT refund.

For free-zone and export companies, the amount subject to refund is determined by the proportion between the amount of the annual turnover on export and the amount of the total taxable annual turnover of the previous year.

The application for the refund is made at the time the VAT return is submitted.

The refunds should be done within 60 days from the receipt of the application by the tax authority.

Preregistration costs. This is not applicable in Madagascar.

Write-off of bad debts. Although the VAT laws do not expressly deal with the VAT treatment of bad debts, the tax authority generally agrees that an output tax write off on bad debt is allowable.

This does not arise for supply of services. Since the tax point is the time payment is received, relief for bad debt is automatic.

Noneconomic activities. Noneconomic activities are considered to be activities performed by a taxable person that are not part of a profit-making enterprise. Individuals and entities performing noneconomic activities are not subject to VAT.

G. Recovery of VAT by non-established businesses

A non-established business is not allowed to recover VAT.

H. Invoicing

VAT invoices and credit notes. There is no special VAT invoice format in Madagascar. The word VAT must appear clearly and distinctly on the invoice. The same rule applies to credit notes.

Electronic invoicing. Electronic invoicing should comply with the same requirements as non-electronic invoices:

- Two copies
- Dated and signed by the provider
- Chronologically numbered and mentioning for both provider and customer:
  - — The commercial name
  - — The statistical number
  - — The tax identification number
- Quantity and price of the delivered goods or services
- Settlement date
- Payment method

Proof of exports. Supplies of services and goods are treated as exports if the ultimate beneficiary is located outside Madagascar and the payment is made to a foreign bank in a foreign currency. Customs documents are also required for export of goods.

Foreign-currency invoices. Foreign-currency invoices are only allowed for the export of goods or services or supplies made to local free-zone companies. Otherwise, invoices should be in local currency, MGA.

B2C. There are no specific rules for VAT invoices issued for supplies made by taxable persons to private consumers. Invoices issued between taxable persons have to comply with the regular requirements.

I. VAT returns and payment

VAT returns. VAT returns and any associated payments are due on a monthly basis: the due date is the 15th of the month following the taxable month.

The monthly return is mandatory even if there is no payment due in the taxable month. In case of omission of input VAT, the registered person is allowed to make an adjustment in any of the VAT returns in the subsequent six months.

Payments on account. A payment on account creates a tax point for a supply of services only. In connection with a supply of goods, the tax point is always the time the goods are delivered.

Special schemes. None.

Electronic filing and archiving. Electronic filing is allowed for certain companies that have reached the prescribed annual turnover.

Taxpayers with annual turnover between MGA200 million and MGA4 billion are assigned to the *Services Régionaux des Impôts*. Taxpayers with annual turnover more than MGA4 billion are assigned to the *Direction des Grandes Entreprises*. These two tax offices have discretion to allow electronic filing according to rules they establish.

Taxpayers with annual turnover lower than MGA200 million are assigned to the *Centre fiscal* where no electronic filing is permitted.

Archiving requirements involve storing and making available the financial statements, ledgers, invoices and all supporting documents (agreements, etc.) relating to each transaction for 10 years after the transaction.

Annual returns. This is not applicable in Madagascar.

J. Penalties

In case of late payment, the following penalties apply:
- Fine for default of submission of the return: MGA100,000
- Delay penalty interest: 1% of the tax due per month

The above-mentioned fixed fine only applies for cases outside of any tax audit period, where a voluntary disclosure is made. Once the tax audit is started, though the tax assessment notice is not yet issued or definitive, penalties range from 40% to 80% of the additional due tax. Where the taxpayer makes a voluntary disclosure, a fixed fine of MGA100,000 applies.

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Effective 1 September 2018, the Malaysian government replaced its goods and services tax (GST) regime (in effect from 1 April 2015) with an updated version of the earlier sales tax and service tax (SST) regime.

A. At a glance

Name of the taxes	Sales tax and service tax (SST)
Local name	Cukai jualan dan cukai perkhidmatan (CJP)
Dates introduced	
Sales Tax	1 September 2018
Service Tax	1 September 2018
Administered by	Royal Malaysian Customs Department (RMCD) (http://www.customs.gov.my)
Trading bloc	Association of Southeast Asian Nations (ASEAN)
SST number format	15 digits (first alpha (usually W) remaining digits are numerical)
Tax rates	
Sales tax	
Standard	10%
Other	5%, exempt and several specific rates for certain petroleum products
Service tax	
Standard	6% on prescribed taxable services
Other	Specific rate of RM25 per year on the provision of credit card or charge card services
SST return periods	Bimonthly (every two months)

Threshold for registration

Sales tax	Annual taxable turnover exceeds RM500,000
Service tax	Annual taxable turnover exceeds RM500,000 Exceptions: Food and Beverage (F&B) service providers are subject to RM1.5 million threshold. Customs agents and those persons who provide credit and charge card services are required to register regardless of the amount or value of the services provided (nil threshold).

B. Scope of the taxes

Sales tax. Sales tax is a single-stage tax, applied to sales of locally manufactured taxable goods as well as to taxable goods imported for domestic consumption.

All taxable goods manufactured in, or imported into, Malaysia are subject to sales tax, unless they are specifically exempted by law. However, sales tax does not apply to goods manufactured in, or imported into, Labuan, Langkawi, Tioman, (Inter-country) Joint Development Area, free zones, licensed warehouses or licensed manufacturing warehouses.

The term "manufacture" is defined as the conversion of materials by manual or mechanical means into a new product by changing the size, shape, composition, nature or quality of such materials and includes the assembly of parts into a piece of machinery or other products. However, this does not include the installation of machinery or equipment for construction purposes. With respect to petroleum products, the term "manufacture" pertains to any process of separation, purification, conversion refining and blending.

Service tax. Service tax is applicable to specific taxable services. Services that are not included in the prescribed list are not taxable. There are nine major groups of taxable services that currently form the prescribed list. Taxable services include, but are not limited to, accommodation, food and beverage, night clubs, private clubs, golf clubs, betting and gaming, professional services (legal, accounting, employment services, consultancy services, management services, engineering services, architectural services), credit card and charge cards and other specific services (insurance, advertising, telecommunication services, customs agents, parking, motor vehicle repair, etc.).

Changes to SST as announced during the 2019 Budget

The following changes took effect 1 January 2019:

- Taxable services imported into Malaysia on a business-to-business (B2B) basis are subject to service tax effective 1 January 2019. This will be administered in a manner similar to the "reverse-charge" mechanism under the previous GST system, where the recipient of the services will need to self-account for and pay the service tax. However, no input tax recovery will apply.
- Exemptions are granted to specific business-to-business services between service tax registered entities beginning 1 January 2019.
- A credit system for sales tax deduction has been introduced for manufacturers who purchase manufacturing components from parties other than Malaysian sales tax registered manufacturers.

The following changes were proposed in the 2019 budget, and at the time of preparing this chapter have not yet been confirmed:

- *Provision of digital products and services, such as downloaded software, music, video or digital advertising by foreign service providers on a business-to-consumer (B2C) basis in Malaysia will be subject to service tax starting 1 January 2020. Foreign service providers will be required to register for service tax purposes in Malaysia.*

- *Excise duty will be imposed on sweetened beverages beginning 1 April 2019. The excise duty rate will be RM0.40 per liter based on the sugar content exceeding certain thresholds.*
- *Import duty rate for bicycles under tariff code 8712.00.30 00 (Other bicycles) will be reduced from 25% to 15%.*

C. Who is liable

Sales tax. Any person that manufactures taxable goods in the course of doing business must apply for a sales tax registration.

Exemption from registration. The following manufacturers are excluded from registration:
- Manufacturer of nontaxable goods (not eligible for voluntary registration)
- Manufacturer below the registration threshold
- Subcontractor manufacturer below threshold
- Manufacturing activities that have been exempted from registration

Importers. An importer of taxable goods does not need to apply for a sales tax registration. Sales tax on imported goods is assessed and collected when the goods are cleared by the Royal Malaysia Customs Department, together with any customs duties payable.

Service tax. Subject to the relevant registration thresholds provided in the service tax regulations, any person that carries on a business of providing taxable services must apply for service tax registration. The following examples indicate businesses subject to the existing service tax registration thresholds (these lists are not exhaustive):

Examples of businesses with nil threshold
- Customs clearance agents
- Credit card or charge card services provider regulated by Bank Negara Malaysia

Examples of businesses with a RM500,000 threshold
- Professional engineer
- Courier service operator
- Parking operator
- Consultancy services excluding research and development companies

Example of businesses with a RM1.5 million threshold
- Caterer
- Food court operator
- Operator of restaurant, bar, snack bar, canteen, coffee house or any place that provides food and drinks
  - — Eat-in or take-away
  - — Excluding canteens in an educational institution or operated by a religious institution or body

Mandatory registration. Mandatory registration is required where:
- The historical taxable annual turnover is more than the prescribed threshold.
- There are reasonable grounds that the future taxable annual turnover will be more than the prescribed threshold.

Voluntary registration. If the value of taxable supplies made by a business is below the registration threshold, the business may apply to register for SST voluntarily.

Automatic registration. GST Registered Manufacturers and Taxable Service Providers were registered automatically by the authorities as Registered Person under the Sales Tax and Service Tax, respectively. Such Registered Manufacturers and Taxable Service Providers were required to charge tax beginning 1 September, 2018.

Branch registration. A business that operates through branches or divisions must determine whether it is liable to be registered based on the aggregate total taxable supplies of all the branches and divisions. Divisional registrations ease the SST administration for such businesses. On approval, each branch or division may apply to register individually under the name of that branch or division. Supplies made between divisions within the divisional registration are disregarded for SST purposes.

Deregistration. A business that ceases operations must cancel its SST registration. The business is required to notify the RMCD within 30 days from the date of such occurrence.

Late-registration penalties. Penalties will be imposed for failure to register for SST, late payment of SST, late submission of SST returns and the submission of incorrect returns.

Designated area (DA). The duty-free islands are free from all types of customs duties and excise duties. For the purposes of SST, the duty-free islands are known as DA and refer specifically to the islands of Labuan, Langkawi or Tioman. Generally, any supplies of taxable goods or taxable services made by any person within or between the DAs are not subject to SST unless they are prescribed otherwise by the Minister. Further, any goods imported from overseas are not subject to sales tax unless they are prescribed by the Minister.

D. Tax rates

Sales tax. Sales tax is an ad valorem tax and different rates apply based on the customs classification (HS Codes) of the taxable goods. Sales tax for petroleum is charged on a specific rate that is different from other taxable goods.

The term "taxable goods" refers to locally manufactured goods, as well as to imported goods that are not exempt under the sales tax law. The rates of sales tax are 5% and 10%. The 10% rate applies to most taxable goods. The reduced rate of 5% applies to certain nonessential goods, including among others, foodstuffs and building materials. Specific rates are imposed on certain petroleum products.

Goods are classified according to the Harmonized System under the International Convention of the Harmonized Commodity Description and Coding System ("HS Codes"). The applicable sales tax rates are determined based on the HS codes of the specific products. It is, therefore, crucial that the correct HS code classification is assigned to each of the products to ensure accuracy of the sales tax rate being applied.

Service tax. Service tax is imposed at a rate of 6% on the price, charge or premium for the taxable service. Certain specific professional services, such as accounting, engineering, legal, architectural, surveying, management and consultancy services provided by one company to another company within the same commercial group, are not subject to service tax if certain conditions are satisfied.

E. Time of supply

Sales tax. Sales tax is due on goods manufactured in Malaysia when the goods are sold, used or disposed of by a taxable person. The definition of "disposal" includes the manufacturer diverting the goods for its own use, destroying the goods, giving away or donating the goods, and making a supply of manufactured goods for no consideration.

Deposits and prepayments. There are no special time of supply rules for deposits and prepayments for sales tax in Malaysia.

Imported goods. Sales tax is due on imported goods at the time the goods are cleared by the Royal Malaysia Customs Department or removed from a customs bonded warehouse.

Leased assets. There are no special time of supply rules for leased assets for sales tax in Malaysia.

Goods sent on approval for sale or return. There are no special time of supply rules for goods sent on approval for sale or return in Malaysia.

Service tax. Service tax is due when payment is received for taxable services rendered. If payment is not received within 12 months after the date of issuance of an invoice, the tax is due on the day immediately after the expiration of the 12-month period. Service tax on imported services is due upon the earliest of payment or invoice receipt date.

Leased assets. Lease or rental of asset is not a taxable service under the First Schedule of the Service Tax Regulations 2018.

Deposits and prepayments. In principle, advance payments are subject to service tax upon receipt of payments from the customer. However, payment as a deposit is not subject to service tax until such deposit is realized as payment for the taxable service rendered and invoice have been issued.

Continuous supplies of services. If services are supplied continuously and payment is determined in whole or in part or payable periodically or from time to time, the tax is to be reported when the payment is received or the tax invoice is issued, whichever is earlier.

F. Invoicing

Tax invoice and debit/credit notes. For both sales and service tax, every registered manufacturer/person who sells/provides any taxable goods/service is required to issue an invoice to customers containing prescribed particulars in the national (Bahasa Melayu) or English language. The amount of sales/service tax payable is to be stated separately from the total amount payable.

Any amount expressed in a currency other than ringgit must also be expressed in ringgit at the selling rate of exchange prevailing in Malaysia at the time of sale of taxable goods or when the taxable services are provided. Adjustments generally arise as a result of the cancellation of a transaction, a change in the amount previously invoiced or a change in tax rate. Adjustment notes (i.e., debit and credit notes) should contain the prescribed particulars under the regulations and must cross-reference the original tax invoice number and date it relates to. The Director General (DG) may disallow any deduction where the credit notes presented are untrue or incorrect.

Proof of exports. Exports of goods are exempt from sales tax. To qualify for exemption, it must be proven that the goods have been exported from Malaysia. Acceptable documentation includes a customs export declaration and an export sales invoice issued by a registered manufacturer.

Electronic invoicing. Electronic invoicing is permitted. The Malaysian SST Act presumes that an invoice has been issued to the customer, even though there is no delivery of any equivalent document in paper form to the customer, as long as the requisite information is recorded in a computer and is transmitted to the customer by electronic means or produced on any material other than paper and delivered to the customer.

G. Tax returns and payment

SST returns. Every taxable person is required to account for tax by submitting an SST-02 return on a bimonthly basis (every two months). As of 1 January 2019, any nontaxable businesses that acquire services from overseas will also need to pay and file a separate SST-02A return.

The SST-02 return is required to be furnished to the DG not later than the last day of the month following the end of the taxable period. If a taxable person's taxable period does not end on the last day of the month, the SST-02 return should be furnished no later than the last day of the 30-day period from the end of the varied taxable period. On the other hand, SST-02A return is required to be furnished to the DG not later than the last day of the month following the end of

the month in which the payment on the service has been made by him or invoice is received by him.

The taxable person who is in the payable position must pay to the DG the amount of tax due and payable by him. Any tax due in respect of a taxable period becomes payable not later than the last day on which the taxable person is required to furnish the SST returns payable by way of electronic fund transfer, checks, bank draft, money order or postal order.

Annual returns. There is no requirement to submit an annual SST return in Malaysia.

Electronic filing and archiving. The taxable person may submit the SST return in one of three ways:
- Electronically
- By posting to the Customs Processing Centre
- By providing it to the Customs Processing Centre

Taxable persons are required to maintain their SST records for seven years and the records must be in English or in the national language.

H. Penalties

Late submission and payment of SST. Any person who fails to submit the return as required will commit an offense and may upon conviction be liable to a fine not exceeding RM50,000 or to imprisonment for a term not exceeding three years or to both.

Effective 1 September 2018, the penalty for late payment is:
- For the first 30-day period that the tax is not paid, 10% of the SST amount due
- For the second 30-day period that the tax is not paid, an additional 15% of the SST amount due
- For the third 30-day period that the tax is not paid, an additional 15% of the SST amount due

After the expiry of the 90-day period, any person who fails to pay to the DG, may upon conviction, be subject to a maximum penalty of 40% or to imprisonment for a term not exceeding three years or to both.

Submission of incorrect return. Any person who submits an incorrect return by omitting information, understating output tax or overstating input tax, or giving any incorrect information commits an offense and shall, upon conviction, be subject to a fine not exceeding RM50,000, imprisonment for up to three years or both; plus a fine equal to the amount of tax that has been or would have been undercharged.

Further penalties apply with respect to tax evasion, improperly obtaining a refund and offenses related to invoices and receipts.

Failure to register for sales or service tax. A taxable person that fails to apply for a sales or service tax registration is liable for a penalty, which may include imprisonment for a term not exceeding 24 months, a fine not exceeding RM30,000 or both. Please note that the Director General also has the power to raise an assessment, upon conviction, of from 10-20 times the amount of sales or service tax or up to 5 years imprisonment or both for the first offense and from 20-40 times the amount of sales or service tax or up to 7 years imprisonment or both for the second offense.

I. Transitional provisions

Final GST return. The submission of the GST-03 return under section 40 of the Repealed GST Act 2018, for the last taxable period was to be furnished and corresponding payment of GST made not later than one hundred and twenty (120) days from 1 September 2018 (i.e., on or before 29 December 2018).

Any declarations by non-GST registrants under subsection 42(1) of the Repealed GST Act 2018 were to be submitted and GST paid not later than 30 days from 1 September 2018 (i.e., on or before 30 September 2018).

Input tax claims. Any input tax claim credit allowable shall be claimed within 120 days from 1 September 2018 to 29 December 2018. Application for extension of time to claim input tax after the expiry of 120 days, shall be made to the DG for his approval. The approval for extension of time may only be given depending on the merits and grounds that are acceptable and reasonable, such as in the case of retention sums where defect liability is given for a period beyond 29 December 2018.

Any input tax that has not been refunded by the DG as of 1 September 2018 shall be paid by the DG within six years from 1 September 2018.

GST closure audit. A mandatory GST closure audit will be performed on all taxpayers as a prerequisite for GST registrants to be deregistered, following the repeal of the GST Act 2014. A GST closure audit is a historical audit to be performed by the RMCD, to verify that GST has been properly accounted for in all applicable business transactions, and to ensure that the relevant information has been correctly reported in the GST-03 returns.

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A. At a glance

Names of the taxes	Goods and services tax (GST) Tourism goods and services tax (TGST)
Date introduced	2 October 2011
Administered by	Maldives Inland Revenue Authority (MIRA)
Rates	
Standard	GST: 6% TGST: 12%
Other	Zero-rated, exempt
Number format	GST: XXXXXXXGST501 TGST: XXXXXXXGST001
GST and TGST return periods	Monthly if the taxable supply exceeds MVR1 million per month (USD64,851) Quarterly if the taxable supply exceeds MVR1 million per quarter (USD64,851)
Thresholds	
Registration	GST: taxable supply for the past or next 12 months exceeds MVR1 million (USD64,851) TGST: registration required irrespective of the taxable supply
Deregistration	GST: taxable supply for the past or next 12 months is less than MVR500,000 (USD32,425) TGST: upon cancellation of the operating license
Recovery of GST by non-established businesses	No

B. Scope of the tax

GST applies to the supply of goods or services made in the Maldives by a taxable person.

TGST applies to services supplied to tourist resorts, tourist hotels, guesthouses, picnic islands, tourist vessels and yacht marinas, as well as certain other services supplied to tourists in the Maldives.

C. Who is liable

The following persons are required to register for GST if the value of their taxable supplies exceeds MVR1 million (USD64,851) per year:
- Companies registered under the Companies Act of Maldives (Act Number 10/1996)
- Nonresident companies that operate and earn profits from sources inside the Maldives
- Partnerships registered under the Partnership Act (Act Number 9/1996)
- Cooperative societies and associations

The following persons are required to register for TGST irrespective of their taxable supplies:
- Tourist establishments (tourist resorts, tourist hotels, guesthouses, picnic islands, tourist vessels and yacht marinas authorized by the Tourism Ministry)
- Diving schools, shops, spas, water sports facilities and any other such facilities being operated within the tourist establishments specified above
- Travel agency service providers authorized by the Tourism Ministry
- Agents providing goods and services to foreign tourist vessels entering the Maldives

Persons carrying on taxable activities in the Maldives must register with the MIRA within 30 days from the date of commencement of the business activity if:
- The value of the person's taxable supplies during the past 12 months exceeded MVR1 million (USD64,851)
- The value of the person's estimated taxable supplies for the following 12 months exceeds MVR1 million (USD64,851)
- The person provides tourism goods and services

Persons that import goods into the Maldives shall apply to register with the MIRA within 30 days from the date of commencement of import activity.

Persons who meet the above criteria shall submit a standard form called MIRA 105 to the MIRA, and the MIRA will confirm the registration by issuing a notification of GST registration.

Voluntary registration. A person conducting an authorized trade or providing an authorized service may request permission of the Commissioner General to register with the MIRA.

Exemption from registration. Persons with a total annual turnover of less than MVR1 million (USD64,851) are exempted from GST. There is no exemption from registration for TGST.

Group registration. Not applicable.

Non-established businesses. A foreign business with no establishment in the Maldives, that supplies goods or services to customers in the Maldives, is not required to register for GST. The rules are the same for supplies of goods and for supplies of services and irrespective of whether supplies are made to business or private customers.

If the foreign business physically supplies goods or services via a branch or office, etc., or has the authority to conclude contracts in the Maldives, it will qualify as a permanent establishment in the Maldives. In this case if such permanent establishments meet the thresholds mentioned they will be obliged to register for GST.

There is no specific threshold for foreign businesses. The general threshold for GST registration applies, i.e., if the total taxable sales (including zero-rated goods and services) for the previous

12 months exceeded MVR1 million, or expected taxable sales (including zero-rated goods and services) for the next 12 months is expected to exceed MVR1 million.

Reverse-charge services. There is no reverse-charge mechanism in the Maldives.

Digital economy. For business-to-business digital transactions, the customer is expected to self-assess GST and TGST on the payment to the nonresident business. The self-assessed GST/TGST is eligible for an immediate credit to the extent that the customer's business allows the customer to take input VAT credits.

GST/TGST does not apply to business-to-customer transactions.

Registration procedures. To register for GST, the taxpayer must submit the GST registration form (MIRA 105) to the tax authorities. Taxpayers must register before the end of the month following the month in which the threshold of MVR1 million was reached.

Tax representatives. A taxpayer may choose to appoint a tax agent to act on its behalf in relation to tax matters; it is not compulsory to do so.

If the taxpayer wishes to appoint a licensed tax agent, it must submit a completed "appointment of tax agent" (MIRA 114) form together with the information and documents specified therein, to the tax administration (MIRA). A tax agent cannot represent any taxpayer prior to the submission of the necessary form to the MIRA. A taxpayer may appoint only one licensed tax agent.

Deregistration. Persons registered with the MIRA may apply for termination of registration under the following circumstances:
- The person's taxable supplies at the end of any 12-month period fell below MVR500,000 (USD32,425).
- The person's taxable supplies at the beginning of any 12-month period are forecasted to fall below MVR500,000 (USD32,425).
- The person has ceased taxable activities, with no intention to resume them during the following 12 months.

Registered persons are required to pay tax on goods in their possession at the time of termination of their registration if input tax on the goods has already been claimed.

A registered person who is an importer of goods into the Maldives whose registration is cancelled or terminated must submit to the MIRA an account of the goods in his possession out of the goods imported by him. Goods specified in an invoice submitted accordingly shall be sold after a tax invoice is issued. Tax shall be paid on the sale of such goods, and a tax invoice shall be issued accordingly.

Late-registration penalties. According to the Tax Administration Act, the penalty for non-registration is MVR50 (USD3.24) per day of delay, up to a maximum of MVR5,000 (USD324).

D. GST rates

In the Maldives, the term "taxable supplies" refers to supplies of goods and services that are subject to GST at any rate, including the zero rate.

The following are the GST rates:
- Standard GST rate: 6%
- Standard TGST rate: 12%
- Zero rate: 0%
- Other: exempt

Zero-rated goods and services. Zero-rated goods and services are the goods and services charged at the rate of 0% in accordance with the provisions of the GST Act.

Examples of goods and services taxable at 0%

- Essential goods specified in the GST Act, such as:
  - Rice
  - Sugar
  - Flour
  - Salt
  - Milk
  - Cooking oil
  - Eggs
  - Tea leaves
  - Deep sea fish, reef fish, all types of fish packed in the Maldives, and rihaakuru (fish paste)
  - Vegetables such as potatoes, onions, carrots, cabbage, beans and tomatoes
  - Ingredients used in making curry paste (cumin, fennel, coriander, turmeric, garlic, ginger, chili, chili powder, cinnamon, cardamom, peppercorn, any other such ingredient)
  - Dhiyaahakuru, coconuts (kaashi, kurun'ba, kurolhi)
  - All kinds of fruits
  - Bread, buns and faaroshi (rusk)
  - Baby diapers
  - Baby food
  - Cooking gas
  - Diesel
  - Petrol
  - Adult diapers
- Goods and services exported from the Maldives, including goods exported by an export license holder or re-export license holder, goods supplied by duty free shops and services exported by a registered person. Services exported are services provided by a person in the Maldives to a person outside the Maldives and consumed outside the Maldives.
- Sale of a going concern. The disposal of a going concern shall be a zero-rated supply if the purchaser of the business is registered with the MIRA under the GST Act or the purpose of the disposal transaction is to transfer the ownership of a business owned by an individual or individuals to a company at least 99% of the share capital of which is held by the same individual or individuals.

Examples of exempt supplies of goods and services

- Electricity service
- Water facilities
- Postal service (not including courier services)
- Sewerage facilities
- Education
- Health services
- Medical devices and drugs
- Financial services
- Rent earned from lease of immovable property
- International transportation services
- Payments collected as fines

Option to tax for exempt supplies. Not applicable.

E. Time of supply

The time of supply of goods or services is the time at which the tax invoice for such good or service is issued or the time at which the recipient of such good or service makes full or partial payment, whichever occurs earlier.

Where payment for supply of goods and services has been agreed to be made within a stipulated period under an installment agreement, payments made accordingly shall be regarded as separate taxable transactions. The time of supply of goods and services in relation to any such transaction shall be deemed as the date on which the installment payment was received or the date on which the installment payment would otherwise be due, whichever is earlier.

Deposits and prepayments. Irrespective of the amount received as deposit or prepayments, GST/TGST shall be declared on the full invoice value.

The tax declaration point will be identified based on the time-of-supply rules described above.

Imported goods. The time of supply of imported goods or services is identified based on the time-of-supply rules described above.

Goods sent on approval or for sale or return. There are no special time of supply rules in the Maldives for supplies of goods sent on approval or sale or return. As such, the general time of supply rules (as outlined above) apply.

Continuous supplies of services. If services are supplied continuously and payment is made periodically, a tax point is created each time a payment is made or a tax invoice is issued, whichever occurs earlier in each designated period.

Reverse-charge services. There is no reverse-charge mechanism in the Maldives. However, for business-to-business digital transactions, the customer is expected to self-assess GST and TGST on the payment to the nonresident business. The self-assessed GST/TGST is eligible for an immediate credit to the extent that the customer's business allows the customer to take input VAT credits.

Cash accounting. Businesses with an annual turnover of less than MVR10 million, may opt to prepare their accounts using the cash basis.

Leased assets. There are no special time of supply rules in the Maldives for supplies of leased assets. As such, the general time of supply rules (as outlined above) apply.

F. Recovery of GST by taxable persons

A registered person supplying goods and services to another registered person shall charge tax on the value of such goods and services in accordance with the GST Act, and such tax shall be the input tax of the recipient of the good or service.

Input tax in relation to a good or service purchased by a registered person shall not be set-off against such person's output tax if:

- The recipient of the good or service does not possess a valid tax invoice issued by the supplier.
- Twelve months have elapsed from the end of the taxable period under such person's accounting basis in which the input tax could have first been claimed.
- The good or service is not supplied in the Maldives.

Input tax in relation to capital expenditure. If the capital expenditure incurred by a registered person for the supply of a good or service is directly attributable to such supply, input tax in relation to such expenditure shall be deducted from the output tax in the following manner based on the amount of gross capital expenditure:

- MVR500,000 (USD32,425) or less: input tax deductible in full in the taxable period of supply
- If the gross capital expenditure incurred is less than MVR500,000, the GST input could be deducted within 12 months
- If the gross capital expenditure is more than MVR500,000, the GST could be deducted equally over 36 months

Examples of items for which input tax is nondeductible

- All purchases relating to exempt supplies
- Private expenditure

Examples of items for which input tax is deductible (if related to a taxable business use)

- Expenses relating to taxable supplies

Partial exemption. Not applicable.

Capital goods. Not applicable.

Refunds. Excess payments made to the MIRA shall be refunded when the taxpayer terminates all the taxable activities in the Maldives.

Preregistration costs. Taxable persons cannot claim GST/TGST on preregistration costs.

Write-off of bad debts. Irrecoverable GST/TGST on bad debts can be claimed as a deduction from the output tax.

The amount of tax paid on irrecoverable debts may be offset against the output tax of subsequent taxable periods with the authorization of the Commissioner General. In requesting the Commissioner General's authorization, the registered person shall submit the following documents:

- Copies of all tax invoices, receipts, credit notes and debit notes related to that supply
- Documents proving that the registered person has accounted for and paid tax on that supply
- Documents confirming consideration required to be paid for that supply has occurred

Noneconomic activities. GST incurred in the course of non-business activities is generally not recoverable.

G. Recovery of GST by non-established businesses

The Maldives does not refund GST to businesses not established in the Maldives.

H. Invoicing

GST invoices and credit notes. A registered person that supplies goods or services to another registered person shall at the request of the recipient provide that recipient with a tax invoice within 28 days of the request. Only one invoice shall be issued in relation to a given transaction.

Unless otherwise prescribed in the GST act, a tax invoice issued by a registered person shall include the following:

- "Tax Invoice," written prominently
- Name, address and TIN of the supplier of goods or services
- Name, address and TIN of the recipient of goods or services
- Invoice number
- Date of issue
- Details of services provided or quantity and details of goods sold
- Total value of goods or services supplied, excluding the tax charged on the value of goods or services
- Tax charged on the value of goods or services supplied
- Value of goods or services inclusive of tax, or, if the amount of tax has been included in the price of the good or service, a statement to such effect

If the value of the goods or services supplied by a registered person is lower than MVR5,000 (USD324) inclusive of tax, a registered person shall issue a tax invoice exclusive of the name, address and TIN of the recipient of goods or services.

A registered person may issue a receipt in relation to the supply of goods or services if the supply was made to a person other than a registered person. Such a receipt shall include the following:
- Name, address and TIN of the registered person
- Date of payment
- Receipt number
- Details of services provided or quantity and details of goods sold
- Total value of goods or services supplied, excluding the tax charged on the value of goods or services
- Tax charged on the value of goods or services supplied
- Value of goods or services inclusive of tax, or, if the amount of tax has been included in the price of the good or service, a statement to such effect

If the value of a transaction for the supply of goods or services falls or is reduced for any reason after a tax invoice has been issued, the recipient of such goods or services shall be issued a credit note including the following:
- "Credit Note," written prominently
- Name, address and TIN of the supplier of goods or services
- Name, address and TIN of the recipient of goods or services
- Date of issue
- Credit note number
- Reason for issuing the credit note
- Original tax invoice number, date, amount of tax specified in that tax invoice, amount of tax calculated after the change in value, and the difference between the two amounts

Electronic invoicing. Electronic invoicing is permitted in the Maldives. An electronic invoice has to contain all the details required when issuing a full tax invoice in accordance with the GST act. There are no other specific electronic invoicing conditions in the Maldives.

Proof of exports. GST on exports is zero rated subject to following conditions:
- The service is supplied to a nonresident and the nonresident is outside the Maldives at the time that the service is performed.
- The actual physical flow of the service is not to a person in the Maldives that receives or benefits from that service.
- The services are not supplied directly in connection with any property in the Maldives at the time that the services are performed.

The export holder shall retain the following documents in relation to the export:
- Valid export/re-export license
- Proper tax invoice
- Documents supporting the export

Foreign-currency invoices. Only taxpayers providing tourism goods and services may issue invoices in a foreign currency (such as US dollars) that is accepted by the Maldives Monetary Authority (MMA), as determined by the Commissioner General.

The rule for converting foreign currency on an invoice is that the rate used must be plus or minus 2% of the rate published by the MMA, at the time of supply.

B2C. There are no special rules in the Maldives when issuing invoices to private consumers. The general criteria required for a normal tax invoice apply to invoices issued to private consumers.

I. GST returns and payment

GST returns. Every registered person shall calculate the amount of tax payable for each taxable period in accordance with the GST Act and the regulations made pursuant to it, and shall file a tax return to the MIRA in accordance with the regulation.

A tax return must be filed on or before the 28th day of the month following the end of the taxable period or the date determined by the Commissioner General where the Commissioner General has decided to postpone the date for submission of tax returns due to any reasonable grounds.

The frequency of making payments and filing returns depends on the taxpayer's taxable period. The taxable period is mentioned in the letter issued to the taxpayer with the GST Registration Certificate. If the taxpayer's average taxable sales exceed MVR1 million per month, the taxable period is a calendar month. If the taxpayer's taxable sales do not exceed MVR1 million per month, the taxable period is quarterly (based on calendar quarters, i.e., January-March, April-June, July-September, October-December).

In the event a registered person is deceased or has ceased to carry out all taxable activities, the part of the tax return for the current taxable period up until the time of death or cessation of operations shall be filed by the legally obliged person on or before the 28th day of the month after the end of such taxable period.

Tax returns filed by registered persons shall contain the following particulars in accordance with a format determined by the Commissioner General:
- Name of the registered person
- TIN
- Taxable period
- Total value of goods and services provided by that person
- Deductions
- The amount of output tax payable
- The amount of input tax allowed to be deducted
- The amount of tax payable to the MIRA, after adjustments
- Any other information determined by the regulations made pursuant to the GST Act

Unless proven to the contrary, it shall be presumed that tax returns filed under the GST Act on behalf of a registered person have been prepared either by the principal or with the principal's authorization.

Registered persons shall calculate tax payable in respect of each taxable period and pay such tax to the MIRA before the deadline for filing tax returns attributable to that taxable period in accordance with the provisions of the GST Act.

Electronic filing. The vast majority of GST-registered businesses (with some limited exceptions) are required to submit their GST returns online using the MIRA electronic GST service and pay any GST due electronically.

Annual returns. Annual return filing is not required. Only periodic return filing is required, i.e., quarterly or monthly submission.

Special schemes. Taxpayers registered for general sector goods and services (GGST) are required to file a GST return. Taxpayers registered for tourism sector goods and services (TGST) are required to file a TGST return.

J. Penalties

Penalties for late payment of GST. Penalties apply as follows:
- Non-payment of tax: 0.05% of amount outstanding per day
- Failure to file GST return by due date: if there is no tax liability, MVR50 (USD3.24) per day of delay; if there is tax liability, 0.5% of amount of tax payable
- Failure to submit document or provide information to the MIRA by due date: if there is no tax liability, MVR50 (USD3.24) per day of delay; if there is tax liability, 0.5% of amount of tax payable

Penalties for errors made on GST returns. Penalties may be reduced or eliminated if the business makes an unprompted disclosure to the MIRA. The degree of mitigation depends on the extent of the disclosure. Any errors made with an intention to evade tax shall incur penalties as described above.

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A. At a glance

Name of the tax	Value-added tax (VAT)
Local name	It-taxxa fuq il-valur mizjud
Date introduced	1 January 1999
Trading bloc membership	European Union (EU) Member State
Administered by	Ministry of Finance (http://www.vat.gov.mt)
VAT rates	
Standard	18%
Reduced	5% and 7%
Other	Exempt with credit and exempt without credit
VAT number format	MT12345678
VAT return periods	Quarterly (Commissioner for Revenue may prescribe longer or shorter periods)
Thresholds	
Registration	None
Recovery of VAT by non-established businesses	Yes

B. Scope of the tax

VAT applies to the following transactions:
- The supply of goods and the rendering of services in Malta by a taxable person for consideration, in the course or furtherance of an economic activity
- Intra-Community acquisition of goods (subject to certain conditions; see the chapter on the EU)
- Intra-Community acquisitions of new means of transport (see the chapter on the EU)
- Intra-Community acquisitions of excise goods
- The importation of goods into Malta (other than exempt importations)

C. Who is liable

A taxable person is any person that carries on an economic activity, regardless of the purpose or result of that activity.

Group registration. VAT grouping was introduced in Malta on 1 June 2018. Subject to certain conditions, a group of related entities may register for Maltese VAT purposes as a single taxable person.

Non-established businesses and tax representatives. A "non-established business" may be any of the following persons:
- A taxable person that has not established its economic activity
- A taxable person that has no fixed place of establishment in Malta
- A physical person who has not established his or her economic activity in Malta
- A physical person who does not have a fixed place of establishment in Malta, has no permanent address in Malta or does not usually reside in Malta

A non-established business that makes supplies in Malta may appoint a tax representative or may be required by the Maltese tax authorities to do so. The Commissioner for Revenue may designate, by means of a written notice, a person resident in Malta with whom the non-established business has a business relationship to be the tax representative of the non-established business, unless the non-established business has already designated a representative. The representative must be nominated in writing to the VAT authorities. A tax representative is jointly and severally liable with the person represented.

Registration procedures. A taxable person established in Malta who carries on an economic activity (or a non-Maltese established taxable person who is liable to charge Maltese output VAT on his supplies) is liable to register for Maltese VAT under Article 10 of the VAT Act within 30 days of making a supply for consideration in Malta, other than an exempt-without-credit supply.

Maltese established taxable persons that qualify as a small undertaking may register under Article 10, but also may opt for a simpler VAT registration under Article 11, depending on the type of economic activity involved and the level of turnover, as follows:
- For new registrants who principally supply goods: those with an annual turnover lower than EUR35,000 (the "entrance threshold") may register as a small undertaking. Taxpayers currently registered under the normal regime may reregister as a small undertaking if their turnover falls below EUR28,000 (the "exit threshold").
- For new registrants who principally supply services with relatively low value added, those with an annual turnover lower than EUR24,000 may register as a small undertaking. Such taxpayers currently registered under the normal regime may reregister as a small undertaking if their turnover falls below EUR19,000.
- For new registrants who principally supply other services, those with annual turnover lower than EUR20,000 may register as a small undertaking. Such taxpayers currently registered under the normal regime may reregister as a small undertaking if their turnover falls below EUR17,000.

Moreover, anyone who carries on an economic activity is not registered under Article 10 and intends to make an intra-Community acquisition in Malta is liable to register for Maltese VAT under Article 12, by not later than the date of that acquisition if his total intra-Community acquisitions in Malta during that calendar year exceed EUR10,000.

A taxable person established in Malta who is not registered under Articles 10 or 11 and who supplies services within the territory of another Member State for which the tax is payable solely by the recipient shall apply to be registered under Article 10 by not later than 30 days from the date on which he makes a supply for consideration. Moreover, a taxable person established in Malta, other than a taxable person registered under Article 10, who receives services for which he is liable to pay the tax (reverse-charge mechanism) shall apply to be registered under Article 12 by not later than the date on which he receives a service.

A Maltese VAT registration should be accompanied by the necessary due diligence documentation and is usually processed within 5 to 10 working days from when all information is made available to the Maltese VAT Department.

Late-registration penalties. Penalties are assessed for late registration or for failure to keep records or submit returns. A penalty for late registration is assessed on an amount equal to the higher of the following:

- 1% of the excess, if any, of the output tax due over input tax (and any allowable deductions) for the first VAT period following registration
- EUR20 for every month or part of a month that the registration is late

The penalty is capped at a maximum of 20% of the output tax due over input tax (and any allowable deductions) for the first VAT period following registration.

Tax representatives. Persons who are not established in Malta and who are required to register for VAT purposes in Malta may nominate a person resident in Malta to act as their fiscal representative. This is to be made in writing to the Commissioner for Revenue and is subject to his approval. Such a request may also be made by the Commissioner for Revenue himself.

The representative is liable in the same manner and to the same extent as the person for whom he acts as representative, for all obligations imposed by the VAT Act.

Reverse charge. Under the VAT directive, certain supplies received as a customer from a supplier outside Malta are required to be treated in a different way to normal supplies. In such situations, rather than being charged VAT by the supplier, the customer will account for any VAT due. This is known as the "reverse-charge" mechanism.

Where the reverse-charge mechanism applies, the Maltese recipient must act as both supplier and recipient of the services for VAT purposes. On the same VAT return, therefore, the Malta taxable person must account for output and input tax.

Where a Maltese supplier supplies certain goods or services to a taxable person not established in Malta, generally, no VAT is due in Malta, and VAT should not be accounted for. However, in order to avoid double taxation, nontaxation or distortion of competition, the Director General of VAT may, with regard to the supply of the services referred to in Articles 44, 45, 56 and 59 of the EC Directive 2006/112/EC:

- Consider the place of supply of any service as being situated outside the EU, if the effective use and enjoyment of the services takes place outside the EU
- Consider the place of supply of any service as being situated within Malta, if the effective use and enjoyment of the services takes place within Malta

The penalties for the non-inclusion of this information are the same for any other information and disclosure.

Digital economy. Effective 1 January 2015, new rules came into force regarding the place of supply of telecommunication services, broadcasting services and electronically supplied services. As a general rule, such services when provided to nontaxable persons will be deemed to take place in the country where the customer is established. Some minor changes in connection with the invoicing rules of such services, and for sales less than EUR10,000 and EUR100,000, will be coming into effect as of 1 January 2019, in line with Council Directive (EU) 2017/2455 and Council Implementing Regulation (EU) 2017/2459.

Mini One-Stop Shop. The Mini One-Stop Shop became effective 1 January 2015 and registration started effective 1 October 2014.

The Maltese VAT Department issued a notice stating that persons supplying services under the MOSS in terms of Articles 359 and 369b of the EU VAT Directive 2006/112/EC shall not be required to issue fiscal receipts for such B2C services.

Deregistration. An application for the cancellation of a Maltese VAT registration shall be filed by any Maltese VAT registered person who is no longer required to remain registered for Maltese VAT purposes and shall contain the particulars specified in that form.

Exemption from registration. A Maltese established taxable person exclusively involved in exempt without credit supplies (or in supplies that take place outside Malta and are not subject to the reverse-charge mechanism in another EU Member State) as a general rule is not required to register for Maltese VAT purposes (save for any intra-Community acquisitions of goods in excess of EUR10,000 per annum or receipt of taxable services from a non-Maltese established services provider that both trigger a Maltese VAT registration obligation).

A non-Maltese established taxable person is not required to register for VAT purposes in Malta as long as no supplies are rendered/received in Malta upon which he is the person liable for the payment of VAT.

Such persons, even though not registered for Maltese VAT, would still be considered as taxable persons on the basis that they are carrying on an economic activity (excluding pure holding companies).

Voluntary registration. A taxable person who is not required to register for VAT purposes in Malta may still apply for a Maltese VAT registration to claim back any Maltese input VAT incurred on expenses on the basis that the supplies carried out to which such expenses relate (both within and outside of Malta) carry a right of refund, even though such supplies do not trigger a VAT registration obligation.

D. VAT rates

The term "taxable supplies" refers to supplies of goods and services that are liable to VAT (at the standard rate of 18% or the reduced rates of 5% or 7%).

The VAT rates are:
- Standard rate: 18%
- Reduced rates: 5% and 7%

The standard rate of VAT applies to all supplies of goods or services, unless a specific measure provides a reduced rate or an exemption.

Examples of supplies of goods and services taxable at 5%

- Confectionery
- Medical equipment and accessories
- Printed matter (including e-books/audio books as from 1 January 2015)
- Supply of electricity
- Items for the exclusive use of the disabled
- The importation of works of art, collectors' items and antiques

Examples of goods and services taxable at 7%

- Tourist accommodation
- Use of sporting facilities

Examples of exempt with credit supplies of goods and services (0% rate)

- Food, excluding catering
- Pharmaceutical goods
- International transport

- Exports of goods and related services
- Supplies to ships
- Supply of gold to the Central Bank of Malta

The term "exempt supplies" refers to supplies of goods and services not liable to tax and that do not give rise to a right of input tax deduction (see Section F). Some supplies are classified as "exempt with credit," which means that no VAT is due, but the supplier may recover related input tax. Exempt with credit supplies include exports of goods and related services to third territories (that is, territories outside the EU).

Examples of exempt supplies of goods and services (without credit)

- Letting and transfer of immovable property
- Health and welfare
- Education
- Postal services
- Banking and insurance
- Grant and negotiation of credit and the management of credit by the grantor
- Supply by nonprofit organizations of approved services related to sports or physical recreation
- Sports
- Lotteries
- Broadcasting
- Water

Option to tax for exempt supplies. Not applicable.

E. Time of supply

The time when VAT becomes due is referred to as the "date when tax on supplies becomes chargeable" or "tax point."

The basic tax point for a supply of goods is the earlier of the date on which the goods are delivered or otherwise made available to the recipient of the supply or the date on which payment is made. The basic tax point for a supply of services is the earlier of the date on which the services are performed or the date on which payment is made.

If a VAT invoice is issued before the basic tax point or by the 15th day of the month following the basic tax point, the date on which the VAT invoice is issued becomes the actual tax point. The actual tax point overrides the basic tax point.

Cash accounting. Professional service providers and retailers, as well as civil, mechanical and electrical engineering contractors, may use cash accounting if they have not exceeded the threshold of EUR2 million, subject to the condition that the right to deduct input tax shall be postponed until the tax on the goods or services supplied to them has been paid.

Imported goods. When goods are, on importation, placed under a customs duty suspension regime the chargeable event takes place and the tax becomes chargeable on the date when they cease to remain subject to that regime.

Reverse-charge services. The basic tax point for a supply of services is the earlier of the date on which the services are performed or the date on which payment is made.

If a VAT invoice is issued before the basic tax point or by the 15th day of the month following the basic tax point, the date on which the VAT invoice is issued becomes the actual tax point. The actual tax point overrides the basic tax point.

Continuous supplies of services. When the supply of services gives rise to successive statements of account or payments they shall be treated as performed, up to the value covered by those

statements, on the last day of each period to which such statements of account or payments refer (basic tax point).

Provided that, when a continuous supply of services does not give rise to statements of account or payments during a year, it shall be regarded as being completed at least at intervals of one year.

Prepayments. The basic tax point for a supply of goods is the earlier of the date on which the goods are delivered or otherwise made available to the recipient of the supply or the date on which payment is made. The basic tax point for a supply of services is the earlier of the date on which the services are performed or the date on which payment is made.

Intra-Community acquisitions. The tax on an intra-Community acquisition becomes chargeable on the earlier of the following two dates — (a) the 15th day of the month following the date of the acquisition; (b) the date on which a tax invoice is issued to the person making the acquisition for the supply of goods in question.

Intra-Community supplies of goods. The basic tax point for an intra-Community supply of goods is the earliest of the 15th day of the month following the date when the chargeable event takes place or the date on which a tax invoice is issued for that supply.

If a VAT invoice is issued before the basic tax point or by the 15th day of the month following the basic tax point, the date on which the VAT invoice is issued becomes the actual tax point. The actual tax point overrides the basic tax point.

Leased assets. In cases of leased goods (where the delivery of goods pursuant to a contract for the hire of goods for a certain period or for the sale of goods on deferred terms, which provides that in the normal course of events ownership shall pass at the latest upon payment of the final installment) such supplies shall be treated as supplies of goods with the basic tax point being the earlier of the date on which the goods are delivered (or otherwise made available to the recipient) or the date on which payment is made.

Goods sent on approval for sale or return. The Maltese VAT law does not provide for a specific time of supply rule for these circumstances.

F. Recovery of VAT by taxable persons

A VAT-registered person may recover input tax, which is VAT charged on goods and services supplied to it for business purposes. Input tax is recovered by deducting the amount from output tax, which is VAT charged on supplies made in the same period.

Input tax includes VAT charged on goods and services supplied in Malta, VAT paid on imports of goods and VAT self-assessed for reverse-charge services received from outside Malta.

For a claim for input tax to be valid, the following conditions must be met:
- The claim must be supported by a tax invoice.
- The person claiming the expense must have the document in its possession, and produce it to the Director General of VAT if and when requested.
- The amount of tax claimed must be properly accounted for in the records held by the claimant.
- The VAT is recoverable to the extent allowable by the VAT Act.

Nondeductible input tax. Input tax may not be recovered on purchases of goods and services that are not used for business purposes (for example, goods acquired for private use by an entrepreneur). In addition, input tax may not be recovered for some items of business expenditure.

Examples of items for which input tax is nondeductible

- Non-business expenditure

- Purchase, repair and maintenance, lease, fuel and hire of vehicles (excluding commercial vehicles)
- Business and employee entertainment
- Tobacco and alcohol
- Works of art and antiques

Partial attribution (partial exemption). Input tax directly related to the provision of exempt without credit supplies is generally not recoverable. If a registered person makes both exempt without credit supplies and taxable supplies, the person may not deduct input tax in full. This situation is referred to as "partial attribution" or "partial exemption." The amount of input tax that may be deducted from output tax by a taxable person making exempt without credit supplies is based on the percentage of taxable supplies made compared with total supplies made. Attribution is based on a provisional rate in the first year (Year 1) and is then adjusted to a definitive rate, which is based on the level of taxable supplies made compared with total supplies made on an annual basis. The definitive rate (as amended at the end of the first year) is used as the provisional rate in the second year (Year 2).

Capital goods. Capital goods are items of capital expenditure that are used in a business over several years. Input tax is deducted in the VAT year in which the goods are acquired and first taken into use. The amount of input tax recovered depends on the taxable person's partial attribution recovery position in the VAT year of acquisition. However, the amount of input tax recovered for capital goods must be adjusted over time if the taxable person's partial attribution recovery percentage changes during the adjustment period or if the use of the capital goods changes.

An adjustment may be necessary to the initial VAT deduction with respect to capital goods and immovable property, resulting from either changes in the circumstances of the business or to changes in the proportion of use of the asset in the business. In the event of such change in circumstances, an adjustment to the initial deduction is made. The adjustment period is five years with respect to capital goods other than immovable property and 20 years with respect to immovable property.

Refunds. If the amount of input tax recoverable in a tax period exceeds the amount of output tax payable in that period, the taxable person ends up in an excess credit position. A taxable person is entitled to a refund of such excess credit if the excess credit is not set off against any VAT due in the subsequent tax period. The refund must be paid within five months after either the due date of the VAT return or the date on which the return is submitted, whichever is later.

The VAT authorities pay interest on VAT refunds that are paid late at a rate of 0.75% per month or part of a month. Interest is payable for the period beginning with the date on which the refund becomes payable and ending on the date on which the refund is paid.

Preregistration costs. As a general rule no amount shall be treated as input tax of a person unless it is supported by a tax invoice (including all necessary details such as VAT identification number) in respect of the tax relating to goods or services supplied to him.

Write-off of bad debts. A claim for a deduction by way of a bad debt relief shall be subject to such directives as the Maltese VAT Department may give as to the circumstances in which it may be made and the documents or other evidence that should be produced.

The conditions for claiming bad debt relief, are as follows:
- Claim for bad debt relief may be made following a final court judgment showing beyond doubt and to the satisfaction of the Commissioner that the debt can never be recouped.
- The claim must reach the Commissioner by not later than twelve (12) months from the date of delivery of the final judgment.
- VAT in connection with the claim must have already been accounted for and paid to the department.

- All VAT returns and payments due as at the date of the claim must have been submitted by that date.
- The debt must have been written off in the claimant's day-to-day VAT accounts and transferred to a separate bad debt account.
- The supply must have been made to the customer, or to a third party through the customer.
- The value of the supply must not be more than the customary selling price.
- The debt must not have been paid, sold or factored under a valid legal assignment.

To claim a refund, an application to claim bad debt relief must be made by means of a registered letter addressed to the Commissioner, providing:
- A copy of the relative final court judgment
- The date and number of any invoice issued for each supply to the customer, which is included in the claim
- For each relevant supply, the amount that has been written off as a bad debt
- The amount of the claim

The Commissioner shall subsequently examine the case, accept or reject the claim and inform the claimant accordingly.

The claimant may deduct the tax relative to the bad debt relief claim in Box 41 of the VAT return for the tax period following that in which the Commissioner has authorized the relief.

Noneconomic activities. Sometimes goods or services are not or will not be wholly used in the course or furtherance of an economic activity. In those situations, the deductible input tax is such proportion of the tax chargeable on the supplies, intra-Community acquisitions or importations in question, taking into account the proportion of the use of those goods or services in the course or furtherance of the economic activity to their total use.

G. Recovery of VAT by non-established businesses

The VAT authorities refund VAT incurred by businesses that are neither established nor registered for VAT in Malta, under the terms of Council Directive 2008/9/EC and the EU 13th Directive (see the chapter on the EU). For businesses established in the EU, refund is made under the terms of Council Directive 2008/9/EC. For businesses established outside the EU, refund is made under the terms of the EU 13th Directive.

For the general VAT refund rules under Council Directive 2008/9/EC and the EU 13th Directive refund schemes, see the chapter on the EU.

Claims for refunds by persons established in other EU Member States must be made online in accordance with Council Directive 2008/09/EC. Claims for refund under the EU 13th Directive must be made on an appropriate form and sent to the following address:

Commissioner for Revenue
Value-Added Tax Department
Centre Point Building
Ta' Paris Road
Birkirkara BKR 4633
Malta

H. Invoicing

VAT invoices and credit notes. Registered persons must generally provide tax invoices for all taxable supplies of goods and services made and for exports. Fiscal receipts must be issued for retail sales. A purchaser who receives a fiscal receipt for a supply must retain it for a period of at least 24 hours because the purchaser may be required to produce the receipt for inspection by the VAT authorities.

A credit note may be used to reduce VAT charged and reclaimed on a supply. A credit note must be cross-referenced to the original invoice.

Electronic invoicing. Effective 1 January 2013, the VAT law has been amended to permit electronic invoicing in line with EU Directive 2010/45/EU.

Proof of exports and intra-Community supplies. VAT is not chargeable on exports and intra-Community supplies of goods dispatched to a destination outside of Malta. Both supplies must be accompanied by evidence that confirms the goods have left Malta. Suitable evidence includes the stamped customs exportation documentation.

Foreign-currency invoices. Invoices may only be issued in euros. Foreign currency may only be quoted as a reference. The selling rate quoted by the European Central Bank on the date on which the supply takes place must be used.

B2C. Effective 1 January 2015, new rules apply to the place of supply for supplies of telecommunications, broadcasting and electronic services to non-VAT taxable customers. For further details of the VAT rules on electronic services in the EU, please refer to the European Union chapter.

Maltese suppliers of these B2C services are not required to issue a tax invoice to nontaxable customers but are required to issue a fiscal receipt. Moreover the Maltese VAT Department issued a notice stating that persons supplying services under the MOSS in terms of Articles 359 and 369b of the EU VAT Directive 2006/112/EC (effective 1 January 2015) shall not be required to issue fiscal receipts for such B2C services.

I. VAT returns and payment

VAT returns. In most cases, registered persons file VAT returns quarterly. VAT returns must be filed within one-and-a-half months after the end of the tax period to which they relate. Payment in full is required on the same date. Return liabilities must be paid in euro.

Recently Maltese VAT law was amended to ensure that businesses sending their VAT declarations and making payments online are not charged interest and administrative fines if the declaration or payment is sent within seven days after the current deadline.

Special schemes. The Maltese VAT Act, in the 14th Schedule, contemplates the following special schemes:

- *Professional services.* A special scheme restricted for warrant holders whereby they can apply the cash accounting system for VAT accounting (as opposed to accrual accounting)
- *Secondhand goods, works of art, collectors' items and antiques.* A special scheme whereby VAT is mainly charged on the profit margin generated on the supply of such goods
- *Supplies by retailers and by civil, mechanical and electrical engineering contractors.* A special scheme whereby these contractors can apply the cash accounting system for VAT accounting (as opposed to accrual accounting)
- *Travel agents.* The tour operators/travel agents margin scheme
- *Tax in danger.* A scheme that allows the domestic reverse-charge mechanism only in connection to construction-related supplies and subject to approval by the Maltese VAT Department
- *Investment gold.* A special scheme regarding the VAT accounting for investment gold
- *Telecommunications, broadcasting or electronically supplied services.* The Mini One-Stop Shop for EU and non-EU established service providers of telecommunication, broadcasting and electronically supplied services

Electronic filing and archiving. VAT returns may be filed electronically and there are certain benefits to incentivize the use of electronic filing (mainly a seven-day extension for the filing of the VAT return and the payment of the respective VAT due, if any). The Maltese VAT Department is

moving toward full/complete electronic filing and from 2019 only certain micro-enterprises will be permitted an element of manual paper filing.

With respect to electronic archiving, invoices shall be stored in the original form in which they were sent or made available, whether paper or electronic. Additionally, in the case of invoices stored by electronic means, the Maltese VAT Department may require that the data guaranteeing the authenticity of the origin of the invoices and the integrity of their content shall also be stored by electronic means.

Annual returns. Not applicable.

J. Penalties

Interest is assessed on VAT paid late. The current rate is 0.54% for each month or part of a month. The interest rate may change.

A penalty for default in submitting a tax return equals the greater of the following two amounts:
- 1% of the excess, if any, of the output tax over input tax for the period (disregarding any excess credit brought forward from a previous tax period and any allowable deductions)
- EUR20 for every month or part of a month that the return is late
- Capped at EUR250

For the filing of a tax return containing errors that are discovered during a VAT inspection, a penalty equal to the sum of the following is imposed:
- 20% of the excess, if any, of the correct amount of output tax over the output tax declared in the return
- 20% of the excess, if any, of the deductions declared in the return over the correct amount of the deductions

If an error is voluntarily disclosed before it is discovered by the VAT Department, the penalty is reduced to 10%. This reduction also applies if the person involved cooperates with the Commissioner for Revenue, accepts an agreement and pays the amounts due within one month after signing the agreement.

K. EU filings

Intrastat and EU Sales Lists. A taxable person that trades with other EU countries must complete statistical reports, known as Intrastat returns and EU Sales Lists (ESLs). Penalties may be imposed for late, missing or inaccurate Intrastat returns and ESLs. The 2018 thresholds for Intrastat Arrivals and Intrastat Dispatches is EUR700 per return.

Recapitulative statement. In general, recapitulative statements must be prepared for each calendar month with respect to the following:
- Intra-Community supplies of goods
- Intra-Community supplies of services made to a customer that is liable to pay the tax on that service in the EU Member State in which it is established, except when such service is exempt in that Member State

Recapitulative statements must be submitted online to the VAT Department by the 15th day of the month following the relevant calendar month.

However, recapitulative statements may be submitted online for each calendar quarter by the 15th day of the month following the end of the quarter if the total amount of the supplies of goods, excluding VAT, did not exceed in the relevant quarter or in any of the four preceding quarters EUR50,000. If the EUR50,000 threshold is exceeded, the recapitulative statements must be submitted by the 15th day of the month following the relevant month.

Notwithstanding the above, if a person provides only supplies of services, it may submit an online recapitulative statement for each calendar quarter regardless of the total value of services supplied.

The values of supplies of goods or services required to be reported in the recapitulative statement must be declared in the period of submission over which VAT was due.

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A. At a glance

Name of the tax	Value-added tax (VAT)
Date introduced	7 September 1998
Trading bloc membership	Common Market for Eastern and Southern Africa Member, Southern African Development Community Member
Administered by	Mauritius Revenue Authority (MRA)
VAT rates	
Standard	15%
Other	Zero-rated and exempt
VAT number format	VAT99999999
VAT return periods	
Monthly	Annual amount of taxable supplies exceeds MUR10 million
Quarterly	Annual amount of taxable supplies is MUR10 million or less
Thresholds	
Registration	Annual turnover of MUR6 million (see Section C)
Recovery of VAT by non-established businesses	No

B. Scope of the tax

VAT applies to the following transactions:
- The supply of goods or services made in Mauritius by taxable persons
- Reverse-charge services received by taxable persons in Mauritius
- The importation of goods from outside Mauritius

Certain persons, such as airlines and other organizations approved by the Director-General, Mauritius Revenue Authority (MRA), are exempt from VAT on specified supplies.

C. Who is liable

A taxable person is any entity or person that is required to be registered for VAT.

VAT registration is compulsory if annual turnover from a trade or profession exceeds MUR6 million.

However, persons engaged in certain businesses or professions must register for VAT, regardless of their level of turnover. This rule applies to the following businesses or professions:
- Accountants
- Agents in the importation of secondhand motor vehicles
- Auditors
- Advertising agents
- Advisers
- Architects
- Attorneys
- Barristers with more than two years' standing at the Bar
- Clearing and forwarding agents
- Customs house brokers
- Engineers
- Estate agents
- Land surveyors
- Notaries
- Opticians
- Project managers
- Property valuers
- Quantity surveyors
- Sworn auctioneers
- Tour operators
- General sales agents of airlines

Exemption from registration. A taxable person whose turnover is exclusively zero-rated may choose not to apply for registration.

A taxable person whose turnover is exclusively exempt from VAT may not apply for registration.

Voluntary registration. A person may register for VAT voluntarily if its taxable turnover is below the VAT registration threshold. A person may also register for VAT voluntarily in advance of making taxable supplies.

Group registration. Not applicable.

Reverse charge. If a nonresident person supplies services that are performed or used in Mauritius to a VAT-registered person, the VAT-registered per-son must account for the VAT due under "reverse-charge" accounting; that is, the registered person must charge itself VAT. The self-assessed VAT may be deducted as input tax depending on the taxable person's partial exemption status (see Section F). This measure does not apply to supplies that are exempt from VAT under the Mauritian VAT law. Further to the amendment made by the Finance (Miscellaneous Provisions) Act 2016, certain non-VAT registered persons will also have to apply the reverse charge provisions. The regulations on the persons who are excluded from the application of this new provision have not yet been issued and to date the measure is not yet effective.

Registration procedures. An application form for registration should be submitted to the MRA. The form is submitted in hard copy and registration may be completed within a week.

Late-registration penalties and interest. A penalty applies to late registration. The penalty is 5% of the unpaid tax plus interest at a rate of 1% of the unpaid tax per month. The penalty is reduced to 2% of the unpaid tax in the case of a small enterprise (for this purpose a small enterprise means a person with an annual turnover of less than MUR10 million). The penalty for failure to

apply for compulsory registration is MUR2,000 per month and is restricted to MUR20,000. In the case of a small enterprise, the maximum penalty is MUR5,000.

Non-established businesses. In the context of services, a nonresident business needs to have a permanent establishment in Mauritius to be able to register for VAT. A nonresident business supplying goods within Mauritius may register for VAT in Mauritius. Currently, the law does not distinguish between supplies made to businesses (B2B) and private consumers (B2C). If VAT registration is compulsory, the nonresident business is not allowed to avoid registration, even if the recipient of the service applies the reverse-charge mechanism. The same registration threshold applies to residents and nonresidents businesses. A nonresident business cannot register on a voluntary basis so that it can recover any VAT incurred in Mauritius.

Tax representatives. Not applicable. There are no rules in Mauritius on the appointment of fiscal representatives.

Digital economy. For business-to-consumer transactions, the reverse-charge provision does not apply to an individual who is not required to be registered under the Business Registration Act. Currently, VAT registration does not apply to non-established businesses that supply cross-border supplies of goods or electronic services (i.e., services supplied using the internet provided) to customers in Mauritius for business-to-business transactions and business-to-consumer transactions.

Deregistration. A taxable person that ceases to be eligible for VAT registration must deregister. The person must write to the Director-General, MRA, who determines the effective date of deregistration.

D. VAT rates

In Mauritius, the term "taxable supplies" refers to supplies of goods and services that are liable to a rate of VAT, including the zero rate.

The VAT rates are:
- Standard rate: 15%
- Zero rate: (0%)

The standard rate of VAT applies to all supplies of goods or services, unless a specific measure provides for a zero rate or an exemption.

Examples of goods and services taxable at 0%

- Printed books and booklets
- Sugar
- Fertilizers
- Margarine
- Rice
- Yogurt
- Edible oils
- Transport of passengers and goods by sea or air
- Electricity and water
- Export of goods and services
- Chilled deep-sea water used for the provision of air conditioning services
- Photovoltaic systems

The term "exempt supplies" refers to supplies of goods and services that are not liable to tax and that do not give rise to a right of input tax deduction.

Examples of exempt supplies of goods and services

- Bread
- Baby food
- Breakfast cereals
- Entrance to cinemas, concerts and shows
- Films, including royalties
- Educational services
- Certain financial services
- Insurance
- Public transport
- Land
- Medical services
- Training services approved by the Mauritius Qualifications Authority

Option to tax for exempt supplies. Not available in Mauritius.

E. Time of supply

The time when VAT becomes due is called the "time of supply" or "tax point." The tax point under the Mauritian law is the earlier of the receipt of payment or the issuance of an invoice or VAT invoice.

For hire-purchase agreements, the tax point arises when the agreement is made.

Deposits and prepayments. The receipt of a deposit or prepayment normally creates an actual tax point if the amount is paid in the expectation that it will form part of the total payment for a particular supply. A tax point is created only to the extent of the payment received.

Imported goods. The time of supply for imported goods is the time when the goods are removed from customs.

Goods sent on approval or for sale or return. The tax point for goods sent on approval or for sale or return is the earlier of the issuance of an invoice or VAT invoice or when payment is received.

Continuous supplies of services. If services are supplied continuously, a tax point is created each time a payment is made or an invoice or VAT invoice is issued, whichever occurs earlier.

Reverse-charge services. The tax point for reverse-charge services is when the consideration for the services is paid. If the consideration for the services is not in money, the tax point is the last day of the VAT period during which the services are performed.

Leased assets. The time of supply for the supply of leased assets is the earlier of the issue of an invoice or receipt of payment.

F. Recovery of VAT by taxable persons

A taxable person may recover input tax, which is VAT charged on goods and services supplied to it for business purposes. A taxable person generally recovers input tax by deducting it from output tax, which is VAT charged on supplies made.

A valid VAT invoice or customs import declaration must generally support a claim for input tax.

Input tax on expenditure incurred before registration is not generally allowable.

Nondeductible input tax. Input tax may not be recovered on purchases of goods and services that are not used for business purposes (for example, goods acquired for private use by an entrepreneur). In addition, input tax may not be recovered for some items of business expenditure.

Examples of items for which input tax is nondeductible

- Purchase of a car
- Accommodation
- Assets transferred as part of a going concern
- Business entertainment and hospitality

Examples of items for which input tax is deductible (if related to a taxable business use)

- Conferences, exhibitions and seminars
- Staff welfare
- Certain goods' vehicles

Partial exemption. Input tax directly related to making exempt supplies is not recoverable. If a taxable person makes both exempt and taxable supplies, it may not recover input tax in full. This situation is referred to as "partial exemption."

A taxable person that makes exempt supplies may calculate the recoverable amount of VAT by an alternative method if approved by the MRA. The standard partial exemption calculation method is a two-stage calculation. The following are the two stages for this calculation:

- The first stage identifies the input VAT that may be directly allocated to taxable and exempt supplies. Input tax directly allocated to taxable supplies is deductible, while input tax directly related to exempt supplies is not deductible.
- The second stage identifies the amount of the remaining input tax (for example, input tax on general business overhead) that may be allocated to taxable supplies and recovered. The calculation of recoverable VAT may be performed using the proportion of the value of taxable supplies to total turnover in the preceding year. An adjustment is made after the year so that the proportion is based on actual figures.

If the standard calculation provides an unfair result, the taxable person may agree on a special calculation method with the MRA.

Capital goods scheme. Not applicable.

Special levy on banks. For accounting periods terminating on or after 1 January 2019, a bank is liable to a levy where it does not have a loss for the accounting period. The levy is based on the aggregate of the net interest income and other income from banking transactions with residents, before deduction of any expenses.

- The rate of the levy is 5.5%, where the tax base for the purposes of the levy is less than MUR1.2 billion.
- The rate of the levy is reduced to 4%, where the tax base for the purposes of the levy is more than MUR1.2 billion.

The levy should be remitted to the MRA within five months of the accounting period of the bank. Late payment of the levy results in a penalty of 5% and monthly interest of 0.5%.

VAT refunds. If the amount of input tax (VAT on purchases) recoverable in a period is greater than the amount of output tax due (VAT on sales), the excess may be refunded in certain circumstances.

A registered person may make a claim for repayment of the amount of input tax allowable with respect to capital goods amounting to MUR100,000 or more if it has excess input VAT in the relevant tax period. The MRA may refund all or part of the claim.

In addition to any amount repayable relating to capital goods, a registered person may also make a claim to the MRA for a repayment of that part of the excess amount that corresponds to the proportion of the total value of zero-rated supplies made compared to the total value of taxable supplies made in that tax period.

From 1 October 2018, the recoverable input tax may be deferred if all the following conditions are met:
- The duty-paid value of the capital goods is MUR1 million or more
- The capital goods are to be used in the course of, or for the furtherance of, the VAT-registered person's business
- The VAT-registered person is compliant with the obligations under the revenue laws
- A security is furnished to cover the deferred VAT
- Proper records are kept

VAT refund scheme for selected industries. The VAT refund scheme introduced in 2011 will not have any time limit further to the amendment made by the Finance (Miscellaneous Provisions) Act 2003. The relief applies to specified equipment and services to the following persons:
- Bakers
- Planters or horticulturists
- Livestock breeders (including pig breeders)
- Apiculturists
- Fishermen
- Tea cultivators
- Member of the Mauritius Society of Authors

Preregistration costs. Input tax on trading stocks and capital goods acquired within three months immediately preceding the date of registration can be recovered provided that the VAT is substantiated by receipts or invoices or customs import declaration. The input tax should be certified by a qualified auditor.

G. Recovery of VAT by non-established businesses

Mauritius does not refund VAT to businesses that are not established in Mauritius.

H. Invoicing

VAT invoices and credit notes. Taxable persons must provide VAT invoices for all taxable supplies made to other registered persons in Mauritius.

A VAT invoice is necessary to support a claim for input tax deduction or a refund.

A VAT credit note may be used to reduce the VAT charged and reclaimed on a supply. The credit note must reflect a genuine mistake, an overcharge or an agreed reduction in the value of the original supply.

Foreign-currency invoices. If an invoice or a VAT invoice is issued in a foreign currency, the VAT due must be converted into Mauritian rupee using the prevailing exchange rate at the time of the issuance of the invoice.

Proof of exports. In connection with the export of goods, documentary evidence regarding customs control should be kept.

B2C. Full VAT invoices must be issued to any person, such that the same invoicing requirements apply for supplies to registered and nonregistered persons.

Electronic invoicing. Electronic invoicing is allowed in Mauritius, but it is not mandatory. There are no specific rules in the VAT laws and regulations in respect of electronic invoicing.

I. VAT returns and payment

VAT returns. VAT returns are submitted either quarterly or monthly. The quarterly return periods end in March, June, September and December. Returns must be submitted within 20 days after the

tax period. VAT payments must also be made within 20 days after the tax period. The time limit of 20 days does not apply to a person that is required to submit its VAT return electronically. In such a case, the time limit is the end of the month following the taxable period. If the statutory date is the end of December, the due date for the submission of the return and payment of tax is two days, excluding Saturdays and public holidays, before the end of December. A list of taxable supplies to any person, other than retail supplies, showing the invoice number and value of supply is required to be submitted every month at the time the VAT return is submitted.

Special schemes. Not applicable.

Electronic filing and archiving. Where the VAT return is submitted electronically, the submission date and payment of the tax is a month within the taxable period. The records may be kept electronically.

Annual returns. Not applicable.

J. Penalties

A penalty applies for the late submission of a VAT return. It equals MUR2,000 per month, up to a maximum of MUR20,000. For a small enterprise, the maximum penalty is reduced to MUR5,000.

For late payment of VAT, the penalty is 5% of the unpaid tax; the penalty is reduced to 2% in the case of a small enterprise (for this purpose a small enterprise means a person with an annual turnover of less than MUR10 million). Interest is computed at a rate of 1% per month. The Director-General, MRA may waive the penalty and interest if the Director-General is satisfied that the error was attributable to a just or reasonable cause. Where an assessment is raised, a penalty not exceeding 50% of the tax claimed shall apply. The MRA is empowered to issue an additional assessment.

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A. At a glance

Name of the tax	Value-added tax (VAT)
Local name	Impuesto al Valor Agregado (IVA)
Date introduced	1 January 1980
Trading bloc membership	None
Administered by	Mexican Administration Tax Service (Servicio de Administración Tributaria, or SAT) Ministry of Finance and Public Credit (http://www.sat.gob.mx)
VAT rates	
Standard	16%
Other	Zero-rated (0%) and exempt
VAT number format	Not applicable
VAT return periods	Monthly
Thresholds	
Registration	None
Recovery of VAT by non-established businesses	No

B. Scope of the tax

VAT applies to the following transactions:
• Supply of goods and independent services provided in Mexico
• Importation of services (subject to the reverse charge, see Section C)

- Grant of temporary use or exploitation of goods
- Importations of goods, regardless of the status of the importer

C. Who is liable

Any business entity or individual that carries out, in Mexican territory, any of the taxable transactions described above, as provided in the VAT law.

Group registration. VAT grouping is not allowed under the Mexican VAT law. Legal entities that are related to each other must register for VAT individually.

Non-established businesses. VAT registration is only required for non-established businesses that carry out taxable activities in Mexico.

Foreign businesses with an establishment in Mexico. A foreign legal entity with an establishment in Mexico must submit an application for all federal tax purposes such as corporate income tax and VAT. For VAT purposes, it must file monthly VAT returns and issue electronic invoices and file electronic accounting like any other Mexican resident. In addition, when applicable, income tax obligations must be fulfilled.

Reverse charge. Taxpayers who import intangible goods or services are subject to VAT, which can be credited in the same monthly return pursuant to the VAT Law.

VAT withholding. A taxable person that receives a supply must withhold the VAT due from the supplier and must pay the corresponding VAT. It applies to a variety of transactions, including the following:

- Fees paid by companies to individuals
- Acquisitions of scrap material
- Ground transportation (freights) of goods
- Commissions paid by companies to individuals
- Lease or acquisition of tangible goods from residents abroad

Registration procedures. The taxpayer has to request a tax identification number (federal taxpayers registry) from the tax authorities (SAT). The registration is done electronically, through the SAT's website (www.sat.gob.mx). In addition, the taxpayer goes to the SAT office to complete the registration with the following information:

- Bylaws of the entity
- Proof of the tax address in Mexico
- Notarized power of attorney granted to the legal representative
- Identification card of the legal representative

In addition, the entity is obligated to obtain the Mexican electronic signature for tax purposes (known as e.firma) through its legal representative. This procedure takes place in the SAT's office.

Late-registration penalties. Penalties and interest are assessed for several types of VAT errors, including late registration for VAT (see *Section J Penalties*).

Tax representatives. Powers of attorney can be granted by the taxpayer and they must be for general administrative purposes.

Digital economy. There are no specific rules relating to the taxation of the digital economy. However, in the case of importation or temporary use or enjoyment of intangible assets, the customer is generally expected to account for the VAT. Such VAT may be used as a credit against its own activities.

It is important to point out that although the invoice issued by the nonresident business would not include the VAT amount, the customer (business) has to reflect it in its accounting records and in the VAT returns submitted, otherwise tax authorities may challenge the VAT credit and request the tax. The VAT is effectively accounted for via the reverse-charge mechanism.

In the Mexican VAT law, there is no specific guidance under local law in cases of a business-to-customer transaction for the temporary use or enjoyment of an intangible asset.

Deregistration. Through a liquidation process, the taxpayers can cancel the tax identification provided by the tax authorities.

Exemption from registration. The VAT law in Mexico does not contain any provision for exemption from registration.

Note that a VAT registration on its own would not be possible in Mexico. In case an entity would start taxable activities in Mexico, it would need to establish a local entity or a permanent establishment, which would be subject to all the different taxes in Mexico.

Voluntary registration. The VAT law in Mexico does not contain any provision for voluntary VAT registration, as there is no registration threshold (i.e., all entities that make taxable supplies are obliged to register for VAT).

D. VAT rates

The VAT rates are:
- Standard rate: 16%
- Zero rate: 0%
- Exempt

The standard rate of 16% applies to all taxable activities, unless a specific measure provides for a reduced rate, such as zero rate or exemption. Effective as of 1 January 2015, all temporary importations made by companies who operate under the IMMEX program are subject to VAT at the standard rate. However, a 100% credit of VAT is applicable over the temporary importations for those entities that obtain a certification for VAT/excise tax purposes.

Examples of goods and services taxable at 0%

- Exported goods
- Certain exported services
- Unprocessed food and milk
- Patented medicines

The term "exempt supplies" refers to supplies of goods and services that are not liable to tax. Exempt supplies do not give rise to a right of input tax deduction (see Section F).

Examples of exempt supplies of goods and services

- Books, newspapers and magazines
- Constructions used for residential purposes
- Transfer of copyright by authors
- Education
- Public transport of passengers by land
- Transport of goods by sea for nonresidents
- Local and foreign currency and credit instruments (including shares)

Option to tax for exempt supplies. Not applicable.

E. Time of supply

The time when VAT becomes due is called the "time of supply" or "tax point." The basic tax point for supplies of goods and services is when the customer effectively pays the consideration. As a result, VAT is determined on a cash-flow basis.

The cash-flow mechanism applies in Mexico, and therefore VAT is triggered when the payment of taxable activities is received, or in the specific case of importation of tangible goods, when those goods are imported within Mexican territory, even when it is a temporary importation.

On the other hand, if a taxpayer receives the return of transferred goods, grants discounts or rebates or refunds the advance payments or deposits previously received, for the purpose of engaging in activities taxed under this law, the taxpayer will deduct the amount of said items from the value of the activities for which the tax is payable, in the tax returns or returns following the corresponding calendar month, provided that it is expressly stated that the charged value added tax was refunded.

In addition, tax provisions set forth that in case of returns, discounts and rebates, taxpayers shall issue a digital tax invoice, which must fulfill the same requirements as invoices in accordance with federal tax code and its regulations.

Imported goods. The time of supply for imported goods is when the goods clear all customs procedures.

Deposits and prepayments. There are no special time of supply rules in Mexico for deposits and prepayments. This is because the cash-flow mechanism applies in Mexico, and therefore VAT is triggered when a payment (i.e., deposit or prepayment) is received.

Goods sent on approval for sale or return. There are no special time of supply rules in Mexico for supplies of goods sent on approval or for sale or return. This is because the cash-flow mechanism applies in Mexico, and therefore VAT is triggered when a payment is received.

Leased assets. There are no special time of supply rules in Mexico for supplies of leased assets. This is because the cash-flow mechanism applies in Mexico, and therefore VAT is triggered when the service is (periodically) paid for.

Reverse-charge services. The reverse-charge mechanism in Mexico only applies in cases of:
- Purchasing of services from a supplier in another country
- Importation of intangible assets

Only in these two scenarios the reverse charge would apply and be subject to the fulfillment of tax requirements. The reverse charge has to be recognized at the time that the consideration is effectively paid (as per the cash-flow mechanism).

Continuous supplies. There are no special time of supply rules for continuous supplies. This is because the cash-flow mechanism applies in Mexico, and therefore the VAT is triggered when payment is received (i.e., the service is paid for by the customer).

F. Recovery of VAT by taxable persons

A taxable person may recover input tax (also known as credit VAT), which is VAT charged on goods and services acquired for business purposes. A taxable person generally recovers input tax by deducting it from output tax (also known as debit VAT), which is VAT charged to customers. Input tax includes VAT charged on goods and services supplied in Mexico, granting of temporary use of goods, VAT paid on imports of goods and VAT withheld on reverse-charge goods and services.

To be deductible, input tax must relate to the acquisition of goods and services that qualify as deductible expenses for income tax purposes. If an item of expenditure is only partly deductible for income tax purposes, input VAT may be credited only with respect to the deductible portion of the expense.

A valid digital tax invoice, the valid digital tax payment invoice (received at the time payment is made to the supplier) or customs document must generally support a claim for input tax.

Examples of items for which input tax is nondeductible

- Business gifts
- Entertainment of employees

Examples of items for which input tax is deductible (if fully related to a taxable business use)

- Business entertainment
- Accommodation
- Purchase of a vehicle, up to MXN175,000
- Lodging, up to MXN3,850 per day
- Meals, disbursed in Mexico, up to MXN750 per day, and disbursed in foreign countries, up to MXN1,500 per day
- Lease of a vehicle, up to MXN850 per day
- Mobile phones
- Travel expenses

Partial exemption. Input tax directly related to carrying out exempt or nontaxable activities is generally not recoverable. If a taxable person carries out exempt or nontaxable activities, as well as makes taxable supplies, it may not recover input tax in full.

A taxable person must calculate its input tax credit based on a "credit factor." The credit factor is determined based on the percentage of taxable turnover compared with total turnover (including taxable and exempt or nontaxable supplies) in the month of the payment.

Refunds. If the amount of input VAT (credit VAT) recoverable in a month exceeds the amount of output VAT (debit VAT) payable, the excess credit may be carried forward to offset output tax in the following tax periods, or it may be refunded on request. The tax authorities refund a VAT credit by depositing the refundable amount into the taxable person's bank account. By law, refunds must be made within 40 business days after the date on which the refund request is filed. Likewise, favorable VAT may be offset against other federal taxes.

Preregistration costs. Not applicable.

G. Recovery of VAT by non-established businesses

Mexico does not refund VAT incurred by businesses that are neither established nor registered in Mexico. If a foreign business has an establishment in Mexico for tax purposes and makes taxable supplies there, it may request a refund of any VAT credit balances through the general refund procedure for taxable persons (see Section F).

H. Invoicing

VAT invoices and credit notes. A taxable person must provide an electronic tax invoice for all taxable supplies made, and for all collections regarding such supplies made at the moment of the deposit, including exports. The VAT must be expressly notified to the taxpayer and verified separately in the digital tax invoice.

Valid digital tax invoices are required to support a claim for input tax deduction. Such invoices are the valid digital tax invoice of the purchase or goods and services and the valid digital payment tax invoice received at the time payment is made to the supplier.

A VAT credit note may be used to reduce VAT charged and reclaimed on the supply of goods and services. A credit note must contain the same information and fulfill the same requirements as a VAT invoice.

Exports. Mexican VAT is charged at the 0% rate on exported goods. However, to qualify, exports must be supported by evidence that proves that the goods have left Mexico. Suitable proof includes customs export documentation for the transaction.

Foreign-currency invoices. If a VAT invoice is issued in foreign currency, the values for VAT purposes must be converted into Mexican pesos (MXN) using the exchange rate that the Central Bank publishes in the Federal Register on the day before the contributions are incurred (date of payment).

B2C. There are no special invoicing rules for supplies from taxable persons to private consumers. Full VAT invoices are required to be issued for all supplies.

Electronic invoicing. In Mexico it is mandatory to issue digital tax invoices with regard to the taxpayers' activities or income, or payments made, or the tax withholdings they carry out, and that those invoices must be issued through the tax administration service's webpage. Invoices must be kept for at least five (5) years.

In order to increase visibility on payments performed for the delivery of goods/provision of services, a new compliance obligation was introduced as from 1 September 2018. The new obligation basically sets forth that when consideration is not paid in a lump sum, a digital tax invoice shall be issued through the internet for the full amount of the relevant transaction at the moment in which it is executed; and a digital tax invoice shall be issued through the internet for each payment received thereafter.

This is particularly relevant, as the VAT system in Mexico is based on a cash-flow basis, meaning that VAT only becomes due when payment is performed.

I. VAT returns and payment

VAT returns. VAT returns are filed electronically and must be submitted on a monthly basis. VAT returns are due no later than the 17th day of the immediately following month. Returns must be paid in Mexican pesos.

In addition, monthly information of transactions with suppliers must be submitted electronically during the following month through an informative tax return known as DIOT.

Special schemes. The Mexican tax authorities issue special schemes for VAT recovery for certain sectors, such as taxpayers engaged in the production and distribution of food products, medicines and fixed asset investment projects. In these cases, taxpayers may obtain their refund claims within a maximum of 20 business days, pursuant to the fulfillment of certain requirements.

Since February 2016, tax authorities have provided administrative facilities to automatically recover favorable VAT for a maximum amount of MXN1 million. Some compliance requirements must be filled to access this benefit.

Electronic filing and archiving. VAT returns and all other tax returns must be filed electronically. VAT credits may be refunded on request through the SAT's website (www.sat.gob.mx). The usual documentation necessary for filing with the tax authorities is a formal letter explaining the taxpayer's motives for the return, along with the electronic format filed in the application FED "Formato Electrónico de Devoluciones" (including appendix 7 and 7-A, according to the type of VAT return), the corresponding paper work that shows the summary of the VAT transactions, the corresponding bank account of the person or entity (that does not exceed two months from the moment the return is requested) among others.

Since January 2015, taxpayers are obliged to file electronic accounting that includes a chart of accounts, trial balance and journal entries.

Annual returns. Appendix 2 of the Annual Informative Return must be filed regarding payments and VAT withholdings for professional services, leasing and transportation services, etc.

J. Penalties

Penalties are assessed for errors and omissions connected with VAT accounting. Under the Mexican Federal Tax Code, the following are considered tax offenses:
- Failure to comply with the obligations set out in tax provisions, including late compliance with those obligations, e.g., late-registration
- Underpayment and non-payment of taxes
- Overestimated refunds, credits or offsets
- Issuance of invoices that do not comply with tax requirements or failure to issue invoices at all
- Mathematical errors in filed returns
- Failure to keep accounting books

Any amount of tax that is not paid by the due date must be adjusted for inflation. A monthly surcharge is also applied to the amount of tax owed at a rate of 1.13% per month. If the taxable person corrects the error voluntarily or if the late payment is due to factors beyond the taxable person's control, no fines are imposed. However, the surcharge and inflation restatement apply.

Interest is assessed on late payments of tax at a monthly rate of 1.13%.

The federal tax code also lists tax crimes, which are criminal offenses. Tax crimes include the following offenses:
- Contraband
- Tax fraud
- Hiding, altering or destroying (in whole or in part) accounting books and records

Criminal offenses are punishable by fines, which may be a percentage of the tax lost or a specified amount. Tax crimes may also be penalized with a term of imprisonment of three months to nine years, or longer, depending on the circumstances.

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A. At a glance

Name of the tax	Value-added tax (VAT)
Local name	Taxa pe valoarea adaugata (TVA)
Date introduced	1 July 1998
Trading bloc membership	None
Administered by	State Tax Service (www.fisc.md)
VAT rates	
Standard	20%
Reduced	8%, 10%
Other	Exempt from VAT with and without the right to deduction
VAT number format	1234567
VAT return period	Monthly
Thresholds	
Mandatory registration	MDL1.2 million
Voluntary registration	Yes
Recovery of VAT by non-established businesses	No

B. Scope of the tax

VAT applies to the following transactions:
- The supply of goods or services made in Moldova by a taxable person in the course of a business
- Importation of services received in Moldova by a taxable person (using the "reverse-charge" mechanism)
- Importation of goods

C. Who is liable

A taxable person is any person or legal entity that is registered for VAT in Moldova. An entity that has a fixed place of business or carries out commercial or professional operations on a regular basis in Moldova must register for VAT.

The mandatory VAT registration threshold is turnover or imported services of MDL1.2 million in a period of 12 consecutive months.

Voluntary VAT registration is allowed for persons intending to provide taxable services, irrespective of their turnover value.

Group registration. VAT grouping is not permitted under Moldovan VAT law. Legal entities that are closely connected must register for VAT individually.

Non-established businesses. Foreign traders are not allowed to have a VAT registration number. If a foreign entity undertakes entrepreneurial activity in Moldova that results in a permanent establishment (PE), it must register for VAT locally. It is then treated in the same way as a resident entity.

Reverse charge. The reverse charge is a form of self-assessment for VAT, under which the recipient of a supply of goods or services accounts for the tax.

Services rendered by nonresidents to entities that carry on business in Moldova are regarded as imported if the place of supply is deemed to be Moldova.

The recipient of the service is required to account for the VAT due in Moldova. The tax is due on the date of payment for the services. VAT paid for imported services is allowed for input tax recovery (see Section F).

The information relating to VAT on imported services is declared to the tax authorities in a separate box of the VAT return.

Registration procedures. In order to register as a VAT payer, the local entity should file a VAT registration application form before the last day of the month during which the VAT registration conditions are met. The application form shall be filed in a hard copy format or electronically by online registration, together with a list of supporting documents required by the local tax authorities. A tax audit is usually performed for VAT registration purposes, where additional documentation and information can be asked by the tax authorities.

The taxpayer is considered to be VAT registered starting the first day of the month following the month during which it filed the application form and with condition that the VAT registration requirements are met. Although the local legislation does not provide for a specific deadline during which the tax authorities should finalize the tax audit and confirm the VAT registration, in practice this process can take up to 30 days after filing of the registration application form.

Late-registration penalties. Failure to register or late registration for VAT is penalized with a fine from 7% to 10% of the amount of taxable supplies, excluding supplies exempted from VAT with the right to deduction.

Tax representatives. Not applicable.

Digital economy. From 1 January 2018, there are some changes to the place of supply of digital services. According to these new amendments, the place of supply of digital services (i.e., electronic communication services, broadcasting and television services, services provided by radio-electronic means) is considered to be the place/residence of the customer.

This means that for business-to-business (B2B) and business-to-consumer (B2C) transactions, the customer is required to pay VAT on the imported services under the reverse-charge mechanism.

For B2C supplies, the individual should pay the VAT simultaneously with the payment for the imported digital services and declare the related VAT until the 25th of the month following the reporting month by filing a VAT return. However, in practice this is not commonly carried out.

Deregistration. Deregistration as a VAT payer is subject to a tax audit to be performed by the tax authority. The date of deregistration is considered the date of issuance of the tax audit report based on which the tax authority decided to perform the respective deregistration.

In case of suspension of the VAT taxable supplies, the VAT payer is obliged to inform the tax authority. Deregistration is performed according to the procedure provided by the state fiscal inspectorate.

Additionally, the tax authority has the right to deregister the VAT taxpayer if:
- VAT taxpayer has failed to file the VAT tax return for a certain amount of tax periods (arguable for at least 12 months)
- VAT taxpayer has presented untruthful information with regard to its headquarter registration address

Exemption from registration. The VAT law in Moldova does not contain any provision for exemption from registration.

Voluntary registration. Voluntary VAT registration is allowed for persons planning to perform taxable supplies of goods and services, irrespective of their turnover value.

D. VAT rates

The term "taxable supplies" refers to supplies of goods and services that are subject to VAT. Some supplies are classified as exempted from VAT with the right to deduction, which means that no VAT is chargeable, but the supplier may recover related input tax. In general, exempted from VAT with the right to deduction supplies include exports of goods and related services as well as other supplies.

The VAT rates are:
- Standard rate: 20%
- Reduced rates: 8%, 10%

The standard rate of VAT applies to all supplies of goods or services, unless a specific measure provides a reduced rate or an exemption.

Examples of goods and services taxable at 8%

- Bakery products
- Dairy products
- Agricultural products
- Drugs
- Natural and liquefied gas produced and imported in Moldova
- Phytotechnics and horticulture products in natural form, zootechnical products in natural form, live and slaughtered produced and/or delivered within the territory of Moldova
- Beet sugar produced, imported and/or delivered within the territory of Moldova

Examples of goods and services taxable at 10%

- Accommodation services and food products (excluding goods subject to excise duty) supplied by business entities whose operational activities consist solely in provision of accommodation and/or provision of food services

Examples of goods and services exempted from VAT with the right to deduction

- Exports of goods and services
- International transport of persons and freight
- Electric and thermal power
- Supplies of water to the public

Examples of supplies of goods and services exempted from VAT without the right to deduction

- Dwellings
- Land
- Cars
- Long-term tangible assets contributed into share capital under the special rules approved by the government
- Tractors and other agricultural machineries
- Food for children
- Financial services
- Educational services
- Insurance
- Betting and gaming
- Books and periodicals

The term "exempt from VAT without the right to deduction supplies" refers to supplies of goods and services that are not subject to VAT. Exempt supplies do not give rise to a right of input tax deduction (see Section F).

Option to tax for exempt supplies. Not applicable.

E. Time of supply

The time when VAT becomes due is called the "time of supply" or "tax point." In general, a VAT payer becomes liable to account for VAT at the time of the earliest of the following events:

- The receipt of partial or total payment from the customer
- The performance of the supply
- The issuance of the fiscal invoice

VAT payers must make payments for every tax period. The standard tax period is a calendar month.

Reverse charge. Tax is payable on reverse-charge services on the date of payment for the services.

Imported goods. The time of supply for imported goods is either the date of importation or the date on which the goods leave a duty suspension regime.

Deposits and prepayments. There are no special time of supply rules in Moldova for deposits and prepayments (refundable or nonrefundable). As such, the general time of supply rules apply (as outlined above).

Generally, a VAT payer becomes liable to account for VAT if it receives (OR received) a partial or total prepayment from the customer in relation to a supply of goods or a supply of services. If no supply is performed and the prepayment is returned to the customer, the VAT payer should be able to adjust/claim back VAT it accounted before on the received prepayment.

Goods sent on approval for sale or return. There are no special time of supply rules in Moldova for supplies of goods sent on approval for sale or return. As such, the general time of supply rules apply (as outlined above).

Leased assets. If the assets are supplied under a leasing contract (financial or operational), the time of supply is considered the date of the leasing payment specified in the contract. In cases of receiving the leasing payment in advance, the time of supply is considered the date of this advance payment.

Continuous supplies. If the goods and services are supplied regularly (continuously) during a certain period of time stipulated in the contract, the time of supply is considered the date of the performance of the supply or the receipt date of each regular payment, whichever is the earlier.

F. Recovery of VAT by taxable persons

A taxable person may recover input tax, which is VAT charged on goods and services supplied to it for business purposes. A taxable person generally recovers input tax by deducting it from output tax, which is VAT charged on supplies made.

Input tax includes VAT charged on goods and services supplied in Moldova, VAT paid on imports of goods and VAT self-assessed on reverse-charge services.

A valid tax invoice or customs document must generally accompany a claim for input tax. The right of deduction may be exercised in the tax period in which the purchase documents are entered into the recipient's books of account.

Nondeductible input tax. Input tax may not be recovered on purchases of goods and services that are not used for business purposes (for example, goods acquired for private use by an entrepreneur). In addition, input tax may not be recovered for some items of business expenditure.

The following lists provide some examples of items of expenditure for which input tax is not deductible and examples of items for which input tax is deductible if the expenditure is related to a taxable business use.

Examples of items for which input tax is nondeductible

- Private expenditure
- Cost of goods that are lost, stolen or destroyed
- Expenditure that is not allowable for income and corporate tax purposes
- Business gifts
- Bad debts (a purchaser acquired goods and services but never paid the supplier)
- Goods and services purchased based on fiscal invoices that are not registered in the state general electronic fiscal invoices register (if the supplier has the obligation to register the fiscal invoices and if the buyer does not inform the tax authorities about this registration infringement)
- Repair, maintenance and operating expenses of cars used by company management above the specific limits provided by the legislation

Examples of items for which input tax is deductible (if related to a taxable business use)

- Hire, lease, maintenance and fuel for cars used by the company management, subject to certain limits
- Purchase, hire, lease, maintenance and fuel for vans and trucks
- Parking
- Books
- Attendance at conferences, seminars and training courses
- Mobile phones
- Advertising
- Transport
- Hotel accommodation

Partial exemption. Input tax deduction is not available when it relates to supplies that are exempt from VAT without the right to deduction. If a taxable person makes supplies that are both taxable and exempt from VAT without the right to deduction, it may recover only input tax related to supplies that are taxable. Supplies that are exempt from VAT with the right to deduction are treated as taxable supplies for these purposes. Taxpayers who make supplies that are taxable and exempt from VAT without the right to deduction may deduct VAT paid on purchases if they satisfy the following conditions:

- The taxpayer maintains separate records of payments made for goods and services used for supplies that are both taxable and exempt from VAT without the right to deduction.

- The recoverable amount of VAT is determined on a monthly basis by the application of the pro rata method to the amount of VAT related both to supplies that are taxable and exempt without the right to deduction.

Refunds. If the amount of input tax recoverable in a monthly period exceeds the amount of output tax payable in that period, the taxable person may request a refund of VAT if the excess VAT results from any of the following:
- Supplies that are exempt from VAT with the right to deduction
- Supplies made by companies that produce and sell bread and dairy products
- Capital investments by business entities registered as VAT payers except for investments made in certain types of buildings and means of transport
- Capital investments in motor vehicles for passenger transportation
- Capital investments (expenditures) made under the public-private partnership projects of national interest
- Overpaid tax

The following special procedure applies if a taxpayer requests a VAT refund:
- The taxable person must submit a request to the tax authorities.
- Before the repayment is made, the tax authorities perform a special tax audit to ensure that the amount claimed is accurate.

In practice, it may be difficult to receive a refund in these circumstances and substantial delays may be experienced.

Preregistration costs. Generally, recovery of input VAT relating to pre-registration costs (purchases) is not allowed.

G. Recovery of VAT by non-established businesses

Moldova does not refund VAT incurred by businesses that are neither established nor registered for VAT in Moldova.

H. Invoicing

Fiscal invoices and credit notes. In general, a taxable person must provide a fiscal invoice for all taxable supplies except in several circumstances provided for by the Moldovan law. A fiscal invoice is necessary to support a claim for an input VAT deduction. No laws exist with respect to credit notes.

Proof of exports. VAT is not chargeable on supplies of exported goods. However, to qualify as VAT-free, export supplies must be supported by evidence confirming that the goods have left Moldova. The law provides for a specific list of supporting documents proving the exportation, which vary according to the type of exported goods or services.

Foreign-currency invoices. A fiscal invoice must be issued in leu (MDL), which is the currency of Moldova.

Invoice register. A state general electronic fiscal invoice register (the register) has been introduced in Moldova. VAT taxpayers must register all fiscal invoices (except for electronic fiscal invoices) with a total value of VAT taxable supply in excess of MDL100,000 within 10 working days after the issuance date.

Failure to register fiscal invoices correctly and on time in the register may result in significant penalties imposed by the tax authorities.

B2C. Generally, in case of retail supplies made by taxable persons to private consumers, no fiscal invoice is required to be issued, unless it is requested by the purchaser.

A fiscal receipt should be issued, instead, for retail supplies made to private consumers if these supplies are paid by cash.

Electronic invoicing. Electronic invoicing is allowed in Moldova, but it is not mandatory. It is permitted for all VAT taxpayers that are users of electronic tax services and have digital or electronic signatures issued in accordance with local legislation.

I. VAT returns and payment

VAT returns. VAT return periods are generally monthly.

Returns must be filed by the 25th day of the month following the end of the return period. Payment in full must be made by the same date. However, VAT with respect to reverse-charge services must be paid to the tax authorities when the recipient pays for the services.

Special schemes. Not applicable.

Electronic filing and archiving. VAT payers are obliged to file the VAT returns by using a specific online electronic program provided by the local tax authority. For archiving purposes, VAT returns as well as other related registers and supporting documentation, should be printed and kept in hard copy by the VAT payers.

Annual returns. Not applicable.

J. Penalties

Penalties are levied for several VAT offenses, including failure to register for VAT, failure to apply the reverse charge, late submission of a VAT return, under-declared VAT and late payment of VAT.

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A. At a glance

Name of the tax	Value-added tax (VAT)
Local name	VAT
Date introduced	1 July 1998
Trading bloc membership	None
Administered by	Ministry of Finance of Mongolia (https://www.mof.gov.mn/) Mongolian Tax Authority (http://www.mta.mn)
VAT rates	
Standard	10%
Other	Zero-rated and exempt
VAT number format	Tax identification number (TIN) with 7 digits
VAT return periods	Monthly
Thresholds	
Registration	
Mandatory	MNT50 million (annual taxable turnover)
Voluntary	MNT10 million
Recovery of VAT by non-established businesses	No

B. Scope of the tax

VAT applies to the following types of transactions of individuals and legal entities:
- All types of goods sold in Mongolia
- All types of works and services provided in Mongolia
- All types of goods, works and services provided to customers in another country
- All types of goods, works and services received from suppliers in another country

The provision of services includes but is not limited to the following:
- Providing electricity, heat, gas, water, sewers, postal services, communication and other utilities
- Leasing, possessing or using goods
- Renting immovable and movable property (other than rental of houses for residential purposes) or allowing possession or use of them in other forms
- Selling, transferring or leasing new inventions, new product designs, patents, copyright-protected work, trademarks, know-how, software and other proprietary information
- Performing work and services provided for repayment of debts owed to other entities
- Sale of goods and provision of works and services by a nonresident person to a resident
- Organization of lottery, paid quiz or gambling games
- Providing intermediary services (intermediary of special rights, trade representation, commission and similar services)
- Receiving interest, fines and penalties arising from misconduct or noncompliance
- Offsetting of any debts through the transfer of goods, performance of works or provision of services

C. Who is liable

In general, a taxpayer (or VAT agent) is any individual or legal entity (including a foreign legal entity and individual) that is engaged in the import and export of goods, as well as the sale and manufacturing of any goods, performance of work and rendering of services in the territory of Mongolia. Any individual permanently or temporarily employed under a labor contract is deemed not to be a VAT taxpayer.

Tax registration. The following VAT registration thresholds apply in Mongolia:
- Taxpayers must be registered for VAT when taxable turnover exceeds MNT50 million in a given financial year (subject to certain anti-avoidance measures).
- Taxpayers can voluntarily register for VAT when annual taxable turnover reaches MNT10 million.

Exemption from VAT payment obligations. If a taxpayer has not reached the registration threshold of MNT50 million within a given financial year, the taxpayer is exempted from VAT.

Group registration. No group VAT registration is allowed.

Non-established businesses (foreign legal entities). A "non-established business" is a business that does not have a fixed establishment in Mongolia.

Foreign legal entities or individuals that sell goods, perform work or render services in the territory of Mongolia will be subject to VAT. As such, the recipient of the services or goods must act as a tax agent and withhold the VAT under the Mongolian reverse-charge VAT system. Foreign legal entities and individuals are not entitled to recover any input tax (VAT on purchase) unless they have permanent establishment that is registered for Mongolian VAT purposes.

Late-registration penalties. In accordance with the Offense law of Mongolia, if an individual or legal entity that has exceeded the threshold for registration has not registered with the respective tax authority, then a competent state inspector shall assess and impose the VAT due and additionally impose an administrative penalty equal to the assessed VAT due.

Reverse charge. Reverse-charge VAT is applied to payments for works and services supplied by foreign legal entities and individuals not registered as taxpayers in Mongolia to Mongolian legal entities or individual entrepreneurs. Under the reverse-charge mechanism, the liability to impose, pay and report VAT rests with the recipient of the supply that acts as a tax agent.

Tax representative. Not applicable.

Digital economy. There are no specific rules relating to the taxation of the digital economy.

Deregistration. An individual or legal person registered for VAT shall be excluded from the taxpayers' registry and their certificate shall be cancelled if it has been proven by financial statements for a business entity or organization or by income and tax sheet for an individual that their taxable income amount for the subsequent 12 months after being registered for VAT is less than MNT50 million.

D. VAT rates

The term "sale" refers to a transfer of the ownership of goods to another person or the performance of services. The term "goods" includes all types of property other than money capital, and the terms "services" includes any activity.

In Mongolia, the following are the VAT rates:
- Standard rate: 10%
- Zero rate: (0%)
- Other: VAT exemptions

The standard rate of VAT applies to all supplies of goods (works and services) unless a specific measure provides for the zero rate or an exemption.

Examples of goods and services taxable at 0%

- Goods exported from the territory of Mongolia and declared with the customs organization
- Passenger and cargo transportation services rendered from the territory of Mongolia to foreign countries, from foreign countries to the territory of Mongolia, as well as from foreign countries to third countries transiting through the territory of Mongolia, pursuant to the international treaties to which Mongolia is a signatory
- Services provided in a foreign country (including tax-exempt services)
- Any rendering of services (including "nontaxable services") to a nonresident person
- Any services of air navigation management, technical and fuel services, and cleaning that shall be provided for both foreign and domestic airplanes conducting international flight and sale, food and drink services provided for air crew members or passengers during flight
- State medals and coins manufactured domestically on the order of the Government or the Bank of Mongolia
- Mining finished products that are exported (government approves list of final mining products)

Examples of exempt supplies of goods

- Passengers' personal-use goods (subject to permitted amounts and approval by customs authority)
- Goods received through humanitarian and grant aid from foreign governments, NGOs and international or humanitarian organizations
- Special purpose appliances, equipment and machinery designed for physically challenged persons
- Civil passenger airplanes and spare parts thereof
- Revenues from the sale of establishments used for housing or portions thereof
- Blood, blood products and organs to be used for purposes of specified treatment
- Gas fuel, gas fuel containers, equipment, special purpose machineries, mechanisms and related mechanics
- Sale of gold
- Experimental products related to research and scientific work
- Mining products other than mining finished product that was exported
- Cereal, potatoes, seeds, vegetables and fruits domestically grown and sold by farmers and domestically produced flour

- Asset-backed loan portfolio or claiming rights derived from financial leasing arrangements transferred by banks, nonbanking financial institutions (NBFI) or other legal entities to other banks, special purpose companies or mortgage corporations
- Imported woods, timbers, cut materials, planks, wooden pieces and semi-processed wooden materials
- Exported cashmere and leather that has been raw processed (cleaned and brushed)
- Import of special purpose machinery, equipment, parts, raw materials, and chemical or explosive substances imported by contractors and subcontractors to be used for crude oil and non-traditional crude oil industry for the first five years of an exploration period or for exploration periods of less than five years
- Import of equipment, tools and accessories for renewable energy production and research
- Others

Examples of exempt supplies of services

- Currency exchange
- Banking services, such as the receipt or transfer of money, or any dealing with money, any security for money or any note or order for the payment of money and the operation of any savings account
- Services of insurance, reinsurance and registration of property
- The issuance, transfer or receipt of any securities and shares, and underwriting of such securities
- The issuance of loans
- The provision or transfer of an interest related to a social and health insurance fund
- Loan interest, financial lease interest, dividends, loan guarantee fees or insurance premiums by banks, NBFIs, or saving and loan cooperatives
- Rental of residential houses and apartments
- Medical services
- Services of religious organizations
- Services provided by a government organization; this shall include public services provided by the government, its agencies and budgetary organizations
- Public transportation services
- Tour operating services

Option to tax. Not available in Mongolia.

E. Time of supply

The moment when VAT becomes due is called the "time of tax imposition," called in many countries the time of supply.

For taxpayers, the time of tax imposition is the earliest of the following dates:
- The date when the seller receives the payment for goods, works or services
- The date when the seller invoices for sold goods, performed works or rendered services
- The date when the purchase of goods, works or services is exercised

Deposits and prepayments. The time of supply for a deposit, prepayment and advance payment is the end of the calendar month (VAT return period) in which the prepayment is received, even if the supply has not yet been made. This treatment applies to both supply of services and goods.

Imported goods. Imported goods are subject to 10% of VAT.

Goods sent on approval or for sale or return. There are no special time of supply rules in Mongolia for supplies of goods sent on "approval" or for "sale or return" conditions. As such, the general time of supply rules (see section above) applies when the goods are sold and it can be reversed with approval of the buyer. Mongolia employs an electronic VAT system where all supplies of

goods and services are recorded. The seller can request a return of the goods to the buyer through the electronic VAT system.

Continuous supplies of services. There are no special time of supply rules for goods and services that are provided against periodic payment. As such, the general time of supply rules (as outlined above) apply.

Cash accounting. Please refer to time of tax imposition.

Leased assets. Leased assets are subject to VAT. The time of supply rule for the supply of leased assets that results in a transfer in ownership shall be in accordance with the agreed schedule for the finance lease payment.

Reverse-charge services. There are no special time of supply rules in Mongolia for the supply of reverse-charge services. As such, the general time of supply rules apply (see section above).

F. Recovery of VAT by taxpayers

A taxpayer may recover input tax, which is VAT charged on goods (works and services) supplied for carrying out activities within the scope of VAT. A taxpayer generally recovers input tax by deducting it from output tax, which is VAT charged on supplies made.

Input tax includes VAT charged on goods (works and services) in Mongolia, VAT paid on the import of goods and VAT paid to the Mongolia budget by a buyer acting as a tax agent with respect to the acquisition of goods (works and services) from a foreign legal entity.

Nondeductible input tax. Input tax cannot be recovered on purchases of goods (works and services) and property rights that are not used for making supplies within the scope of VAT (for example, goods purchased for private use by an entrepreneur).

Examples of items for which input tax is nondeductible

- Personal expenses
- VAT paid for the spare parts of auto vehicles
- Reverse-charge VAT paid on services provided by nonresidents
- VAT paid on purchasing, procuring or developing fixed assets (capital expenditures)
- VAT incurred on mineral exploration and pre-mining operations
- VAT incurred for the purpose of tax-exempt supplies

Partial exemption. If a Mongolian taxpayer makes both exempt supplies and taxable supplies, the taxpayer must account for them separately. Input VAT directly related to taxable supplies is recoverable in full, while input VAT directly related to exempt supplies is not recoverable and must be expensed for Mongolian profit tax purposes. Input VAT that may not be directly attributed to taxable or exempt supplies (such as VAT on business overhead costs) must be apportioned. The statutory method of apportionment is a pro rata calculation, based on the value of taxable supplies made compared with the total turnover of the business.

Capital goods. Input VAT incurred on capital goods of businesses shall not be allowed for input credit or refunds. The law stipulates that input VAT paid on purchasing, procuring or developing capital goods (i.e., fixed assets) is unrecoverable irrespective of whether the particular supply is taxable or tax exempt.

Refunds. The VAT refund application must be sent to the appropriate tax authority. The appropriate tax authority will review, confirm the ending balance and submit its proposal to the Mongolian Tax Authority (MTA) within 15 working days. The MTA will review the application and proposal within seven working days and submit its opinion including name of the taxpayer, registration number, bank account, refundable amount within two working days to the Ministry of Finance who will refund the amount within 45 days after the receipt of opinion. However, a

refund of VAT shall not exceed 30% of the total VAT revenue to be paid into the state budget in a given month, quarter or year. Thus, a refund may take some time if the amount is sizable.

Interest on refunds. The VAT law requires the tax authorities to pay a refund no later than 45 days following the positive decision regarding the VAT refund claim of a taxpayer. In practice, however, refund payments are often delayed.

Preregistration costs. Input VAT is recoverable only if it was incurred after the individual or legal entity is registered as a taxpayer with the tax authority.

Write-off of bad debts. Not applicable.

Noneconomic activities. If a taxpayer has purchased noneconomic related activities or goods, input VAT is not deductible.

G. Recovery of VAT by non-established businesses

VAT recovery is made exclusively by registered persons that make taxable supplies in Mongolia. VAT incurred by a foreign legal entity or individual is not recoverable.

H. Invoicing

VAT invoices and credit notes. In general, a VAT taxpayer must provide a VAT invoice. Invoices must be issued in Mongolian, but bilingual invoices may also be issued in Mongolian and any other language.

A VAT invoice may be issued in paper or electronic format.

Proof of exports. Goods exported from Mongolia as well as some types of work and services related to exports are subject to a 0% VAT rate in Mongolia. To confirm the applicability of the 0% rate, the supplier must attach a customs declaration as supporting documentation. For works and services, a written agreement, invoice and bank statement should be attached as supporting documentation.

Foreign-currency invoices. The issuance of a VAT invoice must be in Mongolian currency.

B2C. For supplies from VAT-registered businesses to private consumers, a "payment receipt" must be issued by the seller for B2C transactions each time when goods or services are supplied. The payment receipt is generated from the designated equipment with unique payment number, date of payment, name and address of the seller and description, code and quantity, and price and amount of the payment.

Electronic invoices. Electronic invoicing in Mongolia is allowed. Mongolia uses an electronic VAT system in order to reduce noncompliance. It is mandatory for all businesses (providing services or goods) to enter sales information into the system regardless of their VAT status or type of services, goods and work.

I. VAT returns and payment

VAT returns. Taxpayers must file VAT returns on a monthly basis. The VAT amount per VAT return must be paid within the 10th day of the following month. VAT payable under the reverse-charge mechanism is accounted in the same VAT return.

Electronic filing and archiving. Taxpayers shall submit a monthly VAT return by the 10th of the following month. There is no requirement to transmit a hard copy of VAT return to the MTA, but the taxpayer shall keep a copy for further reference.

Payments on account. The taxpayer shall pay the amount of VAT due monthly by the 10th of the following month.

Annual return. Mongolian VAT returns are on a month-by-month basis. Annual returns are not required to be submitted in Mongolia.

Special schemes. Not applicable. Mongolian VAT returns are universal, and as such, there are no special schemes available for taxpayers in different industries/operations, etc.

J. Penalties

Penalties are governed by the Offence Law of Mongolia, which is an independent law governing violations and separates violations from criminal act.
Under Article 11.19, Offense Law of Mongolia, the following types of VAT-related noncompliance are subject to penalties:

- Failure to remit tax to tax authority is subject to daily late payment penalty of 0.1% of the due tax.
- Failure to charge tax on taxable goods and service is subject to penalty equal to 30% of the due tax.

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A. At a glance

Name of the tax	Value-added tax (VAT)
Local name	Taxe sur la Valeur Ajoutée (TVA)
Date introduced	1 January 1986
Trading bloc membership	None
Administered by	Ministry of Finance (www.finances.gov.ma)
VAT rates	
Standard	20%
Reduced	7%, 10% and 14%
Other	Exempt
VAT number format	12345678
VAT return periods	Monthly or quarterly
Thresholds	
Registration	Nil
Recovery of VAT by non-established businesses	Yes, in some situations

B. Scope of the tax

VAT applies to all transactions involving the supply of goods and services performed in Morocco and to the importation of goods and services, including the one-off supply or importation of goods.

C. Who is liable

A taxable person is a person or legal entity that carries out a taxable transaction. A taxable transaction is a transaction involving the sale or importation of goods or services that is subject to VAT even if such transaction occurs only once. A person liable to VAT in Morocco must register with the local tax service.

Morocco does not provide a VAT registration threshold. A business registers for VAT when it registers for corporate or income tax purposes.

Group registration. The Moroccan VAT law does not allow VAT grouping. Legal entities that are closely connected must register for VAT individually.

Non-established businesses. Nonresident companies that perform a taxable activity in Morocco are liable to Moroccan VAT.

Tax representatives. Under the VAT law, nonresident companies must appoint a tax representative to handle their VAT obligations (VAT returns, filings and payments). If a nonresident company does not appoint a tax representative, the Moroccan customer becomes liable for the declaration and the payment of VAT due on behalf of the nonresident supplier on its own VAT return (auto-liquidation).

Registration procedures. When the taxpayers apply for registration, they must provide the following documents:

- "Declaration d'existence," which is a printed form delivered by the tax administration that includes, in addition to the corporate name of the nonresident company, mainly the following information
  Information regarding the nonresident company:
  — Nationality
  — Corporate business address
  — City
  — Activity
  — Phone number
  — Email
  Information regarding the foreign provider's legal representatives (individuals):
  — Last and first name of the legal representative(s)
  — Function of the representative(s)
  — Address
  — City
- Copy of the contract signed by the nonresident company with the Moroccan client
- Representation letter signed by the nonresident company that allows the representative to collect, declare and pay VAT on its behalf
- Letter from the tax representative stating that it commits itself to fulfill VAT obligations of the nonresident company

The tax administration usually provides the VAT ID certificate within one week.

The procedure above is applicable to nonresident companies. For resident companies, a unique tax identification (VAT, CIT) is given upon normal registration process of a company in Morocco.

Late-registration penalties. Late filing of the statement of corporate existence ("Declaration d'existence") is subject to a penalty of MAD1,000. Besides, VAT due for the period preceding registration results in late filing and payment penalties (see Section I).

Reverse charge. Pursuant to Article 115 of the Moroccan tax code, nonresident entities performing VAT taxable activities are required to appoint a tax representative in Morocco in order to comply with VAT obligations and pay due VAT to the tax authorities on their behalf. In case the foreign entity does not appoint a tax representative, the mechanism of the VAT reverse charge applies. This mechanism provides that, in case a tax representative is not appointed, the Moroccan client is required to report and pay VAT on behalf of its foreign provider using its own VAT ID number. In other terms, VAT registration of the nonresident company is not mandatory if the Moroccan client declares and pays VAT to the tax authorities on its behalf.

Digital economy. The Moroccan tax code states that any service used or rendered within the Moroccan territory is subject to Moroccan VAT. For digital services, the VAT rate applicable is 20%. As the services rendered by the provider will be used in Morocco, the operation will be subject to VAT in Morocco.

For business-to-business (B2B) transactions, nonresident companies that are performing a taxable activity in Morocco are required to appoint a tax representative to handle their VAT obligations (VAT returns filings and payments). If no tax representative is appointed, the Moroccan business should report and pay VAT on behalf of the nonresident company using its own VAT ID number.

For business-to-consumer (B2C) operations, there are no special VAT rules for digital services, or supplies relating to the digital economy. Normal VAT rules apply.

There are no specific changes regarding the digital economy within the scope of the 2019 finance law.

Deregistration. Once the nonresident entity ends its activities in Morocco and has appointed a tax representative, it is required to deregister from VAT.

In practice, the deregistration process consists of sending a "deregistration letter" to the tax authorities in which the nonresident entity requests to be deregistered from VAT.

The tax authorities do not provide a deregistration certificate.

Exemption from registration. Please note that agricultural products (non-transformed), noncommercial activities, nonindustrial activities and civil acts are outside the scope of VAT. Therefore, VAT registration is not required for individuals/entities exercising these activities.

As Morocco does not have a VAT registration threshold, all other businesses must register for VAT.

Voluntary registration. Voluntary VAT registration is allowed for:
- Traders and service providers who directly export products, objects, goods or services for their export turnover
- Manufacturers and service providers who do not exceed an annual turnover of MAD500
- Traders who sell without transformation, product and foodstuffs other than those that are exempted without the right to deduct the input VAT

The taxpayer should send the application for optional VAT registration to the local tax administration office that is responsible for the taxpayer and takes effect on the expiry of thirty (30) days following the date of the notification.

D. VAT rates

The term "taxable supplies" refers to supplies of goods and services that are subject to VAT. The term "exempt supplies" refers to supplies of goods and services that are not subject to VAT. A business engaged in the sale of exempt supplies may have a right to deduct input VAT. If supplies are exempt with a right to deduct, no VAT is chargeable but the supplier may recover related input tax.

The standard rate of VAT is 20%. Reduced rates apply to specific business activities, including the following:
- Supply of water, electricity and pharmaceutical products: 7%
- Petroleum products, banking transactions, and hotel and restaurant operations: 10%
- Transport services: 14% (however, rail transport of passengers and goods is subject to VAT at a rate of 20%)

The 2019 finance law extended the list of VAT exempted medicines to include drugs treating meningitis disease, as well as drugs that manufacturer's price (excluding tax) by regulation exceeds Moroccan dirhams MAD588.

Option to tax for exempt supplies. Not applicable.

E. Time of supply

The time when VAT becomes due is called the "time of supply" or "tax point." In Morocco, the "tax point" generally corresponds to the time when the payment is made.

The Moroccan tax code provides that the tax point is the date of cash receipt. After a company receives cash, VAT becomes due, even if the cash received represents only part of the total outstanding amount for the goods or services provided.

The Moroccan tax code provides an optional regime under which VAT is due when the transaction is booked in the accounts of the seller or service provider. However, if the payment precedes the invoicing, the time of payment constitutes the tax point. Any company that wants to use the optional system must file a declaration with the tax administration before 1 January. A list of the company's customers that sets forth the unsettled VAT for each of the customers must be attached to the declaration. Newly registered taxpayers must file the declaration within one month after the commencement of their activity.

Prepayments. A prepayment or deposit constitutes a tax point. As a result, the time of effective delivery of the goods or services is ignored for VAT purposes.

Continuous supplies of services. If services are received continuously but payment is made periodically, a tax point is created each time payment is made (unless option for the debit system is chosen) or a VAT invoice is issued, whichever is earlier. No specific regulation provides for the VAT treatment of continuous services.

Goods sent on approval. The tax point for goods sent on approval is when the customer accepts the goods and a supply is made.

Imported goods. VAT on imported goods is due at the time of customs clearance.

Leased assets. The time of supply for leased assets is the date of rent income cash collection. However, under the debit regime, the VAT is due when the rent income is booked in the accounts of the owner/lessor.

The following types of leases are not subject to VAT:
- Rental of unfurnished premises, whether or not intended for professional use
- Rental of equipped premises that does not exceed MAD500,000

The following types of leases are subject to VAT:
- Furnished premises
- Premises that are equipped for professional use
- Premises located in commercial complexes (malls)
- Machines
- Vehicles

Reverse-charge services. The declaration and the payment of VAT to the tax authorities has to be performed during the month following the payment of the nonresident provider of services. (Please refer to the *reverse-charge subsection in Section C, Who is liable* above.)

F. Recovery of VAT by taxable persons

Input tax is VAT charged on goods and services acquired by an entity for business purposes. A taxable person generally recovers input tax by deducting it from output tax (VAT charged on supplies made). Input tax consists of VAT charged on goods and services purchased in Morocco and VAT paid on imports of goods.

Until 31 December 2013, Moroccan tax law permitted input VAT paid on purchases of non-fixed assets (non-capital expenses) to be recovered on the VAT return of the month following the one during which the tax was reported as paid. The finance bill for 2014 canceled this time lag rule, and effective 1 January 2014, companies may offset such input VAT against output VAT on the same month's VAT return.

However, in order to limit the significant cash impact of this new provision on the government's budget, the finance bill provided that the deductibility of the input VAT reported as paid by companies in December 2013 with regard to non-fixed assets would be deductible over a five-year period, with one-fifth of the deduction appearing on the first VAT return of each year during the following five years.

Nondeductible input tax. Input tax may not be recovered on purchases of goods and services that are not used for business purposes and that are considered to be nondeductible expenses for corporate tax purposes (for example, goods acquired for private use by an entrepreneur). VAT charged on purchases, works or services, where the amount exceeds MAD5,000 per day and per supplier and MAD50,000 per month and per provider, is not recoverable unless settlement is made by a check, bill of exchange, magnetic means of payment, bank transfer, electronic process or by compensation.

Examples of items for which input tax is nondeductible

- Goods and services not related to the business requirements
- Transport cars not used for the business needs
- Petroleum products not used as fuel
- Water pumps that run on solar energy or any other renewable energy used in the agricultural sector (introduced from the 2019 finance law)

Examples of items for which input tax is deductible (if related to a taxable business use)

- Purchases and services related to a business use
- Transport cars having a business use

Partial exemption. Input tax deduction is granted for taxable supplies and for supplies that are exempt with a right to deduct. If a taxable person makes both taxable supplies and exempt supplies, it may recover only the input tax related to supplies that are taxable or exempt with a right to deduct.

Refunds. If the amount of input VAT recoverable in a period exceeds the amount of output VAT payable in the same period, a refund is not generally granted. In most cases, the taxable person must carry the excess forward to a future VAT period. Refunds of the excess are generally only available with respect to the following VAT:

- VAT incurred on supplies of exported goods except for recycling metals (ferrous and nonferrous)
- VAT incurred on supplies of goods and services that are exempt with a right to deduct
- VAT incurred on purchases of equipment goods (fixed assets) during the first 36 months of activity of newly incorporated companies

- VAT incurred on purchases of other assets except office equipment and certain passenger transport vehicles
- VAT incurred on financial leasing activities

Preregistration costs. Not applicable.

G. Recovery of VAT by non-established businesses

Nonresident entities conducting taxable activities in Morocco are not eligible for VAT refunds. Nevertheless, input VAT incurred in Morocco by nonresident entities may be offset against output VAT.

H. Invoicing

VAT invoices and credit notes. A Moroccan taxable person must provide VAT invoices for taxable supplies, including exports, made to other taxable persons. Recipients of supplies must maintain copies of invoices.

Credit notes must be issued with VAT included.

Taxpayers must issue valid VAT invoices to customers including the below mandatory details:
- Identity of the seller
- Supplier identification tax number
- Supplier business tax number
- Date of the transaction
- Name or business name and address of the purchaser or customer
- Prices, quantity and nature of goods sold, the executed work or services rendered
- Reference to the overall amount of VAT, if applicable
- Reference to the VAT rate, if applicable
- Reference to rebates, discounts or rebates granted
- References and payment modalities
- Common corporate identifier (ICE: (this is a mandatory requirement to include from 1 January 2018, where the customer is based in Morocco)
- Supplier social security number
- Supplier trade registration number

Proof of exports. Moroccan VAT is not chargeable on supplies of exported goods. However, to qualify as VAT-free, export supplies must be supported by evidence confirming that the goods have left Morocco. The evidence required is the customs declaration, which must clearly identify the exporter, the customer, the goods and the export destination, and must provide invoice information.

Foreign-currency invoices. A VAT invoice for a domestic supply is generally issued in Moroccan dirhams (MAD). VAT based on the applicable VAT rate must be shown on the invoice.

B2C. There are no special VAT invoicing rules for supplies made by taxable persons to private consumers in Morocco. Hence, full VAT invoices are required to be issued (see above).

Electronic invoicing. In Morocco, electronic invoicing is not mandatory, but it is allowed. There are no special rules regarding electronic invoicing in Morocco. However, in case of a VAT refund request, the tax administration requires the original invoice in hard-copy format, including the company stamp.

If taxpayers issue electronic invoices, then they must use an electronic billing system connected to the central billing station of the tax administration.

I. VAT returns and payment

VAT returns. The filing of VAT returns may be on a monthly or quarterly cycle based on certain criteria.

The following taxpayers must file monthly VAT returns:
- Taxpayers that had taxable turnover during the preceding year of MAD1 million or more
- Nonresident persons that carry out taxable activities in Morocco

The following taxpayers must file quarterly VAT returns:
- Taxpayers that had taxable turnover during the preceding year of less than MAD1 million
- Taxpayers operating through seasonal establishments, practicing periodic activities or carrying out occasional activities
- New taxpayers in their first calendar year of activity

The above taxpayers can opt for the monthly declaration system by filing a request with the tax administration before 31 January.

Taxpayers under the tele-declaration and tele-payment system must file VAT returns and make VAT payments within one month after the end of the relevant month or quarter.

Other taxpayers must file their VAT returns and pay VAT due before the 20th day of the month following the relevant month or quarter.

Electronic filing and electronic payment is mandatory for all companies, regardless of the turnover performed.

Special schemes. There is one optional regime, called the "debit regime." This is where the VAT is due when the rent income is booked in the accounts of the owner/lessor.

The following types of leases are not subject to VAT:
- Rental of unfurnished premises, whether or not intended for professional use
- Rental of equipped premises that does not exceed MAD500,000

The following types of leases are subject to VAT:
- Furnished premises
- Premises that are equipped for professional use
- Premises located in commercial complexes (malls)
- Machines
- Vehicles

Electronic filing and archiving. See above (*Section I relating to VAT returns*)

Annual returns. The VAT returns are either monthly or quarterly.

J. Penalties

In case of deposit of the VAT declaration beyond the deadline:
- Thirty days within the deadline: 5% penalty
- Beyond 30 days following the deadline: 15% penalty

Please note that in case of tax reassessment procedure due to lack of filing, the above penalty is increased up to 20%.

In the case of a tax audit, the applicable penalty is increased up to 30%.

If no VAT is due, the penalty equals MAD500. In case of VAT payment beyond the deadline:
- A penalty of 20% on the VAT amount due
- Additional 5% penalty in case of late payment within the first month and 0.50% per additional month (or fraction of month)

If the VAT declaration provides that no tax is due, the amount of any VAT credit is reduced by 15%. This means that where input tax exceeds output tax in the same period, this generates a VAT credit in the VAT return for the taxpayer. However, where the return is filed late (after the legal deadlines), then the VAT credit for that period is decreased by 15%.

An increase of 1% is applicable on the VAT due or that would have been due in the absence of exemption, in case of noncompliance with the obligations of electronic filing and payment.

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A. At a glance

Name of the tax	Commercial tax (CT)
Date introduced	31 March 1990
Trading bloc membership	Association of Southeast Asian Nations (ASEAN)
Administered by	Myanmar Internal Revenue Department (MIRD)
Rates	8% (export of electricity) 5% (goods and services) 3% (development and sale of buildings 1% (sale of golden jewelry)
CT number	Changes yearly
Return periods	Quarterly and yearly
Threshold Registration	Annual revenue of MMK50 million for supply of goods and services
Recovery of CT by non-established businesses	Yes

B. Scope of the tax

CT applies on the following transactions in Myanmar:
- Sale of goods/special goods produced domestically
- Importation of goods/special goods
- Sale of imported goods/special goods
- Provision of services and trading activities
- Buildings developed and sold
- Sale of golden jewelry
- Export sale of electricity and crude oil

C. Who is liable

- An importer of goods
- Any person or entity that has taxable proceeds from the sale of goods/special goods, export sales of electricity and crude oil, receipts from services or sale of a building after development

CT registration. CT registration must be made one month before the commencement of business.

Commencement of business. The MIRD must be notified of the commencement of business within 10 days after commencement.

Registration procedures. Taxpayers are required to register each year as CT operators. To register, an applicant must appear in person at the MIRD and submit the following documents in hard copy:
- Forms KaThaKha-1 and KaThaKha-3
- Certificate of Incorporation
- Permit to trade (in case of foreign company)
- Two photographs of the company's managing directors

There is no online registration system. Foreign entities who do not have branches in Myanmar can appoint an agent in Myanmar to register as a CT operator in Myanmar.

Late-registration penalties. Failure to register for CT results in a penalty of 10% of the CT payable in the relevant assessment year.

Group registration. Not applicable.

Non-established businesses. Non-established businesses must register and pay CT.

Tax representatives. Not applicable.

Reverse charge. Not applicable.

Digital economy. Currently, there are no specific CT registration rules that may be applicable to foreign companies providing cross-border goods or services (e.g., digital supplies) to Myanmar customers.

Based on current practices, foreign companies register as the CT operator and collect 5% CT from the Myanmar customers and remit to the MIRD through a third-party service provider. However, the MIRD currently does not require these foreign companies to file the quarterly or annual CT returns.

Deregistration. A business that ceases operations must cancel its CT registration by filing a request for deregistration with the tax authorities within 15 days after the date of ceasing operation.

Exemption from registration. A business may be exempt from CT registration if its transactions are not subject to CT and if they qualify for a zero CT rate on export (except for electricity and crude oil).

Voluntary registration. A business may voluntarily register for CT in Myanmar so that its input CT can be used as credit against its output CT incurred.

D. CT rates

CT is levied at the rate of 5% on goods/special goods sold, services consumed, importation of goods/special goods and sales of goods/special goods produced in Myanmar. However, the MIRD does maintain a list of items/services exempt from CT as listed below.

CT is levied at the rate of 3% on the value of buildings developed and sold in Myanmar.

CT is levied at the rate of 1% on the sale of golden jewelry items and related costs for importation purposes.

For the importation of goods from a seller located outside of Myanmar, the importer of record must pay the CT due to the customs authority, which collects the CT on behalf of the MIRD at the time of importation.

Exported goods are generally eligible for a zero rate of CT, but the export of certain items, such as crude oil (5% CT) and electric power (8% CT), is subject to CT upon export. Examples of special goods subject to CT are tobacco, liquor, wine, beer, timber logs and wood cutting, raw/finished gemstones, petrol, diesel, kerosene and natural gas, among others.

Examples of items that are exempt from CT (non-exhaustive)

- Food (e.g., paddy rice, split rice, soft bran, rough bran, paddy husk, various maize and pulses, peanut oil, sesame oil, fresh fruits, vegetables, fish, prawns and meat)
- Agriculture and livestock (e.g., fertilizers, insecticides, fungicides and pesticides, farm equipment, machines, spare parts and tractors)
- Office and school supplies
- Merchandise regarding health (e.g., raw materials used for pharmaceuticals, including traditional medicines)
- Goods used for religious and social welfare
- Transportation-related equipment and goods (e.g., machines, equipment and spare parts for aircraft and helicopters, jet fuel for outbound planes)
- Goods related to manufacturing and production
- Defense-related goods
- Gems and mineral resources (e.g., pure gold (standard qualified gold bar, gold coin)
- Goods imported under a duty drawback arrangement or imported for temporary admission
- Solar panels, solar chargers and inverters

Examples of services that are exempt from CT (non-exhaustive)

- Foreign affairs
- Defense
- Religious and cultural services (e.g., funeral services, Myanmar traditional massage and massage performed by a blind person)
- Transportation services (e.g., parking lot rental, freight transport services, except for transportation with pipeline; and toll fees collection services)
- Education and information services (e.g., license fees paid to government organizations)
- Health care services (excluding cosmetic surgery)
- Planning and finance services (e.g., life insurance, microfinance, banking and financial services under the permission of the Central Bank of Myanmar, capital market services and custom clearance services)
- Social welfare, relief and resettlement services (e.g., child care services)
- Industry and electricity services (e.g., custom manufacturing services)

Option to tax for exempt supplies. Not applicable.

E. Time of supply

- For the supply of goods and services: at the time of issuance of the tax invoice
- For the import of goods: at the time of custom clearance

Deposits and prepayments. There are no special time of supply rules in Myanmar for deposits and prepayments. As such, the general time of supply rules (as outlined above) apply.

Goods sent on approval for sale or return. There are no special time of supply rules in Myanmar for supplies of goods sent on approval for sale or return. As such, the general time of supply rules (as outlined above) apply.

Leased assets. There are no special time of supply rules in Myanmar for supplies of leased assets. As such, the general time of supply rules (as outlined above) apply.

Reverse-charge services. Myanmar currently does not have CT reverse-charge/self-assessment mechanism.

Continuous supplies. There are no special time of supply rules in Myanmar for continuous supplies. As such, the general time of supply rules (as outlined above) apply.

F. Recovery of CT by taxable persons

A taxable person may recover input tax (CT) that it paid on most goods that were supplied to it for business purposes, including goods produced and sold, trading goods and imported goods. A taxable person generally recovers input tax by deducting it from output tax, which is CT charged on supplies made/services provided.

Input tax includes CT charged on goods supplied in Myanmar and CT paid on imports of goods into Myanmar. In addition, the input tax can also be recovered on services.

Nondeductible input tax. The purchase of goods that are not used for business purposes, but instead are acquired for private use by an entrepreneur, does not give rise to a right to deduct CT paid. The CT paid on the fixed assets or capital assets of the business does not give rise to recovery of CT paid.

In addition, there are some harmful goods for which input CT may not be deducted.

Examples of business expenditures for which input tax is nondeductible

- Damage and losses of raw material when producing finished goods
- Damage and losses of semi-finished goods
- Damage and losses of trading goods
- CT paid on fixed assets or capital assets

Partial exemption. Not applicable.

Refunds. Section 42 of the CT Regulation allows the CT creditable system to CT-registered companies, such as manufacturing companies, trading companies and service providing companies.

The CT Law and Regulation doesn't describe the available partial exemption mechanism. However, in practice, when computing the CT payable amount, the input CT on purchase to be offset shall not exceed the output CT on the sales according to Section 42 of the CT Regulation and the remaining excess amount of input CT can be carried forward to the next period, or shall be allowed to be deducted as a business expense as per the tax officer's judgment.

Individual procedures relating to the claim of input CT varies on a case-by-case basis, depending on the case officers allocated to each entity by the Myanmar tax authorities.

Preregistration costs. Not applicable.

G. Recovery of CT by non-established businesses

There is no CT recovery allowed in such situations.

H. Invoicing

There is no prescribed form of invoice, but CT Law does define the mandatory data to be stated in each invoice as follows:
- Invoice number
- Name, address and registration certificate number of vendor
- Name, address and registration certificate number of customer
- Transaction date
- Name, type, description of goods or services
- Quantity, price or rate and amount of goods or services
- Amount of CT collected

Foreign-currency invoices. Invoices can be issued in a foreign currency to a foreign customer, but CT shall be paid in local Myanmar kyats (MMK). However, invoices issued to a domestic customer must be in MMK and CT must also be paid in MMK. Income in foreign currency shall be converted from the foreign currency to MMK based on the official rate of Central Bank of Myanmar.

Electronic invoices. Not applicable.

Proof of export. Taxpayer must present the completed export declaration form issued by customs.

The producer or service provider must maintain tax invoices for up to three years.

B2C. For business-to-consumer transactions, there are no special rules for CT invoices issued by taxable persons to private consumers.

I. CT returns and payment

CT returns. CT returns are submitted within one month from the end of respective quarter (for quarterly returns) and within three months from the end of the end of respective year (for annual returns). A supplier of goods and services must collect CT from the purchaser of the goods or service recipient and remit it to the MIRD by the 10th day of the month following the month in which the tax point is triggered.

Special schemes. Not applicable.

Electronic filing and archiving. Not applicable.

Annual returns. Annual return must be submitted to the MIRD within three months after the end of respective year.

J. Penalties

If any person, without sufficient cause, defaults in any of the following matters, the Township Revenue Officer shall cause him to pay the following fines:
- A fine equivalent to 10% of the tax payable in the relevant assessment for the failure to register or to send notice of commencement of the operation's economic activities.
- A fine equivalent to 10% of the tax payable in the relevant assessment for each of the following failures:
  - — Failure to pay the monthly tax within the stipulated time.
  - — A fine equivalent to 100% of the tax payable in the relevant assessment if the Township Revenue Officer finds that the taxpayer failed to give the receipt or document showing acceptance of the money to the purchaser or recipient of the service in spite of the taxpayer's having kept such receipt or document. This fine shall be collected separately from others before the end of the financial year.

- A fine equivalent to 10% of the additional tax payable in the relevant assessment for each of the following failures:
  - — Failure to pay in accordance with the annual return.
  - — Failure to comply with a notice requesting personal attendance for an examination relating to the assessment.
- A fine equivalent to 10% of the additional tax payable in the relevant assessment for the failure to pay tax within the stipulated period or within the extended period.
- A fine equivalent to 10% of the tax payable in the relevant assessment for the failure to keep receipts or documents showing acceptance of the money as required by the CT Regulation.
- A fine equivalent to 100% of the tax payable in the relevant assessment if the Township Revenue Officer finds that the taxpayer failed to give the receipt or document showing acceptance of the money to the purchaser or recipient of the service in spite of the taxpayer's having kept such receipt or document. This fine shall be collected separately from others before the end of the financial year.

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A. At a glance

Name of the tax	Value-added tax (VAT)
Date introduced	27 November 2000
Trading bloc membership	Southern African Customs Union Member, South African Development Community Member
Administered by	Commissioner of Inland Revenue
VAT rates	
Standard	15%
Other	Zero-rated and exempt
VAT number format	123 4567-01-5
VAT return periods	Bimonthly
Thresholds	
Compulsory registration	Annual taxable supplies of NAD500,000
Voluntary registration	A reasonable expectation that future taxable supplies will exceed NAD200,000 in a 12-month period
Recovery of VAT by non-established businesses	Yes

B. Scope of the tax

VAT applies to the following transactions:
- The supply of goods or services made in Namibia by a registered person
- Reverse-charge services received by a person in Namibia that is not entitled to claim full input tax credits (referred to as imported services)
- The importation of goods from outside Namibia, regardless of the status of the importer

Goods that are imported from countries in the Southern African Customs Union (Botswana, Lesotho, Namibia, South Africa and Swaziland) are not subject to customs duty but are subject to import VAT.

C. Who is liable

A VAT-registered person is required to account for output tax on all goods and services supplied, unless the supply is specifically exempted by the Value-Added Tax Act. Exempt supplies are specified in Schedule IV to the VAT Act.

A VAT-registered person is a person (business entity or individual) carrying on an activity in Namibia or partly in Namibia on a continuous or regular basis if, in the course of the activity, goods or services are supplied to another person for consideration exceeding the registration threshold or who has voluntarily registered for VAT. This includes persons who are registered for VAT in Namibia as well as persons who are required to register for VAT.

A person is required to register for VAT if the value of taxable supplies exceeds (or is expected to exceed) NAD500,000 in any consecutive 12-month period.

A VAT registration only becomes effective from the first calendar day of the month after registration was approved. The earliest the registration can become effective is the first day of the calendar month following the month in which application for registration was filed.

Voluntary registration. A person whose turnover is below the compulsory registration threshold may register for VAT on a voluntary basis provided that there is a reasonable expectation that taxable supplies will be made for consideration after a period of time and that there is a reasonable expectation that future taxable supplies will exceed NAD200,000 in a 12-month period.

Group registration. VAT grouping is not allowed under the Namibia VAT Act. All legal entities must register for VAT individually, and all activities carried on by such person must be accounted for on one registration number. VAT is charged on transactions between separately registered entities within a commercial group in accordance with the general VAT rules and subject to the rules relating to supplies between related persons.

Non-established businesses. A "non-established business" is a business that has no fixed establishment in Namibia. A non-established business that makes taxable supplies of goods or services continuously or regularly in Namibia must appoint a tax representative and open a Namibian bank account to register for VAT.

Deemed supplies. In addition to actual goods and services supplied by a registered person, the VAT Act also deems certain supplies to be supplies of goods or services. The person making the deemed supply is liable to pay VAT. Deemed supplies include the following:

- Ceasing to be a registered person
- Short-term indemnity payments
- Change in use
- Acquisition of used goods (excluding immovable property) from a person not registered for VAT

Goods imported to Namibia are subject to import VAT. The import VAT is payable at the time of import unless the importer has obtained approval from the Directorate of Inland Revenue to maintain a VAT import account, in which case the payment of the import VAT can be deferred and paid when the import VAT return is due for submission (see Section I). The Commissioner may require security or impose additional conditions before registration of a VAT import account.

Tax representatives. Persons who make supplies in Namibia may appoint a representative who is responsible for registration and payment of VAT on behalf of the registered person.

Reverse charge. Recipients of services who make exempt supplies are liable to pay VAT on imported services, subject to specific provisions. Imported services are exempt from VAT if the import is specified in Schedule V of the VAT Act.

Registration procedures. The VAT registration application (VAT 1) must be completed and submitted to Inland Revenue in hard copy. The person applying for VAT registration should have a Namibian bank account and a fitness certificate for the premises from which they will be conducting the taxable activity. The VAT registration, once approved by Inland Revenue, becomes effective on the first calendar day of the second month after the registration letter was received from Inland Revenue. On specific application the registration can become effective on the first calendar day of the month following the receipt of the registration confirmation.

Late-registration penalties. A person who fails to register will be liable for the payment of a penalty equal to double the amount of output tax payable from the time such person becomes liable to be registered until they file an application for registration. No input tax may be claimed in respect of the period that has lapsed during which the person was not registered.

Digital economy. There are no special rules for the taxation of the digital economy in Namibia. For business-to-business and business-to-consumer transactions, the nonresident business will only be liable to register for and levy VAT on the supply if it carries on a taxable activity in Namibia or partly within Namibia. To the extent that the customer is registered for VAT, VAT paid on invoices can be claimed as an input tax deduction. To the extent that the nonresident business will not be liable to register for and levy VAT, no VAT liability will arise unless the customer makes exempt or mixed (taxable and exempt) supplies, in which case VAT on imported services will be payable by the customer.

Deregistration. A person may apply for deregistration if the value of such person's taxable supplies in a period of 12 months (begin on the date of application) will be less than NAD500,000.

Exemption from registration. The VAT law in Namibia does not contain any provision for exemption from registration if the value of taxable supplies made exceeds the registration threshold of NAD500,000 in a 12-month period.

D. VAT rates

The term "taxable supplies" refers to supplies of goods and services that are subject to tax at either the standard rate (15%) or the zero rate (0%). A registered person must account for VAT at the standard rate on all supplies of goods and services, unless the supply is specifically zero-rated (Schedule III of the VAT Act) or exempted under the VAT Act.

Examples of goods and services taxable at 0%

- Exports of goods and related services
- International transport of passengers and goods and related services
- Certain supplies of goods that are used exclusively in an export country
- Services supplied outside Namibia and to foreign branches and head offices
- Certain basic foodstuffs
- Supply of land to be used solely for residential accommodation purposes
- Supply of goods or services to erect or extend a residential building
- Supply of a business capable of separate operation as a going concern (provided that all of the requirements are met)
- Supply of goods subject to the fuel levy
- Supply of telecommunication services, electricity, water, refuse removal and sewerage to residential accounts
- Supply of livestock on the hoof
- Supply of intellectual property for use outside Namibia
- Supply of services to nonresidents subject to certain provisions
- Supply of goods or services to an export processing zone enterprise

The term "exempt supplies" refers to supplies of goods and services that are not subject to tax and that are specified in Schedule IV of the VAT Act. A registered person is not entitled to claim a deduction on expenses incurred to make exempt supplies (see Section F).

Examples of exempt supplies of goods and services

- Financial services as defined
- Fare-paying public passenger transport
- Educational services
- Medical services provided by registered medical professionals
- Hospital services provided by registered hospitals
- Rental of residential accommodation
- Fringe benefits provided by an employer to employees
- Services supplied to members in the course of the management of a body corporate
- Supplies of goods or services to heads of state
- Supply of services by a trade union to or for the benefit of members if the supply is made from members' contributions

Option to tax for exempt supplies. Not applicable.

E. Time of supply

The time when VAT becomes due is called the "time of supply" or "tax point." In Namibia, the basic time of supply is the earlier of the issuance of an invoice or the receipt of payment.

Other tax points are used for a variety of situations, including betting transactions, construction, supplies made from vending machines and "lay-by" sale agreements.

Supplies between related persons. The tax point for supplies of goods between related persons is when the goods are removed by or made available to the purchaser or recipient of the goods. The time of supply for supplies of services between related persons is when the services are performed. For services such as management services, the tax point is at the end of each calendar month.

Supplies to a branch or main business outside Namibia. The tax point for goods consigned or delivered to a branch or main business outside Namibia is when the goods are actually consigned or delivered. The tax point for services supplied to a branch or main business outside Namibia is when the services are performed.

Periodic supplies. The tax point for periodic supplies is the earlier of the date on which payment is due or the date on which the invoice relating to the payment is issued.

Installment credit agreements. For installment credit agreements, the supply is deemed to take place at the earlier of when the goods are delivered or any payment of consideration is made.

Immovable property. The supply of immovable property is deemed to take place at the earlier of the following dates:

- The date on which the registration of the transfer is made in a deeds registry
- The date on which any payment in respect of selling price is received (excluding deposits)

Imported goods. The tax point for imported goods varies depending on the source of the goods being imported. The following are the applicable rules:

- For goods that are imported from a member of the Southern African Customs Union — when the goods enter Namibia at the border post
- For goods imported from other countries — when the goods are cleared for home consumption
- For goods imported and entered into a licensed customs and excise storage warehouse — when the goods are cleared from the warehouse for home consumption

Deposits and prepayments. There are no special time of supply rules in Namibia for deposits and prepayments. As such, the general time of supply rules apply (as outlined above).

Goods sent on approval for sale or return. There are no special time of supply rules in Namibia for supplies of goods sent on approval for sale or return. As such, the general time of supply rules apply (as outlined above).

Leased assets. The supply of goods under rental agreements is deemed to take place at the earlier of when a payment becomes due or is received.

Reverse-charge services. The import of services shall take place 30 days after the time of the import. The normal time of supply rules (as outlined above) will apply to the time of the import.

Continuous supplies. The tax point for continuous supplies is the earlier of the date on which payment is due or the date on which the invoice relating to the payment is issued.

F. Recovery of VAT by taxable persons

A VAT-registered person may recover input tax (that is, VAT charged on goods and services supplied to it for business purposes) by deducting it from output tax (VAT charged on supplies made) provided the VAT-registered person is in possession of a valid tax invoice.

Input tax includes VAT charged on goods and services supplied in Namibia and VAT paid on the importation of goods.

Nondeductible input tax. Input tax may not be recovered on purchases of goods and services that are not used for taxable purposes (for example, goods acquired for private use by an entrepreneur or goods and services used for making exempt supplies). In addition, input tax may not be recovered for specifically excluded business expenditure, such as entertainment.

Examples of items for which input tax is nondeductible

- Purchase or rental of a vehicle principally designed to carry nine or fewer seated people including the driver (referred to as a passenger vehicle in the VAT Act)
- Business and staff entertainment, which includes accommodation, meals and beverages when travelling for business purposes
- Club subscriptions (excluding subscriptions to professional bodies)
- Acquisition of capital goods prior to being registered for VAT

Examples of items for which input tax is deductible (if related to a taxable business use)

- Purchase, hire and maintenance of vans and trucks
- Attendance at conferences and seminars
- Vehicle maintenance costs (including passenger vehicles, excluding if provided as fringe benefit)
- Mobile phones (excluding if provided as fringe benefit)
- Air transport of goods within Namibia
- Aviation fuel
- Trading stock
- Raw materials
- Marketing expenditure
- Stationery

Partially deductible input tax (partial exemption). Input tax directly related to the making of exempt supplies is not recoverable. If a taxable person makes both exempt and taxable supplies, it may recover only a portion of the input tax incurred.

In Namibia, the deductible portion is determined using the following two-stage calculation:
- The first stage identifies the input tax directly attributable to taxable and exempt supplies. Input tax directly attributable to taxable supplies is deductible, while input tax directly related to exempt supplies is not deductible.
- The second stage identifies the amount of the remaining input tax (for example, input tax on general business overhead) that cannot be directly attributed to the making of taxable or exempt supplies. Such input tax may be deducted only to the extent that it relates to the making of taxable supplies. In general, the deductible portion is determined by comparing the value of taxable supplies to total supplies. However, a registered person may apply to the Directorate of Inland Revenue for another equitable apportionment method (for example, apportionment based on floor space or activity), particularly if significant investment income, foreign-exchange gains or other nontaxable passive income is realized. The input tax ratio calculated for a financial year is applied to the following financial year and amended annually when a financial year comes to an end. A *de minimis* rule applies, and if taxable supplies are 90% or more of the total supplies, the full input VAT deduction may be claimed and there will be no requirement to apportion the input VAT claim.

Refunds. If the amount of input tax recoverable in a period exceeds the amount of output tax payable in that period, a refund of the excess may be claimed.

Preregistration costs. No VAT paid may be claimed prior to the effective date of registration unless it relates to trading stock or consumables on hand at the date the VAT registration becomes effective and the goods were acquired within four months of the effective date of the VAT registration. The VAT paid in respect of the acquisition of capital goods prior to registration may not be claimed.

G. Recovery of VAT by non-established businesses

VAT incurred by businesses that are neither established nor registered in Namibia may be recovered only with respect to goods that are subsequently exported from Namibia. A refund may be claimed from the VAT refund administrator. No claim may be made in respect of services (such as hotel accommodation and restaurant meals) consumed in Namibia.

A business rendering services on a continuous or regular basis in Namibia may be liable to register for VAT even though the business is neither established nor registered in Namibia. In this instance, the non-established business registered for VAT may recover input tax through the normal VAT return process.

H. Invoicing

Tax invoices and credit notes. Registered persons are required to issue a tax invoice for all supplies made if the consideration (that is, the total amount received exclusive of VAT) amounts to NAD100 or more. If the total amount in money for the supply is less than NAD100, the supplier may issue an abridged tax invoice. Only hard-copy tax invoices qualify as valid tax invoices.

The following information is required for a valid tax invoice:
- The words "tax invoice" displayed in a prominent place
- The name, address and VAT registration number of the supplier
- The name and address of the recipient
- An individual serialized number and the date on which the tax invoice was issued
- Full description of the goods or services supplied
- Quantity or volume of goods or services supplied
- The value of the supply, the VAT amount and the VAT-inclusive amount of the supply

In order to claim input VAT, the claimant must be in possession of a valid tax invoice for each supply including periodic supplies.

A tax credit note or debit note may be used to reduce VAT charged and reclaimed on a supply of goods or services. A credit note or a debit note may be issued only if the tax charged is incorrect or if the supplier has paid incorrect output tax as a result of one or more of the following circumstances:
- The supply has been canceled
- The nature of the supply has been fundamentally varied or altered
- The previously agreed consideration has been altered by agreement with the recipient of the supply
- All or part of the goods or services has been returned to the supplier

If a credit note adjusts the amount of VAT charged, it must be clearly marked "tax credit note" and must refer to the original tax invoice. It must briefly indicate the reason that it is being issued and provide sufficient information to identify the transaction to which it refers.

Proof of exports. Exports can be classified as either direct exports or indirect exports. Direct exports (that is, the seller is responsible to deliver the goods at an address outside Namibia) can be zero-rated if the documentary requirements are met. The seller may not zero-rate exports if the goods are not delivered or consigned and delivered at an address in a country outside Namibia.

Documentation that must be retained to substantiate an export includes the following:
- The original customs export documentation (such as Form SAD500, Form 178 and any export certificate or certificate of origin)
- Commercial and tax invoices for the supply

These documents have to be stamped by the customs and excise officials at the port of export.

The import documentation into the country of import may also be requested by the Directorate of Inland Revenue in support of the export from Namibia.

Foreign-currency invoices. In general, a tax invoice must be issued in Namibia dollars. If an invoice is issued in a foreign currency, the Namibia dollar (NAD) equivalent must be determined using the appropriate exchange rate on the date on which the invoice is issued and must be reflected on the tax invoice.

B2C. Full tax invoices are only required to be issued if requested by the purchaser. It is therefore not a requirement to issue full VAT invoices to private consumers; abridged tax invoices should be sufficient.

Electronic invoicing. The Namibian VAT Act requires that all tax invoices be issued in hard-copy. As such, electronic invoicing is not allowed in Namibia. There are no special rules relating to electronic invoicing.

I. VAT returns and payment

VAT returns. The tax return period is bimonthly for all registered persons other than those persons who conduct only farming activities. Registered persons who carry on only farming activities may elect four-monthly, semiannual and annual tax periods.

VAT returns must be filed by the 25th day after the end of the tax period. Payment is due in full by the same date. If the due date falls on a Saturday, Sunday or a public holiday, the due date is the next business day.

Import VAT returns for the declaration of the import of goods are due monthly by the 20th day of the month following the month of import and must be submitted even if no goods were imported in a particular month. Payment is due in full by the due date. If the payment date falls on a Saturday, Sunday or public holiday, the due date is the next business day.

Special schemes. Not applicable.

Electronic filing and archiving. Not currently applicable, but in the future the Minister may prescribe procedures for submitting returns in electronic format.

Annual returns. Not applicable.

J. Penalties

A penalty equal to 10% of the net VAT due is imposed if the VAT payment is made after the due date. The penalty is calculated as 10% for each month or part of a month the VAT remains outstanding, but the total penalty is limited to the tax due. However, a registered person may request that the Directorate of Inland Revenue waive the penalty if the delay was not due to the intent of the VAT-registered person to postpone payment.

An additional penalty of NAD100 is imposed for each day the VAT return or import VAT return is submitted after the due date.

Additional tax not exceeding double the value of the VAT due may be levied in the case of evasion.

A range of other offenses related to VAT can result in additional tax and penalties, including fines and, for severe offenses, imprisonment for a period not exceeding 24 months.

Interest. Interest is charged at 20% per annum on late payments of the VAT liability or import VAT liability.

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A. At a glance

Name of the tax	Value-added tax (VAT)

Local names	Belasting over de toegevoegde waarde (btw) Wet op de omzetbelasting 1968
Date introduced	1 January 1969
Trading bloc membership	European Union (EU) Member State
Administered by	Ministry of Finance (http://www.minfin.nl)
VAT rates	
Standard	21%
Reduced	9% as of 1 January 2019 (6% in 2018 and earlier)
Other	Zero-rated and exempt
VAT number format	NL1 2 3 4 5 6 7 8 9 B 01
VAT return periods	
Monthly	If requested by the taxable person or the tax authorities
Quarterly	In normal circumstances
Annually	If VAT payable per year does not exceed EUR1,883 and some other requirements are met will be abolished per 1 January 2020
Thresholds	
Registration	None
Distance selling	EUR100,000
Intra-Community acquisitions	EUR10,000 (for exempt taxable persons and nontaxable legal persons)
Recovery of VAT by non-established businesses	Yes (no reciprocity required for non-EU)

B. Scope of the tax

VAT applies to the following transactions:

- The supply of goods or services made in the Netherlands by a taxable person acting as such
- The intra-Community acquisition of goods from another EU Member State by a taxable person acting as such (see the chapter on the EU)
- The intra-Community acquisition of goods from another EU Member State by a nontaxable legal person in excess of the annual threshold (see the chapter on the EU)
- Reverse-charge services received by a taxable person and nontaxable legal entities in the Netherlands (that is, services for which the recipient is liable to pay the VAT)
- The importation of goods from outside the EU, regardless of the status of the importer

C. Who is liable

A taxable person is any business entity or individual that makes taxable supplies of goods or services, or intra-Community acquisitions or distance sales, in the course of a business, in the Netherlands, on a continuing basis (i.e., not occasionally). Taxable activities also include "carrying on a profession" or the "exploitation of tangible or intangible property in order to obtain income on a continuing basis."

No VAT registration threshold exists in the Netherlands. A taxable person that begins an activity must notify the VAT authorities of its liability to register.

A domestic taxpayer may also be liable for Dutch VAT (see *Reverse charge* below).

Special rules apply to foreign or "non-established" businesses.

Group registration. Taxable persons established in the Netherlands (including fixed establishments) may form a VAT group if the members are closely bound by "financial, economic and organizational links." Since a judgment from the Supreme Court (*Hoge Raad*) in early 2005, the formation of a VAT group no longer requires a decree from the tax office, which is issued after a written request. However, the tax office may also issue a VAT group decree on its own accord. For legal certainty, it is recommended that persons meeting the conditions for group registration inform the tax office.

The effect of VAT grouping is to treat the members as a single taxable person. As a result, transactions between members of the VAT group are disregarded for VAT purposes. Members of a Dutch VAT group may file a single VAT return, or members may elect to file individually. Each member of a VAT group is jointly and severally liable for all VAT that becomes due during the period in which it was included in the VAT group.

Non-established businesses. A "non-established business" is a business that has no fixed establishment in the Netherlands. The "reverse charge" provision applies generally to supplies of goods and services made by non-established businesses to taxable persons and other nontaxable legal persons established in the Netherlands, provided that Dutch VAT is due on these supplies. Under the reverse-charge provision, the taxable person or legal person that receives the supply must account for the VAT due. If the reverse charge applies, the non-established supplier may not account for VAT in the Netherlands. The reverse charge does not apply to supplies made to private persons.

A non-established business that makes supplies of goods or services in the Netherlands must register for VAT if it is required to account for VAT on those supplies.

Tax representatives. Nonresident businesses may register for VAT without appointing a tax representative. In limited circumstances, businesses that are established outside the EU must appoint a tax representative resident in the Netherlands to register for VAT (for example, for distance sales made from another EU country). Non-established businesses, regardless of whether they are established in or outside the EU, may choose to appoint a representative. In some cases, the appointment of a resident tax representative may be advantageous (for example, for dealing with imports using the "postponed accounting" system; see Section E).

Non-established businesses that do not appoint a representative must register at the Tax Office for Non-Resident Businesses in Heerlen, at the following address:

Belastingdienst/kantoor Buitenland
Postbus 4486
6401 DJ Heerlen
Netherlands

Registration procedures. The easiest way to register is to register yourself at the Dutch Chamber of Commerce (http://www.kvk.nl/). However, it is also possible to register with the Dutch tax authorities. More information can be found on this website: http://www.belastingdienst.nl/rekenhulpen/registratie_buitenlandse_ondernemers/en/. Registration usually takes two to six weeks.

Late-registration penalties. No specific penalty is imposed for late registration. However, if the late registration results in the late payment of VAT or the late submission of VAT returns, penalties may be imposed.

Reverse charge. See *Non-established businesses* above.

For certain specific transactions, even if they are carried out between locally established businesses, the recipient of the transaction is liable for the Dutch VAT on the supplies. This applies, for example, to:

- The supply of used material that cannot be re-used in the same state, scrap, industrial and non-industrial waste, recyclable waste, partly processed waste and certain appointed goods and services
- Supplies of mobile telephones, integrated circuit devices such as microprocessors and central processing units, if the total value of the supply exceeds EUR10,000
- Supplies of telecommunications services between telecommunications services providers

Digital economy. Digital services that are rendered to nontaxable persons are taxable in the country where the nontaxable recipient of the electronic service is established. See more in the chapter on the EU.

Mini One-Stop Shop. There are two schemes for the Mini One-Stop Shop (hereafter: MOSS). Companies can register for the EU-scheme if they are established (either permanent or fixed) in the Netherlands. Companies can register for the non-EU scheme if they are not established (both permanent and fixed) in the EU and do not have an EU VAT registration. More information is included on the website of the Dutch tax authorities:
http://www.belastingdienst.nl/wps/wcm/connect/bldcontenten/belastingdienst/business/vat/vat_on_electronic_services/suppliers_eu_countries/filing_an_eu_vat_notification_using_moss.

Deregistration. If a taxpayer is no longer considered to be a taxable person for VAT purposes they can deregister by sending a letter to the Dutch tax authorities stating that his VAT registration has to be ended.

Exemption from registration. VAT law in the Netherlands does not contain a provision for exemption from registration, but there are two forms of relief for small businesses (non-legal entities), one of which allows for non-registration, subject to certain conditions. These rules will change from 1 January 2020.

Voluntary registration. VAT law in the Netherlands does not contain any provision for voluntary VAT registration.

D. VAT rates

The term "taxable supplies" refers to supplies of goods and services that are liable to a rate of VAT, including the zero rate (0%).

The VAT rates are:
- Standard rate: 21%
- Reduced rate: 9% as of 1 January 2019 (6% in 2018 and earlier years)
- Zero rate (0%)

The standard rate of VAT applies to all supplies of goods or services, unless a specific measure provides a reduced rate, the zero rate or an exemption.

Examples of goods and services taxable at 9% (6% in 2018 and earlier years)

- Foodstuffs
- Books
- Paintings and other "cultural goods"
- Entrance to museums, concerts and similar events
- Passenger transport
- Hotel accommodation

Examples of goods and services taxable at 0%

- Exports of goods
- Intra-Community supplies of goods
- Supplies to ships and aircraft used for international transportation

The term "exempt supplies" refers to supplies of goods and services that are not liable to tax and that, in principle, do not give rise to a right of input tax deduction (see Section F). Some supplies are classified as "exempt with credit," which means that no VAT is chargeable, but the supplier may recover related input tax, e.g., certain financial services provided to a customer established outside the EU.

Examples of exempt supplies of goods and services

- Supply of immovable property
- Medical services
- Financial services
- Insurance services
- Betting and gaming
- Educational services

Option to tax for exempt supplies. For the supply and letting of immovable property, the supplier and customer can opt for taxation. Several conditions have to be met. The most important condition is that the customer can deduct at least 90% (in some specific cases at least 70%) of the VAT that is due on the supply or lease of the immovable property.

E. Time of supply

The time when VAT becomes due is called the "time of supply" or "tax point." The basic EU VAT rule for determining the time of supply for goods is when the goods are supplied. The basic rule for determining the time of supply for services is when the service is rendered or completed.

In the Netherlands, an invoice must be issued ultimately the 15th day of the month following the month in which the supply takes place if supplies are made to businesses and in other specific cases. The actual tax point is then the date on which the invoice is issued. However, if no invoice is issued or if the invoice is issued late, tax becomes due, at the latest, on the day on which the invoice should have been issued. If the purchaser is not a taxable person, the tax becomes due on the date of the supply.

If the consideration is paid in full, or in part, before the invoice is issued, the actual tax is due on the date on which payment is received (for the amount received).

However, some taxable persons are permitted to account for VAT on a cash basis (cash accounting). If cash accounting is used, the tax point is the date on which the payment is received.

Deposits and prepayments. If the customer pays the consideration in installments or makes a prepayment, the supplier must issue an invoice for each installment before the date when it falls due or when it receives the prepayment. The tax point is the date of the invoice.

Intra-Community acquisitions. The tax point for an intra-Community acquisition of goods is the date on which the invoice is issued, unless it is invoiced late (i.e., after the 15th day of the month following the month in which the acquisition occurred). In that case, the tax point is the date on which the invoice should have been issued (i.e., the 15th day of the month following the month of the acquisition).

Imported goods and postponed accounting. The general rule for determining the tax point for imported goods is the date of importation or the date on which the goods leave a duty suspension regime. However, taxable persons may delay that tax point by applying for permission to use the "postponed accounting" facility. Under this facility, import VAT is reported in the taxable person's VAT return (and recovered in the same tax period as input tax, depending on the taxable person's partial exemption status; see Section F).

A non-established business must appoint a tax representative resident in the Netherlands to use the postponed accounting facility.

Cash accounting. The Netherlands operates a cash accounting scheme. Input VAT deduction is allowed even before the effective payment of the consideration.

Reverse-charge services. For B2B services that are subject to the reverse-charge mechanism, the tax point is the time at which the services are rendered.

Continuous supplies of services. For continuous supplies of services, the main rule (time of invoice) is applicable. However, there is at least one tax point per year.

Intra-Community supplies of goods. For intra-Community supplies of goods, the tax point basically is at the time the invoice is issued or should have been issued (i.e., at the latest on the 15th day of the month following the month in which the supply was made).

Leased assets. For operational leases, the section about continuous supplies of services is applicable. For financial leases, which are normally treated as the supply of a good rather than a service, the tax point is basically the time the invoice is issued (or should have been issued).

Goods sent on approval for sale or return. The Netherlands does not have a specific time of supply rule for supplies of goods sent on approval for sale or return.

F. Recovery of VAT by taxable persons

A taxable person may recover input tax, which is VAT charged on goods and services supplied to it for business purposes. Input tax is generally recovered by deducting it from output tax, which is VAT due on supplies made.

Input tax includes VAT incurred on invoices for goods and services supplied in the Netherlands, VAT paid on imports of goods and VAT self-assessed on the intra-Community acquisition of goods and reverse-charge goods and services (see the chapter on the EU).

A valid tax invoice or customs document must be kept in the accounts to support a claim for input tax.

Non-deductible input tax. Input tax may not be recovered on purchases of goods and services that are not used for business purposes (for example, goods acquired for private use by an entrepreneur). In addition, input tax may not be recovered for some items of business expenditure if the value of the private benefit to an employee exceeds an amount of EUR227, excluding VAT, per person per year. If the goods or services are used for private purposes, in specific situations, the legal entity is deemed to make a supply of goods or services and output VAT is due.

Examples of items for which input tax is nondeductible

- Private expenditure
- Business gifts (valued at more than EUR227 per recipient per year, if the recipient could not have recovered the input VAT in its own right)
- Restaurant meals
- Home telephone costs
- Alcohol and tobacco

Examples of items for which input tax is deductible (if related to a taxable business use)

- Purchase, hire, lease, maintenance and fuel for vans and trucks
- Car hire, subject to special rules, as well as the purchase, hire, lease, maintenance and fuel for cars put at the disposal of employees, subject to special rules
- Conferences, seminars and training courses (restaurant meals are excluded)
- Advertising

- Taxis
- Business travel costs
- Business gifts (valued at less than EUR227 a year or if the recipient of the gift could have recovered the input VAT in its own right)
- Business entertainment (subject to the limit of EUR227 a year on employee expenses)

Employee expenses. A maximum limit of EUR227 annually applies to the value of expenses incurred per employee on which input VAT may be recovered, including drinks, meals from a discounted company cafeteria and company parties, mobile phones and computers made available to employees at home. The EUR227 limit relates to the net cost or value of the expenses incurred, rather than the amount of VAT recovered. VAT on employee expenses can only be recovered if a valid tax invoice has been issued to the employer.

The employer may recover input VAT on employee expenses in full throughout the year. At the end of the year the employer must calculate the average cost of expenses per employee. If the average cost of expenses per employee exceeds EUR227, all of the VAT recovered on these expenses throughout the year must be repaid (not just the VAT on expenses in excess of the EUR227 limit).

The EUR227 threshold does not apply to cars that are put at the disposal of staff. For these transactions, the input VAT can be fully deducted and VAT is payable on the private use, which is treated as a taxable supply made for consideration to either a fixed amount per year or the actual cost of the private use.

Partial exemption. Input tax directly related to making exempt supplies is generally not recoverable. If a taxable person makes both exempt and taxable supplies, it may not recover input tax in full. This situation is referred to as "partial exemption." Supplies that are exempt with credit are treated as taxable supplies for these purposes.

In the Netherlands, the amount of input tax that a partially exempt business may recover is calculated in the following two stages:
- The first stage identifies the input VAT that may be directly allocated to taxable and to exempt supplies. Input tax directly allocated to taxable supplies is deductible, while input tax directly related to exempt supplies is not deductible.
- The second stage identifies the amount of the remaining input tax (for example, on general business overhead) that may be allocated to taxable supplies and recovered.

The calculation is normally based on the percentage of the values of taxable and exempt supplies made in the period. The recovery percentage is rounded up to the nearest whole number (for example, 5.2% becomes 6%). In specific situations other methods of apportionment may be used.

Capital goods. Capital goods are items of capital expenditure that are used in a business over several years. Input tax is deducted in the financial year in which the goods are acquired or first used (if this is a later year). The amount of input tax recovered depends on the taxable person's partial exemption recovery position in the financial year of acquisition or first use. However, the amount of input tax recovered for capital goods must be adjusted over time if the taxable person's partial exemption recovery percentage changes during the adjustment period.

In the Netherlands, the capital goods adjustment applies to the following assets for the number of years indicated:
- Immovable property: adjusted for a period of nine years after the year of first use
- Movable property subject to depreciation for income tax purposes: adjusted for a period of four years after the year of first use

The adjustment is applied each year following the year of first use, to a fraction of the total input tax (1/10 for immovable property and 1/5 for other movable capital goods). The adjustment may result in either an increase or a decrease of deductible input VAT, depending on whether the ratio

of taxable supplies made by the business has increased or decreased compared with the year in which the capital goods were acquired.

The adjustment is not made if it is insignificant (that is, less than 10% of the deducted amount for that specific year).

Refunds. If the amount of recoverable input tax in a period exceeds the amount of payable output tax in that period, the taxable person has an input tax credit. A taxable person may claim a refund of the credit by submitting the VAT return for the period. The refund is paid in cash.

Preregistration costs. Input tax on preregistration costs is deductible as long as the (future) taxpayer can demonstrate that the goods or services were issued in preparation of a future economic activity. In practice this means the VAT on these costs can be deducted in the first VAT return of the company.

Write-off of bad debts. When the payment of a debtor is not expected to be received anymore, the VAT that was due on this payment can be reclaimed.

Noneconomic activities. The input tax on costs related to noneconomic activities is not deductible, unless and in so far the noneconomic activity is subservient to the taxpayers (taxable) economic activities.

G. Recovery of VAT by non-established businesses

The Netherlands refunds VAT incurred by businesses that are neither established in the Netherlands nor registered for VAT there. A non-established business may claim Netherlands VAT to the same extent as a VAT-registered business.

For businesses established in the EU, refund is made under the terms of EU Directive 2008/9/EG. For businesses established outside the EU, refund is made under the terms of the EU 13th Directive. The Netherlands does not exclude any non-EU country from the refund scheme.

For the general VAT refund rules contained in EU Directive 2008/9/EG and the EU 13th Directive, see the chapter on the EU.

Refund application. Under EU Directive 2008/9/EG, the formal deadline for refund claims by EU businesses is 30 September of the year following the year in which the input tax is incurred. However, a claim may be submitted within five years after the year in which the input tax is payable. In the case of such late claims (i.e., claims filed after 30 September of the year following the year of incurrence, but within the five-year period), no appeal is possible against negative decisions. Refund claims must be submitted electronically to the local tax authorities of the EU applicant. For further information, see the chapter on the EU.

The minimum claim period is three months, while the maximum period is one year. The minimum claim for a period of less than a year is EUR400. For an annual claim, the minimum amount is EUR50.

The formal deadline for refund claims under the EU 13th Directive is 30 June of the year following the year in which the input tax is incurred. However, a claim may be submitted within five years after the year in which the input tax is payable. In the case of late claims, no appeal is possible against negative decisions.

Claims may be submitted in Dutch, English or German. The application for refund must be accompanied by the appropriate documentation (see the chapter on the EU).

The minimum claim period is three months, while the maximum period is one year. The minimum claim for a period of less than a year is EUR400. For an annual claim, the minimum amount is EUR5.

Applications under the EU 13th Directive for refunds of Netherlands VAT must be sent to the following address:

Belastingdienst/kantoor Buitenland
Postbus 2865
6401 DJ Heerlen
Netherlands

Repayment interest. Under EU Directive 2008/9/EG, the Dutch VAT authorities must make refunds of Dutch VAT within 4 months and 10 days after the date on which the refund claim is submitted. In the case of a late refund, the claimant is entitled to interest at the government interest rate in force at the time, in addition to the repayment.

For EU 13th Directive refunds, the Dutch VAT authorities have committed to make refunds within six months after the date on which the claim is submitted for the refund.

H. Invoicing

VAT invoices and credit notes. A taxable person must generally provide a VAT invoice for all taxable supplies made to other taxable persons, including export supplies and intra-Community supplies. Invoices are not automatically required for retail transactions, unless requested by the customer. However, the issuance of invoices for wholesalers is required.

Taxable persons must retain invoices for seven years. For real estate, a taxable person must retain the invoice for 10 years.

A VAT invoice is required to support a claim for input tax deduction or a refund under the EU Directive 2008/9/EG or EU 13th Directive refund schemes (see the chapter on the EU).

A VAT credit note may be used to reduce the VAT charged and reclaimed on a supply. It must be cross-referenced to the original VAT invoice.

Electronic invoicing. Electronic invoicing is permitted for all businesses that must issue invoices. No specific requirements apply, as long as the issuer of the invoice ensures the authenticity, integrity and legibility of the invoice. It is not required to use a specific method, e.g., EDI or electronic signature, although these two meet the above requirements by definition. It is not necessary to receive an explicit agreement from the customer to be able to use e-invoicing (they may agree tacitly) and no prior approval from the tax authorities is required.

Proof of exports and intra-Community supplies. VAT is not chargeable on supplies of exported goods or on the intra-Community supply of goods (see the chapter on the EU). However, to qualify as VAT-free, exports and intra-Community supplies must be supported by evidence that proves that the goods have left the Netherlands. Acceptable proof includes (a combination of) the following documentation:

- For an export, customs documentation, transport documentation, order forms and proof of payment issued by a foreign bank
- For an intra-Community supply, a copy of the invoice indicating the customer's valid VAT identification number (issued by another EU Member State), plus a range of commercial documentation (such as purchase orders, transport documentation, proof of payment and contracts)

Foreign-currency invoices. A VAT invoice can be issued in any currency, but the VAT amount must be indicated in euros (EUR), using the daily conversion rate published by the European Central Bank.

B2C. It is not required that VAT invoices are issued to private individuals.

A simplified invoice may be issued with respect to local supplies where the taxable amount of the supply is less than EUR100. Also, for credit notes, a simplified invoice may be issued. Simplified invoices should at least mention the following details:
- The date of issue
- Identification of the taxable person supplying the goods or services
- Identification of the type of goods or services supplied
- The VAT amount payable or the information needed to calculate the VAT amount
- Where the invoice issued is a credit note, a specific and unambiguous reference should be made to the initial invoice and the specific details which are being amended

Suppliers of public transportation services, petrol stations and hotel and restaurant services do not have to issue a VAT invoice. However, VAT recovery is allowed on public transportation tickets and taxi receipts and petrol station receipts (the latter only if the means of payment allows for identification of the purchaser).

I. VAT returns and payment

VAT returns. VAT returns are submitted electronically in the Netherlands. They are submitted for monthly or quarterly periods, depending on the amount of VAT payable. Annual VAT returns can be used in exceptional situations, but no longer for periods as of 2020.

As a main rule, VAT returns must be filed quarterly. Filing the VAT return on a monthly basis can be requested by the taxable person at the tax authorities. If the VAT due is not paid on time, the tax authorities also may require the taxable person to file the VAT returns monthly.

Taxable persons that are liable to pay a VAT amount of less than EUR1,883 annually may file annual VAT returns if some other requirements are met.

The return must be filed by the last day of the month following the end of the reporting period, together with full payment.

Non-established businesses registered for VAT in Heerlen must file their VAT returns and pay VAT due before the last business day of the second month after the reporting period.

The VAT amounts due must be paid in euros (EUR).

Special schemes. Not applicable.

Electronic filing and archiving. Electronic filing and archiving is allowed under the Dutch legislation. When analog data is transformed into digital data, it needs to be guaranteed that the data is transferred one-on-one. In practice this means that even the "coffee stains" — if present, of course — will be visible after electronic filing. The data must be preserved in such a way that they can be made readable in reasonable time. A digital administration therefore needs to be easily accessible. If a change of computer system occurs, it needs to be secured that the data from the "old" computer system is still readable. Also, the data needs to be stored appropriately. This means in particular that a backup will have to be made regularly.

Annual returns. See section above.

J. Penalties

Penalties are assessed for the late submission of a VAT return or for the late payment of VAT, in the following amounts:
- For the late submission of a VAT return, the maximum fine is EUR131.
- For errors in the payment of VAT, the maximum fine is 10% of the VAT due, up to a maximum amount of EUR5,278.
- For the late payment of VAT, the minimum fine is EUR50, and the maximum fine is 10% of the VAT due, up to a maximum amount of EUR5,278.

- If the late payment is caused by negligence, intent or fraud, fines ranging from 25% to 100% of the VAT payable may be imposed.
- If a taxable person knows errors were made in the payment of VAT and did not notify the tax authorities accordingly, a penalty may be imposed up to 100% of the VAT that was not reported and paid as a result of the error, i.e., 25% is the typical penalty for gross negligence, 50% for intent and 100% for fraud.

In addition, taxpayers must file supplementary returns if it appears that the information provided was inaccurate and/or incomplete. Noncompliance with the duty to file supplementary returns is subject to an offense penalty of up to 100% of the amount of the unpaid tax. This penalty may be imposed if the taxpayer knew or should have known that the tax levied fell below the amount that was actually due.

K. EU filings

Intrastat. A taxable person that trades with other EU countries must complete statistical reports, known as Intrastat, if the value of its sales or purchases of goods exceeds the applicable threshold. The threshold applies to intra-Community supplies (Dispatches) and intra-Community acquisitions (Arrivals) separately. Separate reports are required for Arrivals and Dispatches.

The threshold for Intrastat Arrivals for the 2018 calendar year is EUR1 million. This has remained unchanged for 2019. The threshold for Intrastat Dispatches for the 2018 calendar year is EUR1.2 million. This has remained unchanged for 2019.

The Intrastat return period is monthly. The submission deadline is the 10th day following the return period. Intrastat declarations must be completed in euros.

A penalty up to a maximum amount of EUR16,000 may be imposed for (structural) failure to comply with Intrastat filing and reporting obligations.

EU Sales Lists. If a taxable person makes intra-Community supplies in any return period, it must submit an EU Sales List (ESL). An ESL is not required for any period in which the taxable person has not made any intra-Community supplies.

ESLs must be filed on a monthly basis if the total value of the supplied goods exceeds EUR50,000. If the total value of the supplied goods does not exceed EUR50,000, the ESLs may be submitted on a quarterly basis.

Taxable persons must submit ESLs for services if all of the following conditions are satisfied:
- The place of supply of business-to-business (B2B) services is located in another EU Member State.
- The VAT due in that EU Member State is reverse charged to the customer.
- The service is not exempt from VAT in the other EU Member State.

The ESLs for services must be submitted on a monthly basis, but a business can opt to submit the ESLs on a quarterly basis.

If a business does not file an ESL on time, it receives a reminder. If the return is still not filed, the VAT authorities may impose a fine. The amount of the penalty depends on the number of successive omissions. The following are the penalties:
- For the first omission, a fine of 2.5% to a maximum of EUR5,278 is imposed.
- For the second and third omissions, a fine of 5% to a maximum of EUR5,278 is imposed.
- For a fourth or subsequent omission, a fine of 25% to a maximum of EUR5,278 is imposed.

Under certain conditions, the VAT authorities may impose a maximum fine of EUR5,278 for missing ESL reports or ESLs with systematic errors or omissions.

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A. At a glance

Name of the tax	Goods and services tax (GST)
Date introduced	1 October 1986
Trading bloc membership	No
Administered by	Inland Revenue (http://www.ird.govt.nz) and New Zealand Customs (www.customs.govt.nz)
GST rates	
Standard	15%
Other	Zero-rated (0%), exempt and nontaxable
GST return periods	
One month	Taxable turnover exceeds NZD24 million (optional for other registered persons)
Two months	Taxable turnover between NZD500,000 and NZD24 million)
Six months	Taxable turnover below NZD500,000 or 80% or more of the person's taxable supplies for an income year occur within six months of the end of the income year.
Three months	Non-established suppliers of remote services are required to file quarterly GST returns.
GST registration number format	Taxable persons use tax registration numbers (IRD number) for GST purposes in the format xx-xxx-xxx; effective from 2008, nine-digit numbers are issued to new GST-registered persons
Thresholds	
Registration	NZD60,000
Recovery of GST by non-established businesses	Yes

B. Scope of the tax

GST applies to the following transactions:
- The supply of goods or services made in New Zealand by a registered person
- The importation of goods into New Zealand, regardless of the status of the importer

Remote services. The supply of "remote services" by nonresidents to New Zealand non-registered customers is subject to GST at the standard rate (see Section D). The definition of "remote services" includes any services supplied digitally or remotely, including electronic services and remotely provided traditional services (e.g., accounting, legal and consultancy work).

Remote services supplied to GST-registered New Zealand customers will be outside the scope of New Zealand GST unless the supplier chooses to treat the supplies as zero-rated (see Section D). Specific rules apply for determining the residence and registration status of the recipient of remote services.

Low value goods: The New Zealand Customs Service currently collects duty and/or GST on imports when the total calculated Customs GST and duty is more than NZD60 ("low value goods threshold").

There are proposals that would apply from 1 October 2019, where offshore suppliers would be required to register, collect and return GST on supplies of goods to New Zealand consumers if the value of the goods are valued at or below NZD1,000. The new rules would apply when the goods are outside New Zealand at the time of supply and are delivered to a New Zealand address.

Offshore suppliers would be required to register and return GST if their total taxable supplies in a 12-month period to consumers in New Zealand exceed NZD60,000. Offshore suppliers would be required to charge GST unless the recipient identified themselves as a GST-registered business or provided their GST registration number or New Zealand Business Number. Goods supplied to GST-registered businesses would be excluded unless the offshore supplier decided to zero-rate the supply.

C. Who is liable

A "registered person" is any business entity or individual that is liable to register for GST in New Zealand.

A person is liable to register if the taxable supplies made exceed the GST registration threshold of NZD60,000. The registration threshold applies in the following ways:
- Retrospectively to taxable turnover in the current month and the preceding 11 months
- Prospectively to taxable turnover in the current month and expected turnover in the following 11 months

GST may be recovered before the incorporation of a company if certain criteria are met.

Group registration. Group registration is allowed for corporations or other taxable persons that are "under common control." For these purposes, a corporation is "controlled" if one or more persons own at least 66% of either the voting power in the corporation or the corporation's common market value interests.

Other taxable persons may form a group if any of the following control conditions is satisfied:
- One group member controls each of the others.
- One person (outside the group) controls all the members of the group.
- Two or more persons carrying on a taxable activity as a partnership control the members of the group.

Certain investment funds may join a GST group with other companies or other investment funds that meet the eligibility criteria. Effective from 1 April 2011, a listed portfolio investment entity can also become part of a group for GST purposes.

Nonresident companies registered under the new "enhanced" registration system for non-established entities cannot group with resident companies.

A group must appoint a representative member. Group members making supplies outside the group must issue tax invoices if requested to do so. The representative group member must account for GST with respect to all group members' taxable activities and file returns. Group members must adopt the same tax periods and accounting basis for GST purposes (see Section E). Group members are also jointly and severally liable for all GST liabilities.

Transactions between group members may be disregarded for GST purposes. This measure applies on the condition that the supply is made to a group member that would have been entitled to input tax recovery if the supplier had not been a member of the group (see Section F).

Branch or divisional registration. If a taxable person's business is organized in branches or divisions, it may register the divisions or branches separately for GST purposes. To register separately, a branch or division must maintain its own accounting system and it must either be in a separate location or carry out different activities from the rest of the legal entity. A branch or division that is separately registered must obtain its own GST registration number and complete a separate GST return. GST is charged on supplies made between branches and divisions that are registered separately and the rest of the legal entity.

Non-established businesses. A "non-established business" is a business that has no fixed establishment in New Zealand. A foreign or non-established business must register for GST if it makes taxable supplies in New Zealand that exceed NZD60,000 in any 12-month period. A non-established business may also register for GST voluntarily if its supplies are below the annual registration threshold.

A non-established business that does not make taxable supplies in New Zealand may register for GST in order to recover GST incurred in New Zealand. GST imposed by customs cannot be recovered by a business registered under this regime. However, the recipient should be able to recover the import GST in certain circumstances. GST paid to customs prior to 30 March 2017, cannot be recovered by non-established businesses who do not incur more than NZD500 of GST charged by NZ GST-registered suppliers. In other cases, the recipient may be deemed to have incurred the import GST, and should be able to recover the import GST in certain circumstances. With effect from 30 March 2017, legislation has been amended to remove the $500 threshold for the non-established businesses. As such, they are entitled to register for GST in New Zealand under this regime. Once registered, the non-established suppliers can recover the GST by entering into an appropriate arrangement with the recipient of the goods, who is deemed to have incurred the import GST and accordingly may be entitled to recover the GST from Inland Revenue.

Tax representatives. A foreign business is not required to appoint a New Zealand resident tax representative in order to register for GST.

Agents. When a registered person makes a supply to a customer using an agent, the customer and registered person (or principal) are considered to be dealing directly with each other for GST purposes.

A supplier and its agent may agree in writing to opt out of this rule so that a supply by the principal to the customer using an agent is treated as two supplies: one from the principal to the agent and the other from the agent to the customer. A purchaser and its agent may also agree in writing to allow agents and principals to opt out of the agency rules for a supply made to the principal.

Opting out enables the parties to account for GST as though the supply was two supplies: between the supplier and agent, and between the agent and principal.

Compulsory reverse charge. A compulsory reverse-charge regime applies if all of the following circumstances exist:

- A supply of services is made by a nonresident to a resident.
- The supply would be taxable if made in New Zealand.
- The recipient of the supply is registered (or required to be registered).
- The recipient makes taxable supplies that total less than 95% of the recipient's overall supplies.
- The recipient of the supply meets one of the following conditions:
  - — At the time of acquisition, it estimates that the percentage of intended taxable use of the services is less than 95%.
  - — It determines that the percentage of actual taxable use is less than 95%.

The reverse charge is 15% of the consideration for the supply. An input tax credit may be claimed with respect to the reverse charge to the extent that the service was used or available for use in making taxable supplies.

Registration procedures. GST registration can be undertaken by submitting a hard copy form, or by registering online. Registration online is done instantly, whereas registration by way of a hard copy form can take several weeks. The registration can be submitted either by the taxpayer or by an agent of the taxpayer. Online registration can be completed at www.ird.govt.nz.

The registration process for nonresident suppliers who only make supplies of remote services has been simplified, and the registration form can be submitted through email or posted to Inland Revenue.

Late-registration penalties. Penalties are assessed for a range of GST offenses, including the failure to make GST payments by the due date (see Section I).

Digital economy. Foreign suppliers of "remote services" must register and account for GST in New Zealand if the annual value of their remote services supplied to non-GST-registered New Zealand consumers exceeds NZD60,000 (approximately EUR35,000 or USD40,000).

Electronic and approved marketplaces. Suppliers who only supply remote services to New Zealand customers through an "electronic marketplace" operated by a nonresident person will generally not be required to register for GST in respect of the supplies made through the marketplace. Instead, the nonresident operator of the marketplace is generally liable to register and return GST on behalf of its underlying suppliers, unless the operator and underlying supplier agree otherwise and take various steps to ensure the operator is not seen to be the supplier.

A nonresident operator of a non-electronic marketplace through which remote services are supplied to New Zealand customers can also register and return GST on behalf of its underlying suppliers if it obtains approval from Inland Revenue to do so.

Deregistration. A taxable person that ceases to make taxable supplies must notify the New Zealand GST authorities within 21 days after ceasing operations. If the GST authorities are satisfied that the taxable person's operations are not expected to recommence within 12 months, they may cancel the taxable person's GST registration.

A taxable person may deregister voluntarily if it can satisfactorily prove to the GST authorities that its taxable turnover in the following 12 months is expected to be less than NZD60,000.

Exemption from registration. The GST law in New Zealand does not contain any provision for exemption from registration.

Voluntary registration. A small business with taxable turnover of less than NZD60,000 a year may voluntarily apply to become a registered person.

D. GST rates

The term "taxable supplies" refers to supplies of goods and services that are liable to GST. The GST rates are the standard rate of 15% (effective from 1 October 2010; the prior rate was 12.5%) and the zero rate (0%). Some specific supplies have an effective rate of 9% through the GST valuation rules.

Examples of goods and services with an effective rate of 9%

- Supplies of accommodation and other domestic goods and services in a rest home where nursing care and other services are provided
- Supplies of long-term accommodation in a hotel or motel

Examples of goods and services taxable at 0%

- Sale of a business as a going concern
- Exported goods
- Exported services (excluding exported services that are acquired to enable or assist a change in the physical or legal status of land located in New Zealand)
- Services performed outside New Zealand
- First sales of refined precious metals for investment purposes
- Supplies of financial services to businesses that make taxable supplies in excess of 75% of total supplies where the supplier has elected to do so
- Certain transactions involving emissions units
- Exported secondhand goods if the recipient gives the supplier an undertaking in writing that the goods will not be reimported into New Zealand
- Certain supplies of which land is a component by GST-registered vendors to registered persons
- Supplies of remote services made by nonresident suppliers to GST-registered New Zealand customers, where the supplier chooses to zero-rate

In addition, some activities are exempt from GST. This means that no GST is charged, but the supplier does not have the right to deduct any related input tax (see Section F).

Examples of exempt supplies of goods and services

- Financial services (although some qualify for the zero rate)
- Sales of donated goods by nonprofit organizations
- Certain real estate transactions
- Supply of precious metals

Option to tax for exempt supplies. In some cases, suppliers of financial leases can elect to treat their interest income as taxable supplies instead of exempt supplies.

E. Time of supply

The time when GST becomes due is called the "time of supply" or "tax point." Under the general rule, a supply takes place when an invoice is issued or when payment is received by the supplier, whichever is earlier.

Taxable persons may opt to account for GST using the invoice basis, the payments basis or the hybrid basis. These methods are described below:

- Under the invoice basis of accounting, a taxable person must account for GST when an invoice is issued or when payment is received, whichever is earlier. Input tax is recoverable on the basis of tax invoices received (see Section F).

- A taxable person may use the payments basis of accounting if the total value of its taxable supplies in the preceding 12 months did not exceed NZD2 million or if its turnover is not expected to exceed this figure in the following 12 months. Under the payments basis of accounting, a taxable person must account for GST on the basis of payments received (except for a supply for which the consideration is more than NZD225,000 and a supply that is not a short-term agreement for the sale and purchase of property or services). Input tax is recoverable on the basis of invoices paid (see Section F). Nonresidents registered under the "enhanced" GST registration system must account for GST on a payments basis. Under the hybrid basis of accounting, a taxable person accounts for GST when an invoice is issued or when a payment is received, whichever is earlier. Input tax is recoverable on the basis of invoices paid (see Section F).
- Where the supplier and recipient are associated entities, the time of supply is the earliest of the issuing of an invoice, the receipt of payment by the supplier, or the making available of the goods, removal of movable goods, or performance of the services.

Imported goods. Not applicable, no separate time of supply treatment for imported goods.

Deposits and prepayments. Where a binding contract exists, the receipt of a deposit applied to the benefit of the vendor may trigger the time of supply. This is regardless of whether at the time of the receipt the contract is conditional or unconditional. Where a deposit is paid to a person as a stakeholder, there will have been no receipt by the supplier and the time of supply will not be triggered. For nonrefundable deposits, if the facts show that the supplier is entitled to the deposit from the moment of payment, then the time of supply will have been triggered. For refundable deposits, if the facts show that the deposit is paid to a stakeholder and cannot be applied to the supplier's benefit until the happening of a specific event, then the time of supply will not be triggered until the event has occurred and the stakeholder obligations are at an end.

If a deposit is received but the supply does not take place (for example because the contract has been cancelled), the vendor is still required to account for GST. However, the GST effect of entering into the contract will be reversed in the period in which the agreement is canceled.

The treatment of deposits does not depend on whether the supply is in relation to goods or services.

Goods sent on approval for sale or return. New Zealand does not have a time of supply rule for these circumstances.

Leased assets. Where goods are supplied under an agreement to hire (which generally includes leases where title to the assets is not expected to pass to the lessee), or where services are supplied under any agreement or enactment which provides for periodic payments, the time of supply is deemed to take place when a payment becomes due or is received, whichever is the earlier.

Where goods and services are supplied under a hire purchase agreement (which generally includes leases where there is an option to purchase the leased assets), the time of supply is deemed to take place at the time the agreement is entered into.

Reverse-charge services. The normal time of supply rules apply (i.e., the earlier of when an invoice is issued or any payment received) with an exception where the supplier and recipient are associated persons.

Where the supplier and the recipient are associated parties, the time of supply is generally the earlier of the following:

- The end of the taxable period that includes the date that is two months after the recipient's balance date for the year in which the service was performed
- When an invoice is issued
- When any payment is received

Continuous supplies. Under the following instances, each periodic payment is deemed to be a separate supply and the time of supply is deemed to take place whenever any periodic payment becomes due, is received, or any invoice relating only to that payment is issued, whichever is the earlier:

- Goods that are supplied progressively or periodically pursuant to any agreement or enactment that provides for the consideration for that supply to be paid in installments or periodically and in relation to the periodic or progressive supply of those goods
- Goods and services supplied directly in the construction, major reconstruction, manufacture or extension of a building or an engineering work and are supplied pursuant to any agreement or enactment that provides for the consideration for that supply to become due and payable in installments or periodically in relation to the progressive nature of that construction, manufacture or extension

F. Recovery of GST by taxable persons

A taxable person may recover input tax, which is GST charged on goods and services supplied to it for business purposes. A taxable person generally recovers input tax by deducting it from output tax, which is GST charged on supplies made. Input tax includes GST charged on goods and services supplied in New Zealand and GST paid on imports.

Nonresidents may recover GST costs without making taxable supplies in New Zealand under the "enhanced" GST registration system.

A valid tax invoice or customs document must generally accompany a claim for input tax for a supply greater than NZD50 (including GST).

A taxable person is effectively restricted from claiming input tax credits with respect to supplies that are greater than two years old except in certain circumstances.

Nondeductible input tax. Input tax may not be recovered on purchases of goods and services that are not used for business purposes (for example, goods acquired for private use by an entrepreneur).

Examples of items for which input tax is nondeductible

- Nonbusiness expenditure
- 50% of business entertainment expenses

Examples of items for which input tax is deductible (if related to a taxable business use)

- Purchase, lease, hire, maintenance and fuel for cars, vans and trucks
- Conferences and seminars
- Advertising
- Accommodation
- Mobile phones
- Business gifts
- Travel expenses
- Capital raising costs

Partial exemption (adjustments). Effective from 1 April 2011, a registered person may recover GST, to the extent that the acquired goods or services are used for making taxable supplies. This input tax regime replaces the "principal purpose" test described below with an apportionment test. Under the new regime, a taxpayer apportions GST incurred on the acquisition of goods and services and claims an input tax deduction for goods or services that are used for making taxable supplies.

To determine the extent that goods or services are used for making taxable supplies, a taxpayer must estimate how it intends to use the goods or services, and choose a determination method that provides a fair and reasonable result. The taxpayer then uses the estimated intended taxable use of the goods and services to determine the proportion of the input tax that corresponds to the estimated intended taxable use.

A taxpayer is not required to apportion input tax if it makes both taxable and exempt supplies and has reasonable grounds to believe that the total value of its exempt supplies is no more than the lesser of NZD90,000 or 5% of the revenue from all taxable and exempt supplies for the period beginning at least 12 months from acquisition of the goods and services and ending on the person's balance date.

Taxpayers may be required to make further adjustments if the actual taxable use of an asset is different from its intended taxable use.

Taxpayers may obtain approval from the Inland Revenue to use an alternative method of apportionment and adjustment that is "fair and reasonable" if the taxpayer is making supplies exceeding NZD24 million in a 12-month period, or the taxpayer is associated with a specific industry.

A special rule has been introduced for situations in which land is used concurrently for a taxable purpose and a nontaxable purpose, such as when land is simultaneously advertised for sale (taxable use) and rented out as a dwelling (nontaxable use). The new rule requires a registered person to calculate the percentage that the land is used for making taxable supplies by using the following formula:

$$\frac{\text{Consideration for taxable supply}}{\text{Total consideration for supply}} \times 100$$

In the above formula, "consideration for taxable supply" is the amount paid on a disposal of land in the adjustment period or the market value of the land at the time of making the adjustment. "Total consideration for supply" is the consideration for taxable supply, as described in the preceding sentence, plus the total exempt rental income payable since the acquisition of the land.

Special apportionment rules apply where certain assets (land, boats and planes) are used for both income-earning and private activities. If an asset is not used for at least 62 days per income year, expenditure relating to such assets is to be apportioned according to the following formula:

GST amount * (income days / (income days + private days))

In the formula, days can be substituted for a comparable unit, such as flying hours for planes or nights for accommodation. Some expenditure is fully deductible, such as costs incurred to repair damage caused when the asset is used to earn income, expenditure solely relating to the use of the asset for deriving income that derives no personal benefit (such as advertising), and expenditure incurred to meet regulatory requirements. Before 1 April 2011, a registered person could recover GST if it acquired goods and services principally for business purposes. GST was not recoverable for goods and services that are acquired principally for nonbusiness purposes or principally for making exempt supplies.

If goods and services were acquired principally for making taxable supplies but were also used for making exempt supplies, an output tax adjustment was required to the extent that the goods and services were used for making exempt supplies.

If goods and services were acquired principally for making exempt supplies or for nonbusiness purposes, an input tax adjustment was required to the extent that the goods and services were used for making taxable supplies. Some transitional rules relate to specific aspects of the changes discussed above.

Capital goods. Capital goods are items of capital expenditure that are used in a business over several years. Input GST is not recoverable to the extent that the capital goods are purchased by a business for private use. Similarly input GST is not recoverable to the extent that capital goods are used to make exempt supplies (assuming the value of the exempt supplies is more than NZD90,000 or 5% of the total supplies made by the registered person).

For capital goods acquired before 1 April 2011, an entitlement to input tax arises if the good was principally used for making taxable supplies. Ongoing GST adjustments were required to reflect the extent of nontaxable use. The calculation of the ongoing adjustments was based on the straight-line depreciation of the goods. For capital goods (other than land), GST adjustments can be made under the old rules until 1 April 2016 if the market value or book value of the good exceeds $10,000. For other goods, no more adjustment is required. For land, adjustments must be made until the date of disposal. For capital goods acquired on or after 1 April 2011, the actual taxable use must be determined by reference to the percentage taxable use of the asset over the entire period from the purchase date to the end of the adjustment period. The resulting taxable use percentage is effectively the weighted average of the annual taxable use percentages calculated over the ownership period. Capital goods are subject to annual wash-up adjustments as stated above. The number of GST adjustments required is determined by reference to the value of the capital goods.

Refunds. If the amount of input GST recoverable in a period exceeds the amount of output GST payable, a refund may be claimed. GST refunds are generally made within 15 working days after the Inland Revenue receives a correct return unless the Inland Revenue investigates the return and determines that the registered person has not complied with its GST obligations.

However, a refund can be withheld for up to 90 days for nonresidents registered under the new "enhanced" GST registration system.

Preregistration costs. Costs incurred prior to registration may be claimed provided they were legally incurred by the company or person seeking to recover them, and they relate to the taxable activity of that company or person. Pre-incorporation expenditure cannot be claimed where the goods or services were acquired more than six months prior to the date of incorporation of the company. Input tax on preregistration costs are claimable in the GST return period covering the income tax balance date. This includes goods or services acquired prior to the incorporation of a company, where the costs were incurred by a person who became a member, officer or employee of the company and was fully reimbursed for the costs, and where the goods and services were acquired for the purpose of a taxable activity to be carried out by the company and have only been used for that purpose.

G. Recovery of GST by non-established businesses

A non-established business that does not make taxable supplies in New Zealand may register for GST to recover GST incurred in New Zealand. The following rules will govern the scheme:

- The non-established business must be registered for GST or VAT in its own country.
- The GST refund resulting from the first GST return must be more than NZD500.
- The GST input tax credits only arise when the nonresident has paid for the expenditure.
- The nonresident cannot form a New Zealand GST group with New Zealand resident entities unless the nonresident is registering for GST under the ordinary rules.
- The nonresident must not be making supplies of services that are likely to be received by a person in New Zealand who is not registered for GST.
- The tax authority will not be legally obliged to refund the GST until 90 days after the GST return has been lodged.

H. Invoicing

Tax invoices and credit notes. A New Zealand-registered person must generally provide a tax invoice for all taxable supplies made to other taxable persons within 28 days after a request for the invoice. A tax invoice is generally required to support a claim for deduction of input tax for items that cost more than NZD50 (including GST).

A credit note may be used to reduce the GST charged and reclaimed on a supply if the value originally charged was incorrect. A credit note must indicate the reason why it was issued and must refer to both the GST originally charged and the corrected amount.

Remote services. Nonresident suppliers of only remote services are not required to issue tax invoices to New Zealand customers. However, they can choose to issue an invoice where GST was incorrectly charged on a supply made to a GST-registered person and both of the following conditions are met:
- The consideration for the supply was less than NZD1,000 (by reference to the foreign currency amount converted into NZD at the time of supply).
- The customer has informed the supplier that it is GST-registered or has provided its GST/IRD registration number or New Zealand business number.

Foreign-currency invoices. Invoices must be issued in New Zealand dollars. If a tax invoice is issued in foreign currency, the values used for GST purposes may be converted to New Zealand dollars based on the exchange rate in effect at the time of supply.

B2C. There are no specific rules in relation to the invoices issued for supplies made by taxable persons to private consumers. No tax invoices are required to be issued by a supplier of remote services, or if the value of the supply is less than $50. In other cases, the general tax invoicing requirements apply.

Electronic invoicing. Electronic invoicing is permitted, but it is not a mandatory requirement for GST taxpayers in New Zealand. Where the originals are in hard copy form, the electronic recording of the documents is accepted provided that the soft copy, if printed, is identical in format and all other aspects to the original documents. Further, the information must be readily ascertainable and must meet the requirements of the Electronic Transactions Act 2002.

Proof of export. In order to apply zero-rating to a supply of exported goods, the following documents are accepted by customs as proof of export:
- Delivery evidence, (e.g., bill of lading showing export by sea, or air waybill for export by air)
- Packing list or delivery note showing overseas delivery address
- Insurance documents
- Purchase order showing overseas delivery address.

There is no specific wording requirement for an invoice issued relating to an exported sale.

I. GST returns and payment

GST returns are generally submitted monthly or bimonthly. Two cycles of bimonthly returns are provided to stagger submission dates. A taxable person may request a change in its GST return cycle to ease administration.

A registered person whose taxable turnover exceeds NZD24 million in a 12-month period must submit GST returns monthly. Other taxable persons may opt to submit GST returns monthly if they receive regular repayments of GST or if they find it easier to account for GST on a monthly basis.

A registered person whose annual taxable turnover does not exceed NZD500,000 may submit GST returns on a six-months' basis. A person may also apply for a six-monthly filing frequency even

though their taxable supplies exceed the NZD500,000 threshold, if 80% or more of their taxable supplies in an income year are made within a six-month period that ends at any day within the last month of the person's income year, and the person had not had a six-monthly filing frequency under this criterion in the 24-month period before the application.

A nonresident supplier who only makes supplies of remote services in New Zealand (and whose taxable supplies exceed the registration threshold of NZD60,000) must submit GST returns on a quarterly basis.

GST return periods generally end on the last day of the month. However, taxable persons may request different periods to align with their accounting records. GST return and payment due dates fall on the 28th day of the month following the end of the return period, except for the periods ending 30 November and 31 March. The due dates for these periods are 15 January and 7 May, respectively. The GST return form indicates the due date for each return.

For registered persons that are provisional taxpayers, provisional tax installment dates should coincide with the GST return due dates. A provisional taxpayer is a person that pays its anticipated yearly income tax liability in installments during the income year.

Annual returns. There is no requirement for GST taxpayers in New Zealand to submit an annual return in addition to periodic GST returns.

Special schemes. Nonresident suppliers of remote services are subject to special filing frequencies with quarterly filing as detailed above. Otherwise, the GST law in New Zealand does not provide for any special GST accounting schemes or GST returns for certain groups of taxable persons.

Electronic filing. Currently, it is not a mandatory requirement for GST taxpayers to file their returns electronically.

There are proposals to introduce a requirement for electronic filing of GST returns for registered persons with turnover above a certain threshold. A penalty of $250 will apply for taxpayers that are required to file their GST return electronically but fail to do so. The threshold has not yet been determined, and will be set by Order in Council following appropriate consultation. Retention of electronic records is subject to special requirements. See further comments under the section *Electronic invoicing*).

J. Penalties

A penalty is assessed for the late payment of GST. A penalty of 1% of the tax due is assessed on the day after the due date. If the tax remains outstanding, the following additional penalties apply:
- 4% of the tax that is due seven days after the due date
- 1% of the tax due each month that the tax remains unpaid

A late filing penalty may be imposed, effective from 1 April 2008. The amount of the late filing penalty is NZD250 if the registered person accounts for GST payable on an invoice basis or NZD50 if the registered person is using the payments basis.

Penalties are also assessed for underpayments of GST. This "shortfall penalty" is assessed as a fixed percentage of the tax due, depending on the nature of the error, in the following amounts:
- Lack of reasonable care: 20% of the tax due
- Gross carelessness: 40% of the tax due
- Tax evasion: 150% of the tax due
- Adopting an abusive tax position: 100% of the tax due

Penalties may be reduced in certain circumstances by up to 75%.

A reduction of the shortfall penalty to zero may apply if the penalty is imposed for not taking reasonable care and if the registered person makes a voluntary disclosure before notification of an Inland Revenue audit or investigation.

In addition, interest is calculated for underpayments and overpayments of GST. Effective from 8 May 2016, the rate of interest is 8.27% for underpayments and 1.62% for overpayments. Interest rates are subject to change.

A range of GST offenses are subject to fines and imprisonment, depending on the offense committed. The maximum fine is NZD50,000.

Nicaragua

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A. At a glance

Name of the tax	Value-added tax (VAT)
Local name	Impuesto al valor agregado (IVA)
Date introduced	21 December 1984 (revised 6 May 2003)
Trading bloc membership	None that would provide differentiated VAT treatment
Administered by	Ministry of Finance (Ministerio de Hacienda y Crédito Público) (http://www.dgi.gob.ni)
VAT rates	
Standard	15%
Other	Zero-rated (0%) and exempt
VAT number format	Taxpayer identification number (RUC)
VAT return periods	Monthly (two weeks for large taxpayers)
Thresholds	
Registration	None
Recovery of VAT by non-established businesses	No

B. Scope of the tax

VAT applies to the following transactions:
- Transfer and supply of goods
- Supply of services within Nicaragua
- Use or enjoyment of goods
- Importation of goods
- Exports of goods and services

Taxable events include the sale, importation and nationalization of goods, the export of goods and services, the rendering of services and the use and enjoyment of goods.

C. Who is liable

No separate VAT registry exists in Nicaragua. All businesses must register as taxpayers and obtain a RUC. The RUC is also used for VAT purposes. A taxpayer for VAT purposes is any entity or individual that engages in taxable operations in Nicaragua.

Group registration. Grouping of separate legal entities for VAT purposes is not allowed under the Nicaraguan VAT law. Legal entities that are closely connected must register for VAT individually.

Non-established businesses and tax representatives. A "non-established business" is a business that has no fixed establishment in Nicaragua. In principle, a non-established business must register for VAT if it supplies goods or services in Nicaragua. To register for VAT, a non-established business must provide the VAT authorities with a copy of its articles of incorporation, legalized by a Nicaraguan consulate, together with an official translation in Spanish.

Registration procedures. Taxpayers must register before the tax administration at the time they start selling goods or rendering services subject to VAT. For this purpose, taxpayers should file a registration form, incorporation documents of the company, the registration of the company in the public register and copies of the identification number of the shareholders. The registration as a taxpayer takes approximately one week. The legal representative or person who holds a special power of attorney is entitled to do the registration.

Late-registration penalties. In case of late registration, a penalty of between 30 and 50 penalty units may be assessed. A penalty unit equals approximately USD1.

Reverse charge. Not applicable.

Digital economy. There are no specific rules regarding the taxation of the digital economy for VAT purposes. However, the general taxable events indicated in Section B should always be observed regardless of whether or not they are transacted by digital means.

A VAT liability will arise when the digital transaction involves one of the following:
- Transfer and supply of goods
- Supply of services within Nicaragua
- Use or enjoyment of goods
- Importation of goods
- Exports of goods and services

Furthermore, there is no different treatment for business-to-business (B2B) and business-to-consumer (B2C) supplies, for example, if a nonresident provides services within Nicaragua to a resident, it is subject to VAT. However, please consider that there is no reverse-charge mechanism in Nicaragua.

Deregistration. To deregister as VAT taxpayer, the following documents must be filed before the tax administration:

- Letter requesting VAT deregistration
- Accounting books
- Last invoice and the other invoices that taxpayer will not use
- VAT declaration of final inventory
- Annual declaration of income tax
- Tax identification (RUC)

Exemption from registration. The VAT law in Nicaragua does not contain any provision for exemption from registration for entities or individuals that make taxable supplies.

Voluntary registration. The VAT law in Nicaragua does not contain any provision for voluntary VAT registration.

D. VAT rates

The standard rate of VAT is 15%. It applies to the transfer and supply of all goods or services, unless a specific measure applies, such as zero rating or exemptions. The only zero-rated activities are exports. Exempted activities do not give rise to a right of input tax (See Section F).

Examples of exempt supplies of goods and services

- Live animals and fresh fish
- Domestically produced fruits and vegetables that are unprocessed
- Basic foodstuffs, such as corn tortillas, rice, beans, certain dairy products, eggs and meat
- Used goods (unless imported)
- Crude oil
- Real estate transactions
- Life and health insurance
- Domestic transport
- Education
- Certain financial services
- Construction of social housing (as defined by law) and leasing of unfurnished accommodation
- Equipment used for agriculture
- Irrigation for agriculture and forestry
- Electricity used for irrigation
- Importation of goods, machinery and equipment for use by the media
- Books, newspapers and magazines
- Medicines and vaccines
- Local production of sanitary protection products and toilet paper
- Matches, kerosene, butane and electricity
- Veterinary products
- Insecticides, fungicides, fertilizers and seeds

Exports are zero-rated for VAT purposes.

Option to tax for exempt supplies. Not applicable.

E. Time of supply

The time when the taxable event is considered to have taken place and when VAT becomes due, is called the "tax point." Under the tax law (*Ley de Concertación Tributaria*), for VAT purposes, the taxable event varies depending on the type of supplies. The applicable rules are summarized below.

Goods. The time of supply for the sale of goods is when the invoice or corresponding legal document is issued, when the goods are delivered to the new owner or when the new owner has the ability to dispose of the goods as the owner or when the price is fully or partially paid.

Services. The time of supply for the rendering of services is when the purchaser becomes legally liable for payment.

Imported goods. The time of supply for the importation of goods is when the goods are made available to the importer at the fiscal warehouse.

Deposits and prepayments. In Nicaragua, the payment, in part or in full, of the price of goods and services is considered a tax point. Therefore, prepayments and deposits would trigger the payment of VAT when they are considered an advanced payment of the price.

Goods sent on approval for sale or return. In Nicaragua, there are no special time of supply rules for supplies of goods sent on approval for sale or return. As such, the general time of supply rules (as outlined above) apply; VAT would be due when the goods are sold.

Leased assets. In Nicaragua, the leasing of assets is subject to VAT as a service, even if it doesn´t result in a transfer in ownership of the underlying assets. There are no special time of supply rules in Nicaragua for the supply of leased assets. As such, the general time of supply rules for services apply (as outlined above).

Reverse-charge services. In Nicaragua, there are no special time of supply rules for supplies of reverse-charge services. As such, the general time of supply rules for services apply (as outlined above).

Continuous supplies. In Nicaragua, there are no special time of supply rules for continuous supplies. As such, the general time of supply rules apply (as outlined above), and the taxable event is the issuance of the invoice.

F. Recovery of VAT by taxable persons

A taxpayer may recover input tax, which is VAT paid on the purchase of goods and services used to generate other goods and services subject to VAT. Input tax is generally credited against output tax, which is VAT charged or collected on the sale of goods or the rendering of services. To deduct or credit input tax, all of the following conditions must be satisfied:

- The goods or services must be part of the economic process of transferring goods or providing services. This measure also applies to zero-rated operations.
- The payment must meet the deductibility requirements for income tax purposes even if the taxpayer is not subject to income tax.
- The payment must be adequately documented.

Nondeductible input tax. VAT is not creditable in the following cases:

- When VAT is paid on purchases related to the exempt transfer of goods
- Services that are exempt from VAT
- Self-consumption

Examples of items for which input tax is deductible (if related to a taxable business use)

- VAT paid to produce goods or services subject to VAT

Refunds. If the amount of input VAT recoverable in a month exceeds the amount of output VAT payable, the taxpayer may carry forward VAT credits to offset output tax in subsequent VAT periods. Exporters and taxpayers that provide exempted activities may use their excess credits to offset other taxes (such as income tax) and then may request a refund.

Partial exemption. Not applicable. VAT incurred by a taxpayer related to the making of exempt goods or the provision of exempt services does not generate VAT credit (i.e., it should be registered as an expense). Taxpayers must identify the VAT incurred in exempt and taxable supplies to recover the tax related to taxable goods or services. If such distinction is not possible, taxpayers may apply a percentage based on taxable turnover vs. total turnover.

Preregistration costs. Input tax incurred on preregistration costs is not recoverable in Nicaragua.

G. Recovery of VAT by non-established businesses

Nicaragua does not refund VAT incurred by foreign or non-established businesses unless they are registered as Nicaraguan VAT taxpayers.

Diplomats and international organizations. Diplomatic consular delegations and international organizations and agencies are exempt from VAT. Consequently, these organizations are also entitled to a reimbursement for VAT paid in Nicaragua if reciprocal treatment is granted to delegates from Nicaragua.

H. Invoicing

VAT invoices and credit and debit notes. A taxpayer must generally provide a VAT invoice for all taxable activities. An invoice is generally necessary to support a claim for an input tax credit.

A credit note may be used to reduce the VAT charged and reclaimed on a supply if the value is reduced for any reason (for example, a discount or bonus is granted, the price is changed, or the goods are returned). A credit note must generally include the same information as a tax invoice.

VAT is not chargeable on supplies of exported goods.

Foreign-currency invoices. Transactions must be registered in Nicaraguan córdobas (NIO).

Proof of exports. Invoice and declaration of exportation.

B2C. In Nicaragua, there are no special rules for invoices issued to private consumers. Full VAT invoices must be issued for all supplies.

Electronic invoicing. Electronic invoicing is currently not allowed in Nicaragua.

I. VAT returns and payment

VAT returns. VAT returns must be submitted on a monthly basis. Monthly returns must be submitted by the 15th day of the month following the end of the return period. However, large taxpayers must also make an advance payment of VAT within the first 15 days after the end of the VAT return period. They must make the full payment of VAT within five days after the advance payment.

Return liabilities must be paid in Nicaraguan córdobas.

Annual returns. Annual returns are not required to be submitted in Nicaragua.

Special schemes. No special schemes apply in Nicaragua.

Electronic filing. In Nicaragua, electronic filing is allowed for all VAT taxpayers.

J. Penalties

Interest is charged on the tax due at a rate of 5% per month for the late submission of a VAT return. In addition, a penalty fine applies, computed as a minimum of 70 units of fine, with a cap of 90 units of fine (each unit equals NIO25).

Other penalties may also apply, including a 25% penalty and surcharges ranging from 5% to 50%, both computed on the amount of unpaid VAT.

Tax evasion. Tax evasion that does not constitute fraud is deemed to occur if the taxpayer files an inaccurate return that results in the underpayment of VAT. The penalty for tax evasion is 100% of the VAT amount due.

Tax fraud. Tax fraud is deemed to exist when information has been altered in a manner that causes the tax authorities to incorrectly compute the amount of VAT due. Tax fraud is punishable by a term of imprisonment from six months to eight years.

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A. At a glance

Name of the tax	Value-added tax (VAT)
Date introduced	1 December 1993
Trading bloc membership	Economic Community of West African States Member
Administered by	Federal Inland Revenue Service (FIRS)
VAT rates	
Standard	5%
Others	Zero-rated (0%) and exempt
VAT number format	01012345-0001
VAT return periods	Monthly
Registration thresholds	None
Recovery of VAT by non-established businesses	No

B. Scope of the tax

VAT applies to the following transactions:
- Supplies of goods and services other than those specifically exempt under the VAT Act
- Goods and services imported into Nigeria

C. Who is liable

Taxable persons. Taxable persons are persons that make supplies of goods and services. They are expected to register for VAT. The following are examples of taxable persons:
- Individuals or bodies of individuals, families, corporations with one shareholder, trustees or executors that carry out economic activities
- Persons exploiting tangible or intangible property for the purpose of obtaining income from the property in the course of a trade or business, including persons from or agencies of the government performing such actions

The following are required to deduct VAT on their suppliers' invoices and remit the VAT to the FIRS:
- Oil and gas companies including oil-service companies
- Governments and government ministries, agencies and departments
- Resident entities engaging in transactions with nonresidents carrying on business in Nigeria

Non-established businesses. A non-established company carrying on business in Nigeria is required to register for VAT using the address of the Nigerian customer with which it has a contract.

Group registration. The Nigerian law does not provide for group registration.

Late-registration penalties. The VAT act provides for a late-registration penalty of NGN10,000 for the first month and NGN5,000 for every subsequent month in which the default continues.

Tax representatives. A taxpayer may register for VAT and file returns directly in person or appoint an accredited tax representative to act on its behalf.

Reverse charge. There are no specific reverse-charge provisions in the VAT Act. Under the act, however, the taxable person in Nigeria to whom the supply is made is required to withhold the VAT included in the invoice and remit to the FIRS if:
- The supplier is a nonresident company carrying on business in Nigeria.
- The consumer is a company operating in the oil and gas sector.
- The consumer is a government ministry, department or agency.

Deregistration. There is no provision for deregistration in the Nigerian VAT Act but there is a cessation requirement that the tax authorities should be notified in writing of the winding up or cessation of a business.

Voluntary registration. The Nigerian VAT Act does not contain any provision for voluntary VAT registration, as there is no registration threshold (i.e., all entities that make taxable supplies are obliged to register for VAT).

Digital economy. The Nigerian VAT Act does not make specific provisions for e-commerce. However, nonresident companies carrying on business in Nigeria are generally required to register for tax using the address of the person/entity with which it has a subsisting contract. This means the address of the customer based in Nigeria, and if the nonresidential company has more than one customer, providing the address of one of its customers is sufficient.

D. VAT rates

The standard rate of VAT is 5% of the invoiced amounts for taxable goods and services including imported goods. Certain goods and services are zero-rated or exempt from tax.

Examples of goods and services taxable at 0%

- Non-oil exports
- Goods and services purchased by diplomats
- Goods and services purchased for humanitarian donor-funded projects
- Imports of commercial aircraft, aircraft spare parts and machinery and equipment used in the solid minerals sector

Examples of exempt supplies of goods and services

- All exported goods and services
- Medical goods and services and pharmaceutical products
- Basic food items
- Books and educational materials
- Plant, machinery and goods imported for use in free-trade zones
- Plant, machinery and equipment purchased for the utilization of gas in downstream petroleum operations
- Tractors, plows and agricultural implements purchased for agricultural purposes

- Services rendered by community banks and mortgage institutions
- Plays and performances by educational institutions as part of learning
- Proceeds from the disposal of short-term federal government of Nigeria securities and bonds
- Proceeds from the disposal of short-term state, local government and corporate bonds, this exemption will only last 10 years from a commencement date of 2 January 2012
- Fees or commissions earned on traded shares. This shall apply for five years effective 25 July 2014
- Fees or commissions due to Securities and Exchange Commission, the Nigerian Stock Exchange and the Central Securities Clearing System. This shall apply for five years effective from 25 July 2014

E. Time of supply

The time when VAT becomes due is called the "time of supply." The VAT Act does not define "time of supply." In practice, the "time of supply" is the date on which the related invoice is issued or payment is made, whichever is earlier.

Deposits and prepayments. There are no special time of supply rules in Nigeria for deposits and prepayments. As such, the general time of supply rules apply (as outlined above).

Goods sent on approval for sale or return. There are no special time of supply rules in Nigeria for supplies of goods sent on approval for sale or return. As such, the general time of supply rules apply (as outlined above).

Leased assets. There are no special time of supply rules in Nigeria for supplies of leased assets. As such, the general time of supply rules apply (as outlined above).

Reverse-charge services. The VAT Act does not provide for reverse charge.

Continuous supplies. There are no special time of supply rules in Nigeria for continuous supplies. As such, the general time of supply rules apply (as outlined above).

Imported goods. VAT on imported goods is payable at the time of importation.

F. Recovery of VAT by taxable persons

A taxable person may recover input tax that is charged on business purchases by offsetting it against output VAT that is charged on taxable supplies. If the input VAT exceeds the output VAT, the taxable person is allowed to claim a refund of the excess input VAT. An input VAT refund may be claimed in any of the following manners:

- Credit method
- Direct cash refund
- By both credit method and direct cash refund

The most common practice is the credit method under which the taxable person may offset the excess input VAT against the output VAT in the subsequent month.

Input VAT is deductible from output VAT if it relates to goods purchased or imported directly for resale and goods that form the stock-in-trade used for the direct production of any new product on which the output tax is charged. Refund is also available for input VAT paid on zero-rated goods and services.

Nondeductible input tax. A taxable person cannot reclaim VAT paid on goods and services used for nonbusiness purposes. In addition, input VAT incurred on the purchase of fixed assets and expenses such as general administration and overhead costs, cannot be recovered from output VAT. Recovery of input VAT is not allowed with respect to the supply of services and exempt supplies.

VAT on fixed assets should be capitalized together with the cost of the assets, but VAT on general administration, overhead costs and services should be expensed in a company's profit-and-loss account.

Refunds. The FIRS Establishment Act provides for a cash refund within 90 days, subject to a refund application by the taxpayer and an appropriate audit by the FIRS.

Preregistration costs. Not recoverable.

G. Recovery of VAT by non-established businesses

Nonresident, unregistered businesses may not recover input VAT in Nigeria.

H. Invoicing

VAT invoices and credit notes. A taxable person that makes a taxable supply is required to furnish the purchaser with a tax invoice for that supply, which contains the following:

- Taxpayer's identification number
- Name and address
- VAT registration number
- Date of supply
- Name of purchaser or client
- Gross amount of transactions
- Tax charged and the rate applied

A tax invoice must be issued at the time of supply, regardless of whether payment is made at the time of supply.

VAT is payable in the currency of the transaction.

There are no specific provisions on credit notes in the VAT Act. However, as a principle in accounting, a VAT credit note should be used if the VAT payable on a supply is reduced or reversed because of a subsequent allowance or discount or an error. In practice, an annual reconciliation of total VAT per audited account with total VAT per monthly returns filed is carried out to ensure accurate VAT accounting and remittances. Accordingly, it will be helpful to have in place a credit note indicating a reversal of revenue and VAT initially recognized and accounted for.

The details of information to be contained in the credit note are essentially the same as that required in a tax invoice. However, the credit note should give a description of the initial invoice, the amount of which is reversed or reduced for ease of reference.

Foreign-currency invoices. There is a specific provision to remit the tax on a foreign currency denominated transaction in the currency of the transaction.

Electronic invoices. There are no specific provisions in the VAT Act on electronic invoices. In Nigeria, invoices are not submitted to the Nigerian tax authority when filing tax returns. However, a detailed review of physical invoices are carried out upon tax audit or investigation.

Proof of export. There are no specific provisions in the VAT Act on this. However, documentary evidence that goods physically left Nigeria and evidence within the accounting system to confirm that a transaction took place should suffice. This documentation should be kept accessible should the Nigerian tax authority request this. In the event that no document is provided on request by the tax authority, a company may be required to account for VAT on an export sale.

B2C. There are no special invoicing requirements in Nigeria for supplies to private consumers (i.e., non-VAT-registered customers). Full VAT invoices are required to be issued for all supplies.

I. VAT returns and payments

VAT returns. VAT returns must be submitted monthly on VAT Form 002. A taxable person is required to submit a VAT return on or before the 21st day of the month following the month in which supplies are made. A taxable person must pay the tax due by the due date when filing the VAT returns. Payment must be made via a bank-certified check/draft or wire transfer through designated banks to the local tax office that issues a receipt after confirmation of such payment.

The VAT return must be accompanied by a schedule containing details of the supplies made and received within the tax period.

J. Penalties

The following penalties may be issued with respect to VAT:

- Failure to issue tax invoice — on conviction, fine of 50% of the cost of the goods or services for which a tax invoice was not issued
- Failure to maintain proper records — NGN2,000 for every month in which the failure continues
- Failure to submit returns — fine of NGN5,000 for every month in which the failure continues
- Failure to remit VAT — 5% per year of the amount of tax not remitted, plus interest at the bank lending rate
- Failure to collect tax — penalty of 150% of the amount not collected, plus 5% interest above the Central Bank of Nigeria's "rediscount" rate (monetary policy rate)

The VAT act provides a penalty of 5% for late remittance of VAT; the FIRS Establishment Act provides a penalty of 10% for late payment of any tax (including VAT). Section 68 of the FIRS Establishment Act gives it supremacy over other tax laws, and the FIRS currently applies the penalty at 10%.

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A. At a glance

Name of the tax	Value-added tax (VAT)
Local name	Merverdiavgift
Date introduced	1 January 1970
Trading bloc membership	European Free Trade Association (EFTA)
Administered by	Ministry of Finance (http://www.skatteetaten.no)
VAT rates	
Standard	25%
Reduced	12% (from 1 January 2018) and 15%
Other	Zero-rated (or exempt with credit) and exempt without credit
VAT number format	123 456 789 MVA
VAT return periods	Bimonthly (with the possibility for shorter periods) Annual (for farmers and fishermen; optional for other businesses if taxable turnover does not exceed NOK1 million)
Thresholds	
Registration	NOK50,000 (NOK140,000 for some charitable and nonprofit organizations)
Recovery of VAT by non-established businesses	Yes

B. Scope of the tax

VAT applies to the following transactions:

- The supply of goods or services made in Norway by a taxable person
- Withdrawals of goods from a registered enterprise or an enterprise with a registration obligation for a use outside the scope of the VAT Act and withdrawals of services from a registered enter-

prise or an enterprise with a registration obligation for a private use or for a purpose that falls outside the scope of the enterprise as a whole
- Purchase of intangible or remote supply services from abroad by a Norwegian taxable person or public body
- The importation of goods, regardless of the status of the importer

The application of delivery terms affects the deemed place of supply for goods. The supply of services in Norway related to goods or real property is deemed to be liable to VAT in Norway.

C. Who is liable

A taxable person is any business entity or individual that makes taxable supplies of goods or services in Norway, in the course of a business.

The VAT registration threshold is NOK 50,000 during a 12-month period. However, for charitable bodies and some nonprofit organizations, the 12-month threshold is NOK 140,000. Special rules also apply to certain partnerships, trading companies and corporations.

Voluntary registration. Norwegian VAT legislation provides an option for voluntary registration for VAT purposes for certain activities. For example, voluntary registration is available for leasing property for use by a taxable business.

Group registration. The Norwegian VAT Act provides that "collaborating companies" may form a VAT group. Group registration may apply if one or more companies own at least 85% of the capital in each company and if the companies are collaborating. Special issues arise for groups of companies with foreign presence.

The VAT authorities must be notified before a VAT group may be formed or dissolved.

Members of a VAT group are regarded as one taxable person liable to payment of VAT. All of the participating companies are jointly and severally liable for the correct payment of VAT. Transactions between companies within a VAT group are generally not subject to VAT. However, the withdrawal of taxable goods or services from a taxable part of the group's business may be subject to VAT.

Non-established businesses. A "non-established business" is a business that has no fixed establishment in Norway. A non-established business must register for VAT if it makes taxable supplies of goods or services in Norway in excess of the registration threshold. Effective 1 January 2013, nonresident foreign transporters that supply only international, zero-rated transportation services may choose between registering for VAT and thereafter applying for refunds of input VAT on VAT returns or remaining not registered and applying for VAT refunds through the refund regime.

Digital economy. Effective from 1 July 2011, nonresidents who supply electronic services to final consumers in Norway (B2C supplies) are required to register for VAT and charge VAT on services supplied to Norwegian consumers. For these purposes, electronic services include the supply of, for example, e-books, films, music and software. A form of foreign VAT registration, which is intended to be less burdensome in terms of administration, is available for overseas companies, which are required to register for VAT. As an alternative to the use of a fiscal representative, simplified registration and reporting arrangements based on the EU system (one-stop-scheme) have been established.

Importation of goods. The one that is acting as the importer of records (recipient of goods) in the customs declaration is liable to pay import VAT.

VAT representatives. If a non-established business is required to register for VAT in Norway, it must appoint a resident tax representative, unless it maintains a place of business or a registered

office in Norway. Effective from 1 April 2017, the requirement to have a local representative is being abolished for Norwegian-registered foreign enterprises (NUF) domiciled in a European Economic Area (EEA) country that has an assistance agreement with Norway for the collection of VAT. This applies to enterprises domiciled in Belgium, Denmark, Finland, France, Iceland, Italy, Malta, the Netherlands, Poland, Portugal, Slovenia, Spain, United Kingdom, Sweden, Germany, Czech Republic, Bulgaria, Estonia, Faeroe Islands, Greenland, Greece, Croatia, Cyprus, Latvia, Lithuania, Romania, Slovakia and Hungary.

Domestic reverse charge. Effective 1 January 2014, the reverse-charge mechanism applies to the sale of industrial and investment gold.

Registration procedures. The taxable person must complete the Coordinated Register Notification Part 1 and 2 which is a common form for registration in the Central Coordinating Register of Norway and the VAT register. Every enterprise registered in the Central Coordinating Register will be given a unique nine-digit organization number. This number is used as a means of identification for the entities by most official registers containing business related information, such as the Register of Employers, the VAT register, etc. The taxable person, his accountant, auditor or adviser are entitled to apply for registration. It is preferable to register the business online.

Late-registration penalties. Any entity that willfully or negligently fails to register for VAT could be subject to fines or imprisonment. Penalties and interest will also be assessed if, as a result of late registration, a taxable person submits a late VAT return or pays VAT late.

Deregistration. Different rules apply to deregistration and closures of different types of entities and enterprises, but all de-registrations and closures must be notified using the Coordinated Register Notification form Part 1 and 2. If VAT liable turnover falls under NOK50,000, without the business being deleted, the taxable person remains registered in the Norwegian VAT register for two years.

Exemption from registration. Nonresident foreign transporters that supply only international, zero-rated transportation services may choose between registering for VAT and thereafter applying for refunds of input VAT through their VAT returns or remaining not registered and applying for VAT refunds through the refund regime.

D. VAT rates

The term "taxable supplies" refers to all supplies of goods and services that fall within the scope of the Norwegian VAT Act, including zero-rated supplies.

The VAT rates are:
- Standard rate: 25%
- Reduced rates: 12% (from 1 January 2018) (previously 10% from 1 January 2016) and 15%
- Zero rate (0%)

The standard rate of VAT applies to all supplies and importation of goods or services, unless a specific measure allows a reduced rate, the zero rate or an exemption.

Examples of goods and services taxable at 0%

- Exports
- Supplies to foreign ships, and aircraft and ships involved in foreign trade
- Books and newspapers (includes e-newspapers and e-journals)
- Transfer of a business as a going concern
- International transportation services (goods and passengers)

Examples of services taxable at 12%

- Domestic passenger transportation services (excluding the leasing of vehicles as such)

- Television licenses
- Hotel accommodation
- Museums
- Amusement parks
- Galleries
- Bigger sport events

Examples of goods and services taxable at 15%

- Food (excluding alcohol and tobacco, and supplies in restaurants)

In Norway, the term "exempt with credit" is also used for zero-rated supplies. This means that no VAT is chargeable, but the supplier may recover input VAT related to the supplies. The terms "exempt" and "outside the scope" are used for supplies of goods and services that are not liable to VAT and that do not give the right to input tax deduction (see Section F).

Examples of exempt supplies of goods and services (also called outside the scope of the VAT Act)

- Financial services
- Insurance
- Lease of residential property
- Medical services
- Educational services
- Real estate transactions
- Specified cultural and sporting events

Option to tax for exempt supplies. Norway operates an option to tax in respect of the following types of supplies:

- Letting out buildings or hiring out plants for use in VAT-liable activity by an enterprise or in municipal or county municipal activity
- Letting out agricultural properties of at least five decares (1 decare is 1,000 m^2) and agricultural land without buildings
- Associations whose object is to build and maintain forest roads
- Developers who for nonbusiness purposes build water or sewage plants under private auspices
- Businesses and public enterprises that against consideration make railway installations available for an enterprise that is VAT registered

E. Time of supply

The time when VAT becomes due is called the "time of supply" or "tax point." The basic time of supply for goods is when they are delivered. The basic time of supply for services is when they are performed. The time of payment does not generally affect the time of supply. If a customer makes an advance payment, the general rule is that the tax point remains the date of delivery of the goods or the date of performance of the services.

The supplier may defer the time of supply by issuing an invoice. In general, an invoice may be issued up to one month after the date of delivery of goods or performance of services. The invoice date then becomes the tax point.

Sales documents issued within the first 15 working days of the month, can state the last day of the preceding month as the document date, provided that the goods or services are delivered at this time.

Deliveries that are invoiced monthly may be invoiced within the first 15 working days of the month following the month of delivery.

Services that are supplied on a continuous basis must be invoiced within one month after the end of the ordinary VAT period in which the delivery takes place.

For services that are delivered on the basis of metered consumption (for example, electricity and telecommunications), sales documentation may be issued for longer periods, up to a maximum period of one year.

For services that are delivered on the basis of a tender or an equivalent pre-agreed price, the parties may agree on the sales documentation, unless the agreed invoicing deviates materially from the actual progress of the service delivery.

Sales documentation for certain services, such as passenger transportation or leases, may be issued in advance.

Reverse-charge services. VAT payable through the reverse-charge mechanism is due on the date of the invoice if the invoice is issued in accordance with the generally accepted accounting principles in the country of the service provider.

Imported goods. The time of supply for imported goods is the official date of importation.

Deposits and prepayments. Sales documents are to be issued within one month after delivery of both goods and services. VAT is generally not charged on deposits and prepayments.

Goods sent on approval for sale or return. The VAT must be charged when the goods are delivered. If the goods are returned to the seller, a credit-note should be issued by the seller.

Leased assets. Leased assets, regardless of the type of lease, are to be invoiced on a regular basis, at the latest one month exceeding the VAT period.

Continuous supplies. Deliveries, regardless of whether they are goods or services, invoiced monthly may be invoiced up to the 15th working day of the month following the month of delivery.

Services delivered on a recurring basis, and goods delivered in connection therewith, must be invoiced no later than one month after the end of the ordinary VAT period.

F. Recovery of VAT by taxable persons

A taxable person may recover VAT, which is charged on goods and services supplied to it for taxable business purposes. A taxable person generally recovers input VAT by deducting it from output VAT, which is VAT charged on supplies made.

Input VAT includes VAT charged on goods and services supplied in Norway, VAT paid on imports of goods and VAT self-assessed for reverse-charge services received from outside Norway.

The amount of the VAT reclaimed must be detailed on a valid VAT invoice. Consequently, VAT may not be deducted as input VAT before a VAT invoice is received. Input VAT that is not properly documented may not be deducted. The input VAT deduction must be reported in the VAT period in which the invoice is dated.

Effective 1 January 2011, a deduction of input VAT may be granted only if the payment is made through a bank or similar financial institution, unless the total payment is less than NOK10,000.

Nondeductible input VAT. Input VAT may not be recovered on purchases of goods and services that are not for use in a business that is subject to VAT (for example, goods acquired for private use). In addition, input VAT may not be recovered for some items of business expenditure.

Examples of items for which input VAT is nondeductible

- Tobacco and alcohol
- Personal expenses

- Business entertainment
- Restaurant meals
- Purchase and maintenance of passenger vehicles, with certain exemptions for taxi and car-lease companies
- Gifts and handouts for advertising purposes if the value is at least NOK100 inclusive of VAT

Examples of items for which input VAT is deductible (if related to a taxable business use)

- Advertising
- Purchase, lease and hire of vans and trucks not for private use
- Fuel for vans and trucks not for private use
- Conferences
- Business use of home telephones and mobile telephones
- Passenger transportation services that are not for private use

Partial exemption. Input VAT directly related to making exempt supplies is generally not recoverable. If a Norwegian taxable person makes both exempt supplies and taxable supplies, it may not deduct input VAT in full. This situation is referred to as "partial exemption." Exempt with credit supplies are treated as taxable supplies for these purposes.

Input VAT incurred on purchases that are used for both taxable and exempt supplies must be apportioned to reflect the supplies that carry the right to deduction and those that do not carry such right. The apportionment may also be calculated based on the ratio of taxable supplies to exempt supplies in the preceding financial year if the preceding financial year is representative of the normal pattern of trading.

Refunds. If the amount of VAT recoverable in a bimonthly period exceeds the amount of output tax payable in that period, the taxable person has an input tax credit. A refund claim is triggered automatically if the VAT return shows a VAT credit. Refunds are generally processed within three weeks after the date on which the VAT authorities receive the VAT return. The VAT authorities pay interest on refunds that are paid late. The annual interest rate is 8.5% as of 1 July 2018.

Preregistration costs. A VAT-registered entity is entitled to deduct input VAT on goods and services that were procured up to three years prior to registration in the VAT register (retrospective tax settlement), provided that the procurements are directly related to the VAT-liable activity. The retrospective tax settlement must be claimed no later than three years after registration. Special limitation rules apply for retrospective tax settlement related to "capital goods."

G. Recovery of VAT by non-established businesses

The Norwegian VAT authorities refund VAT incurred by businesses that are neither established in Norway nor registered for VAT there. A non-established business may claim Norwegian VAT to the same extent that a Norwegian taxable person may deduct input VAT incurred in the course of a similar business in Norway.

Norway does not apply the reciprocity principle to refunds. Consequently, it does not exclude claimants based on the country where they are established.

For example, effective 1 January 2013, foreign entrepreneurs providing transport services directly to and from Norway are not obliged to register for VAT, but they are entitled to receive a refund of VAT paid on purchases of goods and services in Norway.

Refund application. A claimant must submit the following documentation to obtain a VAT refund:

- Application Form RF 1032.
- Under the general rule, the original VAT invoices and import documents. If the applicant only has an electronic accounting system, this must be stated in the application. In such case, print-

outs will be accepted. Original invoices will be returned once the application has been processed.
- A power of attorney if the claimant uses the services of a third party to recover the VAT.
- A certificate of taxable status obtained from the competent tax authorities in the country in which the claimant is established. The certificate, which is valid for 12 months from the date of issuance, must be completed, signed and stamped by the local tax authorities.
- If the claim relates to goods that are located in Norway at the time of submission of the claim form, an explanation of the basis on which the refund is requested.

The deadline for submitting applications is 30 June following the claim year. This deadline is strictly enforced. The forms must be completed in Norwegian, Danish, English or Swedish. The minimum claim period is a calendar quarter, and the maximum claim period is one calendar year. The minimum claim amounts are NOK2,000 for a quarter and NOK200 for an annual claim.

Applications for refunds of Norwegian VAT may be sent to the following address:

Skatt Øst – Moss
Postboks 103
N-1501 Moss
Norway

Repayment interest. Claims for VAT refunds are generally paid within six months. Interest is not paid on late refunds.

H. Invoicing

VAT invoices and credit notes. Under the general rule, invoices and credit notes must be issued by the supplier for all sales and exports. A Norwegian taxable person must generally provide an invoice including VAT for all taxable supplies made. Invoices must support claims for input tax made by Norwegian taxable persons and VAT refunds claimed by non-established businesses.

A credit note may be used to reduce the VAT charged and reclaimed on a supply. The document should be marked "credit note" and it must refer to the original invoice.

Proof of exports. Goods and services exported to countries outside Norway or supplied to the Norwegian areas of Jan Mayen and Svalbard are exempt from VAT with input tax credit. To qualify exported goods as VAT-free, the supplier must prove that the goods have been exported. The documentation requirement for goods is as follows:
- A printed copy of the Customs Single Administrative Document where an attestation from the transporter or the Customs has been inserted

Foreign-currency invoices. If an invoice is issued in a foreign currency, the VAT must be stated in Norwegian kroner, using the official exchange rate for the date of the invoice. No other exchange rate may be used for VAT purposes. Other amounts shown on the invoice may be stated in other currencies.

B2C. No special rules apply for invoicing of supplies to private customers.

A retailer's cash sale to private consumers (for private use) can be documented by the receipt from the cash register provided that the purchase amount does not exceed NOK40,000. In this case it is required that the vendor's name and address appear on the invoice.

Electronic invoicing. Electronic invoicing is not mandatory. However, electronic invoicing is permitted provided that the electronic invoice is in a non-editable format.

I. VAT returns and payment

VAT returns. In general, Norwegian taxable persons file bimonthly VAT returns. However, farmers and fishermen must file returns annually. Businesses with taxable turnover of less than NOK1 million may opt to file annual returns.

VAT groups submit a single, joint VAT return.

To ease cash flow, businesses that receive regular VAT refunds may request shorter VAT return periods. Taxable persons must contact the appropriate VAT office to register for annual returns or for permission to use shorter VAT return periods.

For bimonthly VAT returns, the VAT due for each period must be reported and paid in full within 1 month and 10 days after the end of the VAT period. Return liabilities must be paid in Norwegian kroner.

Effective from 1 January 2016, it is obligatory to report VAT returns electronically. The opportunity to apply for an exemption for VAT returns by paper has been discontinued.

From 1 January 2017, a more detailed VAT return is in use. The deadlines for submission and payment remain unchanged. However, accounting systems, accounts and VAT codes need to be compatible with the VAT return. Import VAT is no longer declared through the customs declaration but rather through the VAT return.

Norway has announced provisions to introduce the standard audit file for tax (SAF-T) effective 1 January 2020.

J. Penalties

Penalty interest is assessed for late payment of VAT. The interest rate is announced twice a year in a decree issued by the Ministry of Finance. The annual interest rate as of 1 July 2017 was 8.5%. An additional penalty of up to 60% of the tax due for a period may be imposed on taxable persons that willfully or negligently contravene the provisions of the VAT Act. However, the normal penalty rate is 20%. Penalties may also be assessed for failing to submit VAT returns.

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Oman is a Member State of the Gulf Cooperation Council (GCC). The GCC has agreed that VAT will be implemented by each Member State. At the time of preparing this chapter, the Kingdom of Saudi Arabia, United Arab Emirates and Bahrain are the only GCC Member States to have implemented VAT. There is a growing expectation that VAT will be implemented in Oman in the second half of 2019 (expected to be 1 September 2019). General guidance can be found in the Gulf Cooperation Council section.

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A. At a glance

Name of the tax	Sales tax
Date introduced	1 November 1990
Trading bloc membership	None
Administered by	Federal Board of Revenue (http://www.fbr.gov.pk) Sindh Revenue Board (http://www.srb.gos.pk/) Punjab Revenue Authority (https://pra.punjab.gov.pk) Khyber Pakhtunkhwa Revenue Authority (https://kpra.kp.gov.pk/) Baluchistan Revenue Authority (http://bra.gob.pk/)
Sales tax rates	
Standard	17% for goods and for telecommunication services under the federal law. For services, 16% for Islamabad and Punjab, 15% for KPK and Balochistan and 13% for Sindh
Reduced	1%, 2%, 3%, 4%, 5%, 6%, 7%, 8%, 9%, 10% and 12%
Other	19.5% zero-rated and exempt
Sales tax number format	11-11-1111-111-11 and 1111111-1 with prefix (S, P, K or B)
Sales tax return periods	Monthly, quarterly and annual
Thresholds	
Registration	
Manufacturers	PKR10 million or annual utility bills exceed PKR800,000
Retailers	Special provisions apply
Recovery of sales tax by non-established businesses	No

B. Scope of the tax

Sales tax applies to the following transactions:
- Taxable supply of goods made in Pakistan in the course of a taxable activity carried on by a taxable person
- Taxable import of goods into Pakistan
- Rendering of services specified by federal or provincial law to be taxable

Federal excise duty is levied and collected under the sales tax provisions on the following excisable goods
- Edible oil
- Vegetable ghee and cooking oil

Services. Under the Constitution of Pakistan, the provinces have the rights to impose sales tax on services. All the four provinces of Pakistan have set up their own revenue board/authority and enacted legislation regarding the administration, levy and collection of sales tax on services. The provincial tax authorities and the respective laws are as follows:
- Sindh Revenue Board — Sales Tax on Services Act, 2011 — effective 1 July 2011
- Punjab Revenue Authority — Sales Tax on Services Act, 2012 — effective 1 July 2012
- Khyber Pakhtunkhwa Revenue Authority — Khyber Pakhtunkhwa Finance Act, 2013 — effective 1 July 2013
- Balochistan Revenue Authority — Balochistan Sales Tax on Services Act, 2015 — effective 1 July 2015

Sales tax on services in the federal capital territory (i.e., Islamabad) is governed by the Islamabad Capital Territory (Tax on Services) Ordinance, 2001. However, certain services are also taxable under the Federal Excise Act, 2005, under the sales tax provisions.

The following services are listed in the respective schedule of federal and provincial legislation as being taxable services. However, please note that the following list is not exhaustive. Most of the following are similar in all jurisdictions:
- Telecommunication
- Advertisements
- Banking companies and nonbanking financial institutions
- Insurance companies
- Services provided or rendered by persons engaged in the contractual execution of work or furnishing supplies
- Construction services
- Shipping, customs and freight forwarding agents, stevedores and ship chandlers
- Services rendered by money exchangers
- Airport services
- Management services, including fund and asset management services
- Property developers
- Services provided by accountants and auditors and legal practitioners (at reduced rate of 5%)
- Technical, scientific and engineering consultants
- Rent a car and automobile rental services
- Surveyors
- Call centers
- Business support services
- Program producers and production houses
- Event management services
- Labor and manpower supply
- Public bonded warehouse
- Fumigation service
- Maintenance or cleaning service

- Janitorial service, etc.
- Hotels, restaurants, marriage halls, lawns, clubs and caterers
- Franchise services
- Services provided in the matter of manufacturing or processing for others on toll basis
- Services provided by architects or town planners
- Services provided by management consultants, etc.

Islamabad Capital Territory, however, continues to empower the Federal Board of Revenue to administer the tax on their behalf. In view of separate provincial legislation in the four provinces, many service providers are now required to file five separate sales tax returns and make five separate sales tax payments.

C. Who is liable

A taxable person is a business that is required to register for sales tax. Taxable persons include the following:

- Manufacturers whose taxable turnover in the preceding 12 months exceeded PKR10 million or whose utility bills (gas, electricity and telephone) exceeded PKR800,000
- Retailers
- Importers
- Wholesalers (including dealers) and distributors
- Exporters who intend to obtain a sales tax refund against their zero-rated supplies
- Businesses that supply taxable services

Sales tax registration is required for every taxable person. Supplying taxable goods without a sales tax registration is tax fraud.

Registration procedures. Application for sales tax registration needs to be submitted online through the FBR web portal (http://www.fbr.gov.pk). An online application is required to be filed providing data such as the registered office address, email address, cell phone number, bank accounts, utility bills details, etc., through the computerized system, along with supportive documents such as the following, as applicable:

- Computerized National Identity Card (CNIC) of all owners, members, partners and directors
- CNIC of the representative, if any
- Passports of nonresidents
- Registration or Incorporation Certificate, along with Form III or Form A as prescribed under Companies Act, 2017
- Partnership deed
- Bank account certificate issued by the bank in the name of the business
- Lease or rent agreement, along with CNIC of the owner of the premises
- Ownership documents of the premises, such as registered sale deed or registered transfer deed, latest utility bills (electricity, gas, landline telephone, and post-paid mobile phones)
- List of machinery
- Maintenance of bank account certificate
- Distribution certificate from the principal showing distributorship or dealership
- Balance sheet/statement of affairs/equity of the business
- Particulars of all branches
- Particulars of all franchise holders

Generally, the sales tax registration process with FBR is cumbersome and takes a minimum of eight weeks. It usually involves a physical inspection of the premises by the tax officers and personal appearance of the owner, authorized member or partner, or authorized director at the regional tax office for thumb impressions and photos for identification.

Taxpayers who are already registered with the FBR and are applying for sales tax registration with provinces will have to opt for e-enrollment, whereby once the process of e-enrollment is completed automatically, the entire data of the taxpayer as present in the FBR database would be transferred to the provincial tax authorities and the taxpayers will obtain sales tax registration with the respective provincial tax authority.

However, where taxpayers are not registered with FBR and are applying for sales tax registration with the provincial tax authorities, the taxpayers will have to fill out an online application on the web portal, and after submitting it, a designated user ID and password will be issued to the taxpayer via email.

The web address for sales tax registration with FBR is https://iris.fbr.gov.pk/public/txplogin.xhtml.

The web address for sales tax registration with Sindh is https://e.srb.gos.pk/Registration/NewRegistration.aspx?type=1&app=reg&regtype=3&ID=7617.

The web address for sales tax registration with Punjab is https://pra.punjab.gov.pk/Registration/NewRegistration.aspx?type=1&app=reg&regtype=3&ID=793.

The web address for sales tax registration with Khyber Pakhtunkhwa is https://kpra.kp.gov.pk/Registration/NewRegistration.aspx?type=1&app=reg&regtype=3&ID=6464.

The web address for sales tax registration with Balochistan is http://bra.gob.pk/Registration/NewRegistration.aspx.

Late-registration penalties. A penalty of PKR10,000 or 5% of the tax due, whichever is greater, is assessed for failure to register for sales tax. Failure to register within 60 days after beginning a taxable activity may be punishable by a term of imprisonment of up to three years, if the person is convicted by a special judge, or by a fine of up to the amount of tax involved, or both.

Special provisions for importers. Importers must pay additional sales tax at a rate of 3% above the normal sales tax rate payable at the import stage. The 3% tax is considered as a minimum value addition tax and can be claimed as input tax. Any excess input tax can be carried forward. However, it is not refundable. The 3% tax does not apply to goods that are imported by a manufacturer for in-house consumption.

Special provisions for retailers. The following retailers are required to register for sales tax:
- Retailers operating as a unit of a national or international chain of stores
- Retailers operating in air-conditioned shopping malls/plaza
- Retailers whose cumulative electricity bill in the preceding 12 months exceeds PKR600,000
- A wholesaler-cum-retailer

The above retailers will be required to charge sales tax at standard rate, i.e., 17% on their taxable supplies and will be required to file the monthly sales tax return. Such retailers would be entitled to adjust any input tax paid or payable on their purchases.

The above retailers can also opt to pay sales tax at the rate of 2% of total turnover under the total turnover regime. Such retailers are not eligible to claim any input tax paid or payable on their purchases.

In the case of other retailers, sales tax is charged/and collected through electricity bills issued by the electric companies for such retailers at the rate of 5%, where the monthly bill does not exceed PKR20,000 and where the bill exceeds the limit, at the rate of 7.5%. Such retailers are not entitled to adjust any input tax nor are they required to file the monthly sales tax return.

Group registration. Not applicable.

Non-established businesses. Not applicable.

Tax representatives. These persons are authorized by a taxpayer to represent them before the tax authorities.

Only the following persons are authorized to represent a taxpayer:
- Tax practitioners registered under Income Tax rules, Sales Tax rules, Custom Act
- Advocates practicing under the Legal Practitioners and Bar Councils Act, 1973
- A person holding a bachelor's or master's degree in commerce
- An accountant
- A person working in the employment of the taxpayer on a full-time basis and holding at least a bachelor's degree

Reverse charge. The reverse-charge mechanism in the case of services operates through withholding of sales tax. Where a service rendered in Pakistan is taxable and sales tax has not been charged by the service provider or the service provider is an unregistered person or a nonresident service provider, the whole amount of the applicable sales tax needs to be withheld and deposited by the registered service recipient.

In case there is an agreement between the service provider and service recipient that taxes in any form will be borne by the service recipient, then instead of withholding the applicable sales tax from the payment due to the service provider, it is deducted and an equivalent amount of sales tax is deposited by the service recipient.

Effectively it becomes the cost of the service recipient. This is quite common where services are rendered by foreign service providers (nonresidents) who may be providing services in Pakistan on a one-off basis and who do not have a permanent establishment in Pakistan.

Input claim on sales tax either deducted or borne by the service recipient above is not available for adjustment against output tax. This is mainly because the pre-condition of having a valid sales tax invoice issued by a registered person is not fulfilled.

The reverse-charge mechanism on services is operative in the provinces of Sindh, Punjab, Khyber Pakhtunkhwa and Balochistan. In Islamabad Capital Territory, however, only franchise services are subject to the reverse-charge mechanism.

Digital economy. The provinces of Sindh and Punjab have amended the applicable sales tax law whereby a person carrying on economic activity through a virtual presence or a website or a web portal or through any other form of e-commerce, etc., in their respective jurisdiction is treated as having a place of business in the respective provinces of Pakistan.

Effectively, persons who are providing taxable services through the above electronic means are now liable to register under the provincial acts of Sindh and Punjab and are required to charge sales tax while rendering taxable services through the electronic means.

Deregistration. A business that ceases operations or whose supplies become exempt from sales tax must apply for cancellation of its sales tax registration.

Exemption from registration. Persons who are involved in the supply of exempt goods or services are not required to register for VAT. However, a person involved in the supply of goods or services that are subject to sales tax at the 0% (zero) rate are required to register for VAT.

Voluntary registration. The federal sales tax law in Pakistan does not contain any provision for voluntary sales tax registration.

However, under the provincial sales tax laws in Pakistan, a person who is not required to be registered may apply for voluntary registration with the relevant provincial sales tax authority and may obtain registration. In the case of voluntary registration, the voluntarily registered person is obliged to fulfill all the applicable requirements that are applicable for all registered persons, such as filing a sales tax return, etc.

D. Sales tax rates

The term "taxable supplies" refers to supplies of goods and services and to imports that are liable to sales tax. The following are the sales tax rates:

Standard rate of sales tax on goods

- Standard rate for goods: 17%
- Reduced rates: 1%, 2%, 3%, 4%, 5%, 6%, 7%, 8%, 9%, 10% and 12%

Zero rate (0%)

- Other rates: 16% FED on goods in sales tax mode

In certain cases, a fixed amount of sales tax is levied on supply of goods, e.g., on steel and petroleum products.

The standard tax rate of 17% is imposed on the value of the supply of goods or at the import stage. However, in certain cases, the value of the supply of certain goods is based on the manufacturer's retail price (not the sales price). Exported goods are zero-rated (that is, taxed at 0%). For businesses operating in certain export-oriented sectors, the reduced rate applies to goods they import and to local supplies of goods provided to them.

Certain activities are exempt from sales tax. This means that no sales tax is chargeable but also that the supplier has no right to claim input tax on related purchases (see Section F).

A further tax at the rate of 3% (with certain exceptions) is chargeable on the supply of goods to persons who have not obtained sales tax registration.

Standard rate of sales tax on services

- Standard rates for services: 16%, 15% and 13%
- Reduced rates: 2%, 3%, 5%, 8%, 10% and 15%
- Other rates: 17% and 19.5%

Most services are taxed at 16% in Punjab and Islamabad, 13% in Sindh, and 15% in Khyber Pakhtunkhwa and Balochistan. However, telecommunication services are taxed at 17% in Islamabad and 19.5% in the remaining provinces.

Examples of goods taxed based on the manufacturer's retail price

- Fruit juices and vegetable juices
- Ice cream
- Aerated water or beverages and drink syrups
- Cigarettes
- Toilet soap, detergents, shampoo, toothpaste and shaving cream
- Perfumery and cosmetics
- Powder drinks and milky drinks
- Tea
- Toilet paper and tissue paper
- Spices sold in retail packaging
- Shoe polish and shoe cream
- Fertilizers
- Cement sold in retail packaging
- Mineral/bottled water

Examples of goods taxed at the lower rate of 0% or 9%

- Imports and local supplies of goods by certain export-oriented sectors of leather, textiles, carpets, and sports and surgical goods, among others, to retailers and unregistered persons

Goods taxed at the lower rates ranging from 2% to 16%

- White crystalline sugar
- Plant and machinery not manufactured locally and having no comparable local substitutes
- Re-importation of foreign-origin goods that were temporarily exported out of Pakistan

Payment of extra tax on specified goods. Under special procedures, in addition to the general rate of sales tax, an extra amount of sales tax at the rate of 2% of the value of supply is chargeable on supplies by manufacturers and importers of the following goods:

- Household electrical goods, including air conditioners, refrigerators, deep freezers, television, recorders and players, electric bulbs, tube lights, fans, electric irons, washing machines and telephone sets
- Household gas appliances, including cooking range, ovens, geysers and gas heaters
- Auto parts and accessories
- Lubricating oils, brake fluids, transmission fluids and other vehicular fluids and maintenance products
- Tires and tubes
- Storage batteries
- Arms and ammunition
- Paints, distempers, enamels, pigments, colors, varnishes, gums, resins, dyes, glazes, thinners, blacks, cellulose lacquers and polishes sold in retail packing
- Tiles
- Biscuits, confectionery, chocolates, toffees and candies

These goods on which extra tax has been paid are exempt from payment of sales tax on subsequent supplies, including supplies made by retailers.

Examples of exempt supplies of goods

- Agricultural products, including milk, eggs, fish, meat and fresh vegetables
- Pharmaceuticals
- Newspapers and books
- Educational and scientific materials
- Equipment for fighting AIDS and cancer
- Supplies made under international tenders
- Supplies made to hospitals with 50 beds or more

Examples of zero-rated supplies of goods

- Exports
- Supplies to diplomats, diplomatic missions, privileged persons and privileged organizations
- Supplies of stores and provisions for consumption aboard a conveyance proceeding to a destination outside Pakistan
- Certain stationery goods such as erasers and exercise books, subject to certain conditions and limits

Option to tax for exempt supplies. Not applicable.

E. Time of supply

The time when sales tax becomes due is called the "time of supply" or "tax point." In general, the time of supply is when goods are delivered or services are performed or the time any payment is received, whichever is earlier.

In the case of services in the provinces of Sindh, Punjab, Khyber Pakhtunkhwa and Balochistan, the time of supply is when the service is provided to the recipient or an invoice is raised or consideration is received, whichever is earlier.

Imported goods. The time of supply for imported goods is the date of importation or the date on which the goods leave a duty suspension regime.

Deposits and prepayments. Payments received in advance on account of a taxable supply of goods or rendering of taxable services are subject to tax in the relevant month. However, there are no specific rules prescribed for treatment of payment or declaration of sales tax on deposits and advance paid or received in the monthly sales tax return or respective adjustments in case of cancellation of transaction.

Goods sent on approval for sale or return. Goods delivered or made available to the recipient would be considered to be a taxable supply. In the case of a return of taxable goods, there is a procedure for issuing debit/credit notes by the seller and buyer so as to adjust the sales tax charged and reported on such goods in the sales tax return.

Leased assets. Taxable goods that are supplied on lease terms, without transfer of ownership and risks and rewards attached to the goods, are not considered as a supply for VAT purposes, and as such no VAT is due.

Reverse-charge services. Under the provincial sales tax law on services, the liability to pay the applicable tax on services under the reverse-charge mechanism falls on the person receiving the service. The applicable sales tax is required to be paid in the month when the services were received.

There is no concept of reverse charge on the supply of goods.

Continuous supplies. The Provincial Sales Tax on Services Act stipulates that where a service is provided over a period of time and payment for the service is made on a periodic basis, it shall be treated as comprising two or more separate and distinct services, each corresponding to the part of the service to which each separate part of the consideration relates.

Even though the Sales Tax on Goods Act is silent on continuous supplies of goods, the same procedure as stated above is also applied in practice. Accordingly, sales tax, invoices and payments should be made on a monthly basis for a continuous supply (e.g., electricity and telecommunications).

F. Recovery of sales tax by taxable persons

A taxable person may recover input tax, which is sales tax charged on taxable goods and taxable services supplied to it for business purposes. A taxable person generally recovers input tax by deducting it from output tax, which is sales tax charged on supplies made. For manufacturers and service providers (with certain exceptions), the registered person may not claim input tax in excess of 90% of the output tax for that tax period. However, any excess may be carried forward.

Input tax includes sales tax paid on goods and services purchased in Pakistan and on goods imported into Pakistan, and federal excise duty levied and collected using the sales tax mechanism.

The provincial sales tax laws provide certain restrictions on the adjustment of sales tax. Input tax must generally be claimed in the month in which the invoice is issued. However, for electricity and gas supplies, the input tax must be claimed in the month in which the invoice is paid. Any input tax not claimed within the relevant period can be claimed in the federal and provincial return for any of the six succeeding tax periods, except in the case of Punjab, where the time period is restricted to four months, and Khyber Pakhtunkhwa, which has no mentioned time period. A separate refund claim should be made for input tax that is not claimed in the aforesaid tax period.

A valid tax invoice or customs document must generally accompany a claim for input tax.

Nondeductible input tax. Input tax may not be recovered on purchases of goods and services that are not used for business purposes (for example, goods acquired for private use by an entrepreneur). In addition, input tax may not be recovered for some items of business expenditure.

Examples of items for which input tax is nondeductible

- Purchases used for nonbusiness purposes
- Business gifts
- Business and staff entertainment
- Purchase of vehicles and parts of such vehicles
- Building and construction materials (excluding prefabricated materials), paints, electrical and sanitary fittings; pipes, wires and cables used in or permanently attached to immovable property
- Electrical and gas appliances, furniture, furnishings, office equipment (excluding electronic cash registers) but excluding such goods acquired for sale or resale
- Goods or services on which sales tax has not been deposited by the respective supplier
- Services subject to a reduced rate of sales tax or fixed amount of tax

Examples of items for which input tax is deductible (if related to a taxable business use)

- Purchases of goods or services used or consumed for making taxable supplies
- Purchase of plant and machinery
- Insurance
- Advertisements
- Other goods and services consumed for business activities

Partial exemption. Goods or services utilized in supplying both taxable and exempt goods/services have to be apportioned to the extent that only the input tax relating to taxable supplies can be claimed.

Refunds. If the amount of input tax in a sales tax period exceeds the output tax in the same period, the excess credit is refundable. In practice, refunds are generally available to persons that are engaged in making zero-rated supplies.

Preregistration costs. Sales tax paid on stocks acquired prior to registration are claimable. Local purchase of taxable goods acquired during a period of 30 days before making an application for registration are treated as input tax. In the case of imports, the tax paid during a period of 90 days before making an application for registration shall be treated as input tax.

G. Recovery of sales tax by non-established businesses

Pakistan does not refund sales tax incurred by foreign businesses that are neither established nor registered for sales tax in Pakistan.

H. Invoicing

Sales tax invoices and credit notes. A taxable person must generally provide a sales tax invoice or cash memo for all taxable supplies made. A simplified tax invoice or cash memo is required for retail sales.

A sales tax invoice is generally necessary to support a claim for input tax credit.

A credit note may be used to reduce the sales tax charged and reclaimed on a supply of goods or services if a valid adjustment is made. The document must be clearly marked "credit note," and it must detail the reason for the adjustment, and must refer to the original sales tax invoice for the supply.

Proof of exports. Exports of goods are zero-rated for sales tax. However, to qualify as tax-free sales, export supplies must be supported by evidence that the goods have left Pakistan. The required evidence includes the following documents:
- A copy of the goods declaration for export authenticated by customs
- Copy of house and master bill of lading and airway bill or railway receipt
- The original invoices
- A stock or inventory statement
- Any other business records related to the exported goods

Foreign-currency invoices. If a sales tax invoice is issued in a foreign currency, the amounts must be converted to Pakistani rupees (PKR). The conversion must be calculated in accordance with the open market exchange rate.

B2C. Every registered person is required to issue a valid sales tax invoice, regardless of whether the recipient is a registered or unregistered entity or is the final consumer. As such, there is no B2C invoice exception except in the case of retail sales of goods and services for which a cash receipt is issued through the fiscal cash register approved by the relevant tax authority.

Electronic invoicing. Special procedures for the issuance of electronic sales tax invoices between buyers and sellers are in place, whereby a registered person can opt to issue electronic invoices after approval from the relevant tax authority. However, in practice, electronic invoices are not generally issued.

I. Sales tax returns and payment

Sales tax return. All taxable persons other than specific retailers must file monthly returns. The return must be filed by the 18th day of the month following the end of the return period. However, the payment of tax must to be made by the 15th day of the month.

Sales tax withholding. Special rules have been prescribed with respect to sales tax withholding by the federal and provincial tax authorities. The federal withholding rules apply to the purchase of goods and services (acquired in the Islamabad Capital Territory). The provincial withholding rules apply to the taxable services acquired within the territorial jurisdiction of the respective province. These rules apply to taxable goods and services that are supplied to the following persons, which are referred to as withholding agents:
- Federal and provincial government departments
- Autonomous bodies
- Public sector organizations
- "Companies" as defined under the Income Tax Ordinance, 2001 and "Persons" registered as exporters
- Persons registered with the respective sales tax authority that consumes services from unregistered persons
- Persons registered for sales tax who are recipients of advertising services

The withholding agents listed in the first three bullets above withhold one-fifth (20%) of the sales tax with respect to acquired taxable goods or services as shown in the sales tax invoice and make payment of the balance to the registered person.

Sales tax-registered persons who are recipients of advertising services from persons based in Pakistan or abroad must withhold sales tax and pay the balance to the service provider. The sales tax withheld is the amount indicated in the sales tax invoice issued by the service provider. If the sales tax amount is not indicated, the withheld amount must be calculated by applying the tax rate.

Withholding agents referred to in the fourth bullet above (companies as defined under the Income Tax Ordinance, 2001 and persons registered as exporters) are required to withhold 20% of the sales tax amount mentioned on the invoice for taxable goods acquired from anywhere in Pakistan and

taxable services acquired from the provinces of Sindh, Balochistan, Khyber Pakhtunkhwa and from Islamabad Capital Territory. Where the respective taxable goods are acquired from a wholesaler, distributor or dealer, then sales tax is required to be withheld at the rate of 10% of the sales tax amount. The federal withholding provisions are not applicable when the registered supplier, being an active taxpayer, has supplied goods or rendered services (except for advertisement services) to another registered customer.

The Punjab law requires withholding agents to withhold the entire amount of sales tax from the payments made for taxable services received from persons whether registered or unregistered. However, Punjab law further implies that no sales tax withholding is required in cases where taxable services in the province of Punjab have been acquired from corporate, PRA-registered persons who are active taxpayers. Nonetheless, under the provincial sales tax laws, where taxable services have been acquired from an unregistered person, then sales tax is required to be withheld at the applicable rate.

Annual returns. Every private or public limited company that is registered for federal sales tax purposes is required to file an annual sales tax return. The return for a financial year must be filed by 30 September of the following financial year.

Special schemes. Retailers have an option to pay sales tax under the turnover regime at the rate of 2% of their total turnover.

Electronic filing. Electronic filing of sales tax returns is mandatory for all taxpayers registered for sales tax purpose.

J. Penalties

A penalty of PKR5,000 or PKR10,000, under the respective federal or provincial sales tax law, is assessed for the late submission of a sales tax return. However, if the return is filed within 10 days after the due date, a penalty of only PKR100 or PKR200 or 300 per day applies.

The following defaults are subject to penalties:

- Failure to issue a sales tax invoice: PKR5,000 or 3% of the tax due, whichever is greater.
- Unauthorized issuance of a sales tax invoice: PKR10,000 or 5% of the tax due, whichever is the greater.
- Failure to notify changes related to the taxable person's details or taxable activity: PKR5,000.
- Late payment of sales tax: the greater of PKR10,000 or 5% of the tax due, but the penalty is restricted to PKR500 per day for each day of default if paid within 10 days after the due date. (Failure to pay the tax within 60 days after a notice for payment is issued by a sales tax officer may be punished by imprisonment for up to three years if the person is convicted by a special judge, or by a fine of up to the amount of tax involved, or both).
- Repeated erroneous calculation in the return of sales tax: PKR5,000 or 3% of the tax due, whichever is greater.
- Failure to maintain records: PKR100,000, PKR10,000 or 5% of the tax due, whichever is the greater. This range of penalties is based on the differences in the Province VAT laws. Under the Pakistan VAT law, the federal government has the jurisdiction of VAT on goods, whereas the Provinces have the jurisdiction of VAT on services. There are five Provincial VAT Acts on services. The Sindh Province VAT law states a penalty of which may extend to PKR100,000 or 5%, whichever is higher on a failure to maintain records, whereas the Punjab Province VAT law states for the same offence a penalty of PKR10,000 or 5%, whichever is higher.

A penalty of PKR10,000/PKR5,000 or 5%/3% of the tax due, whichever is greater, is assessed for other sales tax offenses.

A penalty of PKR50,000 or PKR25,000 or 100% of the tax due, whichever is greater, is assessed for tax fraud, falsifying records, making false statements and declarations, denial or obstruction

of access to records and similar offenses. In addition, a person may be punished by imprisonment for up to three years if convicted by a special judge, or may be liable for a fine of up to the amount of tax involved, or both.

Interest. In addition to any penalty, interest (the default surcharge) is chargeable for the following offenses:

- Late payment of sales tax
- Overclaimed input tax
- Incorrect claim for a sales tax refund
- Incorrect application of the zero rate

The rate of the default surcharge is currently fixed at 12% in the federal jurisdiction. However, it remains the same (i.e., the Karachi Interbank Offered Rate (KIBOR) plus 3% per annum) under the respective provincial sales tax laws.

However, for tax fraud, the default surcharge is payable at a rate of 2% per month.

Under the federal sales tax law, the tax officer is authorized by the Commissioner to conduct an audit of the taxpayer's records only once every three years.

In case an assessment order has been passed by the sales tax authorities and an appeal is filed before the Commissioner Appeals, the taxpayer has the option to protect its bank accounts from any coercive recovery proceedings by the tax officials (known as "obtaining automatic stay") and does this by depositing 10% of the amount of tax due with the tax authorities. Where the automatic stay is granted to the taxpayer, the tax officials cannot issue any recovery notice to the taxpayer until the appeal is decided by the Commissioner Appeals Inland Revenue. Similar options also exist under the Provincial Sales Tax Law of Sindh and Punjab, however, the amount to deposit at the time of filing an appeal is 25% instead of 10% of the tax due amount as assessed by the Provincial tax officers.

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A. At a glance

Name of the tax	Value-added tax (VAT)
Local name	Impuesto a la transferencia de bienes corporales muebles y la prestación de servicios (ITBMS)
Date introduced	22 December 1976
Trading bloc membership	None that would provide differentiated VAT treatment
Administered by	Ministry of Finance (https://dgi.mef.gob.pa)
VAT rates	
Standard	7%
Other	10%, 15%, exempt
VAT number format	National Tax Registry Number (RUC)
VAT return period	Monthly/quarterly
Thresholds	
Registration	Gross annual income of USD36,000 or monthly average above USD3,000
Recovery of VAT by non-established businesses	No

B. Scope of the tax

VAT applies to the following transactions:
- The supply of goods made in Panama by a taxable person
- The leasing of movable goods located in Panama
- Supplies of services
- The importation of goods from outside Panama, regardless of the status of the importer

C. Who is liable

A taxable person for VAT purposes is an entity or individual that performs commercial, industrial or financial activities or supplies services, provided its income is greater than USD36,000 per year or has a monthly average greater than USD3,000; non-domiciled persons and importers are liable regardless of their income. Taxable persons that are designated as withholding agents for VAT must appoint a legal representative. All individuals or entities must register as taxpayers, and there is no separate and exclusive registry for VAT taxpayers.

Withholding agents. According to subparagraph (d) of Article 19 of Executive Decree No. 84 of 2005 (modified by Executive Decree No. 128 of 29 May 2017), entities with annual purchases of goods and services in an amount equal to or greater than USD5 million will be considered VAT withholding agents. A VAT withholding agent is required to withhold 50% of the VAT included in the invoice or equivalent document submitted by the supplier.

In light of this Decree, the Panamanian Tax Authorities issued Resolution No. 201-5755 dated 30 August 2018, which contains a list of VAT withholding agents identified according to the new criterion set out in the Decree. The list contains 86 companies, including construction companies and banks.

The withholding agents identified in this new list are subject to the withholding obligation as of 7 September 2018. The withholding agents already designated as such for tax year 2018 will maintain their status for the remainder of 2017 and subsequent periods.

Group registration. Panama does not allow entities controlled by the same economic group to file a single VAT return.

Non-established businesses and tax representatives. A "non-established business" is a business that has no fixed establishment in Panama. A non-established business must register for VAT if it supplies goods in Panama. To register, a non-established business must file a registration form. A foreign corporation must also submit a copy of its articles of incorporation, legalized by the Panamanian Consul, together with an official translation in Spanish.

Non-established businesses rendering services in Panama are subject to withholding of VAT. The Panamanian recipient would deem that the VAT is included in the invoice and make the withholding. The amount withheld may be offset as an input VAT. The non-established business would not receive a refund.

Reverse charge. VAT on services performed within Panama by a foreign individual or foreign entity to a Panamanian entity or individual must be collected and paid by the Panamanian recipient entity or individual based on a reverse-charge mechanism. Panamanian recipients must deem that VAT is included in the invoices from their nonresident counterparty and make a VAT withholding to be paid within 10 days to the tax authorities. The amounts withheld may be considered input VAT and used to offset output VAT of the Panamanian party. The amount that the Panamanian party is required to withhold is calculated according to the following formula: the amount included in the invoice multiplied by 0.065421.

Registration procedures. The Panamanian tax authorities issue a RUC, which is the taxpayer ID number (it applies to VAT and income tax, among other taxes). The RUC can be registered with the Panamanian tax authorities or via the internet through the webpage: https://dgi.mef.gob.pa/. To register as taxpayers in Panama, a company or individual must complete and present the following documentation:

- For professional and independent individuals:
  - — Copy of ID
  - — Copy of last paid utility bill of a public service to prove the domicile of the taxpayer

- Legal entities:
  - — Certificate of registration issued by the public registry
  - — Copy of legal representative's ID
  - — Copy of business registration (Aviso de Operación) or business license issued by the Ministry of Trade and Commerce Industries
  - — Copy of last paid utility bill of a public service to prove the domicile of the taxpayer
  - — Certificate of Immigration Movement
  - — Immigration status

If the taxpayer's information changes, the Panamanian tax authorities should be notified.

Late-registration penalties. There are no additional specific penalties for late registration of VAT taxpayers.

Digital economy. There are no special rules or regulations regarding VAT for the digital economy. The ordinary VAT rules should be applicable based on the characterization of the transactions being carried out digitally.

Deregistration. Entities that are no longer taxpayers for VAT purposes (because of the income threshold) need to fill out and file a form stating that they will no longer be considered as taxpayers for VAT purposes. A final VAT return and a written request must also be filed before the General Directorate of Revenue of the Ministry of Economy and Finance.

Exemption from registration. All entities and individuals carrying out taxable operations in Panama must be registered as taxpayers before the General Directorate of Revenue and there is no separate VAT registration. Filing of VAT returns will depend not on registration but on whether they meet the minimum threshold or not.

Voluntary registration. The Panamanian Fiscal Code and its relevant regulations do not contain any provision for voluntary VAT registration.

D. VAT rates

The term "taxable supplies" refers to the supplies of goods that are liable to VAT.

The VAT rates are:
- Standard rate: 7%
- Supplies of alcoholic beverages, such as liquors and beers, and hotels and other lodging services: 10%
- Cigarettes, cigars and other tobacco products: 15%

The standard rate applies to all supplies of goods and services, unless a specific measure provides for a higher rate or an exemption. The following list provides some examples of exempt supplies of goods.

The term "exempt supplies" refers to supplies of goods that are not liable to tax. Exempt supplies do not give rise to a right of input tax deduction (see Section F).

Examples of exempt supplies of goods

- Supplies made by agricultural producers
- Unprocessed fish, meat and game supplied by nonindustrial fishermen and hunters
- Exported goods
- Medical and pharmaceutical products
- School materials
- Supplies of goods made in a free zone in Panama
- Supplies of movable goods within an authorized customs warehouse

- Oil and related products (motor oil is subject to VAT)
- Groceries
- Hand tools, fertilizers, insecticides, fungicides and similar products used in agriculture

Option to tax for exempt supplies. Not applicable.

E. Time of supply

The time when VAT becomes due is called the "time of supply" or "tax point."

For the sale of goods, the tax point is when the invoice is issued or the goods are supplied, whichever is earlier.

For services, the tax point is the date on which the invoice is issued, the date on which the services are rendered or the date on which total or partial payment is made, whichever is earlier.

For recurring annual services, the tax point is when total or partial payment is made. For a lease of movable property, the tax point is when the parties to the lease enter into the contract.

For supplies of goods made by a company to a manager or legal representative of the company for his or her personal consumption, the tax point is when the goods are delivered or when the goods are posted, whichever happens first.

Imported goods. The time of supply for imported goods is when the customs return is filed.

Deposits and prepayments. There are no special time of supply rules in Panama for deposits and prepayments. As such, the general time of supply rules apply (as outlined above).

Goods sent on approval for sale or return. There are no special time of supply rules in Panama for supplies of goods sent on approval for sale or return. As such, the general time of supply rules apply (as outlined above).

Leased assets. There are no special time of supply rules in Panama for supplies of leased assets. As such, the general time of supply rules apply (as outlined above).

Reverse-charge services. There are no special time of supply rules in Panama for supplies of reverse-charge services. As such, the general time of supply rules apply (as outlined above).

Continuous supplies. There are no special time of supply rules in Panama for continuous supplies. As such, the general time of supply rules apply (as outlined above).

F. Recovery of VAT by taxable persons

A taxable person may recover input tax, which is VAT charged on goods supplied for business purposes. A taxable person generally recovers input tax by offsetting it against any output tax due. Output tax is VAT charged on services and supplies made. Input tax includes VAT charged on goods and services supplied in Panama and VAT paid on imports. A valid tax invoice or customs document must generally accompany a claim for input tax credit.

Nondeductible input tax. If a taxable person provides services or goods to a VAT exempt customer (for example, certain government institutions), the VAT paid on the purchases or imports of goods and services related to sales to such tax exempt customer may not be recognized as input VAT thus, the VAT would become a cost for the seller. Similarly, the VAT paid on supplies to produce VAT exempted sales should be considered a cost.

Examples of items for which input tax is nondeductible

- VAT paid on supplies required by public energy generating companies

Examples of items for which input tax is deductible (if related to a taxable business use)

- VAT paid on import of inventory
- VAT paid for services received

Refunds. If the amount of input VAT recoverable in a period exceeds the amount of output VAT payable, the taxable person receives an input VAT credit. The credit may be carried forward to offset output tax in the subsequent VAT period. If it is not possible to offset the input tax credit in the following period, the taxable person may use the excess as a credit in the following fiscal year. VAT credits are not refunded.

VAT-free purchases by frequent exporters. A frequent exporter that regularly has VAT credits may request a document called a "cancellation certificate" from the VAT authorities to help ease cash flow. The exporter may sell the cancellation certificate to other taxpayers that can offset it against their own VAT liabilities.

Law 52 of 2012 grants certain taxpayers privileges for input tax deduction. This provision applies to manufacturers of foods or medicines and to businesses involved in the agriculture sector whose revenues exceed USD300,000. These taxpayers do not charge VAT, but they may not offset input tax against other tax liabilities.

Partial exemption. The VAT paid by a taxable person relating to exempt supplies cannot be considered as an input tax (as it cannot be offset against an output tax), but a cost that should be borne by the taxable person and it will be deductible for income tax purposes.

When taxed and exempt transactions are jointly carried out, the deduction of the input tax must be made in the proportion in which the income corresponds to taxable transactions in relation to the total income, excluding the tax itself.

Preregistration costs. Not applicable.

G. Recovery of VAT by non-established businesses

Panama does not refund VAT incurred by foreign or non-established businesses that are not registered for VAT in Panama.

H. Invoicing

VAT invoices and credit and debit notes. A taxable person must provide a VAT invoice for all taxable services and supplies made, including exports. An invoice is necessary to support a claim for input tax credit. Special fiscal equipment authorized by the tax authorities must be used.

A VAT credit note may be used to reduce VAT charged and reclaimed on a supply if the value is reduced for any reason (for example, the price changes or goods are returned as a result of a discount or bonus). A credit note must generally contain the same information as a tax invoice.

Exports. VAT is not chargeable on qualified supplies of exported goods. To qualify, exports must be supported by documents that confirm that the goods have left Panama, such as customs documents, export invoices and copies of bills of lading.

Foreign-currency invoices. If a VAT invoice is issued in a foreign currency, the amounts must be converted into Panamanian balboas (PAB), or US dollars (USD).

I. VAT returns and payment

VAT returns. All taxpayers must submit VAT returns monthly. Monthly returns must be submitted by the 15th day of the month following the end of the return period. Payment in full is due on the same date.

Return liabilities must be paid in Panamanian balboas or US dollars.

Special schemes. None.

Electronic filing and archiving. It is possible to file the VAT returns electronically, however, in order to do that the individual or entity will need to request an NIT (*numero de identificacion tributaria*), a tax ID number from the tax authorities. This special number is required for all online tax processes on the website of the Panamanian tax authorities (e.g., tax declarations, statements), enabling corporations to be managed remotely. Archiving may also be done electronically, if the archive is compliant with the electronic document law.

Annual returns. If the monthly returns have been submitted, no other annual returns will need to be submitted to the tax authorities from a VAT perspective.

B2C. All invoices should comply with the minimum requirements, there are no special rules for supplies to private consumers.

Electronic invoicing. No electronic invoicing rules are effective in Panama.

J. Penalties

If a taxpayer does not pay VAT on time, the penalty is 10% of the VAT due plus interest, per month or fraction of a month, from the date the tax should have been paid until the date of payment. The interest rate is 2% over the interest reference rate indicated by the Banking Commission. For fiscal year 2017, the applicable interest rate is 0.8%. This interest rate is updated annually.

A fine of USD10 may be imposed for late filing if no VAT is due as a result of credits in favor of the taxpayer. Fines of USD100 to USD500 may be imposed for filing inaccurate VAT tax returns that do not result in a reduction in the tax payment, issuing invoices without being registered with the tax authorities and failure to comply with regulations regarding the carryforward of tax credits. Recidivism is penalized with fines ranging from USD500 up to USD5,000 and temporary closure of the business.

VAT returns may be amended only once per period and within a maximum period of 12 months following the date on which the original VAT return was due. The filing of the amended return costs USD100 for individuals and USD500 for legal entities if the amended return is filed more than three months after the due date for the original VAT return. Tax fraud is punished with penalties varying from 5 to 10 times the amount of undeclared VAT or by imprisonment for a period of 2 to 5 years.

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A. At a glance

Name of the tax	Goods and services tax (GST)
Date introduced	1 January 2004
Trading bloc membership	Asia-Pacific Economic Cooperation (APEC)
Administered by	Internal Revenue Commission (IRC) (http://www.irc.gov.pg)
GST rates	
Standard	10%
Other	Zero-rated (0%) and exempt
GST number format	TIN999999999
GST return period	Generally monthly; periods of up to 6 months if annual taxable supplies less than PGK625,000 subject to approval by the IRC
Thresholds	
Registration	PGK250,000
Recovery of GST by non-registered businesses	No

B. Scope of the tax

GST applies to the following transactions:

- Taxable supplies of goods and services, which are supplies connected to Papua New Guinea (PNG) or deemed to be supplied in PNG and made for consideration in the course of a taxable activity by an entity that is registered or that is required to be registered for GST
- Reverse charge on services received from abroad that are made to a registered entity in PNG
- Taxable importations of goods into PNG, regardless of the status of the importer

C. Who is liable

GST registration is mandatory if either of the following thresholds is met:
- The total value of supplies (excluding exempt supplies) made in PNG in a month and the 11 months immediately preceding that month in the course of carrying on all taxable activities that exceeds PGK250,000.
- The projected GST turnover, which is the value of taxable supplies made or likely to be made in the current month plus the next 11 months, is reasonably likely to exceed PGK250,000.

Voluntary registration. An entity that has turnover below the registration threshold may apply to register for GST voluntarily if the entity is carrying on a taxable activity.

An entity that is a not-for-profit body may apply in writing to the Commissioner General of Internal Revenue to register for GST voluntarily if the entity is carrying on a taxable activity.

Group registration. Subject to certain requirements, two or more companies that have an aggregate of common voting interests of 90% or greater constitute a wholly owned group for the purpose of the GST Act and may apply to the Commissioner General of Internal Revenue to form a GST group. Other entities (e.g., partnerships and trusts) that satisfy common control tests may also apply for grouping. The effect of GST grouping is to treat the group members as a single entity for certain purposes. In general, all GST liabilities and input tax credit entitlements for group members are attributed to a representative member of the group, and the group submits a single GST return.

Branch registration. A registered person carrying on its activities in branches or divisions may apply in writing to the Commissioner General of Internal Revenue for a branch or division to be registered as a separate registered person. Certain requirements must be met relating to the nature of the activities and accounting systems of proposed GST branches. In addition, a branch of a registered entity may not be registered as a GST branch if the entity is a member of a GST group (see *Group registration*).

Nonresident entities. GST applies to taxable supplies and to taxable importations made by nonresidents. Branches of foreign entities carrying on taxable or other activities in PNG are required to register and charge GST with respect to their supplies.

Reverse charge. If a service is deemed to be supplied in PNG under the provisions of the GST Act, reverse-charge provisions can apply if all of the following conditions are met:
- The supplier is a nonresident.
- The supplier does not make the supply through an enterprise that it carries on in PNG.
- The recipient is registered (or is required to be registered) for GST.

If a resource company makes exempt supplies, the reverse-charge provisions apply.

Registration procedures. After a company is registered with the Investment Promotion Authority, it should apply to the IRC for a Taxation Identification Number (TIN). The Form TIN1 application requires various details of the enterprise and the company must attach proof of identity of the authorized signatory. There is no online filing facility, however, a scanned email copy should be acceptable.

Late-registration penalties. Penalties and interest may be imposed for late registration or failure to register (also, see *Section J. Penalties).*

Tax representatives. When a GST-registered person dies, or an entity is placed into liquidation or receivership, or becomes bankrupt or incapacitated, the person appointed as personal representative, liquidator, receiver or agent is deemed to be the "specified agent" and carries on the taxable activity from the date of appointment. The specified agent is not personally liable for any liabilities incurred before the date of appointment. The agency period ends when another person is

registered in respect of the taxable activity or when the appointment ceases, whichever is the earlier.

Digital economy. For business-to-business (B2B) transactions, the customer is expected to reverse charge the GST liability where the principal is deemed to make the supply in PNG. A PNG GST input tax credit arises for the customer, assuming the supply is acquired for the principal purpose of conducting taxable activities. A proportion of the input tax credit may be available only where the customer makes supplies that are both exempt and taxable/nontaxable.

For business-to-consumer (B2C) transactions, the individual will generally not be GST-registered (or required to be registered), as the individual will generally not be carrying on taxable activities.

Deregistration. An entity that ceases to carry on business may request in writing that the Commissioner General of Internal Revenue cancel its GST registration. An entity must notify the PNG IRC that it is no longer entitled to be registered within 21 days after ceasing operations. An entity that is no longer required to be registered may apply to cancel its registration. However, the Commissioner General of Internal Revenue is not required to cancel the registration if a business has been registered for less than 12 months.

Exemption from registration. The GST law in PNG does not contain any provision for exemption from registration.

D. GST rates

The terms "taxable supplies" and "taxable importations" refer to supplies of goods and services and importations that are subject to GST. Taxable supplies are supplies subject to the standard rate of GST, which is 10%.

Zero-rated supplies are supplies not liable for GST that do give rise to a right to claim input tax credits for GST included in acquisitions related to the supplies.

Examples of zero-rated supplies of goods and services

- Sale of going concerns
- Supplies of goods and services to foreign aid providers
- Supplies of goods and services to nonprofit bodies, which are religious, charitable or community organizations carrying on charitable activities approved by the Commissioner General of Internal Revenue, provided that the supplies or goods are not used for profit-making taxable activities
- International travel
- Exported goods and services

Exempt supplies are supplies that are not liable to GST, and do not give rise to a right to claim input tax credits for GST included in acquisitions related to the supplies (see Section F).

Examples of exempt supplies of goods and services

- Financial services
- Certain fine metals
- Medical services
- Educational services
- Public transport and taxis
- Newspapers
- Supplies of housing or motor vehicles by employers to employees
- Specific exemptions as notified in the National Gazette

Option to tax for exempt supplies. Not applicable.

E. Time of supply

For the purpose of the GST Act, a supply of goods and services is generally deemed to take place at the earlier of the time of issuance of an invoice by the supplier or the recipient or the time of receipt of any payment by the supplier with respect to the supply.

Accrual basis of accounting. When an entity registers for GST, it automatically goes on an accrual (or invoice) basis of accounting for GST. For businesses that account for GST on an accrual basis, GST is payable with respect to a taxable supply for the tax period in which the invoice is issued or when any consideration is received for the supply, whichever is earlier.

Cash or payment basis of accounting. Entities with annual turnover that does not exceed PGK1.25 million may account for GST on a cash basis. Cash accounting is also available to certain entities regardless of turnover. These entities include local authorities, not-for-profit bodies and other entities subject to the discretion of the Commissioner General of Internal Revenue. Cash accounting is allowed when the Commissioner General of Internal Revenue grants approval in writing.

For entities using cash accounting, GST is payable with respect to a taxable supply in the tax period in which the consideration is received. If only part of the consideration is received in a particular tax period, GST is payable only on that part.

Continuous supplies. Where goods or services are supplied progressively or periodically, those goods or services are deemed to be supplied successively. Each successive supply is deemed to take place at the earliest of when payment for that supply becomes due, is received or any invoice relating only to that payment is issued.

Imported goods. GST is payable for imported goods at the time of importation. A deferral scheme may apply. Under the scheme, GST on importations is deferred such that where the importer is entitled to a full GST input credit for the import GST, the import GST liability will be offset against that credit.

Temporary import of goods. Goods imported temporarily into PNG under the provisions of the Customs Act are zero-rated for GST purposes and import duty is not applied to these goods. In general, the importer must provide a security bond of 10%. The bond paid for temporary imports is intended to be refunded when the goods are re-exported out of the country. Goods are classified as temporary imports if they are re-exported within 12 months.

If imported goods remain in the country for more than 12 months, the goods are deemed to be permanent imports and the bond is forfeited. The applicable GST can then be claimed as an input credit (subject to the normal rules).

Deposits and prepayments. There are no specific time of supply rules in PNG for deposits and prepayments.

Goods sent on approval for sale or return. There are no specific time of supply rules in PNG for goods sent on approval or returns.

Leased assets. Where goods are supplied under a hire or lease agreement, they are deemed to be successively supplied for successive parts of the period of the agreement. Each of the successive supplies is deemed to take place when a payment becomes due or is received, whichever is the earlier. The treatment is the same irrespective of the type of lease (i.e., whether ownership of the underlying asset is transferred or not).

Reverse-charge services. For reverse-charge services, the recipient is required to account for the services in the period in which the services are paid for. If the consideration is not in money, the services need to be accounted for in the period in which the services are performed.

F. Recovery of GST by registered entities

A registered entity may recover input tax credits with respect to creditable acquisitions. These credits correspond to the GST included in the consideration for goods and services that a registered entity acquires for creditable purposes. A registered entity generally recovers input tax by offsetting them against GST payable on taxable supplies.

Input tax credits correspond to GST included in the consideration for goods and services acquired in PNG, GST paid on importations of goods and GST paid under reverse-charge arrangements.

In general, valid tax invoices or customs documents must be retained to support claims for input tax credits.

Examples of items for which input tax is nondeductible

- Housing or motor vehicles provided to employees
- Entertainment or leisure club facilities
- Acquisitions made for purpose of making exempt supplies
- If no valid tax invoice is held

Examples of items for which input tax is deductible (if related to a taxable business use)

- Imports
- Trading stock
- Business occupancy costs
- Repairs and maintenance

Partial exemption (non-creditable acquisitions). GST on acquisitions of goods and services used to make exempt supplies or on acquisitions that are not used for business purposes (for example, goods acquired for private use) are not eligible to be claimed as an input credit. However, acquisitions related to making some exempt supplies (for example, educational supplies) are creditable. Where an acquisition is used for both taxable and exempt supplies only the proportion of GST that relates to taxable supplies may be claimed as an input credit.

Refunds. If the amount of input tax credits in a period exceeds the GST payable in the same period, the excess amount is technically refundable to the taxpayer. However, in practice, it is often necessary to first satisfy the IRC that the refund is valid.

Preregistration costs. GST paid on acquisitions made by a person within six months prior to incorporation of a company may be claimed as an input credit by the company after it is registered. The acquisition must have been made by a person who becomes a member, officer or employee of the company and that person must have been fully reimbursed for the consideration paid. The acquisition must also have been for the purpose of a taxable activity to be carried on the company. The input credit is claimable in the taxable period in which the reimbursement is made.

Other than in the above circumstances, GST in respect of pre-registration acquisitions may not be claimed as input credits.

G. Recovery of GST by non-registered businesses

Only entities that are registered for GST may claim refunds of GST incurred on acquisitions in PNG. In general, entities (including nonresidents) that make acquisitions in PNG for the purpose of carrying on taxable activities may register for GST if necessary.

H. Invoicing

Tax invoices and adjustment notes. In general, a registered person must provide a tax invoice for all taxable supplies made if requested to do so by the recipient of a supply. A tax invoice is not required for supplies with a GST-inclusive amount of PGK50 or less.

In general, a tax invoice is necessary to support claims for input tax credits.

An adjustment note (or credit or debit note) may be issued to reduce or increase the amount of GST payable on a supply if the amount of GST originally charged is incorrect (for example, as a result of an error or an agreed adjustment to the price). The adjustment note must be clearly marked either as an adjustment note or as a tax invoice (provided the amount of any credit is shown as a negative amount), and it must provide detailed particulars of the adjustment made.

Proof of exports. Exports of goods are zero-rated (GST-free). To qualify as GST-free, goods must be entered for export under the Customs Act and the Commissioner General of Internal Revenue must be satisfied that the goods have been exported to a place outside PNG. Zero-rating applies if the goods are exported within 28 days, unless unforeseeable circumstances delay the shipment of the goods.

Currency on invoices. All invoices must be expressed in PNG Kina.

B2C. There are no specific rules for GST invoices for supplies made to private consumers. However, where the consideration for the supply is less than PGK50, no tax invoice is required to be issued.

Electronic invoicing. Electronic invoicing is permitted for all taxpayers, but it is not mandatory. To facilitate the electronic transfer of tax invoices, the Commissioner may approve the use of symbols, abbreviations or other notations to represent any particulars normally required to be shown on a tax invoice. Copies of invoices are required to be kept in PNG, unless otherwise approved by the Commissioner.

I. GST returns and payment

GST return. GST liabilities are reported in a GST return. A registered person must file the GST return in the required form on or before the 21st day of the following tax period (a calendar month).

GST liabilities must be paid in PNG Kina.

Company directors have personal liability if the company defaults on its GST obligations.

Special schemes. Not applicable.

Electronic filing and archiving. The IRC has introduced a basic electronic filing option. It is necessary to scan the signed paper form and attach it to an email with details of the electronic funds transfer. All relevant records must be kept for at least seven years after the end of the taxable period to which they relate and may be kept in electronic format. The seven-year period may be extended if the Commissioner gives notice in writing of audit activity.

Annual returns. Not applicable.

J. Penalties

A penalty may be imposed for the late filing of a GST return. Penalties range from fines not exceeding PGK5,000 on the first occasion and can increase to as much as PGK50,000, depending on the circumstances of the case. Court proceedings may be instituted against a taxpayer in the National Court to recover taxes and penalties.

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A. At a glance

Name of the tax	Value-added tax (VAT)
Local name	Impuesto al valor agregado (IVA)
Date introduced	1 July 1992
Trading bloc membership	Mercosur Member
Administered by	Finance Administration (www.set.gov.py) (www.hacienda.gov.py)
VAT rates	
Standard	10%
Reduced	5%
Other	Exempt
VAT number format	120 (Version 3)
Tax identification	Fiscal number (format is numeric)
VAT return periods	Monthly (general period), quarterly (for agribusiness), biannual (for nonprofit institutions) and each four months (some minor taxpayers)
Thresholds	
Registration	None
Recovery of VAT by non-established businesses	No

B. Scope of the tax

VAT applies to the following transactions:
- The supply of goods or services made in Paraguay by a taxable individual or business
- The importation of goods from outside Paraguay, regardless of the status of the importer

C. Who is liable

A VAT taxpayer is any business entity or individual that makes taxable supplies of goods or services in the course of doing business in Paraguay. The term "taxable supplies" refers to supplies of goods and services that are liable to VAT.

The definition of a VAT taxpayer applies to a permanent establishment of a foreign business in Paraguay.

Group registration. VAT grouping is not allowed under the Paraguayan VAT law. Legal entities that are closely connected must register for VAT individually.

Non-established businesses. A "non-established business" is a business that has no fixed establishment in Paraguay. A non-established business is not required to become a taxpayer by obtaining a tax ID in Paraguay.

Withholding VAT. Companies designated as withholding VAT agents must withhold and pay VAT and issue virtual vouchers through the Paraguayan Tax Authority webpage for any tax withheld. Also, they must submit monthly tax returns indicating information related to purchases, sales and withheld tax. Returns must be filed electronically.

Tax representatives. For tax purposes, companies must appoint the legal representative(s) on Tax Form 605 or Tax Form 615.

Reverse charge. Paraguayan tax legislation does not provide "reverse charges" for VAT purposes.

Digital economy. For digital business-to-business (B2B) transactions, VAT is applied when the customer located in Paraguay makes a payment to a nonresident business; the Paraguayan customer is obligated to act as the VAT withholding agent for the payment made abroad through virtual vouchers issued by the Paraguayan tax authority webpage.

For digital business-to-consumer (B2C) transactions, VAT is applied when the customer located in Paraguay makes a payment to the nonresident business. Individual customers who are Paraguayan taxpayers are required to act as the VAT withholding agents for the payment made abroad through virtual vouchers issued by the Paraguayan tax authority webpage. An individual who is not a Paraguayan taxpayer cannot act as a withholding agent, consequently it is not possible to issue a virtual voucher as mentioned above.

Individuals who are only taxed by personal income tax and value-added tax are allowed to issue electronic invoices through the Paraguayan tax authority webpage. The Paraguayan tax authority announced that virtual invoices will be implemented by the end of FY2018 for corporate income taxpayers.

Registration procedures. Registration starts through an online process; immediately after the registering taxpayer will receive a confirmation by email, and present physically the following documents:
- Public deed of incorporation of the company in Paraguay
- Tax Form 605
- Copy of legal representative's ID card

Late-registration penalties. Penalties are assessed for late registration for VAT. In addition, fines and interest are also applicable if the taxable individual owes VAT.

Deregistration. The following documents are required for de-registration of any Paraguayan taxpayer:
- Public deed of liquidation of the company (if the taxpayer is a business).
- Certificate of indebtedness with the Paraguayan Tax Authority.

- Cancellation of Tax Validity Number or "*Timbrado*" number (Tax Form 621).
- Cancellation of tax identification number or "RUC" (Tax Form 623).
- Copy of legal representative's personal ID card (if the taxpayer is a business — if not, the personal ID card of the taxable individual). If the business or individual decides to deregister from VAT only, they must file Form 615 or 610, respectively.

Exemption from registration. The VAT law in Paraguay does not contain any provision for exemption from registration.

Voluntary registration. The VAT law in Paraguay does not contain any provision for voluntary VAT registration, as there is no registration threshold (i.e., all entities that make taxable supplies are obliged to register for VAT).

D. VAT rates

The standard rate of VAT is 10%. Law No. 2421/04 provides a reduced tax rate of 5% for certain products and services. The 5% rate applies to basic family products, pharmaceutical goods, sale or lease of real estate, agricultural products and cattle. In addition, a reduced tax base applies to certain supplies, thereby reducing the effective rate of VAT.

Examples of goods and services with a reduced tax base

- Certain imports of goods under specified tax treatment (Decree 6.406/05)
- Real estate

The term "exempt supplies" refers to supplies of goods and services that are not liable to tax (see Sections F and G).

Examples of exempt supplies

- Foreign currency
- Oil by-product fuels
- Interest on public securities
- Interest on bank deposits, books, certificates and shares
- Exportation of goods and exportation freight services
- Transfer of credits is also VAT exempted

Option to tax for exempt supplies. Not applicable.

E. Time of supply

The time when VAT becomes due is called the "time of supply" or "tax point." The basic time of supply for goods is when they are transferred. For importations, tax obligation begins at the moment that the goods are registered at the Paraguayan customs office.

For services, the basic time of supply is when they are performed and/or totally or partially collected. Specifically, the obligation to pay VAT begins after any of the following:
- The appropriate invoice is issued.
- Partial or total payment for the service is received.
- The deadline for payment passes.
- The service is totally executed.

Invoices must be issued on the date in which the tax point occurs.

Imported goods. The time of supply for imported goods is either the date of importation or the date on which the goods leave a duty suspension regime.

Deposits and prepayments. Where a deposit is paid in respect of goods, the goods are considered to have been transferred to the customer and therefore the deposit is subject to VAT. According

to tax regulations, any prepayments are subject to VAT for both goods and services. There are no special time of supply rules in Paraguay for deposits and prepayments. As such, the general time of supply rules apply (as outlined above).

Goods sent on approval for sale or return. There are no special time of supply rules in Paraguay for supplies of goods sent on approval for sale or return. As such, the general time of supply rules apply (as outlined above).

Leased assets. Lease payments and purchase option executions are subject to VAT. There are no special time of supply rules in Paraguay for leased assets. As such, the general time of supply rules apply (as outlined above).

Reverse-charge services. Paraguayan tax legislation does not provide for reverse charges for VAT purposes.

Continuous supplies. There are no special time of supply rules in Paraguay for continuous supplies of goods or services. As such, the general time of supply rules apply (as outlined above).

F. Recovery of VAT by taxable persons

A taxable person generally recovers input tax by offsetting it against output tax (debit VAT).

Input tax includes VAT charged on goods and services supplied in or from Paraguay and VAT paid on imports of goods.

A valid tax invoice or customs document must generally support an input tax credit.

According to Paraguayan tax regulations, there are two different ways for taxpayers to recover VAT related to: 1) exportation of goods and exportation freight services; and 2) local withholding VAT.

Both are expressly regulated with formal procedures that must be followed by Paraguayan taxpayers, and must include a Certification of VAT Fiscal Credit to be refunded issued by auditing firms registered with the Paraguayan Tax Authority.

Nondeductible input tax. Input tax may not be recovered on purchases of goods and services that are not used for making taxable supplies or that are used for nonbusiness purposes (for example, goods acquired for private use by an entrepreneur). In addition, input tax may not be recovered for some items of business expenditure.

The following lists provide some examples of items of expenditure for which input tax is not possible to offset and examples of items for which input tax can be offset if the expenditure is related to a taxable business use.

Examples of items for which input tax is nondeductible

- Business gifts
- Private use of business assets

Examples of items for which input tax can be offset (if related to a taxable business use)

- Purchase, lease and hire of cars, vans and trucks, as well as maintenance charges
- Parking
- Taxis
- Travel expenses
- Conferences and seminars
- Mobile telephone advertising and sponsorship
- Overall acquisition of goods and services directly related to business use

Refunds. If the amount of input VAT (credit VAT) recoverable in a month exceeds the amount of output VAT (debit VAT) payable, the excess credit may be carried forward to offset output tax in the following tax period.

Overpayments of VAT. If a VAT taxpayer overpaid VAT or paid VAT in error, it may correct the VAT return and use the overpayment to offset output VAT in the following tax period or they could start a very formal process in order to reimburse the VAT paid in error.

Partial exemption. Paraguayan taxpayers can recover VAT fiscal credit related to exportation operations (exportations are exempt from VAT). For other VAT-exempt supplies, the VAT fiscal credits are non-recoverable.

Preregistration costs. A taxpayer can amortize preoperative cost within three to five years, but they cannot recover any preregistration or preoperative costs.

G. Recovery of VAT by non-established businesses

Paraguay does not refund VAT incurred by foreign businesses unless the foreign businesses have a permanent establishment and are registered to pay VAT in Paraguay.

H. Invoicing

VAT invoices and credit notes. A VAT taxpayer must generally provide a VAT invoice for all taxable supplies made, including exports (exempted). A VAT invoice is necessary to support an input tax credit.

A VAT credit note may be used to reduce the VAT charged and reclaimed on a supply of goods and services. A credit note must contain a brief explanation stating the reason for the adjustment, and it must be cross-referenced to the original VAT invoice number.

Proof of exports. VAT is not chargeable on supplies of exported goods. However, to qualify as VAT-free, exports must be supported by an exportation file and customs documents proving that the goods have left Paraguay.

Foreign-currency invoices. If a VAT invoice is issued in a foreign currency, all amounts must be converted to Paraguayan currency "guarani," using the exchange rate published by the tax authority for recording purposes (local books).

B2C. Invoicing is mandatory for all transactions made for an amount over PYG20.000 (approx. USD4).

Electronic invoicing. Recent Decree No. 7795/17 established a national system of electronic invoicing, which allows local taxpayers to issue electronic invoices with a previous authorization by the tax administration. Please note that currently the Paraguayan tax authority is launching a pilot program with selected taxpayers to issue electronic invoices.

Electronic invoicing is, nevertheless, available for individuals that are not corporate income taxpayers.

I. VAT returns and payment

VAT returns. VAT returns are submitted on a monthly basis as general period, quarterly for agribusiness, biannual for nonprofit institutions and each four months for some minor taxpayers. The due date for VAT returns and payment depends on the last number of the VAT taxpayer's tax identification number.

Return liabilities must be paid in Paraguayan currency.

Special schemes. There are no special schemes available.

Electronic filing and archiving. Although it is not mandatory, most taxpayers choose to file VAT returns electronically. The website is: www.set.gov.py under "Sistema Marangatú."

Annual returns. VAT legislation does not provide and/or allow the filing of annual returns.

J. Penalties

A default penalty is charged on late payments of VAT. The penalty begins at 4% of the tax due and increases by 2% per month, up to a maximum of 14% (charged for a delay of more than five months). In addition to the default penalty, monthly interest is charged on unpaid tax at a rate of 1.5% per month, calculated on a daily basis.

A taxpayer who intends to achieve an unlawful gain is deemed to commit fraud. Fraud is punished with a fine equal to one to three times the amount of the tax amount related to the fraud or the intention to defraud.

Penalties for severe cases of nonpayment of VAT, infringement of VAT regulations and fraud include criminal sanctions, such as fines and imprisonment.

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A. At a glance

Name of the tax	Value-added tax (VAT)
Local name	Impuesto General a las Ventas
Date introduced	1 August 1991
Trading bloc membership	Andean Community
Administered by	General Tax and Customs Administration (http://www.sunat.gob.pe)
VAT rates	
Standard	18%
Other	Zero-rated and exempt
VAT number format	11-digit taxpayer identification number (RUC) used in all communications with Tax and Customs Administration
VAT return periods	Monthly
Thresholds	
Registration	None
Recovery of VAT by non-established businesses	No

B. Scope of the tax

VAT applies to the following transactions:
- The sale of movable property in Peru
- The provision of services in Peru
- The use of services in Peru rendered by nonresidents
- Construction contracts
- The first sale of real property by the builder
- The importation of goods from outside Peru, regardless of the status of the importer

C. Who is liable

A VAT taxpayer is any business entity that performs any VAT taxable transaction in the course of doing business in Peru. In addition, individuals are liable to VAT if they perform such activities on a "habitual" basis. The Peruvian VAT law does not define "habitual" for transactions performed by individuals; the nature, amount and frequency of the operations must be considered.

No registration threshold applies. The definition of a VAT taxpayer applies to branches, agencies and other permanent establishments of a foreign business in Peru.

Group registration. VAT grouping is not allowed under the Peruvian VAT law. Legal entities that are closely connected must register for VAT individually.

Non-established businesses. A "non-established business" is a business that has no fixed establishment in Peru. A non-established business must register for VAT if it performs any of the VAT taxable transactions, such as the sale of movable goods or the supply of services in Peru.

Registration procedures. In order to be considered a VAT taxpayer, a tax identification number (Registro Unico de Contribuyente, or RUC) must be obtained. To do so, the tax representative must complete the Form 2119 and provide an identification document, as well as the company's electronic record, provided by the Peruvian Public Registry and any document to accredit its residence. The registration procedure for companies can only be carried out in the tax administration's offices; it has no cost, and the RUC is provided immediately. Online registration is available for individuals.

Late-registration penalties. If taxpayers do not follow the registration procedures, there is a penalty of one Tax Reference Unit (UIT), which is approximately USD1,260.

Tax representatives. Any person may be appointed by the company's legal representative to represent the taxpayer before the tax administration. For that purpose, the company's legal representative must be registered before the tax administration.

Digital economy. For business-to-business (B2B) transactions, the digital service charged to a local entity by a nonresident business is subject to VAT under the reverse-charge mechanism. Under this mechanism, the local customer accounts for output VAT (18%) on the value of the digital service payment, and in the following month the customer may recover this VAT as a credit against output VAT. The nonresident business is not expected to remit VAT.

The sale of intangible goods is subject to VAT if it is performed within Peru. According to Peruvian legislation, it is understood that a sale of intangible goods is performed within Peru when the buyer and the seller are domiciled entities.

For business-to-consumer (B2C) transactions, the operation is not subject to VAT in Peru.

Deregistration. Not applicable.

Under Peruvian tax legislation, there is no VAT registration. However, taxpayers must register in a "Taxpayer Register" (called in Spanish "RUC") in order to be able to comply with its tax obligations before the tax administration (i.e., obtaining a tax ID, filing of tax returns, and payment of taxes, among others).

In that sense, when a company stops its business operations in Peru (i.e., due to a transfer of business, bankruptcy, etc.), it must request before the tax administration the cancellation of its registration in the RUC. The tax administration will approve the cancellation of the taxpayer's register in the RUC. However, it is important to mention that this situation does not release the taxpayer from complying with other tax obligations that might be applicable.

In addition according to VAT law, a company that stops its business cannot claim any refund of the remaining input VAT.

Exemption from registration. Not applicable. The VAT Act in Peru does not contain any provision for exemption from registration.

Voluntary registration. Not applicable. VAT law in Peru does not contain any provision for voluntary VAT registration.

D. VAT rates

The term "taxable supplies" refers to supplies of goods and the provision or use of services that are subject to VAT. The term "exempt supplies" refers to supplies of goods and services that are not subject to VAT. Exempt supplies do not give rise to a right of input tax deduction (see Section F).

The standard VAT rate is 18% and applies to all taxable transactions unless a specific measure provides for an exemption.

Examples of exempt supplies of goods and services

- Fruits and vegetables
- Educational services
- Public transportation
- Exports of goods

Option to tax for exempt supplies. It is possible to waive exemption of VAT for the sale and importation of goods listed in Appendix I of the Peruvian VAT law (which principally includes some animals, fruits and vegetables), but not for the provision of services. In this regard, the taxpayer must communicate its decision to the tax administration and comply with all the requirements and conditions laid down. This request comprises all the exempt goods, not specific categories or goods. After the tax administration is notified, it has 45 days to approve or deny the request. Should the request be approved, the VAT will be applicable as of the first day of the month after the request is approved. The election to waive exemption is definitive.

E. Time of supply

The time when VAT becomes due is called the "time of supply" or "tax point." The following are the rules for determining the basic time of supply for goods and services:

- Sale of movable property within the country: when the goods are delivered or when the invoice (or payment voucher) is issued or should be issued, whichever is earlier
- Provision of services in the country: when the invoice (or payment voucher) is issued or should be issued or when the payment is made, whichever is earlier
- Use of services in the country rendered by nonresidents: when the invoice (or payment voucher) is registered in the domiciled entity's accounting records or when the payment is made, whichever is earlier
- Construction contracts: when the invoice (or payment voucher) is issued or should be issued or when the payment is totally or partially made, whichever is earlier
- First sale of real property sold by the builder: when the payment is either totally or partially made

The following are the rules for determining the time of issuing invoices:

- Sale of movable property within the country: when the goods are delivered or when the payment is made, whichever is earlier
- Provision of services in the country: when the service has concluded, when the payment is partially or totally made or when the deadline established for the payment of the services has expired, whichever is earlier
- Construction contracts: when the payment is totally or partially made
- First sale of real property sold by the builder: when the payment is totally or partially made

Imported goods. The time of supply for the import of goods is either when goods clear customs or when the goods leave a duty suspension regime. In the case of import of intangible goods, the time of supply is when the payment is either totally or partially made or when the invoice (or payment voucher) is registered in the domiciled entity's accounting records, whichever is earlier.

Deposits and prepayments. In general terms, prepayments related to taxable transactions are subject to VAT (there are some exceptions, such as guarantees that do not exceed the 3% value). Thus, partial payments received in advance to the delivery of goods, are subject to VAT on the date of the transaction and for the amount of the partial payment.

Goods sent on approval for sale or return. There is no special time of supply rule in Peru for supplies of goods sent on approval for sale or return. As such, the general time of supply rules (as outlined above) apply.

Leased assets. There is no special time of supply rule in Peru for supplies of leased assets. As such, the general time of supply rules (as outlined above) apply.

Reverse-charge services. The reverse charge applies to the import of goods and the use of services in Peru.

Continuous supplies. There is no special time of supply rule in Peru for continuous supplies. As such, the general time of supply rules (as outlined above) apply.

F. Recovery of VAT by taxable persons

For all of the transactions listed in Section B, VAT payable is determined on a monthly basis by deducting from the gross tax (output VAT) the corresponding VAT credit (input VAT).

VAT paid on imports of goods or the use of services in the country must be paid directly to the tax administration. For such supplies, VAT payable equals the gross tax and no deduction for VAT credit is allowed. After the VAT is paid, it may be used as VAT credit. As a result, a financial cost may be incurred for the time period beginning with the date of payment and ending on the date on which the VAT credit is used to offset the gross tax on the transactions listed in Section B.

The gross tax corresponding to each taxable operation is determined by applying the VAT rate of 18% to the tax base (for example, the value of goods and services or the value of construction contracts). The VAT credit consists of the VAT separately itemized in the payment voucher (or corresponding document) relating to any of the activities listed in Section B.

The following are requirements for the use of the VAT credit:
- The acquisition cost is allowed as an expense or cost for income tax purposes, and the acquisition is intended for operations in which the obligation to pay the VAT will arise.
- The tax must be stated separately in the payment voucher, and the payment voucher must be completed according to applicable law and registered in the purchase book appropriately.

For nonresident purchasers of goods or services, the VAT paid may not be used as a credit. However, under Peruvian VAT law, reimbursement of the VAT paid when acquiring goods is allowed if the purchaser is a nonresident tourist who remains within Peru between 2 and 60 calendar days, and the acquired goods are taken abroad by the nonresident tourist. The nonresident tourist must request the reimbursement when leaving the country and satisfy all requirements in the VAT law and its regulations.

Exporters are reimbursed for any VAT paid on the acquisition of goods and services. Exporters can apply such reimbursement as a credit to offset VAT or income tax liabilities. Any balance may be refunded by the tax administration.

Early recovery VAT system. The early recovery VAT system allows an early recovery of the VAT credit with respect to acquisitions of goods and services, construction contracts, importations and other transactions without having to wait to recover such amount from a client when the corresponding invoice for sales of goods, services or construction contracts, including VAT, is issued to the client.

This regime provides relief of the financial costs (cost of money) with respect to projects that have a significant preoperative stage and if advance invoices transferring the VAT burden cannot be issued periodically to the client.

The law provides for a general and enhanced early recovery system for enterprises performing productive activities.

Under the general system, which applies to all productive companies in a preoperative stage, the VAT paid on the acquisition of capital goods is reimbursed through negotiable credit notes.

The enhanced system is restricted to companies that satisfy the following conditions:
- They have to file a sworn statement describing its investment project and features, detailing the equipment and services under the project.
- They make a minimum investment commitment of USD5 million to projects with a preoperative stage of at least two years.

Under the enhanced system, VAT paid on construction contracts and on the acquisition of new capital goods and intermediate goods and services can be recovered through negotiable credit notes filed on a monthly basis and taxpayers can request the VAT accumulated for up to six months. The negotiable credit notes are able to be exchanged by check as requested by the beneficiary.

The use of one system does not preclude using the other system for different items.

Nondeductible input tax. Input tax may not be recovered on purchases of goods and services that are not used for making taxable supplies or that are not used for business purposes (for example, goods acquired for private use by an entrepreneur). If expenditure relates to both business and nonbusiness activities, only the portion related to the business may be recovered. In addition, input tax may not be recovered for some items of business expenditure.

Examples of items for which input tax is nondeductible

- Personal expenses

Examples of items for which input tax is deductible (if related to a taxable business use)

- Advertising and sponsorship
- Business gifts, if the value does not exceed 0.5% of the taxpayer's annual gross revenues, with a maximum limit of 40 tax units (approximately USD50,400)
- Business entertainment expenses, if the value does not exceed 0.5% of the taxpayer's annual gross revenues, with a maximum limit of 40 tax units (approximately USD50,400)
- Mobile phones
- Parking
- Fuel
- Taxis
- Travel expenses

Capital goods. Capital goods are items of capital expenditure that are used in a business over several years. VAT paid on the acquisition of capital goods may be used as a tax credit (input tax). A tax credit arising from the acquisition of capital goods may be offset with debit VAT (output tax) in the month in which capital goods are acquired.

Refunds. If the amount of input VAT (credit VAT) recoverable in a month exceeds the amount of output VAT (debit VAT) payable, the excess credit may be carried forward to offset output tax in the following tax period.

Partial exemption. If a taxable person makes both taxable and nontaxable transactions, it may not deduct input VAT in full from output VAT. It may deduct only the amount of input VAT related to the goods and services used in taxable transactions. For this purpose, VAT payers shall maintain separate accounts for taxable and nontaxable transactions, as well as for the services and goods purchased for conducting such transactions. If it is not possible, the amount of input VAT subject to deduction in each reporting period must be prorated based on a procedure established by the Regulations of the VAT law.

Preregistration costs. Not applicable.

G. Recovery of VAT by non-established businesses

Peru does not generally refund VAT incurred by foreign businesses unless they have a permanent establishment or business established in Peru. Foreign businesses established in Peru recover VAT in the same manner as all other VAT-registered businesses.

H. Invoicing

VAT invoices and credit notes. A VAT taxpayer must generally provide a VAT invoice for all taxable supplies made, including exports. A VAT invoice is necessary to support a claim for input tax credit.

A VAT credit note may be used to reduce the VAT charged on a supply of goods and services in certain circumstances (for instance, for rebates, trade discounts, bonuses, returned goods or errant charges). A credit note must refer to the VAT invoice for the original transaction and contain the same basic information.

Exports. Exported goods and services are exempt from Peruvian VAT.

For a service to qualify as an export, it must meet the following requirements:
- It is provided for a consideration from another country, which must be demonstrated with the payment receipt issued and recorded in the sales and income register.
- The exporter is a resident entity in Peru.
- The user or beneficiary of the service is an individual nonresident in Peru.
- The use or exploitation of the services provided to the nonresident takes place abroad.
- The exporter of services shall be previously registered in the Register of Exporters of Services of the tax administration (SUNAT).

Also, there is a list of operations that qualify as exports, even where they do not meet the above requirements. These include the sale of goods, national or nationalized, to establishments located in an international zone of ports or airports; transportation services for passengers or merchandise rendered by national shipping companies within the country to abroad; and the air cargo transportation services carried out within the country to abroad; etc.

For exports of goods, the sale must be performed from a resident in Peru to a nonresident, and the customs documents must provide evidence that the goods have left the country.

Exporters may recover VAT paid on the acquisition of goods and services. Exporters may apply to be reimbursed for VAT paid through credit notes. Credit notes may be used to offset either output VAT or income tax liabilities.

Foreign-currency invoices. If a VAT invoice is issued in a foreign currency, the value must be converted to Peruvian Sol (S/.), which is the Peruvian currency, using the sales exchange rate in force according to the time of supply for each transaction.

B2C. There are no special rules in Peru for B2C invoices.

Electronic invoicing. The use of electronic invoices, credit notes and debit notes is required for taxpayers nominated by the tax administration. Other taxpayers may voluntarily use electronic invoices, credit notes and debit notes, provided that they comply with certain conditions.

I. VAT returns and payment

VAT returns. VAT returns must be submitted monthly. Taxpayers must fulfill their tax obligations between the 7th business day and the 16th business day of the month following the date on which the tax obligation arises. The exact date for payment depends on the Tax Terms Schedule, which is approved annually by the Peruvian tax administration. The Tax Terms Schedule indicates the due date for taxpayers based on their tax identification number (RUC).

Return liabilities must be paid in Peruvian Sol.

Special schemes. Not applicable.

Electronic filing and archiving. VAT returns should be submitted monthly using the Virtual Program No. 00621 (http://www2.sunat.gob.pe/pdt/pdtdown/independientes/independientes.htm). Taxpayers use the electronic account known as "CLAVE SOL" (http://www.sunat.gob.pe/) to submit returns. Once the RUC is obtained, the tax administration provides each taxpayer the ID and password for CLAVE SOL.

Annual returns. Not applicable. Peru does not have annual returns.

VAT withholding systems. VAT withholding systems must be applied in certain transactions (supply of certain goods and services). Those systems imply an advanced collection of the tax and were designed by the tax administration to prevent tax evasion.

J. Penalties

The penalty for failure to include taxable transactions in the VAT return is 50% of the omitted tax if an amount of VAT is payable. Interest is charged at a monthly rate of 1.2% on late payments or underpayments of VAT. This fine can be reduced up to 95% under certain conditions.

Many other penalties may apply in case of failure to fulfill obligations arising under the VAT Act.

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A. At a glance

Name of the tax	Value-added tax (VAT)
Date introduced	1 January 1988 (under Executive Order No. 273)
Trading bloc membership	Association of Southeast Asian Nations (ASEAN)
Administered by	Department of Finance's Bureau of Internal Revenue (BIR) (http://www.dof.gov.ph or http://www.bir.gov.ph)
VAT rates	
Standard	12%
Other	Zero-rated and exempt
VAT number format	
VAT-registered person	Nine-digit tax identification number (TIN)
Branch office	Head office's nine-digit TIN, plus a three-digit branch code
VAT return periods	Monthly VAT declarations, quarterly VAT returns and quarterly Summary List of Sales and Purchases (beginning 1 January 2023, filing and payment of VAT shall be done within 25 days following the close of each taxable quarter)
Thresholds	
Registration	
As a VAT taxpayer	
General	Gross sales or receipts in excess of PHP3 million in a 12-month period
Radio or television broadcasting franchisees	Gross annual receipts for the preceding year in excess of PHP10 million (Section 119 of the Tax Code)
As a non-VAT taxpayer	
Individuals	Engaged in business with gross sales or receipts of PHP3 million or less in a 12-month period

Nonstock and nonprofit organizations	Engaged in trade or business with gross sales or receipts of PHP3 million or less in a 12-month period
Recovery of VAT by non-established businesses	No

B. Scope of the tax

VAT applies to the following transactions:
- The taxable sale, barter, exchange, use or lease of goods or property by a taxable person
- The taxable sale or exchange of services by a taxable person (see below)
- The taxable importation of goods from outside the Philippines
- Deemed sale transactions (see below)

The taxable sale or exchange of services includes the following:
- Lease or use of a copyright, patent design or model, plan, secret formula or process, goodwill, trademark, trade brand or other similar property
- Lease or use of industrial, commercial or scientific equipment
- Supply of scientific, technical, industrial or commercial knowledge or information
- Supply of assistance that is ancillary and subsidiary to and is furnished as a means of enabling the application or enjoyment of industrial, commercial or scientific equipment or scientific, technical, industrial or commercial knowledge or information
- Supply of services by a nonresident person or his or her employee with respect to the use of property or rights belonging to the nonresident, or the installation or operation of a brand, machinery or other apparatus purchased from such nonresident
- Supply of technical advice, assistance or services rendered with respect to the technical management or administration of a scientific, industrial or commercial undertaking, venture, project or scheme
- Lease of motion picture, other films, tapes and discs
- Lease or use of or the right to use radio, television, satellite transmission and cable television time

VAT applies to deemed sale transactions such as the following:
- Transfer, use or consumption not in the course of business of goods or property originally intended for sale or use
- Distribution or transfer to shareholders or investors as a share in the profits of a VAT-registered person or to creditors in payment of debt
- Consignment of goods if an actual sale is not made within 60 days following the date such goods were consigned
- Retirement from or cessation of business, with respect to inventories of taxable goods existing as of such retirement or cessation

C. Who is liable

A taxable person is any individual, trust, estate, partnership, corporation, joint venture, cooperative or association that carries out any of the following activities in the course of a trade or business:
- Sells, barters, exchanges or leases goods or property
- Renders services
- Imports goods

In addition, if the importer is exempt from tax, the purchaser, transferee or recipient of imported goods is liable for VAT, regardless of whether such person is a registered VAT taxpayer.

Nonresident persons that perform services in the Philippines are deemed to be making sales in the course of a trade or business even if the services are not performed on a regular basis.

In general, a taxable person with gross sales or receipts that have exceeded or that are expected to exceed PHP3 million over a 12-month period must register as a VAT taxpayer.

A radio or TV broadcasting franchisee must register if its gross annual receipts from the franchise exceeded PHP10 million in the preceding calendar year. (Section 119 of the Tax Code).

A professional person is liable for 12% VAT if its gross receipts or fees for the previous 12 months exceed PHP3 million or will exceed this amount in the next 12 months. A professional that is not registered for VAT is liable for the percentage tax at a rate of 3% if its gross receipts for the previous 12 months were equal to or less than this threshold.

Optional VAT registration. VAT registration is optional for the following persons:
- A VAT-exempt person with gross sales or receipts that do not exceed PHP3 million
- A radio or television broadcasting franchisee with gross annual receipts from the franchise that did not exceed PHP10 million in the preceding calendar year

A VAT-registered taxpayer with mixed transactions may opt for VAT to apply to its otherwise VAT-exempt transactions.

The following persons must register as non-VAT persons:
- A VAT-exempt person that is not registered as a VAT taxpayer
- An individual engaged in business with gross sales or receipts of PHP3 million or less in a 12-month period
- Nonstock, nonprofit organizations or associations engaged in trade or business with gross sales or receipts of PHP3 million or less in a 12-month period
- Cooperatives, except electric cooperatives
- Radio and television broadcasters with gross annual receipts of PHP10 million or less that do not opt to be registered for VAT
- Enterprises registered with the Philippine Economic Zone Authority (PEZA) and other economic zones that enjoy a preferential tax rate of 5% instead of paying all taxes
- Enterprises registered with the Subic Bay Metropolitan Authority (SBMA) or with other free port zones that enjoy a preferential tax rate of 5% instead of paying all taxes

Group registration. Group VAT registration is not available in the Philippines.

Non-established businesses. A foreign non-established business (or foreign nonresident not engaged in trade or business in the Philippines) is a foreign business that does not have a branch, headquarters or permanent establishment in the Philippines. A foreign non-established business is subject to VAT for services rendered in the Philippines via a withholding process, but it is not required to register.

Registration procedures. New VAT taxpayers must file an application for registration as a VAT taxpayer. Corporations and partnerships must fill out BIR Form No. 1903 (Application for Registration) or BIR Form No. 1905 (Application for Registration Information Update) and file it with the Revenue District Office (RDO) having jurisdiction over the place where the head office and branch is located together with the required attachments on or before the first sale transaction. New taxpayers are required to pay an annual registration fee of PHP500 at the Authorized Agent Banks (AABs) of the concerned RDO and submit the requirements for authority to print principal and supplementary receipts/invoices and registration of books of accounts. As soon as all the requirements are submitted, the RDO will issue the Certificate of Registration (Form 2303).

Late-registration penalties. Penalties and interest are assessed for several VAT errors, including late registration for VAT.

Tax representatives. A foreign non-established business is not required to appoint a VAT representative in the Philippines. Any resident who deals with a non-established business and who has control over payment for the supply must act as the VAT withholding agent.

Reverse-charge services. Under the reverse-charge provision, a taxable person that receives a supply of goods or services must withhold the VAT due from the supplier and pay the VAT. The reverse charge applies in the circumstances described below.

Before paying for each taxable (local) purchase of goods or services, the government must deduct and withhold a final VAT of 5% representing the net VAT payable by the seller. Under the "Tax Reform for Acceleration and Inclusion" (TRAIN), beginning 1 January 2021, the VAT withholding system shall shift from final to a creditable system. The remaining 7% is the standard input VAT (see Section F) for sales of goods or services to the government, instead of the actual input VAT directly attributable or apportioned to these sales. If the actual input VAT exceeds 7% of the gross payment, the excess may form part of the seller's expense or cost. If the actual input VAT is less than 7% of the gross payment, the difference must be treated as an expense or cost.

A resident must withhold 12% VAT before paying to a nonresident or foreign non-established business the consideration for a nonresident's lease of properties or for property rights or services rendered in the Philippines. A VAT-registered withholding agent may claim the VAT withheld by it as input tax on its own VAT return, subject to the rule on allocation of input tax among taxable, zero-rated and exempt sales (see Section F). If the withholding agent is a non-VAT taxpayer, the VAT paid forms part of the cost of the purchased services and may be treated either as an asset or as an expense, in accordance with general accounting principles.

Under the TRAIN, payments for purchases of goods and services arising from projects funded by Official Development Assistance (ODA) as defined under Republic Act No. 8182, otherwise known as the "Official Development Assistance Act of 1996," as amended, shall not be subject to the final withholding tax system as imposed in this subsection.

Digital economy. Taxable persons conducting online business transactions for the sale, barter or exchange of goods and services with gross sales or receipts in excess of PHP3 million in a 12-month period must register as a VAT taxpayer.

The online merchant or retailer is required among others to issue a registered invoice or receipt, either manually or electronically, for every sale, barter, exchange, or lease of goods and services. If the buyer pays through an online intermediary who controls the collections/payments of buyers or markets products/services for its own account and thus considered the retailer/merchant, they are required to issue the invoice/official receipt for the full amount of the sale to the buyer.

Payment gateways such as banks, credit card companies, financial institution and bill paying services are obliged to issue validated bank deposit slips or payment confirmations in the name of the merchant-seller. Freight forwarders and online website administrators are likewise obliged to issue, either electronically or manually, the BIR registered official receipt for the service fees paid by the merchant or advertisers.

Deregistration. A VAT-registered person may cancel its registration for VAT in any of the following circumstances:

- The taxable person's written application to the Commissioner of Internal Revenue (CIR) satisfactorily shows that its gross sales or receipts for the following 12 months (other than those that are exempt) will not exceed PHP3 million.
- The person has ceased to carry on its trade or business and does not expect to recommence any trade or business in the next 12 months.
- A change of ownership in a single proprietorship occurs.
- A partnership or corporation is dissolved.

- A merger or consolidation of a dissolved corporation occurs.
- The person registers before a planned business commencement, but fails to start its business.

Exemption from registration. The VAT law in the Philippines does not contain any provision for exemption from registration.

Voluntary registration. It is possible for a taxpayer that is otherwise generally not required to register for VAT to become VAT registered on a voluntary basis. There are no specific elements to be present for registration. Any person who elects to register under optional VAT registration shall not be allowed to cancel VAT registration for the next three (3) years.

D. VAT rates

Taxable transactions are liable to VAT either at the standard VAT rate of 12% or at the zero rate (0%). A taxable person that makes zero-rated transactions may use the input VAT as credit against VAT liability (see Section F), or it may file a claim for a refund or apply for a tax credit certificate (TCC).

Examples of transactions that are zero-rated

- Export sales, including the following:
  - — Sales of goods exported from the Philippines to a foreign country
  - — Sales of raw materials or packaging materials to a nonresident buyer for delivery to a resident exporter for manufacturing, processing, packing or repacking the buyer's goods in the Philippines
  - — Sales of raw materials or packaging materials supplied to an exporter with export sales exceeding 70% of its annual production. Under the TRAIN, the second and third items will be converted into a regular VATable transaction (12% tax rate) upon satisfaction of the following conditions:
    - — The successful establishment and implementation of an enhanced VAT refund system that grants refunds of creditable input tax within ninety (90) days from the filing of the VAT refund application with the Bureau. As long as all applications filed from 1 January 2018 are processed and decided within ninety (90) days from the filing of the VAT refund application
      And
    - — All pending VAT refund claims as of 31 December 2017 are fully paid in cash by 31 December 2019
- Sale of goods, supplies, equipment and fuel to persons engaged in international shipping or international air transport operations: provided that the goods, supplies, equipment and fuel shall be used for international shipping or air transport operations
- Processing, manufacturing or repacking goods for other persons doing business outside the Philippines that are subsequently exported, where the services are paid for in acceptable foreign currency and accounted for in accordance with the rules and regulations of the Bangko Sentral ng Pilipinas (BSP)
- Services performed by subcontractors and/or contractors in processing, converting, or manufacturing goods for an enterprise whose export sales exceed seventy percent (70%) of total annual production. Under the TRAIN, the immediately preceding two items will be similarly converted into a regular VATable transaction (12% tax rate) upon satisfaction of the following conditions:
  - The successful establishment and implementation of an enhanced VAT refund system that grants refunds of creditable input tax within ninety (90) days from the filing of the VAT refund application with the Bureau. As long as all applications filed from 1 January 2018 are processed and decided within ninety (90) days from the filing of the VAT refund application
    And
  - All pending VAT refund claims as of 31 December 2017 are fully paid in cash by 31 December 2019

- Services other than processing, manufacturing, or repacking goods rendered to a person engaged in business conducted outside the Philippines or to a nonresident person not engaged in business who is outside the Philippines when the services are performed, the consideration for which is paid for in acceptable foreign currency and accounted for in accordance with the rules and regulations of the Bangko Sentral ng Pilipinas (BSP)
- Transport of passengers and cargo by domestic air or sea vessels from the Philippines to a foreign country

  And
- Sale of power or fuel generated through renewable sources of energy such as, but not limited to, biomass, solar, wind, hydropower, geothermal, ocean energy and other emerging energy sources using technologies such as fuel cells and hydrogen fuels
- Services rendered to persons engaged in international shipping or air transport operations, provided that these services shall be exclusive for international shipping or air transport operations
- Services of contractors or subcontractors in processing or manufacturing goods for exporters with export sales exceeding 70% of annual production
- Local sales of goods, properties and services by a VAT-registered person to a person or entity that was granted indirect tax exemption under special laws or international agreements

VAT-exempt transactions are not subject to output VAT (that is, VAT on sales) and the seller is not permitted to recover input tax (that is, VAT on creditable purchases; see Section F).

Examples of VAT-exempt transactions

- The sale or import of the following items:
  - — Agricultural or marine food products in their original state
  - — Livestock or poultry used as, or for producing, foods for human consumption
  - — Breeding stock and related genetic materials
  - — Fertilizers, seeds, fingerlings, fish, prawn, livestock, or poultry feeds and ingredients used for manufacturing finished feeds that are unfit for human consumption or ingredients that cannot be used for the production of products for human consumption as certified by the Food and Drug Administration (except specialty feeds for racehorses, fighting cocks, zoo animals or pets)
- Import of the following items:
  - — Personal or household effects of residents returning from abroad or nonresident citizens coming to resettle in the Philippines if the items qualify for exemption from customs duties
  - — Professional instruments and implements, tools of trade, occupation or employment, wearing apparel, domestic animals, and personal and household effects belonging to persons coming to live in the Philippines or Filipinos or their families and descendants who are now residents or citizens of other countries (such parties hereinafter referred to as overseas Filipinos) in quantities and of the class suitable to the profession, rank or position of the persons importing said items, for their own use and not for barter or sale, accompanying such persons, or arriving within a reasonable time. The Bureau of Customs (BOC) upon the production of satisfactory evidence that such persons are actually coming to settle in the Philippines and that the goods are brought from their former place of abode, exempt such goods from payment of duties and taxes. Vehicles, vessels, aircrafts, machineries and other similar goods for use in manufacture, shall not fall within this classification and shall therefore be subject to duties, taxes, and other charges
- Services rendered by agricultural contract growers and milling for others of palay (unhusked rice) into rice, corn into grits and sugar cane into raw sugar
- Services subject to percentage taxes
- Domestic common carriers by land (which must be a holder of a valid and current Certificate of Public Convenience to be considered as such) for passenger transport (subject to percentage tax under Section 117 of the Tax Code)

- Garage keepers (subject to percentage tax under Section 117 of the Tax Code)
- International air or shipping carriers (subject to percentage tax under Section 118 of the Tax Code)
- Sales of gold to the Philippines Central Bank (Bangko Sentral ng Pilipinas, or BSP)
- Radio or television broadcast franchisees with annual gross receipts of PHP10 million or less (subject to percentage tax under Section 119 of the Tax Code)
- Gas and water utilities' franchisees (subject to percentage tax under Section 119 of the Tax Code)
- Persons, companies and corporations (not cooperatives or associations) engaged in providing life insurance in the Philippines (subject to percentage tax under Section 123 of the Tax Code)
- Fire, marine or other insurance agents of foreign insurance companies (subject to percentage tax under Section 124 of the Tax Code)
- Proprietors or lessees or operators of cockpits, clubs, boxing, professional basketball, jai-alai and race tracks (subject to percentage tax under Section 125 of the Tax Code)
- Individual employees (services rendered by individuals pursuant to an employer-employee relationship)
- Providers for overseas dispatches, messages or conversations from the Philippines (subject to percentage tax under Section 120 of the Tax Code)
- Sales or exchanges of shares listed and traded at the local exchange or by initial public offering (subject to percentage tax under Section 127(B) of the Tax Code)
- Medical, dental, hospital and veterinary services, except those rendered by professionals
- Educational services of government or accredited private educational institutions
- Services rendered by regional or area headquarters established in the Philippines by multinational corporations that act as supervisory, communications and coordinating center for their affiliates, subsidiaries or branches in the Asia-Pacific region and do not earn or derive income from the Philippines
- Transactions exempted under international agreements signed by the Philippines or under special laws
- Sales by agricultural cooperatives to members, sales of their produce to nonmembers and the import of direct farm inputs, equipment or spare parts for producing or processing farm produce
- Lending by credit or multipurpose cooperatives
- Sales by nonagricultural or nonelectric or noncredit cooperatives if a member's capital contribution cap is PHP15,000
- Sales of the following real properties:
  - — Real properties not primarily held for sale, lease or use in the ordinary course of trade or business
  - — Low-cost housing, up to PHP750,000
  - — Socialized housing, up to PHP450,000
  - — Residential lots up to PHP1.5 million
  - — Houses, lots and other residential dwellings, up to PHP2.5 million
- The lease of residential units for rent not exceeding: PHP15,000 a month
- The sale, import, printing or publication of books and newspapers or magazines appearing at regular intervals that have fixed sale prices and that are not devoted principally to publication of paid advertisements
- Sale, importation or lease of passenger or cargo vessels and aircraft, including engine, equipment and spare parts thereof for domestic or international transport operations
- Importation of fuel, goods and supplies by persons engaged in international shipping or air transport operations. As long as the fuel, goods and supplies are used for international shipping or air transport operations
- Services of banks, nonbank financial intermediaries performing quasi-banking functions, and other nonbank financial intermediaries, such as money changers and pawnshops (subject to percentage tax under Section 122 of the tax code
- Sale or lease of goods or properties or services up to PHP3 million annually

- Transfer of property pursuant to Section 40(C)(2) of the Philippine Tax Code (i.e., tax-free exchanges of property, mergers, and acquisitions)
- Sale of goods or services to "senior citizens," as defined under Republic Act (RA) No. 9994 or the Expanded Senior Citizens Act of 2010
- Sale of goods or services to persons with disability (PWD) under Republic Act (RA) No. 10754 or An Act Expanding the Benefits and Privileges of Persons with Disability

Option to tax for exempt supplies. A VAT registered person may elect that exempt transactions be registered for VAT purposes. Once the election is made, it shall be irrevocable for a period of three (3) years counted from the quarter when the election was made except for franchise grantees of radio and TV broadcasting whose annual gross receipts for the preceding year do not exceed PHP10 million where the option becomes perpetually irrevocable.

E. Time of supply

General rules. The time of supply or tax point is the time when the VAT becomes due. The following are the general rules for the time of supply:

- For importations — before the release of the goods (whether or not for business) from customs custody
- For the sale or deemed sale, barter or exchange of taxable goods or properties — at the time of the transaction, regardless of when actual payment is made
- For installment sales of real property — when each actual payment is made or at the constructive receipt date for each installment payment
- For the use or lease of property — when each actual payment is made or at the constructive receipt date for each installment payment
- For supplies of services — when each actual payment is made or at the constructive receipt date for each installment payment

Deposits and prepayments. In general, receipt of a deposit or prepayment creates a tax point if the amount is paid as part of the total payment for a particular supply.

If a prepayment constitutes a prepaid lease rental, it is taxable for the lessor in the month in which the payment is received. However, a security deposit is not subject to VAT until it is applied to the rental.

Continuous supplies of services. A tax point is created each time a payment is made.

Goods sent on approval. Goods sent on approval are not subject to VAT until they are actually sold.

If an actual sale of consigned goods is not made within 60 days after the date on which the goods were consigned, a sale is deemed to take place, unless the consigned goods are returned by the consignee within the 60-day period.

Reverse-charge services. The tax point for reverse-charge services is when the consideration is paid.

Imported goods. VAT is imposed on goods brought into the Philippines, whether for use in business or not. It is based on the total value used by the Bureau of Customs (BOC) in determining tariff and customs duties, plus customs duties, excise tax, if any, and other charges imposed prior to the release of the goods from customs custody. If the valuation used by the BOC in computing customs duties is based on volume or quantity of the imported goods, the landed cost shall be the basis for computing VAT. Landed cost consists of the invoice amount, customs duties, freight, insurance, other charges and excise tax, if any. The VAT on importation shall be paid by the importer prior to the release of such goods from customs custody.

Leased assets. As outlined under the General rules subsection above, the time of supply is when each actual payment is made or at the consecutive receipt date for each installment payment.

F. Recovery of VAT by taxable persons

A VAT-registered person may recover input tax, which is VAT charged on the person's import of goods or local purchases of goods or services (including property leases) from another VAT-registered person, in the course of the person's trade or business. A VAT-registered person may also recover input tax withheld from payment to a nonresident business for taxable services (i.e., rendered within the Philippines), royalties and rentals. A VAT-registered person generally recovers input tax by deducting it from output tax, which is the VAT charged on the sale or lease of taxable goods or properties or services. If at the end of the tax quarter, a VAT-registered person's output VAT exceeds input VAT, the person must pay the excess. If input VAT exceeds output VAT, the excess is carried over to the next quarter or quarters.

Special rules apply to input tax related to capital goods, mixed, partially exempt and zero-rated transactions (see below).

Deductible input tax (creditable expenditure). Input tax related to certain transactions may be creditable against output tax if the tax paid is evidenced by a VAT invoice or official receipt issued by a VAT-registered person. The following table lists such transactions.

Transactions for which input tax may be credited against output tax

- Goods purchased or imported for any of the following purposes:
  - — Sale of the goods themselves
  - — Conversion into a finished product for sale, or goods intended to form part of a finished product for sale, including packaging materials
  - — Use of supplies in the course of business
  - — Use of raw materials in a supply of services
  - — Use in trade or business for which deduction for depreciation or amortization is allowed
- The purchase of real property on which VAT has been paid
- The purchase of services on which VAT has been paid
- Transactions deemed to be sales
- Transitional input tax of 2% of value of beginning inventory or of the actual VAT paid, whichever is higher
- Presumptive input tax of 4% of the gross value of purchases of primary agricultural products used as inputs in the production of sardines, mackerel, milk, refined sugar, cooking oil and packed noodle-based instant meals
- Transitional input tax credits allowed under the law and regulations

For purposes of the above table, transitional input tax is a form of input tax allowed on transition from non-VAT-registered status to VAT-registered status. It may be credited against output tax when the VAT registration takes effect. Presumptive input tax is a form of fixed input tax allowed to persons or firms engaged in the processing of sardines, mackerel, and milk, and in manufacturing refined sugar, cooking oil and packed noodle-based instant meals. In general, it may be credited against output tax on the consummation of purchases of primary agricultural products (used as inputs to production).

Capital goods. A VAT-registered person's purchases or imports of capital or depreciable goods may be claimed as credit against output VAT, in accordance with the rules described below.

If the aggregate acquisition cost exceeds PHP1 million in a calendar month, regardless of the unit cost of the capital goods, and if the capital goods have an estimated useful life of five years or more, a claim for input VAT credit begins in the month in which the capital goods are acquired

and is spread evenly over 60 months. The credit is spread evenly over the actual number of months of the useful life of the asset if its estimated useful life is less than five years.

If the aggregate acquisition cost does not exceed PHP1 million in a calendar month, the total input VAT is allowable as a credit against output VAT in the month of acquisition.

The amortization of the input VAT shall only be allowed until 31 December 2021, after which taxpayers with unutilized input VAT on capital goods purchased or imported shall be allowed to apply the same as scheduled until fully utilized.

Nondeductible input tax. Input tax may not be recovered on the purchase or importation of goods and services that are not used for business purposes.

Examples of items for which input tax is nondeductible

- Purchases of a non-VAT-registered taxpayer from a VAT-registered taxpayer that are not related to a taxable business use
- A denied input VAT refund claim that does not meet the requirements or elements described above

Examples of items for which input tax is deductible (if related to a taxable business use)

- Purchases of a non-VAT-registered taxpayer from a VAT-registered taxpayer.
- A denied input VAT refund claim may be claimed as a deduction from gross income if the loss is actually sustained by the taxpayer; sustained during the taxable year; not compensated by insurance or other forms of indemnity; incurred in the taxpayer's trade, profession, or business; and evidenced by a closed and completed transaction. In the Philippines, when a claim for input tax is denied by the tax authorities, there may be a basis to treat this as a deductible loss instead, as long as the conditions described above are met. Otherwise, the denied input tax (or loss) may be considered nondeductible.

Partial exemption. Input VAT that is directly attributed to transactions subject to VAT may be recognized for tax credit. However, input tax that is directly attributable to VAT taxable sales of goods and services to the government is not available for credit against output tax related to supplies made to nongovernment entities.

Input tax that is not directly attributable to either VAT-taxable or VAT-exempt transactions must be prorated monthly between VAT taxable and VAT-exempt transactions. Input tax credit is permitted only for the portion of input tax that relates to transactions subject to VAT.

A VAT-registered person making supplies of goods, property and services that are zero-rated (or effectively zero-rated) may apply for a tax credit certificate (TCC) or a refund of input tax attributable to these sales (except for the portion of the excess input tax that has already been applied against output tax). The default claim shall be a cash refund unless the claimant applies for the issuance of a TCC.

Under Section 112 (A) of the Tax Code, as amended, the request may be made within two years after the close of the tax quarter in which the sales are made.

The Commissioner of Internal Revenue (CIR) must grant the TCC or refund within 90 days after the date of submission of all documents required with respect to the claim. Should the Commissioner find that the grant of refund is not proper, the Commissioner must state in writing the legal and factual basis for the denial. Failure on the part of any official, agent, or employee of the BIR to act on the application within the 90-day period shall be punishable.

Refunds. Any input tax attributable to zero-rated sales by a VAT-registered person may at his option be refunded or applied for a TCC.

The administrative claim for VAT refund or TCC must be filed within two years from the close of the taxable quarter when the zero-rated sales and/or effectively zero-rated sales were made.

The application for VAT refund must be accompanied by complete supporting documents as specifically enumerated in existing revenue regulations. The application shall be denied if the taxpayer fails to submit the complete supporting documents.

The CIR shall have 90 days from the submission of the complete supporting documents within which to decide whether or not to grant the claim. If the claim is not acted upon by the commissioner within the 90 days, such inaction shall be deemed a denial of the claim.

In case of a denial, the taxpayer should file a judicial claim with the Court of Tax Appeals (CTA) (i) within 30 days from receipt of the Commissioner's decision denying the claim (whether in full or in part) within the 90-day period, or (ii) from the expiration of the 90-day period if the Commissioner does not act within the 90-day period. The taxpayer is required to observe the 90 + 30-day rule before lodging a petition for review with the CTA.

Preregistration costs. Not applicable.

G. Recovery of VAT by non-established businesses

The Philippines does not refund VAT incurred by businesses that are neither established in the Philippines nor registered for VAT purposes.

A VAT-registered person that acts as a withholding agent for a supply made by a nonresident may recover the VAT withheld as input tax, on filing its own VAT return, subject to the normal rules on allocation of input tax (see Section F). If the resident withholding agent is a non-VAT taxpayer, the VAT forms part of the cost of purchased services and the VAT may be treated either as an asset or expense (subject to normal accounting principles).

H. Invoicing

VAT invoices and credit notes. A VAT-registered person must issue a VAT invoice for every sale, barter or exchange of goods or property or a VAT official receipt for every lease of goods or property and for every sale, barter or exchange of services. An authority to print (ATP) receipts or sales invoices must be secured from the tax authorities. The official receipt or invoice shall be valid for five years from the issuance of the ATP or the full usage of the inclusive serial numbers of the receipts/invoices reflected in the ATP, whichever comes first. These documents must contain the following information:

- A statement that the seller is a VAT-registered person, followed by the person's tax identification number (TIN)
- The total amount payable by the purchaser, inclusive of VAT
- The amount of tax shown as a separate line item
- Date of transaction
- Quantity and unit cost
- Description of goods or properties or the nature of services
- If the sale is exempt from VAT, the words "VAT-Exempt Sale" and the sentence, "This document is not valid for claim of input tax" prominently displayed
- If the sale is subject to 0% VAT, the term "zero-rated sale" prominently displayed
- If the sale includes goods, property or services, some of which are subject to VAT and some of which are VAT-zero-rated or VAT-exempt, a clear breakdown of the sales price between taxable, exempt and zero-rated components, with VAT calculated on each portion of the sale
- For sales or transfers to a VAT-registered person valued at PHP1,000 or more, the name, business style (if any), address and TIN of the purchaser or client

- The ATP number, date of issuance and validity of the ATP, including the name, address, TIN of the accredited printer, with his accreditation number and date of accreditation as an authorized printer
- The phrase "This invoice/receipt shall be valid for five (5) years from date of the ATP"

A VAT tax credit note may be used to reduce the VAT charged on supply of goods or services. Tax credit and debit notes must show the same information as a VAT invoice or receipt.

Export documentation. Export sales are subject to the zero rate of VAT if the goods are shipped from the Philippines to a foreign country. The goods must be paid for in acceptable foreign currency (or its equivalent in goods or services), and it must be accounted for in accordance with the rules of the BSP. The sale and shipment of goods must be proven by the following documents:
- VAT invoices that contain the term "zero-rated sale" written or printed on the invoice
- Bills of lading
- Inward letters of credit
- Landing certificates
- Other relevant commercial documents

Foreign-currency invoices. If a VAT invoice or official receipt is issued in a foreign currency, all values that are required to be paid must be converted into Philippine pesos, using an acceptable exchange rate.

B2C. There are no special invoicing rules for supplies to private consumers. As such, the general invoicing requirements described above apply, and full VAT invoices must be issued for all supplies.

Electronic invoicing. Within five years from the effectivity of the TRAIN (i.e., 1 January 2018) and upon establishment of a system capable of storing and processing the required data, the Philippine tax authorities shall require taxpayers engaged in the export of goods and services, taxpayers engaged in e-commerce, taxpayers under the jurisdiction of the large taxpayers service to issue electronic receipts or sales or commercial invoices in lieu of manual receipts or sales or commercial invoices, subject to rules and regulations yet to be issued.

I. VAT returns and payment

VAT returns. VAT payers that use a manual filing system must file monthly VAT declarations and pay the VAT to an authorized agent bank, not later than the 20th day after the end of each month. Taxpayers must also file quarterly VAT returns showing their quarterly gross sales or receipts within 25 days after the close of the tax quarter.

VAT payers that use the electronic filing and payment system are classified according to their business industry and they are given deadlines based on their classification. The due dates for filing and payment range from 21 days to 25 days after the end of the month for each monthly VAT declaration. The return for reporting VAT withholding must be filed, and the tax must be paid, on or before the 10th day of the month following the transaction.

VAT payers are also required to submit a quarterly Summary List of Sales and Purchases (SLSP) on disk, specifically the compact disc-recordable (CDR) medium. VAT payers that use a manual filing system must file the quarterly SLSP within 25 days after the close of the tax quarter. VAT payers that use the electronic filing and payment system must submit the quarterly SLSP within 30 days after the close of the quarter.

Advance payment of VAT is required for the sale of refined sugar and flour. The advance VAT must be paid by the owner or seller to the Bureau of Internal Revenue through an authorized agent bank or revenue collection officer before any refined sugar or flour can be withdrawn from

any refinery or mill. In addition, the VAT on imported goods must be paid before the release of the goods from the Bureau of Customs' custody.

Annual returns. No annual returns are required to be filed in the Philippines. Currently, monthly and quarterly returns are only required to be filed in the Philippines. Starting 1 January 2023, however, only quarterly VAT returns will be required.

Special schemes. The VAT law in the Philippines does not provide any special VAT accounting schemes.

Electronic filing. Electronic filing of VAT returns is mandatory for the following taxpayers:
- Taxpayer account management program taxpayers
- Accredited importer and prospective importer
- National government agencies
- Licensed local contractors
- Enterprises enjoying fiscal incentives
- Top 5,000 individual taxpayers
- Corporations with paid-up capital stock of PHP10 million and above
- Corporations with complete computerized accounting systems
- Government bidders
- Insurance companies and stock brokers
- Large taxpayers
- Top 20,000 private corporations

J. Penalties

Civil penalties (25% or 50%) and 12% (i.e., double the legal interest rate pursuant to Section 249 of the tax code, as amended by TRAIN) interest are assessed on the amount due for the following offenses:
- Failure to file a return and pay the tax due based on the return as required by law and rules
- Filing a return with an internal revenue officer other than the officer with whom the return is required to be filed
- Failure to pay the full or part of the tax due or the deficiency tax within the prescribed period
- Willful neglect to file a return within the prescribed period
- Failure to file certain information returns
- Failure of a withholding agent to collect and remit tax or refund excess withholding tax
- Erroneous issuance of a VAT invoice or receipt by a person not registered for VAT

In addition to other administrative and penal sanctions, the commissioner of the BIR may suspend or close a business establishment for at least five days for any of the following violations:
- Failure to issue receipts and invoices
- Failure to file a VAT return
- Understatement of taxable sales or receipts by 30% or more of the correct taxable sales or receipts for the tax quarter
- Failure of a person to register for VAT as required by law

The conviction of a refusal or failure to indicate separately the output tax on the sale of goods and services on a sales invoice or official receipt, each such act or omission is punished by a fine not less than PHP500,000 but not more than PHP10 million and imprisonment of not less than 6 years but not more than 10 years.

Poland

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A. At a glance

Name of the tax	Value-added tax (VAT)
Local name	Podatek od towarow i uslug
Date introduced	5 July 1993
Trading bloc membership	European Union (EU) Member State
Administered by	Ministry of Finance (http://www.mf.gov.pl)
VAT rates	
Standard	23%
Reduced	5% and 8%
Other	Zero-rated and exempt
VAT number format	123-45-67-890 PL 1234567890
VAT return periods	Monthly or quarterly
Thresholds	
Registration	PLN200,000
Recovery of VAT by non-established businesses	Yes

B. Scope of the tax

VAT applies to the following transactions:
- The supply of goods and rendering of services in Poland for consideration
- Receipt of reverse-charge services by a taxable person in Poland
- Export and import of goods
- Intra-Community acquisition of goods for consideration in Poland
- Intra-Community supply of goods

The following activities are outside the scope of VAT:
- Transactions that cannot be subject to legal agreements (illegal transactions)
- Sales of businesses (transfers of going concerns)
- Employment contracts

C. Who is liable

A taxable person is a business entity or individual that carries on business activities, regardless of the purpose or result of the business activities. Business activities include all manufacturing, trading and service-providing activities. Business activities also include continuous use of goods and intangible rights with the purpose of obtaining income.

The VAT registration threshold is PLN200,000. The limit may apply in one of the following two ways:
- Retrospectively: the value of supplies of goods or services exceeded PLN200,000 in the preceding tax year.
- Prospectively: at the start of business, the value of supplies of goods or services is expected to exceed PLN200,000. If the business begins after the start of the calendar year, the registration limit applies proportionately to the remainder of the year.

If the value of supplies is not expected to exceed the registration threshold, a new business is exempt from VAT (with some exceptions — please see below).

A taxpayer may choose to register for VAT. This decision must be reported to the tax office before the first taxable transaction is made when the taxpayer starts its activities, or before the beginning of the month from which the taxpayer chooses to register for VAT. Moreover, taxpayers who perform activities exclusively exempt from VAT do not have to register for VAT (registration is facultative).

Taxpayers who lose the right to be VAT exempt can benefit from the exemption no earlier than one year after they lose the right to be VAT exempt.

However, it may waive the exemption. The waiver in writing must be submitted to the appropriate VAT office. If the value of sales exceeds the registration threshold, the exemption is automatically no longer valid and the amount of turnover in excess of the threshold is subject to VAT.

The registration threshold is not applied to the importation of goods and services, to intra-Community acquisition of goods and the supply of goods on which the purchaser is liable to account for VAT. In addition, businesses in the following categories must register for VAT at the commencement of activity, regardless of the amount of turnover:
- Businesses that supply products made from precious metals
- Businesses that supply certain excise products
- Businesses that supply new means of transport
- Businesses that supply buildings or building land
- Businesses that provide legal, consulting and professional services
- Businesses that supply services connected with jewelry

The PLN200,000 registration threshold does not apply to foreign businesses.

Group registration. VAT group registration is not permitted under Polish VAT law. Legal entities that are closely connected must register for VAT individually.

Foreign businesses and tax representatives. A foreign business (that is, an entity that is not established in Poland and that does not have a place of business there) must register for VAT in Poland if it makes taxable supplies of goods or services in Poland.

However, in general, a foreign business is not required to register for VAT in Poland if it supplies exclusively the following services:
- Services and goods for which the Polish purchaser is required to account for and pay tax under the reverse-charge mechanism (see Section E).
- Certain services that are subject to a zero rate (for example, services supplied at Polish seaports with respect to international transport, services of air traffic control rendered for foreign pro-

viders of air transportation and transport services related to the import of goods if the cost of transport is included in the tax base of goods; see Section D).

A non-EU business must appoint a Polish resident tax representative before registering for VAT in Poland. The tax representative is jointly and severally responsible for the tax arrears of the foreign business represented by it.

An EU business is not required to appoint a tax representative to register for VAT in Poland, but it may appoint a tax representative if it chooses to do so.

Registration procedures. Prior to performing the first taxable activity, a taxpayer should submit the VAT-R and the NIP-2 or NIP-8 registration forms (which may be submitted electronically under certain conditions). The deadline to issue a registration decision is two weeks, however, in most cases it takes less time. Additionally, prior to performing the first intra-Community acquisition or intra-Community supply taxpayers should obtain VAT-EU number (VAT-R registration is also used for this purpose). Moreover, in case of any changes in scope of the information provided within the VAT-R form, a taxpayer should update the tax office accordingly within seven days after the day the change has occurred.

Late-registration penalties. No specific penalty applies to late VAT registration in Poland. However, penalties are assessed if, as a result of late registration, a taxable person pays VAT late or submits VAT returns late. Penalties may include fines and criminal penalties.

Reverse charge. Reverse-charge mechanism is generally applicable to intra-Community acquisitions of goods or import of services. Reverse charge is also applicable to:
- Supplies of services by foreign entities not having seat or fixed establishment in Poland to the Polish taxpayers
- Local supplies of goods by foreign entities not having seat or fixed establishment in Poland to the Polish taxpayers
- Local supplies of certain fraud-sensitive goods (e.g., ferro-alloys, plastic waste, glass waste) and (as of 1 July 2015) certain electronic equipment (e.g., mobile phones, notebooks if transaction exceeds net amount of PLN20,000)

Taxpayers are obliged to submit the recapitulative statement concerning local supplies of certain goods and services for which reverse-charge mechanism applies (i.e., those goods, that are enlisted in the Appendix 11 to the Polish VAT act, such as ferro-alloys, plastic waste or glass waste, notebooks, and mobile phones).

From 1 January 2017, the reverse charge applicable to services applies to a number of construction services (e.g., construction of dwellings and fences, concreting, erection of steel structures), provided between taxpayers (where the purchaser is an active VAT taxpayer).

Based on the published plans of the Ministry of Finance, the reverse-charge mechanism is planned to be replaced by the obligatory split-payment. *At the time of preparing this chapter, the wording of a draft new regulation has not been agreed yet, but it is likely it will come into force in the middle of 2019 (if the European Commission will issue a derogation decision).*

Digital economy. Poland implements EU provisions regarding Mini One-Stop Shop for supply of electronic, telecommunication and broadcasting services to nontaxpayers.

In case of electronic, telecommunication and broadcasting services supplied to VAT registered businesses, the place of supply is determined according to the general rule, i.e., based on the seat of the acquirer. When dealing with services supplied for nontaxpayers, the place of supply is determined by the customer's seat, permanent place of residence or ordinary place of residence.

If a taxpayer decides to benefit from Mini One-Stop Shop simplification he should register through the Polish Ministry of Finance portal (using VIU-R form — for entities from EU or VIN-R form — for entities from outside EU).

Taxpayers that decide to use Mini One-Stop Shop simplification should submit VAT returns concerning electronic, telecommunication and broadcasting services electronically not later than on 20th day of the month following the quarter (VAT payments should be arranged within this deadline as well). All the amounts enlisted in such return should be indicated in EUR.

Taxpayers should submit those VAT returns to II Urzad Skarbowy Warszawa-Srodmiescie (Jagiellonska 15, Warsaw, Poland).

Apart from the above, taxpayers that enjoy the Mini One-Stop Shop simplification should keep the register of all the transactions that fall within the scope of the Mini One-Stop Shop mechanism and — upon request — be presented to the tax authorities.

As of 1 January 2019, the threshold for the application of the Mini One-Stop Shop system, is to be set as PLN42,000.

In case the taxpayer would like to come back to the general rule regarding place of supply, but not earlier than after two years of applying the simplification, a taxpayer has to inform the tax authorities in writing before the relevant month when the general rule should apply.

Deregistration. Deregistration may be conducted either based on the taxpayer's application (filed on VAT-Z form) or officially by a Head of a Local Tax Authority Office (as per the jurisdiction for the particular taxpayer).

The Head of a Local Tax Authority Office is entitled to deregister a taxable person from the register as a VAT payer *ex officio*, for example, in cases where:
- The taxable person does not exist or despite documented attempts, there is no possibility of contacting that taxable person or its authorized representative.
- The data provided in the application for registration is revealed to be inaccurate.
- The taxable person or its authorized representative does not respond to summons of a tax authority.
- No VAT returns are filed for six months (or two quarters).
- No sales and purchases transactions appear in the VAT returns submitted for six subsequent months (of two quarters).
- The taxable person issues invoices that do not reflect actual actions.

Exemption from registration. Foreign businesses (i.e., entities that are not based or that do not have a place of business in Poland) that supply certain services in Poland are not obliged to register for Polish VAT. This exemption is for businesses that supply:
- Services and goods where the Polish purchaser accounts for and pays tax under the reverse-charge mechanism
- Certain services that are subject to a zero rate (e.g., services supplied within Polish seaports, connected with international transport, services of air traffic control rendered for foreign providers of air transportation)

Generally, the recipient of goods and services supplied by foreign business is obliged to account for VAT under the reverse-charge mechanism (with some exceptions). However, starting from 1 April 2013, the reverse-charge mechanism cannot be applied if a supplier of goods is registered for VAT in Poland.

Foreign businesses providing distance sales to Polish individuals are obliged to register for VAT purposes in Poland if the value of their goods sold in Poland exceeded in the previous year PLN160,000 or exceeds PLN160,000 in the current year. Excise duty products, new means of transport and installed goods are not taken into account while calculating the limits.

Voluntary registration. Generally, each taxpayer may opt for VAT registration in Poland regardless of PLN200,000 threshold. Taxpayers performing only VAT exempt activities may opt for the VAT registration as well. There is no restrictions in this regard in Polish VAT law.

D. VAT rates

The term "taxable supplies" refers to supplies of goods and services that are liable to a rate of VAT, including the zero rate.

The VAT rates are:
- Standard rate: 23%
- Reduced rates: 5% and 8%
- Zero rate (0%)

The standard rate of VAT applies to all supplies of goods or services unless a specific measure provides for a reduced rate, the zero rate or an exemption.

Examples of goods and services taxed at 5%

- Certain unprocessed basic foodstuffs
- Certain agricultural and forestry products
- Books and certain magazines

Examples of goods and services taxed at 8%

- Musical instruments
- Certain foodstuffs
- Handicraft products
- Books, newspapers and magazines
- Maps
- Hotel services
- Certain entertainment services
- Passenger transport
- Travel services
- Medical products
- Supply of water
- Certain services related to agriculture
- Other services related to recreation — solely within the scope of admission
- Supply, construction, repairs and reconstructions of buildings classified as "social housing"

Examples of goods and services taxable at 0%

- Exports
- Intra-Community supplies of goods
- Supplies of certain sailing vessels
- International transport and related services
- Supplies of computer equipment to educational institutions

The term "exempt" refers to supplies of goods and services that are not liable to tax and that do not qualify for input tax deduction (see Section F).

Examples of exempt supplies of goods and services

- Financial services (with exceptions)
- Supply of real estate (with option to tax)
- Health care services
- Social welfare services
- Public postal services
- Education
- Lease of residential property

- Cultural and sporting events (with exceptions)
- Services connected with science
- Dental engineering
- Betting, gaming and lotteries

Option to tax for exempt supplies. Polish VAT act provides option to tax for supply of real estate, which generally benefit from VAT exemption under certain conditions.

E. Time of supply

The time when VAT becomes due is called the "time of supply" or "tax point." The basic time of supply for goods is when the goods are delivered. The basic time of supply for services is when the services are performed.

Special time of supply rules apply to several situations.

Prepayments. The receipt of prepayments is considered the tax point. The tax point is created only to the extent of the payment.

The tax point for exports of goods is created according to the general rules.

Imported goods. The tax point for imported goods arises when a customs debt is incurred. However, for goods imported under certain customs regimes, the tax point arises when the goods enter the customs regime. The following are the relevant customs regime:
- Inward processing
- Temporary customs clearance
- Processing under customs supervision

Intra-Community acquisitions and supplies of goods. The tax point for the intra-Community acquisition of goods is the invoice date but not later than the 15th day of the month following the month in which the supply took place. If an invoice is issued before this date, the VAT is due at the time the invoice is issued.

The same tax point rules apply to intra-Community supplies of goods.

Reverse-charge services. Imported services are subject to a reverse charge, which is a form of self-assessment of VAT. If the reverse charge applies, the recipient of the service accounts for output tax (effectively on behalf of the supplier).

The reverse-charge VAT is deductible as input tax by the recipient of the service in accordance with the general rules (see Section F), in the same month (quarter) when the tax point arises or in one of the two following months (quarters).

Cash accounting. Poland operates a cash accounting scheme with a maximum threshold of EUR1.2 million.

Continuous supplies of services. The tax point concerning continuous supplies of services (i.e., those services that are rendered for longer than a year) arises at the end of each year until these services are completed. If services are supplied for a period not exceeding a year — the tax point arises at the moment of services' completion. Additionally, if parties of the transaction set clearing or payment periods regarding the continuously supplied services, the tax point arises at the end of each period.

Leased assets. The tax point concerning leased assets arises at the moment of issuance of the invoice documenting leasing services.

Goods sent on approval for sale or return. There are no special time of supply rules in Poland for supplies of goods sent on approval for sale or return.

F. Recovery of VAT by taxable persons

A taxable person may recover input tax, which is charged on goods and services supplied to it for business purposes, if it relates to the person's taxable supplies. A taxable person generally recovers input tax by deducting it from output tax, which is charged on supplies made.

Input tax includes VAT paid on the purchase of goods and services, VAT paid on imports of goods and on intra-Community acquisitions, VAT self-assessed for reverse-charge services received from outside Poland and VAT self-assessed for goods on which the purchaser is liable to account for VAT.

The amount of the VAT reclaimed must be detailed on a valid VAT invoice.

Nondeductible input tax. Input tax may not be recovered on purchases of goods and services that are not used for business purposes (for example, goods acquired for private use by the entrepreneur). In addition, input tax is not recoverable for some items of business expenditure.

Examples of items for which input tax is nondeductible

- Restaurant meals
- Personal expenses
- Hotel accommodation

Examples of items for which input tax is deductible (if related to a taxable business use)

- Advertising
- Purchase, lease or hire of passenger cars as well as vans or trucks with high loading capacity
- Fuel (gasoline, diesel oil, propane and butane) for the vehicles listed above
- For passenger cars with low loading capacity (if passenger car is used for taxable activities only, under certain conditions 100% of input VAT is deductible, otherwise, i.e., if a passenger car is used for both taxable activities and private purposes — only 50%)
- Travel
- Conferences
- Business gifts
- Advisory services
- Business use of home telephone and mobile phones

Partial deduction. Input tax is not recoverable if it is directly related to making exempt supplies. If a Polish taxable person makes both exempt supplies and taxable supplies, it may not deduct input tax in full. This situation is referred to as "partial exemption."

Input tax directly relating to taxable supplies is recoverable in full, while input tax directly related to exempt supplies is not recoverable. Input tax that is not directly attributable to taxable supplies or to VAT-exempt supplies must be apportioned to each category.

The general pro rata method is based on the ratio of qualifying turnover compared with total turnover during the calendar year. The initial deduction (that is, the deduction made during a tax year) is done based on the pro rata percentage for the preceding year.

The recovery percentage is rounded up to the nearest whole number. The calculation is adjusted using the actual figures for the year in the first period of the next calendar year.

Capital goods. Capital goods are items of capital expenditure that are used in a business for longer than a year. Input tax is deducted in the tax period in which the goods are acquired. The amount of input tax recovered depends on the taxable person's partial exemption status in the VAT year of acquisition. The amount of input tax recovered on the capital item must be adjusted over time depending on the use of the goods. In Poland, the capital goods adjustment applies to the following assets (for the number of years indicated):

- Real estate: adjusted for a period of 10 years
- Capital goods and intangible assets: adjusted for a period of five years

The adjustment does not apply to goods or services that are capital goods and intangible assets with a purchase value of less than PLN15,000.

The adjustment is applied each year following the year in which the capital goods or real estate is made available to a fraction of the total input tax (1/10 for real estate and 1/5 for other capital goods). The adjustment may result in either an increase or a decrease in deductible input VAT, depending on whether the ratio of taxable supplies made by the business has increased or decreased compared to the year in which the capital goods were acquired.

Refunds. In general, if a VAT return shows an excess of input VAT over output VAT, the surplus input tax is carried forward to offset output tax in the following month. Taxable persons may request a direct refund of the surplus within the following time limits:

- 60 days after the date on which the VAT return is submitted
- 180 days from the date on which the VAT return was submitted if the taxpayer did not perform any taxable activity in the relevant period

The refund periods may be shortened to 25 and 60 days, respectively, if the taxpayer submits an appropriate application and if the invoices and other documents regarding the input VAT shown in the VAT return are paid or if the collateral is submitted.

Refund in 25 days is possible provided that: payment of invoices occurred from a bank account of the taxpayer and submitted to confirm transfers in the tax office; the taxpayer is not in arrears with taxes more than PLN20,000 and timely settles taxes for at least two years; subject is registered for VAT at least 12 months and it has not been transferred from the previous VAT declarations amount higher than PLN3,000.

If necessary, the tax office may extend the refund period until tax proceedings are completed.

If a repayment is delayed, the tax office must add interest for the delay.

Preregistration costs. It is possible to deduct input VAT from expenses incurred prior to VAT registration under certain conditions. The Polish tax authorities allow such deductions, yet such procedure is not regulated within the Polish VAT act.

Write-off of bad debts. Under certain conditions, a taxpayer may adjust a taxable amount and the tax due on goods or services supplied in case of receivables for which uncollectibility has been substantiated. The adjustment also concerns the taxable amount and tax amount attributable to a portion of receivables whose uncollectibility has been substantiated. Uncollectibility of receivables is deemed as substantiated if receivables were not settled or disposed of in any form within 150 days following the lapse of their payment deadline stipulated in an agreement or invoice.

On the other hand, if the amount due on the invoice for goods or services supplied is not paid within 150 days from the lapse of payment deadline specified in an agreement or the invoice, a debtor shall adjust a deducted amount of the tax resulting from said invoice in settlement for the period in which the 150th day elapsed from the payment deadline specified in the agreement or the invoice (unless creditor is at that moment in the bankruptcy or liquidation proceedings).

G. Recovery of VAT by non-established businesses

Poland refunds VAT incurred by businesses that are neither established nor registered for VAT in Poland. A non-established business may claim VAT to the same extent as a Polish taxable person.

For businesses established in the EU, refunds are made under the terms of the EU Directive 2008/09. For businesses established outside the EU, refunds are made under the terms of the EU 13th Directive. For the general VAT refund rules applicable to the EU 2008/09 and 13th Directive refund schemes, see the chapter on the EU.

To be eligible to claim a VAT refund in Poland, a non-established business must satisfy all the following conditions:
- It must be registered for VAT in the country where it is established.
- It must not make taxable supplies in Poland (with certain exceptions, including supplies of services taxed under the reverse-charge mechanism).
- It must be established in a country that refunds VAT to Polish businesses (the reciprocity principle).

Refund application. The deadline for submitting refund applications is 30 September following the claim year. This deadline is strictly enforced. The forms must be completed in Polish. The claim period is a minimum of a calendar quarter and a maximum of one calendar year. The minimum claim amounts are EUR400 for accounting periods shorter than a year and EUR50 for an annual claim.

Refunds are made in Polish zloty (PLN) into a bank account maintained by the claimant either in Poland or in the state where the claimant is resident or has a place of business. If a transfer is made abroad, the tax office does not cover the remittance costs.

Refund claims by non-EU businesses must be filed with the following tax office in Warsaw:

II Urzad Skarbowy Warszawa Srodmiescie
Jagiellonska 15
Warsaw
Poland

EU businesses must file the application form through their local tax office in their country of establishment.

To claim refunds, the following documents are required:
- Official application form (this form is attached to the Ministry of Finance Decree)
- Original VAT invoices and customs documents
- Certificate of Registration as a Taxpayer issued by the VAT authorities in the country where the claimant is established, stating that the taxpayer is a taxable person for VAT purposes (this form is attached to the Ministry of Finance Decree)

Repayments and interest. Refunds are made within four to eight months after the claim filing date. The taxpayer is entitled to interest on the late refunds.

H. Invoicing

VAT invoices and credit notes. A Polish taxable person must generally provide a VAT invoice for the following:
- All taxable supplies made except for exempt transactions
- Exports of goods
- Intra-Community supplies
- Supplies of goods outside the scope of Polish VAT (that is, the reverse-charge mechanism applies)
- Supplies of services outside the scope of Polish VAT (that is, the reverse-charge mechanism applies)
- Triangular transactions (see the chapter on the EU)
- Distance sales (see the chapter on the EU)

VAT invoices are not required if a business exclusively supplies VAT-exempt goods or services. VAT invoices are not required for sales made to private individuals who do not carry on business activities, unless requested. Invoices must support claims for VAT refunds claimed by non-established businesses.

A credit note (called a "correcting invoice") must be issued if any of the following circumstances arise after an invoice is issued:
- A rebate or discount is granted.
- The price is increased.
- An error is detected in the price, rate or amount of tax charged or in any other element of the invoice.

In general, a credit note must be issued to the person to whom the original VAT invoice was issued.

Electronic invoicing. The VAT law permits electronic invoicing in line with EU Directive 2010/45/EU.

Proof of export and intra-Community supplies. Goods exported from Poland and intra-Community supplies of goods are subject to Polish VAT at the zero rate (see the chapter on the EU). To qualify for zero rating, the supplier must prove that the goods have left Poland. Suitable proof for exported goods includes the Single Administrative Document (SAD) or an electronic document generated by the customs authorities, which confirms that the goods have been removed from the EU (or its authorized copy). For an intra-Community supply, a range of commercial documentation must be used (usually transport documents and the specification).

Foreign-currency invoices. The VAT amount on the invoice must be shown in Polish zloty, regardless of the currency in which the amount due is expressed in the invoice. If a VAT invoice is issued in a foreign currency, the output value must be converted into Polish zloty, using the official exchange rate published by the National Bank of Poland (NBP) or European Central Bank (ECB) for the day preceding the invoice issuance date (for invoices issued correctly within the seven-day deadline). However, if an invoice was not issued on time in accordance with the Polish rules (that is, generally, within seven days after the supply), the taxpayer must apply the average rate calculated and published by the NBP or ECB on the last business day preceding the date on which the tax point arises.

B2C. For details of the VAT rules on electronic services in the EU, please refer to the European Union chapter.

Apart from the above, a taxpayer is required to issue the invoice for documenting supply of goods or services to natural persons and non-entrepreneurs upon their request (there is no legal requirement to do so without such request).

I. VAT returns and payment

VAT returns. VAT returns are made on a monthly basis, submitted in electronic form. Taxpayers must submit VAT returns to the tax office by the 25th day of the month following the month in which the tax point arises. The deadline for making the relevant payment is the same as for submitting the VAT return. VAT liabilities must be paid by bank transfer, and must be paid in Polish zloty.

There are plans of the Ministry of Finance to liquidate the obligation to submit the VAT return and rely solely on a SAF-T filing. *At the time of preparing this chapter, there are no draft provisions published on this matter yet (just that plans have been revealed).*

Small taxpayers. "Small taxpayers" include VAT-taxable persons whose total value of supplies in the preceding VAT year did not exceed the Polish zloty equivalent of EUR1.2 million. The EUR1.2 million threshold also applies to commission sales. The threshold for brokerage houses is EUR45,000 of income from brokerage and other forms of remuneration. A business that meets the small taxpayer conditions may opt for a special VAT scheme, but this treatment is not compulsory.

Small taxpayers may choose to account for VAT using the "specific tax point." The specific tax point for a supply is the receipt of payment. The appropriate VAT office must be notified of the decision to choose this tax point.

Annual returns. Annual returns are not required to be filed in Poland, for any groups of taxable persons.

Special schemes. *Small businesses.* The status of a small VAT taxpayer is entitled to submit VAT returns on a quarterly basis. Nevertheless, small taxpayers should pay monthly advance payments for VAT liabilities until the 25th day of the month following the settlement period.

Electronic filing. As of January 2018, all VAT returns must be sent electronically. Entrepreneurs will no longer be able to decide whether tax returns will be submitted by paper or electronically. Electronic filing applies to all types of VAT returns, including VAT-EU.

VAT returns can be sent via the internet using tools available on the Ministry of Finance Tax Portal (interactive forms or e-Deklaracje Desktop application). However, there are no obstacles to using commercial software adapted for sending tax documents via the internet.

In order to submit the VAT return electronically to the tax office, taxpayers must appoint a person authorized to sign on their behalf a qualified electronic signature of declarations sent to the e-Deklaracje system. Filing VAT return is made by submitting UPL-1 in paper form (to the tax office responsible for the registration of taxpayers and payers) or by ePUAP (to the Head of the National Tax Administration).

A taxpayer who, contrary to the obligation, does not provide a declaration or summary information in electronic form, exposes himself to punishment. The penalty for the fiscal offense is a fine from 1/10 to 20 times the minimum remuneration for work (in 2018 it ranges from PLN210 to PLN42,000). However, such matters are generally dealt with in a mandatory procedure, and a fine imposed by a penal fine cannot exceed double the minimum wage (PLN4,200).

Single audit file for tax (SAF-T). Starting from 1 July 2016, entrepreneurs keeping electronic accounting books (including foreign entities, registered for VAT in Poland) are required to provide data to the Polish tax authorities using the single audit file for tax purposes (SAF-T). The SAF-T standard requires covering accounting records, including the books of account, bank account excerpts, VAT sales and purchase registers, sales invoices, warehouse flows and register of revenues. It has not been yet confirmed if foreign, VAT registered in Poland, entities shall follow the whole scope or only the VAT parts, e.g., VAT sales and purchase registers, sales invoices.

Introduction of the SAF-T does not mean any change in VAT reporting. The VAT reporting obligations should be still fulfilled, while SAF-T is a method of collection and transfer of data included in accounting books and tax registers for purposes of tax audits.

The data included in SAF-T should be created in the taxpayer's system in XML format. The SAF-T data should be sent to the Ministry of Finance via a special interface. As a last step, the taxpayer will collect the electronic confirmation of receipt, which will be the evidence that the SAF-T obligations were fulfilled.

VAT registers should be filed monthly until the 25th day of each following month. The remaining part of data should be filed upon the tax authorities' request.

Split-payment mechanism. Poland introduced a split-payment mechanism, as of 1 July 2018. The mechanism is optional to taxpayers. Each taxpayer is allowed to choose whether it would like to pay its purchase invoices with or without the use of split payment. The main idea of the mechanism is to record the net amount on the regular bank account, while the VAT amount will be booked on so called "VAT account." Money accumulated on this account are available for payment of the VAT liability to the tax authorities or to cover the VAT amount resulting from the

taxpayer's purchase invoices. Alternatively, the taxpayer is to request a transfer of the money to its regular bank account, but the tax authorities have 60 days to approve this. In respect of the VAT Act amendment to be implemented in 2019, it is possible that the split-payment mechanism will become obligatory in 2019 for numerous businesses (for example, those whose supplies are currently subject to the reverse charge). *At the time of preparing this chapter, no draft provisions have been published.*

J. Penalties

Several penalties are assessed in Poland for errors in VAT accounting, for late submission of VAT returns or for late payment of VAT. The following are the penalties:

- Late submission of VAT returns: for a VAT return that is submitted late, the individual responsible for the delay may be fined if the tax court determines that he or she is at fault. The fine is imposed on the basis of the Fiscal Penal Code, which determines the penal liability of natural persons for fiscal crimes.
- Sanction 30% of the understatement of tax liability, if it is shown in the tax return the amount of tax lower than the amount payable or overstatement of the amount of input VAT.
- Sanction 20% of the understatement of tax liability (overstatement of the amount of input VAT), in the case of a taxpayer corrects their settlement after the completion of a tax audit or in the course of the audit procedure. No sanction shall be determined when the taxpayer himself corrects the mistake and will pay the difference of tax to the opening of a tax audit or duty and the understatement of tax due/overstatement of input tax is made by a natural person who bears the responsibility for this act on the basis of Penalty Code.
- Effective rate increased sanctions — 100% for the use of the so-called "empty" invoices.
- Late payment of VAT: the interest rate applied to delayed payments of VAT is 200% of the National Bank of Poland "Lombard rate." In November 2015, the interest rate for delayed payments was 8% per year.

K. EU filings

Intrastat. A Polish taxpayer that trades in goods with businesses elsewhere in the EU must submit Intrastat forms if its turnover exceeds the following amounts:

- Intra-Community acquisitions: PLN3 million
- Intra-Community supplies: PLN2 million

If the taxpayer's turnover does not exceed certain thresholds, it is not required to complete all items of the Intrastat report form (numbers 12, 15 and 20 may be excluded). The following are the thresholds:

- Intra-Community acquisitions: PLN42 million
- For intra-Community supplies: PLN76 million

Intrastat returns are filed with the Polish customs authorities on a monthly basis. They must be filed by the 10th of the month following the month in which the transactions occurred.

Intrastat returns must be submitted in electronic form. All amounts must be provided in zlotys.

A penalty may be imposed for late submissions or for missing or inaccurate declarations.

EU Sales Lists. Persons who are registered as EU VAT payers must file EU Sales Lists (ESLs) if they make intra-Community supplies and acquisitions or if they make supplies of services and the place of supply is considered to be the place of establishment of the customers.

No turnover thresholds apply to ESLs under the Polish VAT law.

ESLs must be filed monthly (or in some cases quarterly) with the tax office. ESLs submitted electronically must be filed by the 25th day of the month following the end of the month or

quarter. If submitted by paper, ESLs must be filed by the 15th day of the month following the end of the month or quarter.

ESLs may be filed only in paper form. All amounts must be provided in zlotys.

In Poland, ESLs must include the following information:
- The name of the entity submitting the lists and the entity's Polish VAT registration number
- The EU VAT registration numbers of suppliers and customers, together with the appropriate country codes
- The total of intra-Community acquisitions and intra-Community supplies made
- Information about triangular transactions subject to the simplification rule (see the chapter on the EU)
- The total of services supplied that have a place of supply outside Poland

An ESL is not required for any period in which the taxable person does not make any intra-community supplies.

Penalties may be imposed for late and missing ESLs.

Portugal

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A. At a glance

Name of the tax	Value-added tax (VAT)
Local name	Imposto sobre o valor acrescentado (IVA)
Date introduced	1 January 1986
Trading bloc membership	European Union (EU) Member State
Administered by	Autoridade Tributária e Aduaneira (Tax and Customs Authority) (http://www. portaldasfinancas.gov.pt)
VAT rates	
Mainland	
Standard	23%
Intermediate	13%
Reduced	6%
Other	Exempt and exempt with credit

Autonomous region of Madeira	
Standard	22%
Intermediate	12%
Reduced	5%
Autonomous region of Azores	
Standard	18%
Intermediate	9%
Reduced	4%
VAT number format	PT 5 1 2 3 4 5 6 7 8
VAT return periods	
Monthly	If the turnover in the preceding VAT year was equal or exceeded EUR650,000
Quarterly	If the turnover in the preceding VAT year did not exceed EUR650,000
Annual	All taxable persons that performed any taxable operations
Thresholds	
Registration	None
Distance selling	EUR35,000
Intra-Community acquisitions	None
Recovery of VAT by non-established businesses	Yes

B. Scope of the tax

VAT applies to the following transactions:
- The supply of goods or services made in Portugal by a taxable person
- The intra-Community acquisition of goods and services in Portugal from another EU member state made by a taxable person (see the chapter on the EU)
- Reverse-charge services received by a taxable person in Portugal
- The importation of goods from outside the EU, regardless of the status of the importer

For VAT purposes, the territory of Portugal includes the autonomous regions of Azores and Madeira. However, special VAT rates apply to supplies made in these islands.

C. Who is liable

A taxable person is any business entity or individual that makes taxable supplies of goods or services or intra-Community acquisitions or distance sales in the course of a business in Portugal.

No VAT registration threshold applies in Portugal. A taxable person that begins activity must notify the VAT authorities of its liability to register.

Special rules apply to foreign or "non-established" businesses.

Group registration. VAT grouping is not permitted under Portuguese VAT law. Legal entities that are closely connected must register for VAT individually.

Non-established businesses. A "non-established business" is a business that has no fixed establishment in the territory of Portugal. A non-established business that makes supplies of goods or services in Portugal must register for VAT if it is liable to account for Portuguese VAT on the supplies or if it makes intra-Community supplies or acquisitions of goods.

The reverse charge applies generally to supplies made by non-established businesses to Portuguese taxable persons. For these purposes, non-established businesses are entities that are neither established nor registered in Portugal. Under the reverse-charge provision, the taxable person that receives the supply must account for the Portuguese VAT due. If the reverse charge applies, the non-established business is not required to register for Portuguese VAT. The reverse charge does not apply to supplies to private persons or to nontaxable legal persons. Consequently, non-established businesses must register for Portuguese VAT if they make any of the following supplies:
- Intra-Community supplies or acquisitions (see the chapter on the EU)
- Distance sales in excess of the threshold (see the chapter on the EU)
- Supplies of goods and services that are not subject to the reverse charge

Tax representatives. Businesses that are established in the EU are not required to appoint a tax representative to register for VAT in Portugal. However, EU businesses may opt to appoint a tax representative if they wish to do so.

Businesses that are established outside the EU must appoint a resident tax representative to register for Portuguese VAT. The tax representative is the first entity deemed responsible for the payment of the VAT debts with the business represented by it.

EU businesses that opt not to appoint a tax representative must register for VAT at the following tax office:

3rd Tax Office
Rua dos Correeiros, 70 1º
1100-167 Lisbon
Portugal

However, a nonresident entity, with head office or established in a third country, registered for VAT in Portugal that intends to cease activity in Portugal must appoint a Portuguese tax representative established or resident in Portugal. This rule is aimed at ensuring payment of any outstanding tax that may be levied after the cancellation of the activity. Thus, the tax representative is jointly and severally liable for the payment of VAT.

Registration procedures. Entities must register with the National Register of Corporate Entities (*Registo Nacional de Pessoas Colectivas* — RNPC. A certificate of legal standing of the company must be filed with the registration application form. The referred application should be signed and filed by a Portuguese attorney. The company is provided with a Portuguese corporate registration number within 10 working days. This number will be the same as the VAT registration number once the company files for a Statement of Beginning of Activity, together with other relevant documents, with the competent tax office.

The registration of a foreign company for VAT purposes in Portugal may take 10 working days. An online VAT registration system is not yet in force in Portugal.

Late-registration penalties. The following penalties are levied for late VAT registration in Portugal:
- A penalty ranging from EUR600 to EUR7,500 if the taxpayer's actions were not intentional
- A penalty ranging from EUR600 to EUR15,000 if the taxpayer's actions were intentional

Reverse charge. In cross-border B2B supplies of services, the acquirer of the service (VAT taxable entity) should apply the reverse-charge mechanism and self-assess the VAT due on such operation.

The reverse-charge mechanism is also applicable in the following situations, in which the taxable person to whom the supplies of goods or services are rendered becomes liable for the payment of VAT:

- Supplies of ferrous waste and scrap, residues and other recyclable materials consisting of ferrous and nonferrous metals to a Portuguese VAT taxpayer
- Supplies of civil construction services to a Portuguese VAT taxpayer
- Supplies of services involving emission rights, certified emission's reductions and emission reduction units of greenhouse gases to a Portuguese VAT taxpayer

If the reverse charge is not recorded, the penalties may amount to 200% of the output tax not recorded in the case of fault, even if there is no cash flow disadvantage for the State. In the case of negligence, penalties may vary between 30% and 100% of the VAT not self-assessed.

However, these penalties are subject to the following limits:
- In the case of negligence – EUR45,000
- In the case of fault – EUR165,000

Digital economy. EU VAT place of supply rules apply to business-to-consumer (B2C) supplies (i.e., supplies to non-VAT taxable customers) of telecommunications, broadcasting and electronic services. These services are taxed in the country where the customer is established. Thus, where the customer is established in Portugal, Portuguese VAT is due.

A new use and enjoyment rule applies in Portugal for telecommunications, broadcasting and electronic services. In particular, Portuguese VAT is due when 1) these services are supplied to a person established or domiciled outside the EU, 2) the provider has its head office, a fixed establishment or a domicile from which these services are rendered in Portugal, and 3) the effective use and enjoyment of these services takes place within Portugal.

The proposed Portuguese State Budget Law for 2019 outlines the introduction of changes for the distance selling regime and place of supply rules concerning the supply of telecommunications services, radio or television broadcasting, and electronically supplied services (where Portuguese VAT may, or may not, be due depending on if certain conditions are fulfilled or not).

Under the proposed Portuguese State Budget Law for 2019, the telecommunication, broadcasting, television services and services provided by electronic means (as mentioned in annex D of the Portuguese VAT Code) shall be taxed at the place where the service provider is established where the following conditions are met:
- The service provider has its head office, fixed establishment or domicile only in that Member State.
- The total value of such services does not exceed EUR10,000, with reference to the previous year.
- The acquirer is a nontaxable person. *Please note that at the time of preparing this chapter, the changes outlined above are still at proposal phase and not yet implemented into the Portuguese VAT Law.*

Mini One-Stop Shop (MOSS). EU suppliers are permitted to discharge their VAT obligations using a "Mini One-Stop Shop" scheme, which enables them to fulfill their VAT obligations (VAT registration, reporting and payment) in their home country, including for services provided in other Member States where they are not established. Accordingly, EU suppliers are able to apply a simplification measure similar to the one that is in place for non-EU providers of electronic services.

Taxpayers registered under the MOSS scheme in Portugal are required to submit a single calendar quarterly return and make payment of VAT due to the Portuguese tax authorities, who send the appropriate information and remit the VAT paid to the relevant Member State's tax authority.

Deregistration. Individuals or companies subject to VAT must, within 30 days from the date of termination of activity, submit a Statement of Termination of Activity with the competent tax office.

Tax authorities are able to declare, on their own authority, the termination of activity of a company following a judgment under insolvency proceedings determining the winding-up of the company.

Exemption from registration. The VAT law in Portugal does not contain any provision for exemption from registration.

Voluntary registration. The VAT law in Portugal does not contain any provision for voluntary VAT registration. Nonetheless, if a taxable business incurs expenses within the Portuguese territory, it may opt to register for VAT in Portugal, if it has output tax related to its operations. This option may be chosen due to the fact that a VAT refund claim may otherwise be very time consuming.

D. VAT rates

The term "taxable supplies" refers to supplies of goods and services that are liable to a rate of VAT.

The VAT rates in mainland Portugal are:
- Standard rate: 23%
- Intermediate rate: 13%
- Reduced rate: 6%

The standard rate of VAT applies to all supplies of goods or services, unless a specific measure provides for the intermediate rate, the reduced rate or an exemption.

In the autonomous region of Madeira, the following VAT rates apply:
- Standard rate: 22%
- Intermediate rate: 12%
- Reduced rate: 5%

In the autonomous region of Azores, the following VAT rates apply:
- Standard rate: 18%
- Intermediate rate: 9%
- Reduced rate: 4%

At the time of preparing this chapter, the Portuguese State Budget Proposal for 2019 outlines that the current VAT exemption on services rendered by bullfighting artists, in bullfighting shows to the respective promoters, will be eliminated. It also outlines plans to extend the application of the reduced VAT rate to: hair prostheses for cancer patients, as long as duly prescribed; rental supply of prosthetics services, equipment, devices, products and other related goods; provision of cleaning services and cultural intervention in certain places in terms of fire prevention measures. Additionally applies to services rendered by bullfighting artists, acting either individually or integrated in groups, in bullfighting shows, as well as the admission to music, singing and dance shows, and theaters and circuses (to be effective from 1 July 2019). Supplies of bullfighting and cinema should continue to benefit from the intermediate VAT rate but also other shows with artistic nature should, then, be herein included.

Examples of goods and services taxable at 6% (5% in Madeira and 4% in the Azores)

- Basic foodstuffs
- Books and newspapers
- Pharmaceuticals (some)
- Medical equipment
- Passenger transport
- Hotel accommodation
- Refurbishment of immovable property that is directly contracted for with the National Fund for Rehabilitation of Heritage Building by its management company

Examples of goods and services taxable at 13% (12% in Madeira and 9% in Azores)

- Canned meat and fish
- Fuel and colored oil marked with government-approved additives
- Admission to music and dance shows, theaters, cinemas, bullfighting and circuses
- Musical instruments

The term "exempt supplies" refers to supplies of goods and services that are not liable to tax and that do not give rise to a right of input tax deduction (see Section F). Some supplies are classified as "exempt with credit," which means that no VAT is chargeable, but the supplier may recover related input tax. Exempt with credit supplies include, among others, exports of goods outside the EU and related services, and supplies of banking, financial and insurance services made to a recipient outside the EU (see the chapter on the EU).

Examples of exempt supplies of goods and services

- Leasing or letting of immovable property
- Medical services
- Financial services
- Insurance
- Copyrights by authors
- Training provided by public sector institutions

Option to tax for exempt supplies. The Portuguese VAT law foresees the following options for taxation of exempt supplies:

- Supply of training services:
  - — Supply of food and drinks made by employers to their employees
  - — Supply of medical and sanitary services performed by hospitals, clinics, dispensaries and similar establishments, which are not carried out by entities from the public sector, i.e., entities that do not have any agreement with the State
  - — Supplies of services rendered by non-agricultural cooperatives, to their farmer members

In the above cases, if the taxpayer opts to waive the VAT exemption, it must remain under this regime for five years.

- Leasing or supply of immovable property or independent parts thereof to other taxable persons. In this case, the waiver of the exemption must be carried out on a case-by-case basis and supported by a certificate issued by the Portuguese tax authorities.

E. Time of supply

The time when VAT becomes due is called the "time of supply" or "tax point." The basic time of supply for goods is when they are delivered. The basic time of supply for services is when they are performed.

An invoice must be issued before the fifth business day following the basic time of supply. The actual tax point becomes the date on which the invoice is issued. However, if no invoice is issued, tax becomes due on the fifth business day after the basic tax point.

If the consideration is paid in full or in part before the invoice is issued, the actual tax point becomes the date on which payment is received (with respect to the amount paid). The VAT invoice must be issued immediately in these circumstances.

Prepayments. For prepayments or advance payments, the tax point is the date on which the advance payment is received. The supplier must issue an invoice as soon as an advance payment is received.

Intra-Community acquisitions. The time of supply for an intra-Community acquisition of goods is the 15th day of the month following the month in which the basic time of supply for the goods

occurs. If the supplier issues an invoice before this date, the time of supply is when the invoice is issued.

Intra-Community supplies. Although no VAT is chargeable for an intra-Community supply, an invoice must be issued by the 15th day of the month following the month in which the goods are delivered to the customer.

For continuous intra-Community supplies of goods over a period of more than one calendar month, the tax point shall be regarded as being completed on expiry of each calendar month until such time as the supply comes to an end.

Cash accounting. A VAT "cash accounting regime" entered into force effective 1 October 2013. In accordance with this regime, taxpayers will only pay the VAT due once they receive payment of an invoice from a customer. This regime is optional and will apply to companies with a turnover of up to EUR500,000.

Imported goods. The time of supply for imported goods is either the date of importation or when the goods leave a duty suspension regime.

Reverse-charge services. The rules stated above also apply to reverse-charge services. However, the tax point rule is irrelevant for the supplier since no VAT is assessed by the supplier (who must still issue the invoice within five working days after the service is rendered).

The purchaser should self-assess the VAT when receiving the invoice. However, if there is a delay in the supplier issuing the invoice the VAT should be reverse charged on the fifth day (after the taxable event), but the purchaser cannot recover the VAT until he has the original invoice. Therefore, in practice, the reverse charge is normally applied by the purchaser when the invoice is issued, even if more than five days have elapsed from the taxable event.

Continuous supplies of services. Regarding continuous supplies of services based on agreements foreseeing successive payments, the time of supply occurs at the end of the period concerning each payment. However, where the payment schedule is not defined or is greater than 12 months, the VAT is due and shall become chargeable at the end of each 12-month period, for the corresponding amount.

Leased assets. Since leasing agreements are also considered a continuous supply of services, the time of supply occurs at the end of the period foreseen for each payment.

Moreover, when the client exercises the purchase option, the VAT is due for the supply of goods, for the difference value of the asset.

Goods sent on approval for sale or return. As a general rule, under the Portuguese VAT rules, a taxable supply of goods is deemed to have taken place when goods are sold and they are not returned to the supplier.

Vouchers. *At the time of preparing this chapter, the Portuguese State Budget Proposal for 2019 outlines plans to introduce rules concerning the VAT treatment of vouchers (in terms of legal definitions, chargeable event and taxable amount rules). Single- and multiple-purpose vouchers will be included under the Portuguese VAT Code (under a "single-purpose voucher." VAT shall be due and payable at the time of each assignment by the taxable person in whose name the transfer of the voucher is made. On the other hand, under a "multipurpose voucher," VAT shall be due and payable at the time the taxable person supplies the goods or services that the voucher relates to, regardless of any assignments that may have previously occurred).*

F. Recovery of VAT by Portuguese taxable persons

A taxable person may recover input VAT incurred with the acquisition of goods and services for its business purposes. A taxable person generally recovers input VAT by deducting it from output tax charged on the supplies carried out.

Input tax includes VAT charged on goods and services supplied in Portugal, VAT paid on imports of goods and VAT self-assessed on intra-Community acquisitions of goods and services and reverse-charged services (see the chapter on the EU).

Import VAT postponed accounting. The reverse-charge procedure for import VAT (also known as postponed accounting) has been introduced in Portugal. The new rules were introduced in two phases:

(i) Effective 1 September 2017 to 28 February 2018, the regime applied only to goods falling within Annex C of the Portuguese VAT Code, such as specific chemical products, sugar or coffee, among others, with the exception of mineral oils.
(ii) Effective 1 March 2018 onward, this regime applies for all classes of goods.

To benefit from this new mechanism, a taxable business must fulfill all of the following requirements:

(i) It must fall under a monthly VAT regime.
(ii) Its tax situation must be regularized.
(iii) No input VAT blocked restrictions apply.

A valid tax invoice or customs document is usually requested by the tax authorities during their analysis of a claim for input tax.

Nondeductible input tax. Input tax may not be recovered on purchases of goods and services that are not used for business purposes (for example, goods acquired for private use by an entrepreneur). In addition, input tax may not be recovered for some items of business expenditure.

Examples of items for which input tax is nondeductible

- Purchase, hire, lease, maintenance and fuel for private cars, vans and trucks
- Business gifts (unless valued at less than EUR50)
- Restaurant meals
- Entertainment and luxury goods and services
- Transport expenses and business travel, including toll costs, incurred outside the scope of the organization or participation in congresses, fairs or exhibitions
- Accommodation and meals incurred outside the scope of the organization or participation in congresses, fairs or exhibitions
- Drinks and tobacco

Examples of items for which input tax is deductible (if related to a taxable business use)

- 50% of VAT related to diesel or liquefied petroleum gas (LPG) for vans and trucks
- 50% of VAT related to expenses incurred with respect to organization of conferences, seminars and training courses (for example, travel, food and beverage, accommodation and lease of immovable property)
- 25% of VAT related to expenses incurred with respect to participation in conferences, seminars and training courses (for example, travel, food and beverage, accommodation and lease of immovable property)

Partial exemption. Input tax directly related to exempt supplies is not generally recoverable. If a Portuguese taxable person makes both exempt and taxable supplies, it may not recover input tax in full. This situation is referred to as "partial exemption." Exempt with credit supplies are treated as taxable supplies for these purposes.

In Portugal, the amount of input tax that a partially exempt business may recover is calculated by using one of two methods.

The first method consists of the following two stages:
- The first stage identifies the input VAT that may be directly allocated to taxable and to exempt supplies. Input tax directly allocated to taxable supplies is deductible (this method is usually referred to as the "direct allocation method"). Input tax directly related to exempt supplies is not deductible.
- In the second stage, the remaining input tax that is not allocated directly to exempt and taxable supplies is apportioned. The apportionment may be calculated based on the value of taxable supplies carried out compared with the total turnover, or by using another acceptable method agreed on with the tax authorities. The recovery percentage is rounded up to the nearest whole number (for example, a recovery percentage of 72.1% is rounded up to 73%).

Under the second method, a taxable person may use a general pro rata calculation based on the value of taxable supplies made compared with total turnover.

Taxable persons may use both methods at the same time for different operations or for different sectors of activity. The Portuguese VAT authorities may also impose the use of one of these two methods to prevent distortions of competition.

Capital goods. Capital goods are items of capital expenditure that are used in a business over several years. Input tax is deducted in the VAT year in which the goods are acquired. The amount of input tax recovered depends on the taxable person's partial exemption recovery position in the VAT year of acquisition. However, the amount of input tax recovered for capital goods must be adjusted over time if the taxable person's partial exemption recovery percentage changes by more than 5% in any year during the adjustment period or if goods are taken from a taxable sector or activity for use in an exempt sector or activity.

In Portugal, the capital goods adjustment applies to the following assets for the number of years indicated:
- Immovable property: adjusted for a period of 20 years
- Movable property: adjusted for a period of five years

The capital goods adjustment does not apply to the following items:
- Goods with a purchase value of less than EUR2,500
- Goods with a useful life of less than five years (for example, computers)

The adjustment is applied each year following the year of acquisition to a fraction of the total input tax (1/20 for immovable property and 1/5 for other movable capital goods). The adjustment may result in either an increase or a decrease of deductible input VAT, depending on whether the ratio of taxable supplies made by the business has increased or decreased compared with the year in which the capital goods were acquired.

Refunds. If the amount of input tax recoverable in a monthly period exceeds the amount of output tax payable in that period, the taxable person has an input tax credit. A refund of the credit may be claimed in certain circumstances. If a refund may not be claimed, the input tax credit may be carried forward to offset output tax in a subsequent period.

A refund may be requested if the credit balance is at least EUR250 and if the taxable person has been in a credit position for 12 or more consecutive months. However, if the VAT credit exceeds EUR3,000, a VAT refund may be claimed immediately.

A refund may also be requested before the end of the 12-month period for amounts greater than EUR25 if any of the following circumstances exist:
- The taxable person has ceased operations.

- The taxable person has ceased to make taxable supplies and now exclusively makes supplies that are exempt from VAT.
- The taxable person begins to use the special VAT accounting regime for retailers.

In general, a refund is claimed by submitting the VAT return form by electronic means, together with the following annexes:
- A list of clients
- A list of suppliers

Preregistration costs. There are no guidelines issued by the Portuguese tax authorities with this regard.

Write-off of bad debts. Bad debts may be adjusted (and recovered) on periodic VAT returns.

Effective 1 January 2013, a new regime applies for recovering the VAT charged in case of bad debts.

As a general rule, the new regime is applicable to debts overdue effective 1 January 2013 onward, while the older regime still applies with small adjustments for debts overdue before that date. Therefore, both regimes may coexist during a certain period of time.

Moreover, in accordance with the changes introduced in the VAT code, a bad debt is considered to exist for debts for which the nonpayment risk is duly justified, namely:
- The credit is overdue for more than 24 months and there are objective proofs of its impairment and actions performed regarding its payment, including the asset being recognized in the accounts
- The credit is overdue for more than six months, its amount does not exceed EUR750 (VAT inclusive) and the debtor is a private individual or a VAT taxable person performing operations exempt from VAT without the right to deduct

In the case of debts from special judicial or extra judicial processes, the VAT adjustment can be performed before the above mentioned deadlines if the process is decided earlier.

The following debts are not considered as bad debts:
- Credits secured or covered by an insurance, or by any guarantee *in rem* (i.e., a real warranty, for instance pledges or mortgages or other types of real guarantees as defined in Portuguese civil law)
- Credits over related parties
- Credits over entities declared insolvent or bankrupt before the realization of the transaction
- Credits over the State

Additionally, please note that for credits overdue for more than 24 months, the VAT adjustment requires a prior report certified by a chartered accountant and also a prior electronic authorization request to the Portuguese tax authorities. Certification by a chartered accountant is also required for credits that are overdue for more than six months (even if they may be recovered without submitting any prior authorization request to the tax authorities) and for credits arising from judicial processes.

Noneconomic activities. In principle, VAT may only be recovered if incurred in the course of an economic activity. If costs are incurred to acquire or maintain assets which are to be used for the purposes of an economic activity, the costs are potentially deductible. If assets are not used for such a purpose, the VAT will not be deductible. Please see *Nondeductible input tax* above.

G. Recovery of VAT by non-established businesses

Portugal refunds VAT incurred by businesses that are neither established in Portugal nor registered for VAT therein. Non-established businesses may claim Portuguese VAT to the same extent as VAT-registered businesses.

For businesses established in the EU, the refund is carried out under the EU Directive 2008/8/CE. For businesses established outside the EU, the refund is carried out under the EU 13th Directive on the condition of reciprocity. Consequently, Portuguese VAT is refunded only to non-EU claimants established in countries that, by their turn, refund VAT or similar tax to Portuguese businesses.

For the general VAT refund rules of the EU Directive 2008/8/CE and EU 13th Directive refund schemes, see the chapter on the EU.

Refund application. The deadline for refund claims is the last business day of September in the year following the calendar year in which the tax was incurred.

VAT refund claims by non-established businesses must be submitted electronically to the tax authorities of the country where the claimant is established. Subsequently, such tax authorities remit the VAT refund claim to the Portuguese tax authorities.

The deadline for the approval or denial of the refund is four months, but it may be extended to six or eight months if the Portuguese tax authorities issue one or two requests for additional information or documents.

The invoices underlying the VAT incurred must be provided to the tax authorities electronically only if they are specifically requested.

The minimum amount claim period is three months, while the maximum period is one year. The minimum claim for a period of less than a year is EUR400. For an annual claim, the minimum amount is EUR50.

Repayment interest. Claimants may request payment of interest if an EU Directive 2008/8/CE or EU 13th Directive claim is repaid more than 10 working days after the 4-, 6- or 8-month period has elapsed.

H. Invoicing

VAT invoices and delivery notes. A Portuguese taxable person must generally provide a VAT invoice for all taxable supplies made, including exports and intra-Community supplies. To document retail transactions of less than EUR1,000 paid by a private person, or to document transactions performed to taxable persons of less than EUR100, the taxpayers can issue a simplified invoice, effective 1 January 2013.

A VAT invoice (or equivalent document) is necessary to support a claim for input tax deduction or a refund under the EU Directive 2008/8/CE or EU 13th Directive refund schemes (see the chapter on the EU).

As a general rule, goods in transit within the Portuguese territory must be accompanied by a special delivery note or invoice. Effective 1 January 2013, delivery notes must be electronically communicated to the Portuguese tax authorities before the beginning of the transport. These transport documents must contain the same information as an invoice, excluding the value of the transaction. These documents must also contain details indicating from where the goods were dispatched, the destination of the goods and the time of commencement of the dispatch.

Effective 1 January 2013, Portuguese taxable entities with head office, permanent establishment or domicile in Portuguese territory must communicate electronically to the Portuguese tax authorities the relevant data of the invoices issued during a particular month, at the latest on the 20th day of the subsequent month.

Electronic invoicing. Effective 1 January 2013, the VAT law has been amended to permit electronic invoicing in line with EU Directive 2010/45/EU.

Electronic invoicing is accepted for all transactions and no formal approval is needed from the Portuguese tax authorities in order to implement it, if the invoices are stored in Portugal or in another EU Member State. (If any taxable person established in the Portuguese territory wishes to store its invoices outside the EU, it must obtain prior authorization from the Portuguese tax authorities in order to do so.)

Nevertheless, electronic invoices may only be issued if the recipient of the services expressly accepts the adoption of such procedure. Also, issuing electronic invoices is only acceptable if the authenticity of origin, integrity of the content and the legibility of the invoice is ensured by business controls that create a reliable audit trail between the invoice and the supply of goods or services.

Mere pdf invoices are not accepted as valid documents; original invoices must be received and archived for the retention period (10 years).

In practical terms, every electronic invoice should have a digital signature, in order to ensure the authenticity of its origin, the integrity of its content and its legibility. The advanced electronic signature and EDI are examples of technologies that fulfill this requirement.

Electronic storage of invoices is possible under the Portuguese law. Nonetheless, full access must be granted to the documents, and the authenticity of origin, integrity of the content and legibility of any document must be ensured.

Among others requirements, the following issues should be considered:
(i) Invoices may be electronically archived from the billing software, enabling the fair reproduction of the invoice image. It must be guaranteed that no information is lost during the archiving process and it must be ensured that it is not possible to change or save new information.
(ii) Electronic copies of invoices must be numbered with a continuous sequence according to a predefined archiving plan (xml file).

Electronic invoicing in public procurement. From 1 January 2019, Portugal is implementing an electronic invoicing obligation for public procurement. This obligation means electronic invoices must be issued from all suppliers who are involved in public procurement contracts, as well as public authorities and like entities.

In the case of public authorities and similar entities, please note that the obligation is that they are issuers and/or recipients of electronic invoices, in the sense that their IT systems must be ready to export and import the electronic invoices.

However, please note that electronic invoicing is not required for the execution of contracts declared to be confidential and/or accompanied by special security measures.

Unstructured invoices raised in HTML, pdf or Word format, as well as invoices in image or paper format that are later scanned, and invoices sent by fax are not included in the concept of electronic invoicing. However, invoices sent by digital image or pdf format may be used in addition to the electronic invoice in order to better assess the information being processed by the entity acquiring the goods or services.

All Portuguese invoicing requirements must be complied with, as well as the additional information outlined below:
- Process and invoice identifiers
- The invoice period

- Information about the co-contractor
- Information about the public contractor
- Information about the beneficiary entity, if different from the previous one
- Information about the co-contractor's tax representative
- Contract reference
- Delivery conditions
- Payment instructions
- Information on adjustments and charges
- Information about invoice items
- Invoice totals

With regard to the electronic invoice format, taxable persons should use the model approved by the European Commission and advertised on the Portuguese public procurement website.

Credit notes. A VAT credit note may be used to reduce the VAT charged and reclaimed on a supply. A credit note must be cross-referenced to the original invoice. The mention of VAT on a credit note is optional. If VAT is mentioned, the supplier may reduce the VAT payable with respect to the supply. However, the supplier can make this reduction only if it has written confirmation from the purchaser acknowledging the VAT adjustment.

Proof of exports and intra-Community supplies. VAT is not chargeable on supplies of exported goods or on the intra-Community supply of goods (see the chapter on the EU). However, to qualify as VAT-free, exports and intra-Community supplies must be supported by evidence that confirms the goods have left Portugal. Acceptable proof includes the following documentation:

- For an export, stamped customs documentation and an indication on the invoice of the Portuguese VAT law article that permits exemption with credit for the supply
- For an intra-Community supply, a copy of the invoice indicating the customer's valid VAT identification number (issued by another EU Member State), plus a range of commercial documentation, such as bills of lading, transport documentation and proof of payment

Foreign-currency invoices. If a VAT invoice is issued in a foreign currency, the values and VAT amounts used must be converted to euros (EUR). The conversion must be done using the sales rate used by a bank established in Portugal or by the European Central Banking System on the date on which the tax is chargeable or on the first business day of that month. The invoice must indicate the exchange rate used.

The above rules apply only to invoices issued by Portuguese taxable persons. For invoices received from foreign suppliers (for example, invoices related to intra-Community acquisitions), the acquirer may indicate the exchange rate used to convert the amounts to euros on the face of the invoice.

B2C. Effective 1 January 2015, certain rules apply to the place of supply for supplies of telecommunications, broadcasting and electronic services to non-VAT taxable customers. For further details of the VAT rules on electronic services in the EU, please refer to the European Union chapter.

Suppliers of these services are required to issue invoices to nontaxable customers, even if the nontaxable customer does not request an invoice.

Under the Portuguese VAT code, simplified invoicing may be used for the sale of goods and/or services up to an amount of EUR1,000 for supplies made to nontaxable persons by retailers or street sellers. For other supplies of goods and/or services, a simplified invoice may be issued if the amount of the transaction does not exceed EUR100 (for instance, the identification number of the nontaxable person is only mandatory if its insertion is required by the nontaxable person).

An invoice does not have to be issued and can be replaced by a sales receipt for supplies of goods made through automatic vending machines and supplies of services for which it is normal to issue a slip, admission or transport ticket.

I. VAT returns and payment

VAT returns. Periodic VAT returns are submitted in Portugal for monthly or quarterly periods, depending on the taxable person's turnover in the preceding VAT year. All taxable persons must also complete an annual return.

Monthly VAT returns must be filed if the taxable person's turnover in the preceding year exceeded EUR650,000.

Quarterly VAT returns must be filed if the taxable person's turnover in the preceding year did not exceed EUR650,000.

Periodic VAT returns must be filed together with full payment of VAT. Monthly VAT returns must be submitted before the 10th day of the second month after the end of the return period. Quarterly VAT returns must be submitted before the 15th day of the second month after the end of the return period.

In general, annual returns must be submitted by 15 July following the end of the calendar year.

Return liabilities must be paid in euros.

Special schemes. A new VAT "cash accounting regime" was introduced in Portugal, effective 1 October 2013. In accordance with this new regime, taxpayers will only pay the VAT due once they receive payment of an invoice from a customer. This new regime is optional and will apply to companies from all sectors of the economy with a turnover of up to EUR500,000.

Special regime of VAT exemption. This special regime applies to entities that are not required to have organized accounting records; that do not import or export goods, or related activities; and whose turnover does not exceed EUR10,000 (retailers EUR12,500).

These taxpayers do not charge VAT on their supplies and input VAT cannot be deducted.

Special regime of small retailers. This special regime applies to entities that are required to have organized accounting records; do not import or export goods or related activities; exercise a retail trade activity; have a volume of purchases not exceeding EUR50,000; have a goods purchase volume not less than 90% of the total volume of purchases; do not carry out intra-Community transactions of goods; and have a volume of services, not exempt from VAT, not exceeding EUR250.

The VAT paid by these taxable persons amounts to the 25% of the tax paid on the purchase of goods and raw materials without processing. Moreover, they can only deduct the VAT paid on the purchase or lease of capital goods, and other goods for the company's own use.

Secondhand goods. For supplies of secondhand goods, works of art, collectors' items or antiques, the taxable amount will be the difference between the sale price and the purchase price in accordance with the provisions of special legislation and supported by the documentation underlying the supply.

Electronic filing and archiving. In Portugal, VAT returns should be submitted by electronic means. For this purpose, the taxable person should register at the Portuguese tax authority's website in order to receive an access code.

Intrastat returns, EC Sales List returns and annual VAT returns are submitted by electronic means as well.

In Portugal, VAT records should be retained for a period of 10 years.

Purchase invoices that are not issued electronically cannot be stored electronically; if they are stored electronically, the deduction of VAT may be disallowed. However, electronic storage is allowed for invoices issued electronically in accordance with the Portuguese VAT legislation.

Additionally, electronic storage of issued invoices and other relevant documents is allowed as long as the documents are issued electronically.

Other information/documentation may be kept in digital formats if a minimum of three years has elapsed.

Annual returns. The annual return is a summary of all the periodic VAT returns for statistical purposes as well as corporate income tax and personal income tax.

The annual return is a global return for all taxes (corporate tax, VAT, etc.). The annual return has a number of appendices attached including VAT — tax and accounting requirements that detail the VAT and net amounts in relation to supplies, carried out and received, and suppliers and customers lists, which provide information on all local supplies and purchases made by a company in Portugal. These listings are used for cross-checking data of purchases and sales with the periodic VAT returns.

Foreign companies that do not have a permanent establishment in Portugal, are only registered therein for VAT purposes and did not carry out any operation in a particular fiscal year (i.e., no periodic returns were submitted) are not required to file the annual VAT return.

J. Penalties

The following penalties apply to the late submission of periodic and annual VAT returns:
- A penalty ranging from EUR300 to EUR3,750 if the taxpayer's actions were not intentional
- A penalty ranging from EUR300 to EUR7,500 if the taxpayer's actions were intentional

The following penalties apply to the late payment of VAT:
- A penalty ranging from 30% to 100% of the VAT due, up to a maximum of EUR45,000, if the taxpayer's actions were not intentional
- A penalty ranging from 200% to 400% of the VAT due, up to a maximum of EUR165,000, if the taxpayer's actions were intentional

In addition, interest applies (currently at a 4% annual rate).

K. EU filings

Intrastat. A Portuguese taxable person that trades with other EU countries must complete statistical reports, known as Intrastat statements, if the value of its sales or purchases of goods exceeds certain thresholds. Separate reports are required for intra-Community acquisitions (Intrastat Arrivals) and for intra-Community supplies (Intrastat Dispatches).

The threshold for Intrastat Arrivals for 2018 is EUR350,000. The threshold for Intrastat Dispatches for 2018 is EUR250,000.

The Intrastat return statement is submitted on a monthly basis. The submission deadline is the 15th business day following the end of the return period.

The maximum penalty for the non-submission, late submission or incorrect submission of an Intrastat statement may range from EUR250 to EUR25,000 for individuals and from EUR500 to EUR50,000 for legal persons.

EU Sales Returns. If a Portuguese taxable person carried out intra-Community supplies of goods and/or services, it must submit an EU Sales Return (ESR) by the 20th day of the month following the month in which the operation takes place. An ESR is not required for a period in which the taxable person does not carry out any intra-Community supplies.

ESRs should be submitted quarterly if the VAT returns are submitted quarterly, or monthly if the VAT returns are submitted monthly. If the VAT returns are submitted quarterly but in one of the previous four quarters the amount of the intra-Community supplies of goods exceeded EUR50,000, ESR should also be submitted monthly.

Penalties may be imposed for late, missing or inaccurate ESRs.

Puerto Rico

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A. At a glance

Name of the tax	Sales and use tax (SUT)
Local name	Impuesto sobre ventas y uso (IVU)
Date introduced	November 2006
Trading bloc membership	None
Administered by	Departamento de Hacienda de Puerto Rico/Puerto Rico Treasury Department (www.hacienda.gobierno.pr)
SUT state standard rate	10.5%
SUT municipal rate	1%
SUT special rate	4%
SUT number format	Merchant identification number
SUT return periods	Monthly
Threshold	None

B. Scope of the tax

Merchants engaged in businesses that sell taxable items are responsible for collecting the SUT as a withholding agent. In general, the standard tax rate applies to the following taxable items:

- Taxable personal property — property that can be seen, weighed, measured or touched, or is in any way perceptible to the senses. It excludes, among other items, money, cash equivalents, stocks, bonds, insurance, other obligations, automobiles, trucks, tractors, buses, intangibles, gasoline, aviation fuel, gas oil, diesel fuel, electric power and water supplies.
- Taxable services — as a general rule include any service rendered to any person, except services provided by designated professionals and services rendered to other merchants, among others.

In general, a person who buys, consumes, uses or warehouses for use or consumption a taxable item is the one responsible for the payment of the SUT to the Puerto Rico Treasury Department (PRTD).

All merchandise introduced into Puerto Rico is subject to the payment of use tax upon introduction. The person responsible for the payment of use tax is the importer of record. To take

possession of the merchandise, the importer of record will need to submit a declaration of imports for use and pay the corresponding use tax. A bond can be requested to postpone the payment of the use tax until the 10th of the month following the introduction of the merchandise.

C. SUT rates

In Puerto Rico, the following are the SUT rates:
- State standard rate: 10.5%
- Municipal rate: 1%
- Special rate: 4%

Special 4% SUT rate. A 4% Special SUT rate is applicable to services classified as "designated professional services" and "services rendered to other merchants." The Puerto Rico Internal Revenue Code of 2011, as amended (the Code) also establishes an obligation to self-assess the SUT with respect to services rendered by persons that are not engaged in a trade or business in Puerto Rico to a merchant in Puerto Rico.

As a general rule, the services subject to the 4% special SUT rate include the following:
- Designated professional services: legal services (subject to certain limitations) and services provided by the following professionals licensed by the respective Board of Examiners of the Puerto Rico Department of State: agronomist; architects and landscape architects, Certified Public Accountants, brokers, sellers and real estate companies; professional draftsmen; professional real estate appraisers; geologists; engineers and surveyors; and services rendered by a "tax returns, statements or refund claims specialist"
- Services rendered to other merchants: services rendered to a person engaged in a trade or business or for the production of income, including services rendered by a nonresident person to a person located in Puerto Rico, regardless of the place where the service was rendered, provided that said service is directly or indirectly related with the operations or activities carried out in Puerto Rico by such person

D. Exemptions

SUT exemptions apply to the following:
- Eligible resellers: duly registered merchants that purchase taxable items principally for sale to persons that may acquire them exempt from the payment of SUT or for exportation.
- Manufacturing plants: physical facilities wherein raw material, machinery and equipment are used in a manufacturing process. To claim the exemption, all manufacturing plants must have an active manufacturer's ID.
- Export sales: taxable items sold for use and consumption outside Puerto Rico, even when the sale takes place in Puerto Rico, if exported from Puerto Rico within 60 days from the date of sale and certain conditions are met.
- Export services: taxable services are considered sold for use or consumption outside of Puerto Rico when the purchaser receives the benefit of the rendering of such services outside of Puerto Rico.
- Donations: tangible personal property or services intended to be distributed as donations that are not considered inventory.

Eligible resellers and manufacturing plants must request a certificate of exemption from the Secretary of the PRTD (Secretary). In addition, a certificate of exempt purchase must be submitted to the seller in each transaction, subject to certain conditions.

The following items, among others, are also exempt from SUT:
- Certain food items
- Funeral services
- Prescription medicines
- Machinery and equipment used in exempt manufacturing operations

- Medical-surgical material
- Supplies, articles, equipment and technology used to render health services
- Articles and equipment used to compensate for physical or physiological deficiencies of disabled persons
- Tuition and monthly charges paid to licensed child care centers
- Real property leases

In addition, the transfer of assets pursuant to a corporate reorganization, including the sale of all or substantially all of the assets of an ongoing business that takes place outside the normal course of business, is generally exempt from SUT.

E. Merchant's registry

A person who wishes to do business in Puerto Rico as a merchant must file with the PRTD a Request for Certificate of Merchant's Registration. This application must be filed with the Secretary before the person, business, partnership or corporation commences the operation of a business. After approval, the Secretary grants the applicant a Certificate of Merchant's Registration, which must be displayed at all times in a place visible to the general public in each place of business for which it is issued.

To be considered a "merchant," the law provides that "nexus" has been created if a person satisfies any of the following conditions:

- It has an establishment or offices in Puerto Rico or it maintains or it uses in Puerto Rico, directly or through a subsidiary or affiliate, an office, distribution warehouse or other establishment.
- It has employees, agents or representatives in Puerto Rico who solicit business or carry out business transactions.
- It owns tangible personal property or real property in Puerto Rico.
- It has created a nexus with Puerto Rico in any way, including but not limited to the execution of purchase contracts in Puerto Rico; direct marketing by any means, including but not limited to: mail, radio, television, webpages, electronic commerce or any other electronic means, distribution of unsolicited catalogs, advertisements in magazines or newspapers, billboards, websites, social networks, or any other advertising means of distribution in Puerto Rico, electronic or not, and sales by mail in a continuous, recurrent manner in the ordinary course of business.
- It has an arrangement with residents of Puerto Rico in which the residents refer possible buyers to an online website. Such arrangement will create nexus when the gross income generated from the sales exceeds USD10,000 in a period of 12 months.
- A person that is not a transportation business, a carrier or a third-party intermediary acting in said capacity, sells and sends or causes to be sent, tangible personal property from any state or foreign country to any person in Puerto Rico via link in an internet page, for use, consumption or distribution in Puerto Rico, or for storage to be used in Puerto Rico in a continuous, recurrent manner in the ordinary course of business.
- The person has sufficient connections, or a relationship with Puerto Rico or its residents, with the purpose or objective of creating a sufficient nexus with Puerto Rico.

In 2018, the U.S. Supreme Court issued its ruling in *South Dakota v. Wayfair*, holding that physical presence was not a necessary element to create taxable nexus. In the years leading to the *Wayfair* decision, the Puerto Rico VAT law had been amended to abandon the physical presence nexus standard for SUT purposes. The move to adopt a lower presence threshold was intended to curtail the government's perceived notion that tax revenue was being adversely impacted by mail order and internet sales, among other types of business transactions. In a way, *Wayfair* validates Puerto Rico legislation already in place and the requirement set forth by the VAT law requiring businesses to register with the tax authority. For more detailed information, please see the chapter on the United States.

Non-withholding agent. The Code established that the term "non-withholding agent," referring to merchants that conduct sales by mail or internet, and whose only contact with Puerto Rico is through the purchaser who is a resident of the commonwealth or a person dedicated to industry or business in Puerto Rico. See Section F below for more details.

F. Filing and payment system

All merchants must create an account in the merchant portal, SURI, in order to be able to comply with all the monthly filings. All filings will be done electronically through the SURI system.

As previously mentioned, in order to take possession of the merchandise the importer of record will need to file a declaration of imports for use. A declaration must be filed every time merchandise is introduced into Puerto Rico. Furthermore, the declaration must be accompanied by the corresponding use tax payment for the merchandise. If the merchant becomes a bonded merchant, the payment will be postponed until the 10th day of the month following the introduction.

All importers must file a monthly use tax on imports return on or before the 10th day of the month following the introduction of the merchandise. This return will be a summary of all the declarations filed throughout the previous month and will generate a credit to be claimed on the monthly SUT return as long as the merchant has a Reseller Certificate. The credit will be generated with regards to the use tax paid upon introduction of items imported for resale.

All merchants must file a monthly SUT return on or before the 20th day of the month following the month in which the tax was collected. Every merchant will claim a credit for the use tax paid for items bought for resale. Merchants that possess a valid Reseller Certificate will be able to collect a full credit on the liability reflected in the SUT return.

New rules require the following taxpayers to remit the sales tax payment on a bimonthly basis (i.e., twice a month, due on the 15th and last day of the month):
- 50 million or more for the prior tax year)
- Merchants whose prior calendar-year average monthly SUT payment exceeded USD2,000 (the USD2,000 rule)

These taxpayers will pay the sales tax deposits in installments as follows:
- The first installment is due on the 15th day of each month.
- The second installment is due on the last day of the month.
- If the due date falls on a Saturday, Sunday, or a federal or state holiday, the due date will be the next business day.

The merchant will be deemed in compliance with the monthly sales tax deposits if, during the current month, the amount deposited is the lesser of 80% of the current month sales tax determined or 70% of the sales tax remitted for the same month of the prior calendar year (80/70 safe harbor rule).

A zero tax return is required if no SUT payment is made. In general terms, the payment of SUT is divided in the following percentages:
- 10.5% to the PRTD
- 1% to the municipality using the form provided by each municipality

Services subject to the 4% Special SUT rate must be reported in the SUT Monthly Return, which must be filed on or before the 20th day of the month following the transaction subject to tax.

Disclosures for non-withholding agents. Merchants that are non-withholding agents are required to file the following notices:
- Each time a purchase is completed, the seller must notify the purchasers in writing that the purchase may be subject to SUT in Puerto Rico and that they should file an Import Declaration and Tax on Imports Monthly Return to report and pay any SUT due.

- Quarterly notice to the PRTD with the seller and buyer information; the date, quantity and description of each purchase; whether the sale is exempt or taxable; and a statement to the effect that purchasers have been notified of the requirement to file an Import Declaration and Tax on Imports Monthly Return in which they report and pay any SUT.
- Annual notice to Puerto Rico purchasers with information similar to the quarterly notice provided to the PRTD.

G. Penalties

Interest. If no payment is made on or before the corresponding due date of the transaction subject to the tax, interest will be imposed at an annual rate of 10% from the date the return was required to be filed until the date of payment.

Surcharges. For any case in which the payment of interest is required, a surcharge of 5% of the balance due applies if the delay exceeds 30 days but does not exceed 60 days. The percentage increases to 10% if the delay exceeds 60 days.

Penalties. Listed below are selected penalties that can be imposed by the PRTD for noncompliance with SUT requirements:

- Failure to register in the Merchants' Registry — USD10,000
- Failure to display merchant certificate — up to USD1,000
- Display of fraudulent merchant certificate — USD5,000
- For each violation for not displaying separately the SUT on a receipt or other evidence of a retail sale — USD100
- Failure to remit the SUT — no more than 50% penalty of the determined insufficiency, and 100% in cases of recurrent failure to remit
- Failure to file SUT returns — the greater of USD100 or 10% of the tax liability

Non-withholding agent penalties. The following penalties can be imposed to non-withholding agents for failure to file notices:

- Not notifying Puerto Rico purchasers at the time of each sale about SUT reporting and payment obligations — USD100 for each violation
- Failure to file quarterly notice to the PRTD — USD5,000 for each violation
- Failure to file annual notice to Puerto Rico purchasers — USD500 for each violation

Qatar

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Qatar is a Member State of the Gulf Cooperation Council (GCC). The GCC has agreed that VAT will be implemented by each Member State. At the time of preparing this chapter, the Kingdom of Saudi Arabia, United Arab Emirates and Bahrain are the only GCC Member States to have implemented VAT. Qatar has ratified the GCC VAT law, but Qatar has yet to announce its implementation date. General guidance can be found in the Gulf Cooperation Council section.

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A. At a glance

Name of the tax	Value-added tax (VAT)
Local name	Taxa pe valoarea adaugata
Date introduced	1 July 1993
European Union (EU) Member State	Yes (since 1 January 2007)
Administered by	Ministry of Public Finance (http://www.mfinante.ro)
VAT rates	
Standard	19% starting with 1 January 2017
Reduced	9% and 5%
Other	Exempt without credit and exempt with credit
VAT number format	RO XXXXXX (the prefix is RO, but the number of digits may vary)
VAT return periods	Monthly (quarterly, half-yearly or annually if granted special permission)
Thresholds	
Registration	EUR88,500
Distance sales	EUR35,000
Recovery of VAT by non-established businesses	Yes (under certain conditions)

B. Scope of the tax

VAT applies to the following transactions:
- Supplies of goods or services made in Romania by a taxable person
- The intra-Community acquisition of goods from another EU Member State (see section on the EU)

- Acquisition of general business-to-business (B2B) services taxable in Romania, from EU and non-EU suppliers
- The importation of goods into Romania

C. Who is liable

A "taxable person" is any person who independently makes taxable supplies of goods or services in the course of a business, regardless of the purpose or results of that activity. The VAT registration threshold is turnover of RON300,000 (EUR88,500) a year (this threshold applies only to taxable persons established in Romania). Established taxpayers who estimate or record a turnover of more than the Romanian currency equivalent of EUR88,500 must request the VAT registration within 10 days of the moment the threshold is exceeded or achieved. The date when the threshold was achieved or exceeded is deemed to be the first day of the month following the one in which the threshold was achieved or exceeded. The VAT registration becomes valid starting the first day of the month following the fiscal period month of the request.

Group registration. VAT grouping is allowed under the Romanian VAT law.

Under the rules currently in effect, a minimum of two taxable persons may form a fiscal group for a period of at least two years if all of the members meet the following conditions:
- They are established in Romania.
- They do not belong to another fiscal group.
- They use the same tax period.
- Their capital is held directly or indirectly in a proportion of more than 50% by the same shareholders.

However, VAT grouping is allowed only for VAT reporting (for consolidation purposes).

Non-established businesses. A taxable person that has the seat of its economic activity in Romania is deemed to be established in Romania for VAT purposes.

A taxable person that has the seat of its economic activity outside Romania is considered to be established for VAT purposes in Romania if it has a fixed establishment in Romania, which means that it has sufficient technical and human resources to perform on a regular basis taxable supplies of goods and/or services.

A taxable person that has the seat of its economic activity outside Romania and a fixed establishment in Romania is not deemed to be established in Romania for the supplies of goods and services performed in Romania in which the Romanian fixed establishment is not involved.

The seat of its economic activity is deemed to be the place where the management decisions of a taxable person are taken and where the functions of its central administration are performed. To determine where a taxable person has the seat of its economic activity, certain factors should be taken into account, such as the place where the directors meet and where the company sets its general policy.

In general, a non-established business must register for VAT if it undertakes a range of activities, such as the following:
- Intra-Community acquisitions of goods in Romania
- Intra-Community supplies of goods in Romania
- Transfers of its own goods to Romania
- Sending goods to Romania from another EU country for processing with the finished products not returning to the EU country of dispatch
- Distance sales in excess of the annual threshold of EUR35,000
- Exports of goods

A taxable person that has the seat of its economic activity outside Romania but has a fixed establishment in Romania must register for VAT purposes in Romania before receiving a service for which it is liable to pay the VAT or before supplying a service from this fixed establishment to a taxable person that is liable to pay VAT in another EU Member State.

A taxable person that has the seat of its economic activity in Romania but is not registered for VAT purposes in Romania must register for VAT purposes if it supplies services with a place of supply in another EU Member State, for which the beneficiary is liable to pay the tax.

A taxable person that has the seat of its economic activity in Romania but is not registered for VAT purposes in Romania must register for VAT purposes if it acquires services from a supplier established in another EU Member State and if such taxable person, as the beneficiary of the services, is liable to pay the tax.

VAT registration is not required if an entity that is neither established nor registered for VAT in Romania makes a local supply of goods or services and the recipient is an established taxable person, nontaxable legal person (for example, a public authority) or is a non-established taxable person that is registered for VAT in Romania.

Taxable persons not established and not registered for VAT purposes in Romania may apply for VAT registration if they carry out imports of goods into Romania, taxable supplies of immovable property or rental of immovable property in Romania.

Reverse charge. The reverse charge applies to the following transactions, among others:
- Intra-Community acquisitions of goods and services
- Local supplies of goods and services made by non-established and unregistered entities to customers that are registered for VAT in Romania
- Imports. The reverse charge may be applied to imports exclusively by persons who have obtained a specific VAT payment deferment certificate, taxable persons benefiting of authorized economic operator and/or local customs clearance procedure
- Local supplies of certain categories of goods, such as ferrous waste, grain crops, wood and transfer of green and CO_2 certificates performed between entities registered for VAT purposes in Romania
- Supplies of electrical energy performed by a taxable person registered for VAT in Romania to a Romanian VAT-registered taxable person acting as trader
- Taxable supplies of immovable property in Romania by a taxable person registered for VAT in Romania to a Romanian VAT-registered taxable person
- Taxable supplies of investment gold and taxable supplies of raw materials and semi-finished gold having a title higher or equal with 325 to a thousand (the proportion of fine precious metal contained) to a Romanian VAT-registered taxable person
- Supply of mobile phones, laptops, tablets, game consoles or other devices with integrated circuits by a taxable person registered for VAT in Romania to a Romanian VAT-registered taxable person

Tax representatives. A non-established, non-EU entity that carries on taxable operations in Romania and that is required to register for VAT purposes must appoint a tax representative. A taxable person that is established in the EU may appoint a tax representative, but may also choose to register for VAT in its own right (direct VAT registration).

Registration procedures. Established or non-established taxable persons applying (as a requirement or by option) for a VAT registration in Romania must file specific registration forms depending on the type of VAT registration. The forms are available in electronic format and have to be submitted as a hardcopy and only in Romanian language directly by the taxable person or by proxy.

The online VAT registration is possible only for the Mini One-Stop Shop at the following address: https://www.anaf.ro/revocat.html?mot=no-client-cert.

Foreign operators may register for VAT purposes in Romania as follows:
- Nonresident taxpayers who are not established within the community and who have the obligation to appoint a tax representative are administered by the tax administration with competence for the administration of the tax representative (which keeps the record of the tax representative chosen as taxpayer)
- Nonresident taxpayers established in the community who register directly in Romania are administered by the tax authority with competence for the administration of nonresident taxpayers, namely the specialized section of the Bucharest Directorate General for Public Finance at 13 Prof. Dr. Dimitrie Gerota Street, Sector 2, Bucharest, Romania, telephone number 021.305.70.90
- Nonresident taxpayers who have their business established outside Romania and who are established in Romania through one or several fixed establishments are administered by the tax authority whose territorial competence covers the fixed establishment designated to submit VAT returns

The contact details concerning the departments, addresses, telephone, fax, email and other useful information may be obtained from the following webpage of the National Tax Administration Agency: https://www.anaf.ro.

As per the general rule, taxable persons are required to register for VAT purposes in Romania prior to performing the operations triggering the VAT registration obligation.

Depending on the type of VAT registration, the time frame in which the Romanian tax authorities should issue the VAT registration number is:
- 30 days from the date of submission of the complete documentation when the registration is through a tax representative
- 10 days from the date of submission of the documentation when registration is through other means

The date from which the taxable person is considered registered is the date when the VAT registration certificate is communicated by the Romanian tax authorities (i.e., the hand-over date, the post date, as the case may be). Other dates may apply, depending on the reason for the VAT registration (e.g., the VAT exemption threshold was exceeded).

Digital economy. Starting 1 January 2015, the optional use and enjoyment rules provided by Directive 2006/112/EC for 1) telecommunications, 2) radio and television broadcasting services, and 3) electronically supplied services were repealed. The place of supply in the case of all of these types of services is considered to be the place where the beneficiary is established (i.e., an exception to the B2C rule).

Mini One-Stop Shop. Effective 1 January 2015, the VAT law has been amended to allow the VAT Mini One-Stop Shop, which gives taxpayers making B2C supplies of digital services the simplified option of registering in one EU Member State, from which they can submit VAT returns and pay the VAT due in all Member States.

Taxpayers who perform supplies of digital services to EU consumers and choose to register in Romania should submit a statement of commencement of their activity. No fiscal representative is required in this respect. Electronic declarations should be submitted for each quarter no later than the 20th day of the month following the respective quarter. The VAT payment should be made in euros no later than the 20th day of the month following the quarter for which the reporting is required. If the supplies of digital services are performed in other currency, the payment should be converted into euros using the exchange rate published by the European Central Bank for the last day of the quarter to which the special VAT statement relates.

The web portal is available with access granted by use of a digital certificate. Online VAT registration is possible for the Mini One-Stop Shop at the following address: https://www.anaf.ro/revocat.html?mot=no-client-cert.

Deregistration. Taxable persons with annual turnover of less than RON300,000 may request deregistration by the 10th day of the month following the fiscal period applied by the taxable person.

Exemption from VAT registration. Taxable persons having the seat of their economic activity in Romania are not required to register for VAT purposes in Romania if their annual turnover does not exceed EUR88,500/RON300,000. However, they may opt to register for VAT purposes.

A taxable person not established in Romania who is liable to pay VAT in Romania, may be exempt from the VAT registration under the following specific situations:
- When performing occasional services in Romania, if these operations do not follow an intra-Community acquisition of goods performed in Romania
- When performing occasional supplies of goods in Romania, except:
  - Distance sales
  - Supplies of goods following intra-Community acquisitions of goods in Romania

The above mentioned supplies of goods and services are considered occasional if they are performed once a year.

Voluntary VAT registration. Taxable persons that have a business establishment in Romania, and who do not exceed the VAT registration threshold, may opt to register for VAT purposes in Romania.

Taxable persons not established in Romania may opt to register for VAT purposes in case of:
- Imports of goods
- Sale/rental of real estate subject to VAT

D. VAT rates

Supplies within the scope of VAT are classified as taxable and exempt.

In Romania, the standard rate of VAT is 19% starting with 1 January 2017. Reduced VAT rates of 9% and 5% apply to certain supplies (see below).

Examples of goods and services taxed at 9%

- Prostheses of any type and accessories (except dental prostheses)
- Orthopedic products
- Medicines for human and veterinary use
- Food (excluding alcohol) having certain classification codes
- Fertilizers, seeds and other agricultural products intended for the sowing or planting, as well as for supplies of services, such as those specifically used in the agricultural sector
- Supply of water for agriculture irrigation
- Irrigation and drinking water

Examples of goods and services taxed at 5%

- Books, newspapers, magazines and school manuals (except those intended exclusively for publicity).
- Hotel accommodation and similar accommodation, including the rental of land for camping.
- Restaurant and catering services (excluding alcohol, except for draught beer).
- Access to museums, castles, cinemas, zoological and botanical gardens, amusement and recreational parks and sporting events.
- Supply of social housing (including related land). For this purpose, social housing includes, but is not limited to, houses that are a maximum of 120 square meters and that do not exceed

RON450,000 in value (net of VAT). The reduced 5% VAT rate applies only if both of the following conditions are satisfied:
– The house can be used as such after the sale.
– For individual houses, the surface of the land on which the house is built is less than 250 square meters.

Exempt supplies and operations are classified in the following ways:
• Exempt supplies with credit (that is, with the right to deduct input VAT; see Section F)
• Exempt supplies without credit (that is, without the right to deduct input VAT; see Section F)
• Exempt imports and intra-Community acquisitions (under certain conditions)
• Exempt supplies without credit performed by taxable persons established in Romania who have an annual turnover of less than EUR88,500 and who have not opted for standard taxation

Examples of supplies of goods and services that are exempt without credit

• Specific banking and financial operations
• Insurance and reinsurance
• Medical services
• Education
• Specific hiring, concession, leasing or letting of immovable property (unless option to tax is exercised)
• Sale of "old" buildings (unless option to tax is exercised)

Examples of supplies of goods and services that are exempt with credit

• Exports of goods
• Transport services and other services directly linked to exports of goods
• International transport of passengers
• Intra-Community supplies of goods (specific provisions)

Examples of exempt imports and intra-Community acquisitions

• Re-imports of Romanian goods repaired abroad (equivalent to the exported goods)
• Imports of natural gas through specific distribution systems and electricity

Option to tax for exempt supplies. Any taxable person may opt to tax the hiring, concession, leasing or letting of immovable property and the sale of "old" buildings by means of a taxation notification submitted to the competent tax authorities.

E. Time of supply

The time when VAT becomes due is called the "chargeability to tax" or "tax point." The basic time of supply for goods is when the goods are delivered. The basic time of supply for services is when the services are provided. Several exceptions apply to these rules.

For intra-Community acquisitions or exempt intra-Community supplies of goods, the tax point arises on the day when the invoice is issued, the day when a self-invoice is issued or the 15th day of the month following the tax point, whichever is earlier.

Continuous supplies of services. The time of supply for continuous supplies of services, such as telephone services, water and electricity, is on the last day of the period specified in the contract for payment, or on the date of issuance of the invoice. The settlement period should not exceed one year.

Prepayments. The tax point for advance payments is when the payment is received. Special rules may apply in case of a change of tax regime, partial prepayments or partial advance invoices.

Payments by installment. The tax point for a supply of goods, including immovable goods, with installment payments occurs when the goods are handed over to the beneficiary (unless an invoice is issued or a payment is received before that date).

Cash accounting. A taxable person registered for VAT purposes in Romania and having the seat of its economic activity in Romania, whose turnover in the previous calendar year does not exceed RON2.250 million (approx. EUR500,000) could opt to apply the VAT cash accounting system, as well as taxable persons established in Romania which apply for a VAT registration during the year and opt to apply the VAT cash accounting system starting with the VAT registration date. Since 1 January 2014, such system is optional.

The turnover for computing the RON2.250 million threshold is the total value of the supplies of goods or services, VAT exempt with deduction right, as well as the operations for which the place of supply is deemed to be located abroad, realized during one calendar year.

VAT tax point. The VAT tax point occurs upon the date of collecting the total or partial value of the supplies of goods or services in the case of taxable persons applying the VAT cash-in system.

Specific rules have been set in the case of invoices issued by taxable persons prior to entering/exiting the VAT scheme upon collection, as well as in the case of adjustments of the taxable amount.

Persons and operations excluded from the application of the VAT cash-in system. The VAT cash-in system should not be applied by taxable persons who are part of a single tax group, taxable persons not established in Romania which are registered in Romania for VAT purposes directly or through a tax representative, and taxable persons which have the seat of their economic activity outside Romania but have a fixed establishment in Romania. However, the respective persons will apply the VAT cash-in system in respect of VAT deduction for invoices issued by suppliers, taxable persons applying the respective system.

Furthermore, certain operations such as supplies of goods or services that are exempt from VAT, supplies of goods or services between related parties or supplies of goods or services paid in cash are excluded from the application of the VAT scheme upon collection.

Deduction right. The deduction right of the input VAT related to acquisitions performed by taxable persons from other taxable persons applying the VAT cash-in system is postponed until the date of the VAT payment towards such suppliers.

Furthermore, the VAT deduction right in the case of acquisitions made by a taxable person applying the VAT cash-in system will be postponed up to the payment of VAT to its supplier in relation to the goods or services supplied, with certain exceptions.

Record of transactions. For transactions subject to the VAT cash accounting system, both the seller and the buyer must include in their VAT journals the invoices issued and received for which the VAT cash accounting system applied, even if the tax point or the right to VAT deduction does not arise in the period when the invoice was issued. Sales and purchase invoices bearing unsettled VAT, in full or in part, must be carried forward in the VAT journals until the VAT becomes chargeable.

Registration in the registry of persons applying the VAT cash-in system. The registry of taxable persons applying the VAT scheme upon collection has been introduced. Registration and deregistration is carried out by filing a relevant notice.

Reverse-charge services. Certain services received by a Romanian taxable person from a foreign supplier are taxed in Romania using the reverse-charge mechanism, which means that the Romanian customer must account for the VAT due in the VAT return for the month in which the tax

point occurs. In such circumstances, the customer accounts for the VAT as both output tax and input tax in the VAT return. If the beneficiary has a full right to deduct input tax, the charge is neutral for tax purposes (see Section F).

If no invoice is received from the foreign supplier, the Romanian beneficiary must issue a "self-invoice," which must be in a specified format, by the 15th day of the month following the month in which the services are supplied. The time limit for issuing an invoice is the 15th day of the following month.

If the beneficiary of the service is registered for VAT in Romania, the VAT due must be paid by the 25th day of the month following the month in which the tax point occurs. However, if the beneficiary is not registered for VAT in Romania under the normal regime, the reverse charge must be accounted for by using a special VAT return (with no right of deduction; consequently, the VAT due must be paid).

Imported goods. The VAT tax point for imported goods is the tax point for customs duties.

Intra-Community acquisitions. VAT shall become chargeable on the issue of an invoice or self-invoice, as the case may be, or on the expiry of the 15th day of the month following the month of the supply if no invoice/self-invoice has been issued by that time.

Intra-Community supplies of goods. VAT shall become chargeable on the issue of an invoice or self-invoice, as the case may be, or on the expiry of the 15th day of the month following the month of the supply if no invoice/self-invoice has been issued by that time.

Leased assets. The VAT tax point shall occur on each payment deadline specified in the contract for making the payment. By way of derogation, VAT shall become chargeable on the invoice date or on the date when an advance payment/prepayment is received, where such cases occur prior to the chargeable event.

Goods sent on approval for sale or return. Romania implemented simplification measures regarding the supply of goods under call off/consignment stock and regarding the supply of goods sent for testing.

In respect of the call off/consignment stock simplification, if the simplification measure is applied, the supply of goods is performed when the goods are taken over/further sold by the consignee to its client. The simplification regime is applied under the following specific conditions:

- The consignee is registered for VAT purposes in Romania
- The EU Member State of origin does not consider the movement of the goods to Romania as a transfer or it applies/accepts a similar VAT simplification regime
- The consignee or the buyer of the goods from Romania is known by the supplier when the goods are transported from another EU Member State in Romania

For the supply of goods sent for testing under the simplification measure, the supply of goods sent for testing/approval, is deemed to take place at the date when the beneficiary accepted the goods. The simplification regime applies for goods which cannot be imported as samples.

F. Recovery of VAT by taxable persons

A taxable person may recover input tax, which is due on goods and services supplied to it for business purposes. A taxable person generally recovers input tax offsetting it against output VAT, which is VAT charged on supplies made.

In principle, input tax includes VAT charged on goods and services supplied within Romania, VAT paid on imports of goods, and VAT self-assessed for reverse-charge services received and for intra-Community acquisitions of goods, as well as for certain taxable transactions subject to reverse-charge simplified measures.

Except for certain specific cases, the amount of VAT reclaimed must be requested through the VAT return. The excess of input VAT over output VAT is generally refundable. Alternatively, it may be offset against future VAT liabilities.

For taxable persons that are registered for VAT purposes in Romania, the minimum amount of a VAT refund is RON5,000 (approximately EUR1,100). Any amount below this threshold may be recovered by offsetting it against other VAT liabilities.

Since 14 March 2013, input VAT on fiscal receipts is deductible only if the VAT code of the customer is on the receipt and the total value of the acquisition (including VAT) is lower than EUR100.

Nondeductible input tax. Input tax may not be recovered on purchases of goods and services that are not used in the performance of operations subject to VAT (for example, goods acquired for private use by an entrepreneur). In addition, input tax may not be recovered for some items of business expenditure.

Examples of items for which input tax is nondeductible

- Personal expenses
- Business gifts if the individual value of each item (tangible good) is higher than RON100 (approximately EUR22) and VAT was deducted on acquisition
- Alcohol and tobacco, unless they are used for taxable supplies of goods or services

Examples of items for which input tax is deductible (if related to a taxable business use)

- Advertising
- Hotel accommodation
- Conferences
- Purchase of vans and trucks, and leases of cars, vans and trucks
- Business travel expenses

Regarding the deductibility of input taxes on the acquisition of passenger road vehicles weighing no more than 3.5 tons and having a maximum of nine seats, including the driver's seat, two rules apply:

- Since 1 January 2012, the deductibility of the input VAT on the acquisition of such vehicles — whether by purchase, intra-Community acquisition or import — and on the fuel purchased for them is limited to 50% irrespective of whether the vehicle is used exclusively for business purposes.
- Since 1 July 2012, the deductibility of the input VAT on the acquisition of such vehicles — whether by purchase, intra-Community acquisition, import, rental or leasing — and on service expenses related to those vehicles is limited to 50%, if the vehicle is not used exclusively for business purposes.

However, a 100% deduction is available for vehicles used for certain specifically mentioned activities (for example, when used to render services against consideration, when used as merchandise for commercial purposes, or when used by sales and purchase agents) are not subject to such provision. In this context, input VAT recovery should be supported by back-up documentation and log books.

Partial exemption. Input tax directly related to taxable supplies is fully recoverable, while input tax directly related to exempt supplies is fully non-recoverable. Input tax that is attributable to both taxable and exempt supplies (such as VAT paid on overhead costs) is deductible on a pro rata basis. The pro rata method is generally based on the percentage of income generated by supplies with a right to input tax deduction, divided by total income. The calculation of recoverable VAT is based generally on the pro rata percentage for the preceding year. However, a special pro rata percentage may be used if approved by the tax authorities. Pro rata percentages may also be established for each sector of the taxable person's activity that has a partial right to claim deductions.

Input VAT related to acquisitions of goods or services that may be allocated to operations allowing VAT deduction right or to operations not allowing VAT deduction right is not deducted based on a pro rata (but based on direct allocation).

In case of acquisitions destined for investments, which will be used both for operations allowing VAT deduction right and for operations not allowing VAT deduction right, the taxable person is allowed to deduct the VAT fully during the investment period. This VAT will be adjusted in the first year when supplies will be performed using the good resulting from the investment.

Refunds. If input VAT exceeds output VAT, the balance (known as the "negative VAT balance") may be treated in either of the following manners:
- Carried forward to the next period.
- Compensated or refunded by the tax authorities, based on an option exercised by the taxpayer in the taxpayer's VAT return. This option may be exercised only for negative VAT balances exceeding RON5,000.

The VAT refund application may cover eligible input VAT incurred in the period beginning with the fifth year before the year in which the claim is made (under certain conditions).

In principle, a VAT refund or compensation request must be processed within 45 to 90 days (in practice, this period may be longer). Depending on certain parameters, the VAT refund can be granted with or without a prior VAT audit (the Romanian tax authorities may approve the VAT reimbursement for a taxable person registered for VAT purposes in Romania before performing a subsequent VAT audit in cases where the value of the amount requested for reimbursement is lower than RON45,000). During the VAT refund process, the tax authorities may request additional information from the taxpayer. Consequently, the term for making the repayment may be extended by the number of days between the date of the request for additional information and the date on which the information is received by the tax authorities. If the refund or compensation request is not dealt with by the expiration of this term, in principle, the taxpayer is entitled to receive late payment interest.

Preregistration costs. Any taxable person is entitled to deduct VAT for the acquisitions made prior to VAT registration, as of when such person intends to perform an economic activity, within a period of five consecutive years. The intention of the person must be assessed based on objective elements, such as the fact that the person starts to incur costs and/or make preparatory investments required for the initiation of this economic activity.

Capital goods. Capital goods include any fixed tangible assets subject to depreciation, constructions and land of any kind held for the production or supply of goods or services, for rental or administrative purposes. It also includes the construction, transformation or modernization of immovable goods but excludes repairs or works of maintenance on these assets. Fixed tangible assets that are leased are deemed capital goods of the lessor.

Input VAT is deducted in the year in which the goods are acquired. The amount of input VAT deducted depends on the destination or use of the good and/or on the partial exemption of the taxable person. However, the amount of input VAT deducted must be adjusted over time if the destination or use of the goods changes, the capital good ceases to exist the taxable person's partial exemption percentage changes.

In Romania, the capital goods adjustment scheme applies to the following assets for the number of years indicated:
- Twenty years for the acquisition, construction, transformation or modernization of an immovable property, if the transformation or modernization amounts to at least 20% of the aggregate amount of the construction thus transformed or modernized
- Five years for other movable capital goods

Taxable persons shall keep records of the capital goods subject to the adjustment of input VAT, so as to allow the verification of the tax deducted and of the adjustments made. This statement shall be kept for a period starting with the date when the tax related to the acquisition of the capital goods becomes chargeable and ending five years as of expiry of the period when adjustment of the deduction can be requested. Any other entries, documents and ledgers on capital goods shall be kept for a similar period.

The adjustment period shall start on 1 January of the year when assets were acquired or manufactured or of the year when assets were first used after transformation or modernization. The VAT deduction shall be adjusted during the tax period when the event triggering the adjustment occurs, once for the entire tax related to the remaining adjustment period.

If during the adjustment period events resulting in the adjustment in favor of a taxable person or in favor of the tax authority take place, the VAT adjustment shall be carried out for the same capital goods successively during the adjustment period whenever such events occur.

Input VAT related to capital goods shall not be adjusted where the amount from adjustment of each capital good is lower than RON1,000.

Write-off of bad debts. Bad-debt relief may be applied only where the value of goods or services supplied cannot be received due to the bankruptcy of the beneficiary or as a result of implementation of a restructuring plan acknowledged and approved by a court decision through which a part of or the entire written-off receivable is canceled. In the case of a restructuring plan, bad-debt relief is allowed from the date of the court decision. In a bankruptcy case, bad-debt relief is allowed from the date of the court decision for the closure of the domestic insolvency procedure.

Noneconomic activities. Not applicable.

G. Recovery of VAT by non-established businesses

Romania refunds VAT incurred by businesses that are neither established in Romania nor required to be registered for VAT there. Non-established businesses may claim Romanian VAT to the same extent as VAT-registered businesses.

For businesses established in the EU, refund is made under the terms of the new EU 9th Refund Directive. For businesses established outside the EU, refund is made under the terms of the EU 13th Directive (under the condition of reciprocity).

For the general VAT refund rules applicable to the new EU Refund Directive and EU 13th Directive refund schemes, see the section on the EU.

Refund application. The deadline for refund claims is 30 September of the year following the calendar year of the reimbursement period.

Claims under the EU VAT Refund Directive may be submitted in the Member State where the applicant is established. The application for refund must be accompanied by the appropriate documentation (see the section on the EU).

In principle, the term established by the tax authorities for processing a refund application is four months from the date of submission of the application and supporting documents.

The minimum claim period is three months, while the maximum period is one year. The minimum claim for a period of less than a year, but greater than three months, is the equivalent in RON of EUR400. For an annual claim or a claim for a period of less than three months, the minimum amount is the equivalent in RON of EUR50.

H. Invoicing

VAT invoices and reversal invoices. A Romanian taxable person must generally provide a VAT invoice for all taxable supplies made. Invoices that contain errors may be cancelled and the taxpayer may issue a "reversal invoice." The amount credited must be printed on the reversal invoice and must be preceded by a minus sign. A reversal invoice must contain the same information as a VAT invoice and a cross-reference must be provided.

Electronic invoicing. Since 1 January 2013, the VAT law has been amended to permit electronic invoicing in line with EU Directive 2010/45/EU. For invoices issued by non-EU suppliers, the authenticity and integrity of the content of the invoice should be ensured either through an electronic signature or the electronic data exchange (EDI) procedure.

Proof of exports. Goods exported from Romania are not subject to Romanian VAT. To qualify as exempt with credit, the supplier must prove that the goods left Romania. Suitable proof includes the following documentation:
- Customs documentation
- Invoices
- Other relevant documentation depending on the nature of the export

Foreign-currency invoices. If a VAT invoice for a transaction that takes place in Romania is issued in a foreign currency, the VAT amount must be converted into Romanian lei (RON), using the rate published by the National Bank of Romania, the bank in charge of the payment transfers, or the European Central Bank. The conversion must be calculated for the date on which the tax point for the transaction occurred or would have occurred if the VAT cash-in system had not been applied. The parties to the transaction must mention the applicable method in the contract.

B2C. Effective 1 January 2015, new rules apply to the place of supply for supplies of telecommunications, broadcasting and electronic services to non-VAT taxable customers. For further details of the VAT rules on electronic services in the EU, please see the European Union section.

Romanian suppliers of these services are required to issue invoices to nontaxable customers.

By way of exception, a taxable person is exempt from the obligation to issue full VAT invoices for the following supplies, unless the customer requests a full VAT invoice:
- Supplies of goods and services through retail shops, supplying to the general public, for which the issuance of fiscal receipts is mandatory
- Supplies of goods and services provided to customers that are not VAT registered (nontaxable) other than nontaxable legal persons for which the issuance of approved legal documents without the buyer's nomination is mandatory, such as: transport of passengers based on travel tickets or subscriptions, ticket access to shows, museums, cinemas, sports events, fairs, exhibitions
- Supplies of goods and services provided to customers that are not VAT registered (nontaxable) other than nontaxable legal persons, which by their nature do not allow the supplier to identify the beneficiary, such as: deliveries of goods through commercial vending machines, car parks cash-out and electronic recharging services for prepaid calling cards

VAT split payment. Romania introduced the VAT split-payment mechanism from 31 December 2017. VAT-registered persons falling under one of the following situations are required to open and use at least one VAT account:
- As of 31 December 2017 have outstanding VAT liabilities, except for those for which the enforcement procedure is suspended, exceeding RON15,000 for large taxpayers, RON10,000 for mid-sized taxpayers, RON5,000 for other taxpayers, if these liabilities are not paid by 31 January 2018. The entry in the registry of persons applying the VAT split-payment mechanism is done starting 1 March 2018.

- Starting with 1 January 2018 have outstanding VAT liabilities older than 60 working days as of the due date, except for those for which the enforcement procedure is suspended, exceeding RON15,000 for large taxpayers, RON10,000 for mid-sized taxpayers, RON5,000 for other taxpayers. The entry in the registry of persons applying the VAT split-payment mechanism is done starting the 1st day of the second month following the one when the 60 working days deadline as of the due date occurred.
- Fall under the provisions of the national legislation regarding the procedure for prevention of insolvency and of insolvency. The entry in the registry of persons applying the VAT split-payment mechanism is done starting 1 March 2018 for persons undergoing insolvency at 31 December 2017 and starting 1st day of the following month for persons undergoing insolvency starting 1 January 2018.

Persons not registered for VAT purposes, individuals or legal persons not-established in Romania are not required to perform payments in the supplier's VAT account who applies the VAT split-payment mechanism. Certain operations have been specifically excluded from the applicability of the VAT split-payment mechanism, such as:
- Payments performed on behalf of another person
- Financing granted by credit institutions and nonbanking financial institutions in case of assignment of receivables
- Payments in kind
- Compensation

The supplier is allowed to correct an erroneous payment performed by the beneficiary in another account other than the VAT account.

Failure to comply with the VAT split-payment rules may trigger fines (e.g., 0.06%/day for VAT amounts paid to an erroneous account, 10% of the VAT amount paid from an erroneous account).

Taxpayers who are VAT registered not applying the VAT split-payment mechanism are liable to make split payments from their current account to the VAT account of the suppliers applying the VAT split-payment mechanism.

A tax incentive concerning the 5% decrease of the profit tax/income of micro-enterprises will be granted for the entire period during which the VAT split-payment mechanism is optionally applied.

I. VAT returns and payment

VAT returns. Taxable persons with an annual turnover below the RON equivalent of EUR100,000 must submit VAT returns quarterly. However, since 1 May 2009, taxpayers who submit quarterly VAT returns must submit monthly VAT returns, effective from the date on which they perform a taxable intra-Community acquisition in Romania. All other taxable persons submit VAT returns monthly.

The due date is the 25th day of the month following the end of the return period. Payment in full is required by the same date. All VAT liabilities must be paid in Romanian currency.

All taxpayers must file their VAT returns electronically. The relevant VAT returns must be signed by the taxpayer using a qualified certificate issued by a provider of certification services.

Informative statement. All taxable persons that are registered for VAT in Romania must also submit an informative statement to the Romanian tax authorities. In principle, this statement must include all local supplies and acquisitions performed between taxable persons registered for VAT purposes in Romania made in the reporting period.

However, starting with the July 2016 reporting period, based on recent amendments of the VAT law, the "Informative statement regarding the supplies and acquisitions performed on the national territory by the persons registered for VAT purposes" (i.e., Form 394) was amended, having an extended format.

As such, the Form 394 will include, inter-alia, acquisitions from Romanian persons not registered for VAT purposes in Romania, acquisitions from taxable persons established outside Romania and not registered for VAT purposes in Romania and that do not have the liability to register for VAT purposes in Romania — reverse charge at the beneficiary, etc.

The due date is the 30th day of the month following the end of the period, starting with the July 2016 reporting period. The Form 394 should be submitted to the tax authorities even if no transactions were performed in the reporting month. A taxable person that fails to submit an informative statement by the due date is liable for a fine ranging from RON12,000 to RON14,000 (approximately EUR2,600 to EUR3,200) in case of large and medium sized taxpayers and between RON2,000 to RON3,500 (approximately EUR500 to EUR875) for other taxpayers.

Special schemes. Romania has implemented the following special schemes:

- *Special scheme for small enterprises:* if the turnover is less than EUR88,500 per year, the taxable person can apply the special exemption.
- *Special scheme for travel agents:* where the taxable base of the services rendered is the profit margin obtained from the sale of the respective services, exclusive of VAT.
- *Special arrangements for secondhand goods, works of art, collectors' items and antiques:* where the taxable base for the supplies of goods is the profit margin obtained from the sale of the respective goods, exclusive of VAT. By way of derogation, for supplies of works of art, collectors' items or antiques imported by the taxable dealer, the purchase price to be taken into account in calculating the profit margin shall be equal to the taxable base on importation plus the VAT due or paid on importation.
- *Special scheme for investment gold:* where the supplies, intra-Community acquisitions and importation of investment gold, including investment in securities; and intermediary services in respect of supplies of investment gold.
- *Special scheme for electronically supplied services:* for non-established taxable persons supplying electronic services to nontaxable persons.

Electronic filing and archiving. Starting with 1 January 2018, electronic submission of VAT statements is mandatory for all the taxpayers. Such submission is performed through means of a digital certificate, which can be obtained only by Romanian individuals based on specific forms submitted with the competent tax administration.

The archiving of the financial-accounting documents based on which the VAT statements were prepared shall be ensured for a period of 10 years (or equal with the useful life in case of immovable capital goods).

The taxable person must ensure the storage of copies of invoices issued (or issued by the customer/a third party on behalf of the supplier), as well as of all invoices received. Invoices may be stored on paper or electronically, regardless of the original form in which they were sent or made available.

The taxable person may decide the place of storage for the invoices, provided such documents are made available to the competent tax authorities without any delays and whenever requested. Nonetheless, such storage place may not be located on the territory of a country with which there is no legal instrument concerning mutual assistance.

By way of exception, taxable persons having the seat of their economic activities in Romania or established in Romania through a fixed establishment must store the invoices issued and received — other than electronic invoices — on Romanian territory.

Annual returns. Not applicable.

J. Penalties

Late registration. Penalties of RON1,000 to RON5,000 (approximately EUR250 to EUR1,100) in case of large and medium sized taxpayers and of RON500 to RON1,000 (approximately EUR125 to EUR250) in case of other taxpayers apply to late registration for VAT purposes.

Late filing. Separate penalties range from RON1,000 to RON5,000 and are assessed for delays in submitting VAT returns.

Late payment. In addition, for the late payment of VAT, late payment interest (0.02% per day of delay, starting 1 January 2016) and late payment penalties (0.01% per day of delay, starting 1 January 2016) apply. Moreover, in the case of obligations unreported or reported inaccurately, a penalty of 0.08% per day of delay applies beginning 1 January 2016 for unreported obligations established through a tax decision.

Repayment interest. Since 1 January 2016, the interest rate that may be claimed by a taxable person for late refunds will be 0.02% per day of delay.

K. EU filings

Intrastat. A Romanian taxable person that trades with other EU countries must complete statistical reports, known as Intrastat, if the value of either dispatches or arrivals of goods exceeds certain thresholds. Separate reports are required for intra-Community acquisitions (Intrastat Arrivals) and for intra-Community supplies (Intrastat Dispatches).

The threshold for Intrastat Arrivals is RON900,000. The threshold for Intrastat Dispatches is RON900,000.

Romanian taxable persons must complete Intrastat declarations in Romanian lei, rounded up to the nearest whole number.

Intrastat returns must be submitted monthly. The submission deadline is the 15th day of the month following the return period.

A penalty may be imposed for late submissions or for missing or inaccurate declarations.

EU Sales and Acquisitions Lists. If a Romanian taxable person makes intra-Community supplies or intra-Community acquisitions of goods in any return period, it must submit an EU sales and acquisitions list to the Romanian VAT authorities. Since 1 January 2010, the listing of intra-Community supplies or acquisitions is also required for qualifying services that are rendered to or received from a taxable person established in the EU and that are taxed where the beneficiary is established. This list is not required for any period during which the taxable person does not make any intra-Community supplies or acquisitions of goods/services.

The listing of intra-Community sales or acquisitions of goods and qualifying services must be submitted on a calendar monthly basis by the 25th day of the month following the relevant month. A failure to submit an EU sales and acquisitions list reporting sales or acquisitions of goods by the due date is subject to a fine ranging from RON1,000 to RON5,000 (approximately EUR230 to EUR1,100). The submission of such list with incorrect or incomplete amounts is subject to a fine ranging from RON500 to RON1,500 (approximately EUR115 to EUR350). The fine does not apply if the taxable person corrects voluntarily the EU sales and acquisitions list by the due date for the submission of the next EU sales and acquisitions list.

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A. At a glance

Name of the tax	Value-added tax (VAT)
Local name	Nalog na dobavlennuyu stoimost (NDS)
Date introduced	6 December 1991
Administered by	Ministry of Finance of the Russian Federation (http://www.minfin.ru) Federal Tax Service (http://www.nalog.ru)
VAT rates	
Standard	20%
Reduced	16.67%, 10%
Other	Zero-rated (0%) and exempt
VAT number format	Tax identification number (TIN) with 10 digits
VAT return periods	Quarterly
Thresholds	
Registration	None
Recovery of VAT by non-established businesses	No

B. Scope of the tax

VAT applies to the following transactions:
- The supply of goods (works and services) performed in "the territory of the Russian Federation and other territories under its jurisdiction" by a taxpayer
- The transfer of property rights by a taxpayer
- The performance of construction and the installation and assembling of works for own consumption
- The importation of goods into "the territory of the Russian Federation and other territories under its jurisdiction" regardless of the status of the importer

"The territory of the Russian Federation and other territories under its jurisdiction" means the territory of the Russian Federation and the territories of artificial islands, installations and structures over which the Russian Federation exercises jurisdiction in accordance with the legislation of the Russian Federation and provisions of international law.

In general, supplies of goods (works and services) in the Russian Federation are within the scope of Russian VAT. The following goods are deemed to be supplied in the Russian Federation:
- Goods located in the Russian Federation and other territories under its jurisdiction that are not shipped or transported
- Goods located in the Russian Federation and other territories under its jurisdiction at the moment when shipment or transportation begins

The place of supply of works and services is determined according to the substance of the executed transactions. Works and services connected with immovable or movable property (for example, construction, installation, repair and maintenance) are deemed to be supplied in the Russian Federation if the property is located in the Russian Federation. Services in the areas of culture, art, education, tourism and sport are subject to Russian VAT if physically performed in the Russian Federation.

Services specified on a list are deemed to be supplied in the Russian Federation if the buyer carries out its activity in the Russian Federation. This list includes, but is not limited to, the following:
- Consulting
- Auditing
- Data processing
- Legal and accounting services
- Advertising and marketing services
- Transfers of copyrights
- Licenses and similar rights
- Engineering services
- Certain agency services relating to procurement
- Provision of emission reduction units granted under the Kyoto Protocol
- Electronic services

Works and services with respect to the performance of geological study, exploration and production of hydrocarbons in the territory of the continental shelf and the exclusive economic zone of the Russian Federation are deemed to be performed in the Russian Federation.

Inland Russian transportation carried out by foreign companies that are not registered with the Russian tax authorities is subject to Russian VAT. VAT withholding formalities must be performed by the Russian customer of the foreign transport service provider.

Works and services that are not specifically covered in the relevant section of VAT law are deemed to be performed at the place of the supplier's activity.

C. Who is liable

In general, a taxpayer is any individual entrepreneur or legal entity (including a foreign legal entity) that makes taxable supplies of goods (works and services) and/or property rights in the territory of the Russian Federation and other territories under its jurisdiction in the course of its business activities or that conveys goods into the territory of the Russian Federation and other territories under its jurisdiction.

Tax registration. All taxpayers are subject to tax registration. Generally, a separate VAT registration is not permitted. A separate VAT registration is permitted only for foreign legal entities providing electronic services (see section titled, *Digital economy registration procedures*).

Exemption from VAT payment obligations. As outlined above, no VAT registration threshold applies in the Russian Federation. However, a legal entity or individual entrepreneur may be exempted from the fulfillment of obligations associated with the calculation and payment of VAT. Exemption may apply if, in the last three consecutive calendar months, revenue from the sale of goods (works and services) did not exceed a total of RUB2 million.

Such exemption from VAT payment obligations is granted on submission of special notification to the tax authorities together with supporting documentation proving entitlement. A legal entity or individual entrepreneur that is granted exemption is not required to charge VAT or submit VAT returns, but it is restricted in its ability to recover input VAT on purchases.

Private entrepreneurs and legal entities that are applying the simplified taxation system (including private entrepreneurs who are eligible to apply a patent tax regime since 1 January 2013) or carrying out the activities subject to unified tax on imputed income (the exemption applies with respect to the income from such activities only) are also exempt from VAT payment obligations, except for payment of VAT at customs.

Voluntary registration. The Russian tax code does not contain any provisions for voluntary tax registration.

Group registration. VAT group registration is not allowed under the Russian VAT law. Legal entities that are closely connected must register for VAT purposes separately.

Foreign legal entities (non-established businesses). A "non-established business" is a business that does not have a fixed establishment in the Russian Federation. A foreign legal entity or non-established business may be required to register for tax purposes in the Russian Federation.

In the Russian Federation, a separate VAT registration is permitted only for foreign legal entities providing electronic services (see section titled, *Digital economy registration procedures*). For other foreign legal entities the obligation to register with the Russian tax authorities arises if a foreign legal entity performs activity in Russia through a branch, a representative office or any other separate subdivision.

If a foreign legal entity performs its activities in Russia through a branch or a representative office, it must file for accreditation of its branch or representative office. The obligation to register also arises if a foreign company owns immovable property or transport vehicles in the Russian Federation or opens a bank account with a Russian bank.

If a foreign legal entity is not registered for tax purposes, the recipient of the supply must act as a tax agent and withhold the VAT due. A foreign legal entity that is not registered in the Russian Federation is not entitled to recover any input tax (VAT on purchases).

On tax registration, a foreign legal entity must act as a common VAT taxpayer and is eligible to recover the input VAT incurred in the Russian Federation if the VAT recoverability conditions outlined in Section F are met.

A foreign legal entity providing electronic services that is registered for VAT purposes — is not eligible to recover input VAT.

Registration procedures. Tax registration of an accredited branch or representative office of a foreign organization is carried by tax authorities based on respective data from the registry of accredited branches, representative office. Accreditation procedures take at least 25 working days to fulfill. A foreign organization receives the notification of tax registration in five working days.

A foreign organization must file an application to register its separate subdivision, which is neither branch nor representative office, not later than 30 calendar days from the beginning of its activities in the Russian Federation. The format of the application is set by the Federal Tax Service. The application should be submitted by an authorized representative of the organization acting under a power of attorney. Together with the above application, a foreign organization must file the following documents:

- Its constitutive document
- An extract from the register of foreign legal entities confirming the legal status of a founder of a foreign organization
- An application confirming registration of a foreign legal entity with its tax authorities
- A document confirming a decision of an authorized body of a foreign legal entity to register a subdivision and a subdivision-establishing document (or a contract under which a foreign legal entity performs its activity in the Russian Federation if no subdivision is created in the Russian Federation)

All documents are submitted in hard copies. It is not possible to submit for tax registration online.

Late-registration penalties. The Russian tax law provides for several types of fines in the following amounts for tax registration violations:

- A penalty of RUB10,000 is imposed for a violation by a taxpayer of the time limit established in the tax code for the submission of an application for registration with a tax authority on grounds provided for in the tax code.
- The carrying on of activities by an organization or a private entrepreneur without registering with a tax authority on grounds provided for in the tax law results in the imposition of a penalty equal to 10% of income received during that time as a result of such activities, but not less than RUB40,000.

Tax representatives. Not applicable.

Reverse charge. See *Section E Reverse charge.*

Digital economy. Effective 1 January 2017, the place of supply for electronic services should be determined at the buyer's location. From this date, supplies of such services to Russian customers are subject to VAT. If a customer is an individual (business-to-consumer, B2C supply), then a foreign legal entity providing electronic services is required to register for VAT purposes in Russia, charge and pay VAT with respect to such supplies as well as perform VAT reporting obligations. Starting from 1 January 2019, the same rules are applicable with regard to the supply of electronic services to a legal entity or an individual entrepreneur (business-to-business, B2B supply). In particular, foreign legal entities providing electronic services will be liable for payment of VAT on those supplies instead of being able to use a tax agent.

The foreign legal entity is not required to register if it provides electronic services through intermediaries (both Russian and foreign legal entities) that participate in settlements with Russian customers and have agency, commission or other similar agreements with foreign legal entities providing electronic services. In such case, intermediaries should bear the VAT obligations.

Digital economy registration procedures. Effective 1 January 2019, foreign legal entities making B2C and B2B supplies of electronic services are required to register for VAT purposes. The

registration with the tax authorities must be carried out on the basis of an (i) application and (ii) an extract from the register of legal entities from the country of incorporation for the foreign legal entity. The length of the registration process is not more than 30 days (starting from the moment of submitting the application). After registration, the foreign legal entity gets access to a personal taxpayer office that will enable it to submit returns, pay VAT and communicate with the tax authorities.

For these purposes, electronic services include, inter alia:
- Provision of rights to use computer programs via the internet
- Provision of internet advertising services
- Provision of services involving the posting of offers to acquire goods and property rights on the internet
- Provision and (or) maintenance of a commercial or personal presence on the internet
- Storage and processing of information on the internet
- Provision of hosting services
- Sale of electronic books, graphic images and musical works via the internet
- Provision of access to internet search engines and the maintenance of statistics on internet sites

Deregistration. Deregistration is performed in cases of termination of activities or closing of a branch, representative office or other separate subdivision of a foreign organization.

Deregistration of a branch or representative office is carried out by tax authorities based on respective data from the registry of accredited branches, representative offices.

Deregistration of a separate subdivision of a foreign organization is performed by tax authorities based on an application submitted by the taxpayer. Tax authorities perform deregistration in 10 working days after receiving the application.

D. VAT rates

The term "taxable supplies" refers to supplies of goods (works and services) and property rights that are liable to a rate of VAT, including the zero rate. The term "exempt supplies" refers to supplies of goods (works and services) and property rights not liable to tax and that do not give rise to a right of input VAT deduction (see Section F).

In the Russian Federation, the following are the VAT rates:
- Standard rate: 20%
- Rate for e-services: 16.67%
- Reduced rate: 10%
- Zero rate: (0%)

The standard rate of VAT (20%) applies to all supplies of goods (works and services) and property rights unless a specific measure provides for a reduced rate, the zero rate or an exemption.

The VAT base for e-services should be calculated as the value of the e-services including VAT.

Examples of goods and services taxable at 10%

- Basic foodstuffs
- Certain children's goods
- Medical goods
- Pedigree cattle

Examples of goods and services taxable at 0%

- Exports of goods and related services including logistic services
- International freight-forwarding services
- Supplies to diplomats (if reciprocal arrangements apply)
- Foreign passenger transportation services

- Works (services) performed by Russian rail carriers involving the carriage or transportation of goods that are exported from the territory of the Russian Federation and the removal from the customs territory of the Russian Federation of products of processing in the customs territory of the Russian Federation
- Works (services) connected with carriage or transportation mentioned in the item above, the cost of which is specified in documents of carriage for the carriage of the goods that are exported (processed products that are removed)
- The sale of raw hydrocarbons extracted from the continental shelf, exclusive economic zone and the Russian sector of the Caspian Sea to a destination outside Russia and exportation of goods (stores) for further use in extraction of hydrocarbons from offshore hydrocarbon deposits and certain related transportation services

Examples of exempt supplies of goods and services

- Financial services on granting of loans
- Rendering of services involving insurance, coinsurance and reinsurance of export credits and investments against entrepreneurial and/or political risks
- Public transport
- Medical services
- Lease of office premises and housing to accredited representative offices of foreign entities (if reciprocal arrangements apply)
- Sale of houses, living accommodation and shares in them
- Provision of software and the right to use it under license agreement
- Services rendered by a developer under a shared-construction agreement for the construction of residential properties (except for services rendered by a developer with respect to the construction of objects for production needs)
- Various financial services provided by the licensed institution

Option to tax for exempt supplies. Taxpayers have an option to tax a certain group of exempt supplies. It is not permissible for such operations to be exempted or not depending on who is purchasing the goods, work and services. An exemption from taxation may not be rejected or suspended for a period of less than one year.

Examples of exempt supplies that can be opted to tax

- Banking operations (with the exception of encashment)
- Services associated with the servicing of bank cards
- Insurance, co-insurance and re-insurance services
- Sale of ore, concentrates and other industrial products containing precious metals

E. Time of supply

The moment when VAT becomes due is called the "time of supply." For taxpayers, the time of supply is the earliest of the following dates:

- The date when goods (works and services) or property rights are dispatched (transferred).
- The date on which payment or partial payment is made with respect to the future supply of goods, performance of work, rendering of services or transfer of property rights.

Reverse charge. Reverse-charge VAT is applied to payments for goods, works and services supplied by foreign legal entities to Russian legal entities or individual entrepreneurs. Under the reverse charge, the liability to withhold and pay VAT rests with the recipient of the supply that acts as a tax agent. The reverse charge applies in the following circumstances:

- The foreign legal entity is not registered as a taxpayer in the Russian Federation.
- The place of supply for the goods (works and services) is the Russian Federation.

In the Russian Federation, reverse-charge VAT is treated as a withholding tax. In practice, contracts entered into between a Russian legal entity and a foreign legal entity normally contain a

"gross-up" provision to ensure that the net payment to the foreign legal entity is not reduced by VAT payable in the Russian Federation and that it equals the agreed contract price for the supplied goods (works and services).

Imported goods. As a general rule, the import of goods is subject to VAT. Import of certain groups of goods is exempted from VAT.

Examples of imported goods exempted from VAT

- Goods for commercial use that cost less than EUR200
- Goods for personal use that cost less than EUR500
- Goods imported as gratuitous aid according to the government list
- Medical products according to the government list
- Cultural property imported as a gift for Russian cultural institutions
- Periodic materials imported as a gift for Russian libraries

VAT rates are 10% and 20%. The 10% rate should be used both for import and further resale in the territory of the Russian Federation. The VAT base includes the customs value of goods, the amount of customs duties and the amount of excises.

Payment upon importation depends on chosen customs procedure. For example, if goods are placed under the free circulation customs procedure, the payment should be made in the whole amount.

Declarant is an import VAT payer.

As a general rule, VAT amount paid on import should be recoverable if all conditions for recovery at import VAT have been made. Otherwise, VAT amount should be included in the value of goods.

Deposits and prepayments. For advance payments, there are two times of supply:

(i) When the advanced payment is made
(ii) When the goods (works and services) are dispatched (transferred)

The above rules mean that the taxpayer should account for and pay VAT twice. However, no double taxation occurs, since VAT paid by the taxpayer at the moment of receipt of an advance payment may be refunded by the taxpayer at the moment of dispatch (transfer).

Goods sent on approval for sale or return. The Russian tax code does not provide special time of supply rules for goods sent on approval for sale or return terms of sale basis.

Continuous supplies. The Russian tax code does not provide special time of supply rules for services supplied periodically or on a continuous basis.

F. Recovery of VAT by taxpayers

A taxpayer may recover input tax, which is VAT charged on goods (works and services) and property rights supplied for carrying out activities within the scope of VAT. A taxpayer generally recovers input tax by deducting it from output tax, which is VAT charged on supplies made.

Input tax includes VAT charged on goods (works and services) and property rights supplied in the Russian Federation, VAT paid on imports of goods and VAT paid to the Russian budget by a buyer acting as a tax agent with respect to the acquisition of goods (works and services) from a foreign legal entity.

VAT is recoverable after the goods (works and services) or property rights have been received and a VAT invoice has been obtained from a supplier. The same procedure applies to VAT incurred on construction (including construction carried out by the taxpayer for its own use). For a prepay-

ment to a supplier, the buyer may recover VAT on such prepayment (that is, before the relevant goods, works and services are received by the buyer).

The amount of VAT reclaimed must be indicated separately on a VAT invoice (a special document established exclusively for VAT purposes) issued in conformity with the provisions of the Russian VAT law.

Recovery of VAT by taxpayers purchasing electronic services. A legal entity and individual entrepreneur registered in Russia and purchasing electronic services from a foreign legal entity providing electronic services has the right to claim VAT charged by the supplier. This is only where the electronic services are purchased for provision of taxable activities and the following documents are in place: (1) agreement and/or a settlement document with separately specified VAT, the taxpayers' identification number (INN) and code of the reason for VAT registration of the supplier; and (2) documents for the transfer of payment, including VAT to the supplier.

Nondeductible input tax. Input tax cannot be recovered on purchases of goods (works and services) and property rights that are not used for making supplies within the scope of VAT (for example, goods purchased for private use by an entrepreneur). In addition, input tax cannot be fully recovered with respect to some business expenses (that is, expenses that are limited for profits tax deduction).

Examples of items for which input tax is nondeductible

- Personal expenses
- Home telephone expenses
- Parking
- Restaurant meals

Examples of items for which input tax is deductible

- Purchase, lease or hire of a car, van and truck
- Fuel for cars, vans and trucks
- Car maintenance
- Business entertainment and travel (special calculations may apply)
- Conferences (special calculations may apply)
- Advertising (special calculations may apply)
- Hotel accommodation (special calculations may apply)
- Mobile phone expenses

Partial exemption. If a Russian taxpayer makes both exempt supplies and taxable supplies, it must account for them separately. Input VAT directly related to taxable supplies is recoverable in full, while input VAT directly related to exempt supplies is not recoverable and must be expensed for Russian profit tax purposes. Input VAT that may not be directly attributed to taxable or exempt supplies (such as VAT on business overhead costs) must be apportioned. The statutory method of apportionment is a pro rata calculation, based on the value of taxable supplies made compared with the total turnover of the business.

Refunds. If the amount of input tax recoverable in a quarterly period exceeds the amount of output tax payable in that period, the taxpayer is entitled to an input tax credit. After a taxpayer has submitted a VAT return, the tax authorities check the validity of the amount claimed as refundable in the course of performing an in-house tax audit. If the tax authorities confirm the amounts claimed in the relevant VAT return, the decision on the reimbursement of VAT must be adopted within seven days. On the basis of a written application of the taxpayer, the confirmed amount of VAT can be refunded to the bank account of the taxpayer or can be credited towards the other outstanding federal tax liabilities.

Under certain conditions, the reimbursement (offset or refund) of VAT may be granted to taxpayers in advance, that is, before the completion of an in-house tax audit of the returns submitted. If

no indebtedness arises from taxes, penalties and/or fines, against which reimbursable VAT may be offset, the amount of VAT may, at the taxpayer's request, be returned in cash to a bank account during the 11-16 days from the moment that the VAT return is submitted to the tax authorities. Alternatively, a taxpayer may claim the amount of reimbursable VAT for offset against future tax payments with respect to VAT or other federal taxes.

If the in-house tax audit subsequently results in the tax authorities' partial or full refusal to reimburse VAT, the relevant amounts of arrears, penalties and interest for using the monetary resources (VAT paid back to the taxpayer) must be paid to the budget.

The right to use the accelerated procedure of VAT reimbursement is granted to the following two categories of taxpayers:

- Taxpayers that are companies whose gross total amount of VAT, excise duties, profit tax and mineral extraction tax (except for the amount of taxes paid on transfer of goods over the border of the Russian Federation and taxes paid by the taxpayer as a tax agent), paid for the three preceding calendar years is no less than RUB2 billion, provided that at least three years have passed from the date of the relevant company's foundation to the date of submission of the VAT declaration
- Taxpayers that have submitted a suitable bank guarantee to the tax authorities with their VAT returns

Restoration of VAT previously offset. If assets, intangible assets and property rights are transferred as a contribution to the charter capital of a company or partnership or as share contributions to the share fund of a cooperative or if these assets are subsequently used in carrying out the VAT-exempt operations, the amount of input VAT must be repaid or "restored." The amount of restoration is the VAT previously claimed as a deduction or, with respect to fixed assets and intangible assets, an amount proportional to the net book (balance sheet) value without taking account of any revaluation.

Preregistration costs. Input tax incurred on preregistration costs is not recoverable in the Russian Federation.

G. Recovery of VAT by non-established businesses

VAT recovery is made exclusively by registered persons that make taxable supplies in the Russian Federation. VAT incurred by a foreign legal entity is not recoverable, unless the foreign legal entity performs VAT-able supplies in the Russian Federation and is registered with the Russian tax authorities.

If a foreign legal entity is registered with the Russian tax authorities as a representative office, VAT incurred on the purchase of goods (including imported goods), works, services and property rights is generally recoverable if the following VAT recoverability criteria are met:

- The purchased goods (works and services) or property rights are to be used in the course of an activity subject to VAT.
- All proper supporting documents (including VAT invoices that contain all required details) are in place.
- The purchased goods (works and services) or property rights are properly reflected in the buyer's accounting ledgers.
- Customs VAT for imported goods is paid to the Russian customs authorities.

Refund application. The VAT refund application must be sent to the appropriate tax office. The application must be completed in Russian. The refund is made in rubles (RUB) to a bank account held in the Russian Federation. In general, refunds are made only after an in-house tax audit is carried out at the location of the tax authorities (see Section F: Refunds). The tax authorities may request any of the following documentation for the VAT audit:

- Original VAT invoices
- Documents confirming the tax has been paid or withheld
- Contracts
- Sales and purchase ledgers
- Primary documents supporting amounts reflected in the submitted VAT returns

Interest on refunds. The Russian VAT law requires the tax authorities to pay a refund no later than five days following the positive decision regarding the VAT refund claim of a taxpayer. In practice, however, refunds are often delayed.

If a refund is made with delay, the tax authorities must pay interest, accrued at the refinancing rate of the Russian Central Bank for each day of delay, beginning with the 12th day after the completion of the in-house audit of the relevant VAT return. From 1 January 2016, the annual refinancing rate equals the annual key rate. Starting from 17 September 2018, it was set at 7.5%.

H. Invoicing

VAT invoices and credit notes. In general, a Russian taxpayer must provide a VAT invoice for the supplies. Invoices must be issued in Russian, but bilingual invoices may be issued in Russian and another language.

A VAT invoice may be issued in electronic format by mutual agreement of the counterparties, provided that both parties have compatible information technology (IT) facilities for the receipt and processing of such an invoice.

The Russian Ministry of Finance establishes the procedure for the issuance and receipt of VAT invoices in electronic format. The Russian Federal Tax Service separately establishes the formats of VAT invoices, journals of VAT invoices received and issued, and sales and purchase ledgers in electronic format.

Since 1 October 2011, taxpayers are able to issue corrective VAT invoices. Corrective VAT invoices are allowed if there is a change in the value of a transaction, particularly for price changes or changes in the sales volume. The value may be either increased or decreased.

An increase in the value of a transaction results in the supplier charging additional VAT for the tax period in which the transaction takes place. The supplier issues a corrective VAT invoice indicating (among other details) the upward change as a positive amount. The receipt of the corrective VAT invoice provides the purchaser with grounds to offset the amount of VAT arising from the increase in the value of the transaction in the period in which the corrective VAT invoice is received.

On a decrease in the value of a transaction, the supplier issues a corrective VAT invoice indicating (among other details) the downward change as a negative amount. This invoice provides the supplier with grounds to offset the reduction in VAT caused by the decrease in the value of the transaction in the period in which the corrective VAT invoice is issued. The purchaser, in turn, must restore the excess amounts of input VAT resulting from a downward change in the value of a transaction.

Proof of exports. Goods exported from the Russian Federation, as well as some types of works and services related to exports, are subject to a 0% VAT rate in the Russian Federation. To confirm the applicability of the 0% rate, the supplier must collect and provide to the tax authorities a package of supporting documents.

Foreign-currency invoices. In practice, the issuance of VAT invoices in rubles is preferable. If a VAT invoice is issued in a foreign currency, all values required for VAT purposes must be converted into rubles for tax purposes, using the rate published by the Russian Central Bank. A sup-

plier determines the tax base using the rate of the Russian Central Bank as of the date of dispatch of goods (works and services) and/or property rights. On further receipt of payment, the tax base may not be adjusted by the supplier. A buyer recovers the amount of input VAT determined using the rate of the Russian Central Bank on the date when all VAT recoverability criteria are met. On making further payment to the supplier, the amount of recovered VAT may not be adjusted by the buyer.

B2C. When goods are sold to private customers the supplier should issue the private customer with a sales receipt instead of a VAT invoice.

Electronic invoicing. Electronic VAT invoicing is not mandatory, but it is allowed in the Russian Federation. It is available for all VAT taxpayers. VAT invoices may be prepared in electronic format by mutual agreement between the parties to a transaction and provided that those parties have compatible technical equipment and resources for the acceptance and processing electronic VAT invoices. Electronic VAT invoices should be signed with a qualified electronic signature and should comply with the form and format established by the Russian tax authorities.

Invoice obligations with regard to the supply of electronic services. A foreign legal entity providing electronic services is not obliged to issue VAT invoices for the supply of electronic services to either an individual (B2C supply) or legal entity or individual entrepreneur (B2B supply).

I. VAT returns and payment

VAT returns. Taxpayers file VAT returns quarterly. The VAT amount per VAT return must be paid equally in the three months after the relevant tax period. For example, the VAT amount payable according to the VAT return for the first quarter must be paid according to the following schedule:

- One-third of the VAT must be paid by 25 April
- One-third of the VAT must be paid by 25 May
- One-third of the VAT must be paid by 25 June

In general, VAT payable under the reverse-charge mechanism is accounted for separately and must be paid by the tax agent at the same time as payment is made to the supplier.

The purchase ledger and sales ledger of the taxpayer represent a part of the VAT return. Therefore, the VAT return contains information from each VAT invoice received or submitted during the reporting period. Tax reporting records must be maintained for at least four years.

Payment of VAT upon the supply of electronic services. A foreign legal entity providing electronic services should pay VAT as reported in a quarterly VAT return not later than the 25th of the month following a reporting quarter (i.e., by 25 April, 25 July, 25 October, 25 January).

Annual returns. Annual returns are not required in the Russian Federation (as prescribed by the Russian tax code).

Special schemes. The Russian tax code does not provide for any special VAT accounting schemes or VAT returns for certain groups of taxable persons. However, taxpayers may submit unified (simplified) tax returns (one return for one or more taxes) if the taxpayer had no taxable operations in the reporting period and no turnover on its bank account.

Electronic filing. All taxpayers must file VAT returns quarterly in electronic format only. Generally, VAT returns must be filed via operators approved for submitting electronic documentation flows. Purchase and sales ledgers, which are an integral part of a VAT return, must also be filed electronically. However, foreign legal entities that are providers of electronic services may submit simplified VAT returns via online personal accounts.

J. Penalties

The Russian tax law provides for the following fines with respect to the filing of VAT returns:

- Late filing: penalty ranging from 5% to 30% of the underpaid tax, depending on the duration of the delay
- Severe violation of revenue and expenses accounting regulations in one tax period: penalty of RUB10,000
- Severe violation of accounting regulations in more than one tax period: penalty of RUB30,000
- Severe violation of accounting regulations leading to the understatement of the tax base: penalty of 20% of the underpaid tax, but not less than RUB40,000
- Nonpayment or partial payment of the tax: penalty of 20% of the underpaid tax
- Willful nonpayment or partial payment of the tax: penalty of 40% of the underpaid tax

In addition, administrative and criminal charges may be imposed on company officials for "willful or negligent conduct of business that results in the defrauding of the state."

Rwanda

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A. At a glance

Name of the tax	Value-added tax (VAT)
Date introduced	1 January 2001
Trading bloc membership	Common Market for Eastern and Southern Africa (COMESA) and East African Community (EAC) Member
Administered by	Rwanda Revenue Authority (www.rra.gov.rw)
VAT rates	
Standard	18%
Other	Zero-rated (0%) and exempt
VAT number format	000111111
VAT return periods	Monthly or quarterly
Thresholds	
Registration	RWF20 million (in 12 months) or RWF 5 million (in a quarter)
Recovery of VAT by non-established businesses	No

B. Scope of the tax

VAT applies to the following transactions:
- The supply of goods and services in Rwanda by a taxable person
- Imported services received by a taxable person in Rwanda
- The importation of goods from outside Rwanda, regardless of the status of the importer (unless the import qualifies for VAT waiver under the investment code or the importer has been granted a VAT exemption)

The exportation of goods and taxable services is zero-rated if, subject to the satisfaction of the tax administration, the export has taken place and evidence exists that the export proceeds will be repatriated into Rwanda.

C. Who is liable

The consumers of taxable goods and services pay VAT. Registered taxpayers (traders), which act as the agents of the government, collect VAT. The Customs Services Department collects VAT on

imported goods, while the Domestic Taxes Department collects local VAT and VAT on imported services.

VAT registration is dependent on the attainment of a turnover threshold of RWF20 million in 12 months or RWF5 million in a quarter. Businesses that do not attain this turnover threshold may voluntarily register.

Group registration. The Rwandan VAT act allows group registration. However, in practice, group registration is allowed in special circumstances only.

Non-established businesses. A "non-established business" is a business that does not have a fixed establishment in Rwanda. A foreign business is not required to register for VAT unless it has a permanent establishment in Rwanda. A permanent establishment of a foreign business must register for VAT if it makes taxable supplies of goods or services. Other non-established businesses are not required to register for VAT. Instead, a person importing goods or services from a nonresident must pay the Rwandan VAT due.

Tax representatives. Any person allowed by law to represent a taxpayer shall file the tax declarations, pay taxes due and comply with all the obligations required under law.

Any person in one of the five following categories must, upon appointment as a tax representative, communicate his new capacity to the tax administration within a period of seven days:
- The guardian or any other person responsible for custody of a minor or an incapacitated person
- A legal or judicial administrator of an estate or of a will or the heirs of such an estate
- The president, accountant or director appointed or any other representative of a company or any other legal person
- The administrator or the representative of a company or any other legal person in liquidation
- Any other person given the mandate to represent the taxpayer

Also, the tax representative could be:
- The owner of an enterprise
- A partner in a partnership that has unlimited liability

Registration procedures. Any person who sets up a business or other activities that may be taxable is obliged to register with the tax administration within seven days from the beginning of the business or activity or the establishment of the company.

Any person who carries out taxable activities exceeding RWF20 million in the previous fiscal year, or RWF5 million in the preceding calendar quarter is required to register for VAT within seven days from the end of the year or quarter.

Any person may voluntarily register with the tax administration for VAT. Any changes, whether related to the taxpayer or his or her activities shall be reported in writing to the tax administration within seven days from the day of the notice of the change. Taxable persons must register by submitting the application in hard copy.

Individual entrepreneurs register in their own names using the Individual Enterprise Registration Form. Organizations or enterprises register using the Non-individual Registration Form in the name of the organization. Taxpayers conclude their registration by completing the appropriate registration form, signing and submitting it to the tax administration and by obtaining a tax identification number (TIN).

Late-registration penalties. Penalties may be imposed in the event of late registration by traders that meet the turnover threshold.

Penalties apply to a range of other VAT offenses (see Section J).

Reverse charge. Imported services are subject to VAT at the standard rate of 18%. If the service in question is not locally available in Rwanda, the importer of the service is allowed to account for VAT using the reverse-charge method, that is, by including it in both output and input tax, thereby having a nil net cash flow.

Digital economy. There are no specific provisions in the Rwandan VAT law for the taxation of the digital economy.

Deregistration. A taxpayer ceases to be liable to a particular type of tax at any time when the Commissioner General is satisfied that any one of the following circumstances is true:
- The taxpayer has ceased its business or economic activity completely.
- The taxpayer has reduced the volume of its activities to a level that it is not liable to that particular tax.
- The taxpayer has paid all taxes due to the tax administration.

Any registered taxpayer ceasing to be liable for a tax notifies the tax administration using a modified registration form within a period of seven days from the date it is no longer required to be registered.

When the tax administration is satisfied that a person is no longer liable to be registered, it cancels the registration. Granting cancellation of registration does not stop the tax administration from carrying out audits.

Exemption from registration. The VAT law in Rwanda does not contain any provision for exemption from registration.

Voluntary registration. It is possible for a taxable business that is not required to register for VAT to register on a voluntary basis. The taxpayer wishing to register voluntarily for VAT must apply to the Commissioner General in writing stating the reasons for why they want to register for VAT. The Commissioner General, if satisfied with the reasons given for the application, will grant permission in writing for such a taxpayer to be registered for VAT.

D. VAT rates

The term "taxable supplies" refers to supplies of goods and services that are subject to a rate of VAT, including the zero rate.

The following are the VAT rates in Rwanda:
- Standard rate: 18%
- Zero rate: (0%)

The standard rate of VAT generally applies to all supplies of goods or services. The zero rate applies to exports of goods and taxable services, as well as to other specified products.

Examples of goods and services taxable at 0%

- Exports of goods
- Exports of taxable services
- Goods and services supplied to diplomatic and consular missions

The term "exempt supplies" refers to supplies of goods and services that are not subject to tax. Persons that make exempt supplies are not entitled to input tax deduction (see Section F).

Examples of exempt supplies of goods and services

- Unprocessed agricultural products
- Financial services
- Educational services

- Medical services
- Agricultural, animal husbandry and horticultural services
- Transportation of passengers (excluding for hire)

Option to tax for exempt supplies. Not applicable.

E. Time of supply

The time when VAT becomes due is called the "time of supply" or "tax point." In Rwanda, the tax point is the earliest of the following events:
- The goods or services are supplied.
- An invoice is issued.
- Payment is received for all or part of the supply.

Other tax points apply in a variety of specific situations.

Deposits and prepayments. There are no special time of supply rules in Rwanda for deposits and prepayments. As such, the general time of supply rule applies (as outlined above). However, in practice in relation to construction contracts, advance payments do not qualify as taxable supplies.

Goods sent on approval for sale or return. There are no special time of supply rules in Rwanda for supplies of goods sent on approval for sale or return. As such, the general time of supply rule applies (as outlined above).

Reverse-charge services. There are no special time of supply rules in Rwanda for supplies of reverse-charge services. As such, the general time of supply rule applies (as outlined above), where the time of supply rule for imported services is the same as for local taxable supplies.

Continuous supplies. There are no special time of supply rules in Rwanda for continuous supplies. As such, the general time of supply rule applies (as outlined above). Therefore, for supplies of goods and services that are provided against periodic payments (e.g., where there is a monthly billing for an ongoing service), each such installment constitutes a taxable supply for VAT purposes.

F. Recovery of VAT by taxable persons

A taxable person may recover input tax, which is VAT charged on goods and services supplied to it for business purposes. Input tax is claimed by deducting it from output tax, which is VAT charged on supplies made. Taxable persons must claim input tax in the first VAT period after incurring the expense.

Input tax includes VAT charged on goods and services purchased in Rwanda and VAT paid on imports of goods and services.

Nondeductible input tax. VAT may not be recovered on purchases of goods and services that are not used for business purposes (for example, goods acquired for private use by an entrepreneur). In addition, input tax may not be recovered on certain business expenses/overheads.

The following list provides some examples of items of expenditure for which input tax is not deductible.

Examples of items for which input tax is nondeductible

- Purchase of cars with a passenger carrying capacity of less than 18 persons
- Business gifts
- Business entertainment
- Fuel for vehicles (apportioned)
- Mobile telephone bills (apportioned)
- Utilities (apportioned)

Partial exemption. VAT directly related to making exempt supplies is not recoverable. A registered person who makes both exempt and taxable supplies cannot recover VAT input tax in full.

Under Rwandan VAT law, if a taxable person supplies both taxable and exempt goods and services, only input tax attributable to taxable supplies may be recovered. The amount of the claimable input tax is determined using a standard method or an attribution method approved by the Commissioner General.

Refunds. A taxable person may claim a refund of input tax in excess of output tax.

The claim for a VAT refund can be made within one month after the date on which the tax became payable. Within one month after the date on which a person becomes registered, the person may file a claim for relief from VAT paid on stock held (goods held for trading) before registration.

Preregistration costs. A newly registered VAT taxpayer is allowed to claim input VAT credit in respect of goods that were in his store or stock at the close of the last day prior to registration.

G. Recovery of VAT by nonresidents

Rwanda does not refund VAT incurred by a foreign business, unless the foreign business has a permanent establishment in Rwanda and is registered for VAT in Rwanda.

H. Invoicing

VAT invoices and credit notes. A supplier of taxable goods and services must issue a tax invoice to the purchaser at the time of supply. Simplified tax invoices may be used if the sales to any one person in a day do not exceed a threshold determined by the Commissioner General.

A credit note may be used to reduce the VAT charged on a supply of goods or services. Credit notes must show the same information as a tax invoice.

Proof of exports. Goods exported from Rwanda are zero-rated. However, to qualify for zero rating, exports must be supported by evidence that proves the goods left Rwanda. Suitable evidence includes the following documents:

- A sales invoice
- A bill of lading, road manifest or airway bill
- A customs export entry (document issued by Customs as evidence that goods have been cleared to leave Rwanda's customs territory)

Foreign-currency invoices. Foreign-currency invoices are handled in the same manner as invoices in local currency.

B2C. There are no special invoicing rules in Rwanda for supplies made by taxable persons to private consumers. Normal VAT invoices must be issued.

Electronic invoicing. Electronic invoicing using electronic billing machines (EBMs) supplied by vendors authorized by the tax administration is mandatory for all VAT taxpayers, unless the taxpayer in question has a specific exemption granted by the Commissioner General from the use of an EBM. In other words, every commercial invoice issued by a VAT-registered person must invariably be accompanied by a corresponding EBM receipt generated from the EBM that is directly linked to the RRA IT system. There are prohibitive penalties for the nonuse or fraudulent use of EBMs by VAT-registered taxpayers.

I. VAT returns and payment

VAT returns. The VAT tax period is either one month or calendar quarter. Returns must be filed by the 15th day after the end of the tax period. Payment is due in full by the same date. A "nil"

return must be filed if no VAT is payable. A refund claim return must be filed if input tax exceeds output tax in a given tax period.

If the normal filing date falls on a public holiday or on a weekend, the VAT return must be submitted on the next working day after such day.

Special schemes. Not applicable.

Electronic filing and archiving. All tax filings in Rwanda are conducted online. The statutory period for archiving of accounting and tax records is 10 years.

Annual returns. There is no statutory requirement to file annual VAT returns in Rwanda.

J. Penalties

The late submission of a return is subject to a penalty of up to RWF500,000, plus 10% of the tax due and late payment interest charged at a rate corresponding to the monthly central bank lending rate to commercial banks, not compounded. Other major penalties for VAT offenses include up to 200% of tax evaded and possible criminal prosecution for fraudulent evasion of VAT.

Saint Lucia

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A. At a glance

Name of the tax	Value-added tax (VAT)
Date introduced	1 October 2012
Trading bloc membership	CARICOM
Administered by	Inland Revenue Department, VAT Section
VAT rates	
Standard	12.5%
Reduced	10% (hotel accommodation)
Other	Zero-rated (0%) and exempt
VAT number format	123456-7
VAT return periods	Monthly
Thresholds	
Registration	XCD400,000
Recovery of VAT by non-established businesses	No

B. Scope of the tax

VAT applies to the supply of goods and services by a taxable person in Saint Lucia and to the importation of goods and services.

C. Who is liable

The Saint Lucia VAT Act imposes a registration requirement on any person in Saint Lucia whose total value of taxable supplies exceeds XCD400,000 during a period of 12 or fewer months.

A person that expects to make taxable supplies in excess of XCD400,000 at the beginning of any period of 365 calendar days shall also apply for VAT registration in Saint Lucia.

Registration procedures. Taxpayers are required to register with the Saint Lucia Inland Revenue Department and are required to provide the incorporation documents of the entity being registered. The location is as follows:

Inland Revenue Department
VAT Section

Manoel Street
Castries
Saint Lucia, W.I.

Group registration. VAT grouping is not allowed under the Saint Lucia VAT Law. Legal entities that are closely connected must register for VAT individually.

Reverse charge. The import of a taxable service is subject to VAT in Saint Lucia, subject to certain criteria.

Tax representatives. Where a corporation fails to pay an amount of tax required, the persons who were directors at the time the corporation was required to pay such are jointly and severally liable, together with the corporation, to pay the amount and any interest or penalties attaching to such amount.

Late-registration penalties. A person who does not register within the time required by the Act is subject to a penalty of double the output tax payable by that person from the time at which they were required to register to the time of late registration.

Digital economy. There are no specific rules relating to the taxation of the digital economy. In practice, a non-established business providing digital services would generally be required to register for VAT, and charge VAT on their supplies where the services are physically performed, or used in Saint Lucia.

D. VAT rates

The term "taxable supply" refers to a supply of goods and services in Saint Lucia in the course or furtherance of a taxable activity. Taxable supplies include supplies at the zero rate.

In Saint Lucia, the following rates of VAT apply:
- Standard rate: 12.5%
- Reduced rate: 10% (on hotel accommodation)
- Zero rate: 0%
- Other: exempt

The 12.5% standard rate applies to most supplies of goods or services. The 10% rate applies to the supply of hotel accommodation. The First Schedule of the VAT Act lists the goods and services that are zero-rated.

Examples of zero-rated goods and services

- Exported goods and services
- Certain staple foodstuffs
- Fuel
- Goods supplied by licensed duty-free shop operators

The term "exempt supply" refers to a supply of goods and services that is not liable to VAT. Persons who make exempt supplies are not required to register for VAT, and they are not permitted to recover any input tax incurred in making those exempt supplies (see Section F). The Second Schedule of the VAT Act lists goods and services that are exempt from VAT. The Third Schedule lists imports that are exempt from VAT.

The following lists provide some examples of exempt supplies of goods and services.

Examples of exempt supplies of goods and services

- Financial services
- Medical services
- Education services
- Residential property sales

- Transportation services
- Betting and gaming

Examples of exempt imports

- Goods shipped or conveyed to Saint Lucia for transshipment to another country
- Goods imported by nationals returning home for permanent residence in specified categories
- Capital goods where specific conditions are met
- Goods and services imported during a disaster alert or emergency that are not for resale

Option to tax for exempt supplies. Not applicable.

E. Time of supply

The time when VAT becomes due is called the "time of supply." In general, the time of supply for goods and services supplied by a taxable person is the earliest of the following events:

- The date of issuance of the invoice by the supplier
- The date on which any consideration is received for the supply
- The date on which the goods are made available to the recipient or the services are performed

A taxable person must account for VAT in the VAT period in which the time of supply occurs, regardless of whether payment is received.

Deposits and prepayments. Not applicable.

Imported goods. VAT is payable on the importation of taxable supplies.

Goods sent on approval for sale or return. There are no specific time of supply rules for goods sent on approval for sale or return. The general time of supply rules outlined above would apply.

Leased assets. Goods supplied under a rental agreement are treated as successively supplied for successive parts of the period of the agreement, and each of the successive supplies occurs when a payment becomes due or is received, whichever is the earlier.

A supply of goods under a layaway agreement (agreement by which a supplier agrees to hold goods secured by a deposit until the price is paid in full by the purchaser) occurs when the goods are delivered to the purchaser.

Reverse-charge services. There are no specific time of supply rules for reverse-charge services. The general time of supply rules outlined above would apply.

Continuous supplies. Where goods or services are supplied under an agreement that provides for periodic payments, these supplies are treated as successively supplied for successive parts of the period of the agreement. Each of the successive supplies occurs when a payment becomes due or is received, whichever is the earlier.

F. Recovery of VAT by taxable persons

The VAT paid by a registrant is recoverable as input tax if it relates to goods and services acquired for the purposes of making taxable supplies. Input tax is recovered by offsetting it against output tax (that is, tax charged on supplies made) in the VAT return for each VAT period.

Goods or services are deemed to be for the purpose of making taxable supplies if the supplier acquired, imported or produced the goods or services for any of the following purposes:

- Their supply or resupply as a taxable supply
- Their consumption or use (whether directly or indirectly, wholly or partly) in producing goods or services for supply as a taxable supply
- Their consumption or use (whether directly or indirectly, wholly or partly) with respect to a commercial enterprise

Where the total amount of input tax deductible by a registrant exceeds the output tax for that VAT period, the excess is carried forward to the next tax period and treated as input tax deductible in that period. If any of the excess remains after being carried forward for three consecutive VAT periods, the registrant may file with the tax authorities a claim for a refund of the amount remaining.

Nondeductible input tax. Input tax may not be recovered on purchases of goods and services that are not used for business purposes.

Examples of items for which input tax is nondeductible

- Personal vehicles
- Fees for memberships in recreational clubs

Examples of items for which input tax is deductible (if related to a taxable business use)

- Business entertainment
- Travel expenses

Partial recovery. The Saint Lucia VAT Law states that if all the supplies made by a taxable person during a tax period are taxable supplies, the input tax incurred in the period is deductible in full. However, if some, but not all, of the supplies made by the person during the tax period are taxable supplies, a partial recovery calculation is required.

The amount of recoverable input tax is calculated based on the ratio of the value of taxable supplies made during the period compared to the total value of supplies (taxable plus exempt) made during the period.

Preregistration costs. There is no provision for persons to claim VAT incurred on costs prior to registration.

Refunds. If the amount of input VAT recoverable in a VAT period exceeds the amount of output VAT payable for that VAT period, the excess may be refunded, provided that all VAT returns due have been submitted and the credit has been carried forward for three consecutive months. A refund can be applied for with the Comptroller of Inland Revenue Department by submitting a completed VAT Form 004. The Inland Revenue Department will verify all refund requests and issue refunds at the end of the following month if no audit is required. Excess credits can also be utilized to clear off any other tax liability.

G. Recovery of VAT by non-established businesses

Foreign businesses that make commercial supplies in Saint Lucia may register and recover tax with respect to their local operations in the same manner as resident businesses. Where the business is not registered for VAT in Saint Lucia, it will be unable to recover VAT.

H. Invoicing

VAT invoices and credit notes. A taxable person must provide a tax invoice for all taxable supplies made to registrants. A tax invoice is necessary to support a claim for input tax deduction.

A credit note or debit note must be issued when the quantity or consideration shown on a tax invoice is altered. Credit and debit notes must contain broadly the same information as a tax invoice.

Electronic invoicing. There are no separate requirements for electronic invoices.

Proof of exports. VAT is charged at the zero-rate (0%) on supplies of exported goods. However, to qualify as zero-rated, exports must be supported by evidence that confirms the goods have left Saint Lucia.

Foreign-currency invoices. Where an invoice is expressed in a currency other than Eastern Caribbean dollars (XCD):

- In the case of imports, the amount is to be converted at the exchange rate as determined by the Customs (Control and Management) Act.
- In all other cases, the amount is to be converted at the exchange rate applying between the currency and the Eastern Caribbean dollar at the time the amount is taken into account.

I. VAT returns and payment

VAT returns. The VAT period in Saint Lucia is the calendar month. The VAT return must be filed within 21 calendar days after the end of the tax period. Any tax due for the period must be remitted with the return.

J. Penalties

Any VAT payable outstanding by the due date is liable to a penalty equal to 10% of the amount payable. Interest is charged at the rate of 1.25% per month or part of a month for the period the tax remains unpaid.

A person who for two or more VAT periods fails to file returns within the specified time and manner is liable on summary conviction to a fine not exceeding XCD50,000 or to imprisonment for a term not exceeding three years or to both.

Saudi Arabia

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A. At a glance

Name of the tax	Value-added tax (VAT)
Date introduced	1 January 2018
Gulf Cooperation Council (GCC) Member State	Yes

Administered by	General Authority of Zakat & Tax (GAZT — https://www.vat.gov.sa/en)
VAT rates	
Standard	5%
Other	Zero-rated and exempt
VAT number format	Numeric account number composed of 15 digits (E, 012345678912345)
VAT return periods	
Quarterly	General rule
Monthly	If annual taxable supplies exceeds SAR40 million
Thresholds	
Registration	SAR375,000
Deregistration	Less than SAR375,000
Recovery of VAT by non-established businesses	Yes

B. Scope of the tax

VAT applies to the following transactions:
- The supply of goods and services made in Saudi Arabia by a taxable person
- The acquisition of goods or services received in Saudi Arabia by a taxable person
- Reverse-charge services received by a taxable person in Saudi Arabia
- Taxable imports of goods received by a taxable person in Saudi Arabia

In some cases, supplies may be outside the scope of VAT, e.g., when supplies are:
- Made by a nontaxable person
- Made outside Saudi Arabia (but note special place-of-supply rules for certain international services, e.g., electronically supplied services)
- Not made in the course of an economic activity

C. Who is liable

A "taxable person" in Saudi Arabia is a person who conducts an economic activity independently for generating income, and is registered for VAT in Saudi Arabia or who is required to register.

A person who supplies or intends to supply real estate will be presumed to carry on an economic activity for the purpose of VAT registration, except in cases where prior to the supply, the real estate was used or was intended for use as a permanent dwelling by the person or by a related person.

Every person who has a place of residence in Saudi Arabia, must register for, collect and remit VAT where the total value of all taxable supplies made in Saudi Arabia in the past 12 months or expected taxable supplies in the next 12 months exceeds SAR375,000. The total value of taxable supplies includes all supplies of goods and services made by the person as a supplier, which are subject to a 5% or a 0% rate of tax (where supplied by a VAT-registered person). The total value of taxable supplies also includes the following:
- Nominal supplies
- Receipt of reverse-charge supplies in case goods or services
- After a GAZT order announces the full implementation of VAT in the GCC and the introduction of the Electronic Services System, intra-GCC supplies made from KSA to a VAT-registered person in another GCC Member State will not be subject to KSA VAT but will count toward the total value of taxable supplies

However, the value of taxable supplies does not include the following:
- Value of exempt supplies
- Supplies taking place outside the scope of VAT in Saudi Arabia
- Revenue on sale of capital assets

In cases where the tax authority has evidence or reason to doubt that a taxable person will not make its VAT and associated payments in an accurate and timely manner, it may require that cash security or a bank guarantee is provided as a precondition for VAT registration, subject to a number of requirements.

Non-established businesses. Every person who does not have a place of residence in Saudi Arabia, and is not registered with the Saudi Arabia tax authority, but is obligated to pay VAT on supplies made or received by that person in Saudi Arabia, must apply to the tax authority for registration within 30 days of the first supply on which that person was obligated to pay VAT. All nonresident taxable persons must have a local, approved tax representative who is jointly and severally liable for the VAT the business owes.

Registration procedures. Where the person has a requirement to register, they must apply to the tax authority to register within 30 days of the end of that month. The registration will take effect from the start of the next month following the month in which the registration application is submitted or from the start of the first month in which its annual supplies were expected to exceed the threshold.

Businesses can register for VAT using the application portal that is accessible on the GAZT's website. To register for VAT, taxpayers need to have a valid tax identification number (TIN). If the business does not have a TIN, it is required to register for one on the GAZT's website prior to VAT registration.

The tax authority has developed an online portal, which is available on its website, where taxpayers can verify suppliers' and customers' VAT registration numbers.

Voluntary registration. A person who has a place of residence in Saudi Arabia who is not obligated to register for VAT (as per the rules outlined above), may apply for VAT registration if its total value of taxable supplies in the past 12 months or expected taxable sales in the next 12 months are between SAR187,500 and SAR375,000.

Exemption from registration. A taxable person who at any time has annual supplies made in Saudi Arabia whose value exceeds the mandatory registration threshold, which are exclusively zero-rated supplies, is excluded from the requirement to register. They may however elect to register voluntarily. Exempt supplies do not count toward voluntary or mandatory registration thresholds.

Imports. Imports into Saudi Arabia by a VAT-registered person or non-VAT registered person are subject to VAT, with the actual payment of VAT required. Authorization may be granted to registered taxpayers in order to make the payment of VAT through its tax return as opposed to at customs. Despite there being a customs union in the GCC, in cases where a resident non-VAT registered person in Saudi Arabia imports goods with a value exceeding SAR10,000 into Saudi Arabia from another GCC Member State, and cannot prove at the time of such entry that VAT was paid on the purchase of those goods in such GCC Member State, that person is deemed to make an import of those goods and VAT shall be payable on such imports.

Reverse charge. The reverse-charge mechanism must be applied when a VAT-registered business imports a taxable service from a nonresident. The taxable person registered for VAT in Saudi Arabia is required to account for VAT on the transaction using the reverse-charge mechanism.

A VAT-registered recipient resident in Saudi Arabia must self-account for the VAT through its VAT return, by way of the reverse-charge mechanism, by assessing and accounting for the VAT charged on the supplies received, if:
- The place of supply for the goods or services is in Saudi Arabia.
- The supplier is not resident in Saudi Arabia.

Self-supplies. Goods or services that a taxable business supplies to itself are not taxable (with the exception of nominal supplies). This includes instances where one member of a VAT group provides services to another member of that group.

Group registration (VAT group). Two or more legal persons, may apply for VAT registration as a VAT group if all of the following conditions are met:
- Each group member must perform an economic activity and be legal residents in Saudi Arabia
- 50% or more of the capital of each legal person, or ownership or control of 50%, or more of the voting rights or value, in both or all of the group members, is held by the same person or group of persons, whether directly or indirectly (i.e., under common control)
- At least one of the group members must independently meet the taxable sales threshold for VAT registration

All members of a VAT group shall be jointly and severally liable for the VAT obligations of that VAT group arising during its registration.

An application to form a VAT group must be made by a taxable person. This person will be the representative member of the VAT group and will have the primary obligation to comply with the obligations and the rights of the group on behalf of all members of the group, without prejudice to the joint liability of the other members of the group.

The VAT group registration takes effect from the first day of the month following the month in which the application is approved or such later date as determined by the tax authority. If the application is approved, the tax authority will issue a new VAT identification number to the VAT group representative on behalf of the VAT group, and suspend the existing VAT identification numbers of members who are individually registered for VAT.

The tax authority may issue a notice to two or more taxable persons who are not part of any VAT group, but who are eligible to form one together, that they are considered to be in a VAT group from any prospective date. Such notice may only be issued where the VAT registration of each taxable person results or will result in the accrual of a VAT advantage.

Tax representatives, tax agents and appointed persons. The tax authority may approve persons who wish to act as tax representatives or tax agents for taxable persons in respect of their VAT obligations in Saudi Arabia. The tax authority shall publish a list of approved tax representatives and approved tax agents.

All nonresident taxable persons must have a tax representative. That representative, once approved by the tax authority, is able to submit VAT returns and payment to the tax authority and correspond with the tax authority on the taxpayer's behalf. The tax representative shall be jointly liable for the payment of any VAT due by the taxable person, until such date the tax representative is confirmed by the tax authority as ceasing to act on behalf of that taxable person.

A taxable person who is resident in Saudi Arabia may appoint a tax agent to act on that taxable person's behalf in respect of its VAT obligations in Saudi Arabia, by submitting a notification. Notwithstanding the appointment of a tax agent, the taxable person shall maintain individual responsibility for all such obligations.

Deregistration. Where a taxable person ceases to carry on an economic activity, including cases where a legal person ceases to exist as a legal person, that taxable person shall deregister. Dereg-

istration will take effect from the date determined by the Saudi Arabia tax authority after its approval of the deregistration.

Where at the end of any month, a nonresident taxable person has not made any taxable supplies in Saudi Arabia in the most recent 12-month period that the taxable person must deregister.

At the end of any month, a resident taxable person (having been registered for at least 12 months) is required to deregister where all of the following occur:
- The total value of annual supplies or annual expenses in the last 12 months is less than the voluntary registration threshold
- The total value of annual supplies made in Saudi Arabia or annual expenses in the last 24 months does not exceed the mandatory registration threshold
- The total value of annual supplies or annual expenses in that month and the subsequent 11 months is not anticipated to exceed the voluntary registration threshold

A taxable person shall apply for deregistration to the Saudi Arabia tax authority within 30 days of any of the cases above. Where the taxable person does not apply for deregistration to the tax authority, the tax authority may deregister that person. In these cases, the tax authority will issue a notification.

Deregistration is optional if:
- A business's taxable supplies in the last 12 months are between SAR187,500 and SAR375,000
- A business's expected taxable supplies in the next 12 months (current month included) are between SAR187,500 and SAR375,000

The deregistration takes effect on the date determined by the tax authority after its approval of the deregistration. A taxable person may not apply to deregister voluntarily in cases where it has been registered for less than 12 months. The tax authority may refuse an application for deregistration where it does not have sufficient evidence that a taxable person is eligible to deregister.

Digital economy. There are special rules for taxable persons liable to VAT in cases where electronically supplied services are supplied in Saudi Arabia through an online interface or portal acting as intermediary for a nonresident supplier.

In cases where electronically supplied services are supplied in Saudi Arabia through an online interface or portal acting as intermediary for a nonresident supplier, the operator of the interface or portal is presumed to purchase the services from the nonresident supplier and to supply those same services in their own name. This does not apply in cases where both of the following conditions apply:
- The nonresident supplier is expressly indicated as the supplier during the online sales process, in the contractual arrangements between the parties, and on the invoice or receipt issued by the operator of the interface or portal.
- The operator of the interface or portal does not authorize charging the customer for the delivery of the services or the delivery itself, or set the general terms and conditions of the supply.

In cases where both the conditions are present, the intermediary is not considered as acting in its own name as a principal, hence, the nonresident supplier is liable to pay and account for VAT on electronic services supplied.

D. Tax rates

The term "taxable supplies" refers to supplies of goods and services that are subject to VAT. Therefore, VAT is applicable on all supplies of goods or services, unless exempt or outside the scope of the levy.

In Saudi Arabia, the following rates of VAT apply:
- Standard rate: (5%)
- Zero rate: (0%)

The standard rate of VAT applies to all supplies of goods or services, unless a specific measure provides for the zero rate or an exemption.

The following imports of goods, which are not subject to customs duties, are exempt from import VAT:
- Goods for diplomatic and military use that are exempt from customs duties
- Imports of personal effects and household appliances being moved into Saudi Arabia that are exempt from customs duties in accordance with the Unified Customs Law
- Imports of returned goods that are fully exempt from customs duties
- Low value imports of personal items and gifts carried in travelers' personal luggage, within the limits set by the Customs Department for relief from customs duties collection

Examples of zero-rated supplies of goods and services include:

Saudi Arabia will treat intra-GCC products in the same way as non-GCC imports for the purposes of VAT, until the full integration of the Electronic Services System. This means that the concept of the implementing states is currently not live, and that supplies to GCC residents are treated in the same way as supplies to non-GCC residents.

- A direct or indirect export from Saudi Arabia to a place outside of the GCC territory
- Services provided to non-GCC residents
- International transportation. Within international transport, zero-rated goods and services include:
  - — International transport of passengers and goods
  - — Vehicles and equipment to be used for international transportation
  - — Certain goods and services provided in connection with international transportation
- Medicines and medical goods, considered as qualifying medicines and qualifying medical goods as per the classification issued by the Ministry of Health or any other competent authority from time to time. Qualifying medicines and medical goods will be part of the Ministry of Health's formulary drug list
- Investment metals. Two types of transactions involving qualifying investment metals (gold, silver and platinum of 99% purity or higher) are zero-rated:
  - A producer or refiner's original sale of investment metal
  - Any further sale of gold, silver and platinum where the purity level remains

Examples of exempted supplies of goods and services

- Certain financial and insurance services. This does not include instances where the consideration payable is by way of explicit fees.
- Residential real estate. The supply by way of lease, license or rental of any property classified as residential real estate, or designed or used for residential purposes will qualify to be treated as exempt from VAT. The supply of hotel accommodation, non-hotel but serviced accommodation, or residential property held out for rent in a similar manner to hotel or serviced accommodation will not qualify for exemption. Any commercial property or property designated or used for commercial purposes will not qualify for exemption.

Option to tax for exempt supplies. Saudi Arabia does not operate an option to tax in respect of any exempt supplies.

E. Time of supply

Imports. A taxable person may apply for authorization for the payment of VAT on imports to be made through that taxable person's VAT return, instead of being collected by the Customs

Department on importation entry, (effectively postponed import VAT accounting). The tax authority will primarily approve larger-volume importers for this option.

Deposits and prepayments. A deposit for a supply designed to be paid by the customer as an advance payment that will be considered as an initial payment for the supply or subsequent payments will create a tax point when received.

The tax point for an advance payment is whichever of the following happens first:
- The date the VAT invoice is issued for the advance payment
- The date the advance payment is received

VAT is due on the advance payment in the VAT return for the period when the tax point occurs.

A security deposit is not treated as a consideration for a supply unless the deposit is applied either in part or full as consideration for a supply, or it is forfeited in relation to defaulting the performance of the obligation. Apart from security deposits, a prepayment or deposit intended by the payer and recipient to eventually form part of the consideration for an identifiable supply creates a tax point when received.

Goods sent on approval for sale or return. Saudi Arabia does not have a specific time of supply rule for these circumstances.

Leased assets. Saudi Arabia does not have a specific time of supply rule for these circumstances.

Continuous supplies. Where a supply of goods or services is made in installments, a separate supply in respect of each installment takes place on the earlier of the due date for the payment of that installment or the date of actual payment.

In all other cases where supplies of goods or services are made on a continuing basis, a separate supply takes place on the earlier of the date an invoice is issued or payment is made in respect of those goods or services, to the extent of the amount invoiced or paid.

In the event that no payment has been received or invoice has been issued in relation to a continuous supply of goods or services by a taxable person, the supply is deemed to take place on the date falling twelve (12) months after the later of:
- The date on which the supply of goods or services commences
- The previous date on which the supply took place by reason of an invoice being issued or payment being made

Reverse-charge services. Saudi Arabia does not have a specific time-of-supply rule for reverse-charge services.

Supply of oil, gas, water or electricity through a distribution network. The supply of oil, gas, water or electricity through a distribution network that is not made on a continuing basis, takes place at the earlier of:
- The date an invoice is issued by the supplier in respect of those goods
- The date that payment is received by the supplier in respect of those goods

Deemed supply on deregistration. A deemed supply made as a result of the cessation of a taxable person's economic activity takes place on the date of deregistration of that taxable person.

F. Recovery of VAT by taxable persons

A taxable person may deduct input tax charged on goods and services supplied to it, to the extent these are received in the course of carrying on an economic activity and constitute:
- Taxable supplies, including zero-rated supplies

- Internal supplies, including input tax paid on imports from other GCC Member States. Note that if the supplier resides in a GCC Member State that has not implemented VAT, the import VAT will be treated as if it came from outside the GCC
- Taxable imports from outside the GCC, meaning that VAT paid on taxable imports from outside the GCC is deductible if it used to supply zero rated or standard rated goods or services

A valid VAT invoice or customs document is required for an input tax deduction.

A taxable person may claim a refund of the amount of excess VAT paid, in any of the following circumstances:
- Upon filing a VAT return for a tax period where net tax is an amount due to the taxable person
- Where the taxable person has paid an amount in excess of the amount of VAT paid
- Where the taxable person has a VAT credit balance

In all of these cases, the standard practice is to carry forward the amount in the VAT account, unless the taxable person requests a refund.

Refunds. When a taxable person submits its VAT return, it can request to receive any refund associated with that return as a tax credit. In that case, the tax authority will automatically apply the refundable amount to the taxable person's balance on its next VAT return or at any other time.

Input tax can be deducted in the tax period when the supply is invoiced, in line with the invoice accounting practices. If the business is approved for cash accounting, then the input tax can only be deducted in the tax period when the invoice is actually paid.

However, a taxable person may submit a request to the tax authority for refund in any circumstances outlined above, at the time the VAT return is filed, or at any other time within five years following the end of the calendar year for which the circumstances relate.

Nondeductible input tax. Input tax may not be recovered on purchases of goods and services that are not used in the course of carrying the taxable person's economic activity. The list below outlines the goods and services input tax cannot be recovered on (unless they are used in onward taxable supplies by a taxable person):
- Any form of entertainment, sporting or cultural services
- Catering services in hotels, restaurants and similar venues
- The purchase or lease of "restricted motor vehicles," related services and fuel used in restricted motor vehicles. This also includes the repair, alteration, maintenance or similar services on restricted motor vehicles
- Any other goods and services used for a private or nonbusiness purpose

Noneconomic activities. Input tax may not be recovered on purchases of goods and services that are not used in the course of carrying on the taxable person's economic activity.

Partial exemption. Input tax directly related to the making of exempt supplies is not recoverable. Where input tax incurred is attributable to both taxable and exempt supplies, only the amount attributable to taxable supplies (in accordance with the partial exemption calculation) can be recovered. The default method of proportional deduction of input tax is calculated on the basis of a fraction where:
- The numerator is the value of taxable supplies made by the taxable person in the last calendar year.
- The denominator is the total value of taxable supplies and exempt supplies made by the taxable person during the last calendar year.
- The value of taxable supplies or exempt supplies made by the taxable person in the fraction, include those supplies that do not take place in Saudi Arabia, but that would have been either taxable or exempt supplies if they had taken place in Saudi Arabia.

The fraction outlined above, shall not include:
- Supplies of capital assets by the taxable person
- Supplies taking place outside of Saudi Arabia that are supplied from an establishment of the taxable person outside of Saudi Arabia

At the end of the calendar year, the taxable person using the default method must compare the values used in the fraction during that year, with the actual values of supplies made in that calendar year, and make an adjustment to input tax in the final VAT return for that calendar year to reflect the correct proportional deduction based on the actual supplies for the entire year.

A taxable person may submit an application to use an alternative proportional deduction method to the default method, in cases where that alternative method more accurately reflects the use of goods and services supplied to that taxable person.

In cases where the taxable person incurs input tax on goods and services that are not used to make taxable supplies, but are used for the following:
- In respect of raising capital for an ongoing economic activity to the extent this constitutes the making of taxable supplies by way of the issues of share capital or debt
- For a business activity that is treated as outside the scope of VAT, such as a transfer of an economic activity, or part of an economic activity as a going concern
- For another one-off event that is incidental to the economic activity to the extent this constitutes the making of taxable supplies

Such input tax shall be deductible in accordance with the proportion of the overall economic activity of the taxable person that constitutes the making of taxable supplies, determined using the applicable proportional deduction method.

Capital assets. If capital assets are bought after registering for VAT, then the full amount of input tax can be deducted immediately, in case the full amount is paid upfront and the intended use of the capital asset is the making of zero rated or standard rated supplies. However, if the price is paid in installments, VAT is accounted for with the periodic payments in line with the time of supply rules.

In cases where capital assets have already been bought before registration and VAT has been paid on it, the input tax paid can still be deducted after registration with its value capped by the net book value. Net book value is determined in accordance with the accounting standard of the taxable person such as straight-line depreciation. This is covered in more detail in the *Preregistration* costs section below.

A taxable person shall adjust previously deducted input tax in relation to a capital asset in cases where the taxable person's input tax decreases or increases as a result of a change in the way the taxable person uses the asset, or a change in the VAT status of such use.

The adjustment period is 6 years in respect of moveable tangible or intangible capital assets and 10 years in respect of immovable capital assets that are permanently attached to land or real estate, starting from the date of purchase of the capital asset by the taxable person. Should the life of the capital assets (determined in accordance with the accounting practice of the taxable person) be less than the otherwise corresponding adjustment period, the adjustment period shall instead be the life of the capital asset, with any part years counting as one year.

At the time a taxable person acquires a capital asset, input tax shall initially be deducted in accordance with the intended use of the goods. During the adjustment period, an adjustment to the deduction must be made following any year in which the actual use of the capital asset differs from that initial intended use. Capital expenditure incurred on a capital asset already owned by the taxable person (i.e., to construct, enhance or improve it) counts as expenditure or additional expenditure acquiring it, the adjustment period (or additional adjustment period) for such expenditure shall commence on the date of completion of such works.

At the end of each 12-month period, a taxable person shall calculate the amount of input tax potentially subject to adjustment using the fraction, initial input tax deduction divided by the adjustment period, and shall make an adjustment to the amount of the input tax deducted, based on the actual use of the capital asset during that year.

The taxable person shall make an adjustment to the input tax in the tax return for the last tax period that falls in the 12-month period.

In cases where there is a permanent change in the use of a capital asset due to the sale or disposal of the capital asset by a taxable person, the taxable person must adjust the input tax deduction for the remainder of the adjustment period for the capital asset in the tax period in which it is sold. No adjustment to the input tax deducted for the remainder of the adjustment period is needed if the capital asset is destroyed or stolen or ends its useful life earlier than accounted for.

Preregistration costs. A taxable person is entitled to deduct input tax incurred by it in respect of services supplied to it during the period of six months before the effective date of registration, provided that:

- The services are purchases to be used for supplies outlined in 'Recovery of VAT by taxable persons' section
- The services have not been supplied onward, or used in full, by the taxable person prior to the registration date
- The services are not of a type that is restricted from deduction

A taxable person is entitled to deduct input tax incurred by it in respect of goods supplied to it or goods imported by it before the effective date of registration, provided that:

- The goods are purchased or imported to be used for the supplies outlined in "Recovery of VAT by taxable persons" section, and where the VAT cannot be wholly attributed to such use, an apportionment is used
- In cases where the goods are capital assets, these have a positive book value at the date of registration
- The goods have not been supplied onwards by the taxable person, or used in full by the taxable person prior to the registration date
- The goods are not of a type that is restricted from deduction

Bad debts. In cases where a taxable person does not receive all or part of the consideration for a taxable supply made by them, the taxable person may reduce their output tax for the VAT amount calculated on the consideration not paid in the VAT return in which all of the following conditions are met:

- The taxable person has previously included VAT calculated on the taxable supply as output tax on a VAT return and made payment of the VAT due
- The consideration is in respect of a supply of goods or services made to a customer who is not a related person
- A period of at least 12 months has passed from the date of the taxable supply
- The taxable person holds a certificate from their certified accountant indicating that the unpaid consideration has been written off in their books
- In cases where the total amounts unpaid by the customer exceeds SAR100,000, formal legal procedures have been taken to collect the debts without success and the taxable person can provide evidence of these procedures, such as the issuance of a judicial ruling, evidence of the debtor's bankruptcy or a court order indicating any other formal recovery procedure

A taxable person using the cash accounting basis cannot make any adjustment for nonpayment, as outlined above.

Designated persons. The tax authority may allow designated persons not carrying on an economic activity, or those engaged in designated economic activity, to apply for a refund of VAT paid by them on supplies of goods or services received in Saudi Arabia. The Minister of Finance

may issue an order setting out a list of persons considered an eligible person. Foreign governments, international organizations, diplomatic and consular bodies and missions may also be authorized by the Minister of Finance as an eligible person to request the refund of VAT incurred on goods and services in Saudi Arabia.

G. Recovery of VAT by non-established businesses

At the time of preparing this chapter, the refund mechanisms outlined below are not yet available.

Refund of VAT to taxable persons in other GCC Member States. Persons who are registered for VAT in another GCC Member State may submit an application for refund of VAT incurred in Saudi Arabia in accordance with the mechanism agreed between the GCC Member States.

Refund of VAT to taxable persons nonresident in the GCC Territory. Persons who carry on an economic activity in a country outside of the GCC territory, may apply to be considered as an eligible person and able to request a refund of VAT incurred on supplies of goods or services made to that person in Saudi Arabia. A person will be considered as an eligible person in the following cases:

- If the person is established in a country with a transaction tax system similar to VAT, and that person is registered for that tax in that country
- If the person is established in a country with a transaction tax system similar to VAT and that country allows a similar mechanism to provide refunds of tax to residents of Saudi Arabia who are charged tax in that country

The person wishing to request a refund of VAT shall submit an application to the tax authority to be an eligible person.

Refund of VAT to tourists. The tax authority may authorize one or more providers to carry out a tourist refund scheme facilitating refunds of VAT incurred in Saudi Arabia by tourists. The tax authority shall publish a list of all authorized providers.

Tourists who can evidence they are not resident in another GCC Member State, may apply directly to the approved provider for a refund of VAT on goods that are purchased in Saudi Arabia, which will not be used while in Saudi Arabia and that will be exported to a place outside of the GCC territory.

A refund application must be submitted by the tourist to the authorized provider while the tourist is still present in Saudi Arabia.

The authorized provider shall collect evidence of payment of VAT and on the eligibility of goods for refund. It shall also carry out a check of the application before submitting the applications to the tax authority for approval.

In cases where an application in respect of any tourist is approved, the tax authority will make payment of the refund amount to the provider. The provider is obliged to make payment to the tourist but may deduct a percentage of the VAT refund as a commission.

H. Invoicing

VAT invoices. VAT-registered suppliers must produce invoices documentation revenue and tax information on all taxable sales. Each taxable person must issue or arrange for the issuance of a VAT invoice in respect of either of the following events:

- Any taxable supply of goods or services that it has made to another taxable person or to a nontaxable legal person.
- Any payment made in respect of a supply of goods or services to a taxable person or nontaxable legal person, before that supply takes place.

Generally, invoices for all supplies must be issued in the Arabic language. However, the tax authority accepts invoices to be issued in the English language for purchase invoices only.

Any such VAT invoice must be issued at the latest the 15th day of the month following the month in which the supply took place.

A VAT invoice must include the following details in Arabic, in addition to any other language also shown on the VAT invoice as a translation:

- The invoice issue date and the date of the supply (if they differ)
- A sequential number that uniquely identifies the VAT invoice
- The supplier's legal name, address and tax identification number
- The customer's legal name, address, and, when the customer is self-billing, tax identification number (and a statement that the customer and supplier have agreed to self-billing of VAT)
- The quantity and type of goods, or the extent and nature of services provided
- The total amount of revenue eligible for VAT and exemption, and the VAT rates (5% or 0%) to be used
- The unit price not including tax
- Explanation of any discounts or rebates not included in the unit price
- The total tax payable in SAR
- Explanation of any supply where a zero-rate, exemption, or margin scheme is used to calculate VAT
- Profit margin method

Foreign-currency invoices. Invoices should always base monetary sums in SAR. If the transactions occurred in another currency, the taxpayer should use the daily conversion rate on the date the tax becomes due provided by the Saudi Arabian Monetary Authority (SAMA) in order to convert the sum to SAR.

Credit and debit notes. A VAT credit note may be used to reduce the amount of VAT charged on a supply. Alternatively, if both parties agree, the customer can issue a VAT debit note. A valid debit note places the same legal obligations on both parties as a valid VAT credit note and must fulfill the same conditions. A credit or debit note issued must contain a reference to the sequential number of the VAT invoice issued in respect of the initial supply to which the credit or debit note relates. Such credit or debit note shall include the information required to be shown on a VAT invoice.

Self-billing. A self-billed VAT invoice may be issued by the customer on behalf of a supplier in respect of a taxable supply made to the customer, provided that a prior agreement between the supplier and the customer has been made to this effect. Such agreement must confirm a procedure for the acceptance of each invoice by the supplier of the goods or services, and include an undertaking by the supplier not to issue VAT invoices in respect of those supplies.

Third party. Taxable persons can request permission from the tax authority where VAT invoices can be issued by a third party on behalf of a supplier who is a taxable person, in respect of a taxable supply of goods or services. The supplier shall be responsible for the accuracy of the information shown on the VAT invoice and for reporting output tax on the supply.

Summary invoices. A summary VAT invoice may include more than one separate supply of goods or services, provided all supplies included on a summary VAT invoice are made by the same supplier and within the same tax period.

Electronic invoicing. Businesses in Saudi Arabia are required to maintain electronic books and records and the VAT regulations specify that VAT invoices can be issued in an electronic format. Manually generated paper invoices are also permitted. Taxpayers are required to maintain their VAT records including invoice copies inside Saudi Arabia. The records must either be physical documents inside Saudi Arabia or stored electronically.

B2C. There are no specific rules currently in place in Saudi Arabia for B2C invoicing.

Simplified VAT invoices. A simplified VAT invoice may be issued for a supply of goods or services valued at less than SAR1,000. A simplified VAT invoice may not be issued in respect of an internal supply or an export of goods.

A simplified VAT invoice must include the following details:
- The date the invoice is being issued
- The full name, address and tax identification number of the supplier
- The description of the goods or service supplied
- The total consideration payable for the goods or services
- The VAT payable or a statement that the consideration is inclusive of VAT in respect of the supply of the goods or services

Records. The invoices, books, records and accounting documents required to be maintained by a taxable person, shall be kept for a minimum of six years from the end of the tax period to which they relate, in case of audit.

Records with respect to capital assets must be kept for a minimum of the adjustment period for these capital assets — 6 years for tangible and intangible assets and 10 years for immovable assets like real estate — plus an additional 5 years from the date of purchase. In total that is 11-15 years.

Taxpayers are required to maintain their VAT records inside Saudi Arabia. The records must either be physical documents inside Saudi Arabia or stored electronically, where the physical server is also inside Saudi Arabia. This also applies to nonresident taxpayers, in whose case their designated tax representative is responsible for records maintenance according to these principles. Multinational companies that centralize their record keeping outside Saudi Arabia, must have a terminal inside Saudi Arabia where their Saudi Arabian-related VAT records are accessible.

Taxpayers should keep all records related to their calculation of VAT. The records will include VAT returns and invoices but potentially other transaction records as well.

Proof of exports and intra-GCC supplies. VAT is charged at the zero-rate on supplies of exported goods or intra-GCC supplies of goods. However, to qualify as VAT-free, export and intra-GCC supplies must be supported by evidence that the goods have left Saudi Arabia. Acceptable proof includes the following documentation:
- For exports, export documentation issued by the Customs Department or equivalent Department of another GCC Member State, showing the goods being formally cleared for export on behalf of the supplier or customer of that supply, commercial documentation identifying the customer and the place of delivery of the goods, transportation documentation evidencing the delivery to, or receipt of goods outside of the GCC territory.
- For intra-GCC supplies, commercial documentation identifying the customer and the place of delivery of the goods, transportation documentation evidencing the delivery or receipt of goods in the GCC Member State of destination and a customs declaration if applicable.

I. VAT returns and payment

VAT returns. The VAT return of a taxable person must be filed by the taxable person or a person authorized to act on its behalf for each tax period with the tax authority, no later than the last day in the month following the end of the tax period to which the VAT return relates. This deadline applies whether such date is a working day or a non-working day. A VAT return filed validly on behalf of a taxable person, shall be considered that taxable person's self-assessment of VAT due for that tax period.

Tax periods. For taxable person whose annual value of taxable supplies exceeds SAR40 million during the previous 12 months or expected to exceed in the following 12 months, the tax period

shall be monthly. For all other taxable persons, the standard tax period shall be three months. If a taxable person's annual value of taxable supplies does not exceed this value, they may submit an application to use a monthly tax period.

A taxable person who has used the monthly tax period for two years may submit an application to use a tax period of 3 months, provided that taxable person's value of annual taxable supplies during the last 12 months does not exceed the SAR40 million value.

The tax authority may with a reasoned decision, obligate a taxable person to change their tax period.

Electronic filing and archiving. As per the above section, records may be stored electronically, where the physical server is inside Saudi Arabia. This also applies to nonresident taxpayers, in whose case their designated tax representative is responsible for records maintenance according to these principles. Multinational companies that centralize their record keeping outside Saudi Arabia, must have a terminal inside Saudi Arabia where their Saudi Arabian-related VAT records are accessible.

Payment. Payment of VAT due by a taxable person in respect of a tax period must be made at the latest by the last day of the month following the end of that tax period. The person making the payment must provide details of the tax identification number of the taxable person and the tax period or tax periods to which the period relates.

Businesses must pay the tax authority the VAT they owe via a bank transfer to the tax authority's designated account using the SADAD payment system.

The net VAT payable by a taxable person in respect of a tax period is calculated by deducting the total input tax (including input tax on imports) allowed to the taxable person during the tax period from the total amount of output tax payable in respect of all taxable supplies made by the taxable person in Saudi Arabia during the tax period. This calculation method is known as the invoice accounting basis.

When the tax authority receives a payment from a taxable person, it will first be applied to the balance of the tax period to which the payment refers. Any excess balance will be applied to penalties, fines or charges owing from any previous tax period, and the remainder will then be applied to outstanding balances for other tax periods, starting from the oldest period with a balance payable.

The tax authority may offset any VAT credit balance against any other taxes due by the taxable person. The tax authority shall notify the taxable person where an offset of a credit balance is carried out.

Where any relevant VAT amount is expressed in a currency other than SAR, the amount must be converted to SAR using the daily rate prescribed by the Saudi Arabian Monetary Authority on the date that the relevant VAT amount becomes due.

Special schemes. There is a special scheme for dealers in secondhand goods. A taxable person may apply to account for VAT payable on a supply of eligible used goods, using the profit margin method. The taxable person may not use this method until it has received notification from the Saudi Arabia tax authority that it is approved. A supply of eligible used goods must meet all of the following criteria:

- The supply is that of used goods situated in Saudi Arabia, and the goods are of a type that the tax authority has specified are eligible for VAT to be calculated using the profit margin method.
- The goods were purchases by the taxable person in a supply made to the taxable person in Saudi Arabia by a nontaxable person, by a taxable person outside of their economic activity, or by a supplier applying the profit margin method in all cases where such a taxable person did not deduct any input tax on their purchase of the goods.

- The taxable person meets the criteria in respect of the purchase and supply of such eligible used goods.

A supply of goods that are situated outside of Saudi Arabia, or that move to or from Saudi Arabia as part of the supply to, or supply by the taxable person, is not a supply of eligible used goods.

VAT invoices issued for supplies of eligible used goods by a taxable person must clearly refer to the taxable person's use of the profit margin method, and must not show any amount of VAT charged in respect of any supply.

In cases where a taxable person purchases the eligible used goods from a nontaxable person, the taxable person must issue an invoice in respect of the purchase to that nontaxable person. This invoice must include:
- The name, address and tax identification number of the taxable person
- The name and address of the nontaxable person
- The date of the purchase
- Details of the goods purchases, including any relevant registration number or other details that the tax authority may specify
- The consideration payable in respect of the purchase of the goods

The profit on a supply of eligible used goods is calculated as the consideration for the supply of the eligible used goods by the taxable person, less the consideration payable in respect of the purchase of the eligible used goods. The profit does not include any expenses or other amounts incurred by the taxable person in respect of the supply. In cases where the profit calculated of any supply is zero, or results in a negative amount, the value of that supply by the taxable person is zero.

A taxable person must not deduct input tax in respect of any amount of VAT charged to it or included in the consideration for the purchase of eligible used goods.

Cash accounting. As an exception to the requirement to use the invoice accounting basis, a taxable person may apply to calculate net VAT due for a tax period on a cash accounting basis provided that the annual value of taxable supplies in the past calendar year does not exceed SAR5 million, and the anticipated value of taxable supplies in the current calendar year is not expected to exceed SAR5 million.

However, a taxable person who has received notification of a VAT violation in the last 12 months is not eligible to use the cash accounting basis.

A taxable person using the cash accounting basis shall only include output tax and input tax in their VAT return in respect of supplies of goods and services for which and to the extent that payment has been made.

Annual returns. There is no requirement to submit annual returns in Saudi Arabia.

J. Penalties

Assessments. The Saudi Arabia tax authority may make a VAT assessment of a taxable person irrespective of a VAT return filed by the taxable person. The tax authority may make a new VAT assessment to amend a previous assessment made by it. The tax authority must notify the taxable person of a VAT assessment.

The tax authority may not issue or amend an assessment in respect of any tax period, after a period of five years has passed from the end of the calendar year in which the tax period falls.

In cases where any transaction is being carried out with the intention of breaching the provisions of the VAT law and regulations, or in cases where a person is required to register but fails to do

so, the tax authority may issue or amend assessments up to a period of 20 years from the end of the calendar year in which the tax period falls.

Tax evasion. Tax evasion shall be punishable by a fine of not less than the amount of VAT due and not more than three times the value of the goods or services that are the subject of the evasion. For example, this could be where a taxpayer submits false documents to evade the payment of the VAT due or to reduce its value, or where a taxpayer moves goods in or out of Saudi Arabia without paying the VAT due.

Where a supplier charges and collects VAT from customers, without the supplier being VAT registered, they shall be fined up to SAR100,000.

Failure to register. Any taxable person who has not applied for VAT registration within the set time frame, shall be fined SAR10,000.

Late filings and errors made on VAT returns. If a taxpayer recognizes an error in an already submitted VAT return, it has 20 days to notify the tax authority of the error by submitting a correction form. If the error results in a discrepancy of VAT owed under SAR5,000, the correction can be made by adjusting the net VAT in the business's next VAT return. Any taxable person who carries out the following:

- Files an incorrect VAT return to the Saudi Arabia tax authority.
- Amends a VAT returns after filing, or files any document with the tax authority due by them that results in an error in the calculation of the VAT amount resulting in an amount that is less than the VAT due, shall be liable to a fine equal to 50% of the value of the difference between the calculated VAT and the VAT due. The tax authority has the power to remove or reduce the penalty set out above.

Any taxable person that fails to submit a VAT return within the set time frame, shall be liable to a fine of not less than 5% and not more than 25% of the value of the VAT that they would have had to declare.

Any taxable person who fails to pay the VAT due during the set time frame, shall be liable to a fine equal to 5% of the value of the unpaid VAT for each month or part thereof for which the VAT has not been paid.

An assessment issued by the tax authority in cases where a taxable person has failed to file a VAT return, can be withdrawn after the filing of a completed VAT return for that tax period, by the taxable person or a person authorized to act on its behalf.

Correction of returns. In cases where a taxable person becomes aware of an error or an incorrect amount in a filed VAT return, or becomes aware of such facts that should have led it to be aware of such an error or incorrect amount, which has resulted in the amount of VAT payable to the tax authority being understated, that person must notify the tax authority within 20 days of becoming aware of the error or incorrect amount, by filing a submission to correct the VAT return.

In cases where a taxable person becomes aware of an error or an incorrect amount in a filed VAT return that has resulted in the amount of VAT payable to the tax authority being overstated, the taxable person may correct that error at any time, by adjusting the VAT in a subsequent VAT return.

Subject to the above, if the understatement of net VAT by the taxable person is less than SAR5,000, the taxable person may correct that error by adjusting the net VAT in its next VAT return.

No correction to any VAT return relating to an overstatement of VAT in respect of a tax period may be made after a period of five years has passed from the end of the calendar year in which the tax period takes place.

Invoicing and accounting errors. A non-registered taxable person shall be liable to a fine not exceeding SAR100,000 for issuing a VAT invoice, without prejudice to any stricter penalty set out by any other law.

A fine not exceeding SAR50,000 shall be imposed on any taxable person that:
- Has not kept VAT invoices, books, records and accounting documents for the set time frame, and the fine shall be per tax period
- Prevents or obstructs the employees of the Saudi Arabia tax authority or any one working for the tax authority from performing their duties
- Violates any other provision of the law or implementing regulations

If the same violation is repeated within three years from the date of issuing the final decision of a previous penalty, the fine, pursuant to that decision imposed on the violator, may be doubled.

The decision issued by the Saudi Arabia tax authority to impose a penalty, may include the publication of its content at the cost of the violator, in a local newspaper issued in the place of the taxpayer's residence. If there is no newspaper in their place of residence, it shall be published in a local newspaper in the nearest area to them or by any other appropriate means, depending on the type of violation, its gravity and its effects, after the decision is deemed final.

Appeal process. A taxable person against whom a decision for a penalty was issued, may file a grievance before the competent judicial authority within 30 days from the date the decision was known. The taxable person also has the right to request an alternative dispute resolution. Otherwise the decision shall be deemed final and cannot be appealed before any judicial authority.

Rulings. A taxable person may request that the tax authority give its opinion or a ruling on the interpretation of the VAT Law or the regulations, in respect of the taxable person's current or intended economic activity. The request should be made in writing and specify whether the taxable person wishes the ruling to be private or public.

K. Transitional provisions

Time of supply. If an invoice is issued or payment is made for goods or services prior to the commencement date of the VAT law, in respect of a supply that occurs on or after the commencement date of the VAT law, the supplier of the goods or services shall be considered to make a taxable supply on the date the goods or services are supplied.

In such cases the taxable person shall issue an additional invoice showing the VAT charged on the supply of goods or services, unless this VAT was included on the invoice issued before the commencement date of the VAT law. The date of a supply occurs on or after the commencement of the VAT law, in the following cases:
- If the date when goods are delivered or made available, occurs on or after the commencement date of the VAT law
- If the date when the performance of services is completed, occurs on or after the commencement date of the VAT law

In relation to continuous supplies that are partially made prior to the effective date of the VAT law, or the VAT registration date, and partially made after this date, the VAT shall not be due on the portion made prior to the effective date or the registration.

Charging VAT. Any supply of goods or services made in respect of a contract that does not anticipate the application of VAT to the supply, may be treated as zero-rated by the supplier until the earlier of the time the contract expires, is renewed or 31 December 2018 provided that:

- The contract was entered into before 30 May 2017.
- The customer is entitled to deduct input tax in respect of the supply of goods or services in full, or is an eligible person entitled to a refund of VAT.
- The customer provides a written certification to the supplier that input tax is able to be deducted or refunded in full on the supply.

Implementation of VAT in other GCC Member States. Any GCC Member State that has not introduced VAT following 1 January 2018 will be considered a country outside of the GCC territory.

Electronic services system in all GCC Member States. Prior to the introduction of the electronic services system in all GCC Member States:

- A taxable person who receives goods into Saudi Arabia from another GCC Member State shall be deemed to have imported the goods into Saudi Arabia and VAT will be collected in accordance with the provisions for other imports.
- Supplies of goods involving transport of the goods from Saudi Arabia to another GCC Member State shall be treated as an export of the goods for VAT purposes.

The date of introduction of the electronic services system will be formally announced by the tax authority by way of an order issued by the tax authority.

Registration. Notwithstanding the registration rules in the relevant section of this chapter, a person whose value of annual supplies exceeds the mandatory registration threshold, but does not exceed SAR1 million is exempted from the requirement to register in Saudi Arabia until 1 January 2019. However, any application for such registration must be submitted on or before 20 December 2018. This provision does not affect any person's ability to register on a voluntary basis.

Serbia

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A. At a glance

Name of the tax	Value-added tax (VAT)
Local name	Porez na dodatu vrednost (PDV)
Date introduced	1 January 2005
Trading bloc membership	Central European Free Trade Agreement (CEFTA) Member State
Administered by	Poreska Uprava Republike Srbije
VAT rates	
Standard	20%
Reduced	10%
Other	Zero-rated (0%) and exempt
VAT number format	123456789 (9 digits)
VAT return periods	Monthly or quarterly
Registration thresholds	
Supply of domestic goods	Annual turnover of RSD8 million; voluntary registration for turnover below RSD8 million
Exporters and importers	Same as for domestic supply
Recovery of VAT by non-established businesses	Only if non-established businesses do not perform any supply of goods or services in Serbia, except for international transportation services

B. Scope of the tax

VAT applies to the following transactions:

- The supply of goods and services performed by taxpayers in Serbia against consideration while performing their regular business activity
- Importation of goods into Serbia, regardless of the status of the importer

- Services purchased by taxpayer in Serbia from service providers whose place of business is outside Serbia, with Serbia regarded as the place of supply (subject to the "reverse-charge" mechanism)

C. Who is liable

Any person (entity or individual) who supplies goods and/or services, and on that account generates revenues in this regard, in the course of the person's independent business activity is liable for VAT. The obligation to register for VAT purposes and to calculate VAT is triggered when total turnover, except for the supply of VAT-exempt services, in the previous 12 months exceeds RSD8 million. A taxpayer whose VAT-able turnover exceeds RSD8 million in the previous 12 months is obliged to submit a registration form for VAT to the tax authorities no later than the end of the first period for submitting a VAT return.

An option is available for small taxpayers and farmers (annual turnover below RSD8 million) to register for VAT by submitting a registration VAT form to the tax authorities, thereby acquiring the rights and obligations to compute and deduct VAT. The obligation for computing and paying VAT is effective for at least two years.

Group registration. Not applicable.

Non-established businesses. A "non-established business" is a business that does not have a registered establishment in Serbia. A foreign entity that supplies goods or services in Serbia is obliged to appoint a tax representative and register as a VAT payer (only one tax representative can be appointed, either an individual or a legal entity). Exceptionally, as of 1 January 2017, foreign entities that make taxable supplies of goods and services provided exclusively to Serbian VAT payers, the State, government departments and similar bodies are not obliged to appoint a tax representative and register for VAT purposes, since in such cases the "reverse-charge" mechanism is applied.

A non-established business that does not make any supplies of goods or services in Serbia may claim a VAT refund, under prescribed conditions.

Tax representatives. A tax representative appointed in the Republic of Serbia by a foreign entity that does not have a legal presence in the Republic of Serbia is considered to be a tax debtor for VAT purposes. The tax representative is jointly and severally liable for all liabilities of the foreign entity. In case the foreign entity fails to appoint a tax representative, the recipient of the goods/services will be considered as a tax debtor for VAT purposes. A VAT representative must be resident in Serbia and have been registered for VAT for at least 12 months before applying to be a tax representative. The tax representative should comply with all of the foreign entity's VAT obligations, including accounting for VAT liabilities and dealing with VAT recovery on behalf of the foreign entity.

Reverse charge. According to Serbian tax legislation, the reverse-charge mechanism is applied for services rendered by a foreign services provider for which the place of supply is Serbia, if the foreign services provider does not appoint a tax representative in Serbia.

In addition, a domestic reverse charge also applies on the sale of secondary raw materials and services that are directly related to these goods provided by another VAT taxpayer. Secondary raw materials are defined as the by-product of goods that have undergone a manufacturing process, such as metal, wood, plastic, paper and glass. Services that are directly related to secondary raw materials are the services of sorting, cutting, partitioning, cleaning, polishing and pressing of such materials.

In addition, reverse charge applies in some specific situations of construction services and transfer of real estates.

Finally, in accordance with the amended VAT law, reverse charge also applies in some specific situations of electric power and natural gas supplied through transport grids and distribution networks, where the buyer has acquired these supplies for further sale.

Registration procedures. A registration form is filed by the taxpayer. After conducting the appropriate procedure, tax authorities will issue a certificate of VAT registration. The VAT registration form cannot be filed electronically.

Late-registration penalties. If a taxpayer's VAT-able turnover exceeds RSD8 million in the previous 12 months, the taxpayer is obliged to submit a VAT registration form no later than the end of the first period (i.e., month) for submitting a VAT return.

If a taxpayer who is a legal entity fails to submit the registration form, a fine ranging from RSD100,000 to RSD2 million will apply. Also, a responsible person within the legal entity will be fined in the amount from RSD10,000 to RSD100,000 in case of relevant offense. If legal entity submits the registration form after the prescribed deadline, penalties of RSD100,000 may be imposed. Also, a responsible person within the legal entity will be fined in the amount of RSD10,000 in case of said offense.

Digital economy. Specific rules apply to electronically provided services. Place of supply of electronically provided services by an overseas business to both businesses and private individuals in Serbia is deemed to be the place of the services recipient, i.e., Serbia. If any overseas business has not appointed a VAT representative, VAT with respect to electronically provided services should be calculated by the service recipient by reverse charge. However, if there is a collection agent in Serbia that charges the individuals (or other non-VAT payers) on behalf of an overseas service provider, such collection agent is obliged to calculate and pay VAT.

Deregistration. A VAT taxpayer whose VAT-able turnover is below RSD8 million in the previous 12 months may submit a request for VAT de-registration. This request must contain information about the date when the taxpayer ceased to perform VAT activities, and it should be submitted to tax authorities within the calendar month in which said cessation has occurred. Request for deregistration is submitted on a ZBPDV form. After conducting the appropriate procedure, and if the taxpayer's prior obligations arising from VAT are settled, tax authorities issue a certificate of VAT deregistration on a PBPDV form.

New place of supply rules. In order to harmonize Serbia's VAT rules with EU legislation, the place of supply rules for supplies services has undergone significant changes. The aim of the amendment is to set a general rule for determining the place of supply of services as the place of the services recipient.

For this purpose, the VAT law has defined how to determine who is a taxpayer recipient of a supply of services. This definition applies solely for the purposes of applying the new place of supply rules.

Based on the new law, when the service is provided by a VAT payer, a taxpayer recipient of a supply of services is considered to be:

- Any entity that conducts its business activity as a permanent activity, regardless of the goal of conducting such activity
- Legal entities, government departments and local government entities with their head office in Serbia
- Foreign legal entities, government departments and local government entities registered for payment of consumption taxes in a foreign country

Furthermore, for services provided by a foreign entity that is not registered for VAT in Serbia, a taxpayer recipient of the services is considered to be:
- Any entity conducting its business activity as a permanent activity, regardless of the goal of conducting such activity
- Legal entities, government departments and local government entities

The place of supply is further determined depending on whether the service was provided to a taxpayer or not:
- If the services are provided to a taxpayer recipient of services, the place of supply is considered to be the place where the recipient has a head office or permanent establishment.
- If the services are provided to a recipient of services who is not a taxpayer, the place of supply is considered to be the place where the provider of such services has a head office or permanent business unit.

In addition to the general rule, several exceptions still apply to the place of supply for some specific services.

D. VAT rates

The term "taxable supplies" refers to supplies of goods and services except for exempt supplies.

The use of goods or services purchased or produced in the course of a business activity for private purposes constitutes a taxable supply.

Serbia's VAT rates are as follows:
- Standard rate: 20%
- Reduced rate: 10%
- Zero rate: (0%)

The standard rate (20%) applies to all supplies of goods and services unless a specific provision allows for a reduced rate, zero rate or exemption.

The reduced rate of 10% applies to the supply of medicines and medical care devices (e.g., prosthesis), and to the supply of a wide range of food products and other goods and services.

The zero rate applies to exported goods, international transportation services and related supplies, as well as to supplies of goods and services relating to aircrafts and ships used in international traffic and to other goods and services.

The term "exempt supplies" refers to supplies of goods and services that are not subject to VAT and that do not give rise to an input VAT deduction.

Examples of exempt goods and services

- Properties (except for first-time transfer of ownership)
- Land
- Supply of goods for which acquirer did not have the right to deduct input VAT
- Rental of flats if used for housing
- Financial services
- Insurance services
- Postal services
- Education services
- Religious services
- Printing and sale of publications
- Public broadcasting services (except those with commercial character)

Option to tax for exempt supplies. The second and every other transfer of ownership of buildings and building units is not subject to VAT but to non-recoverable transfer tax. However, it is possible that the buyer and the seller (as registered VAT taxpayers) instead opt for application of VAT, provided that the buyer is entitled to fully recover VAT deriving from that supply.

E. Time of supply

The time of supply for a supply of goods takes place on the earlier of the following:
- When the supply of goods is performed
- When the payment is made, if the compensation or a part of the compensation has been collected prior to the sales of goods
- Incurrence of the liability to pay a customs debt on the importation of goods, and if there is no such liability, at the moment on which the liability to pay that debt would arise

A supply of goods is considered to be "performed" on the date when the dispatch or transport of the goods starts, or on the date when ownership of the goods is transferred to the purchaser (if transport is not included). The time of supply of imported goods is considered to be the date on which the goods arrive in the Serbian customs territory.

The time of supply for a supply of services takes place on the earlier of the following:
- When the supply of services is performed
- When the payment is made, if the compensation or part of the compensation has been collected prior to the supply of services
- When the invoice is issued — applicable only for the services of transfer of IP rights and granting the right to use IP rights

Services are considered to be "performed" on the date when the provision of the individual service is finished or when the legal basis for the provision of time (limited or unlimited service) is finished. Apart from this, if periodical invoices are issued for the service, the supply of that service is considered finished on the last day of the tax period for which that invoice relates. If the payment is made before the delivery of goods or services, the moment of supply is the moment when the payment is made.

Special rules apply to construction companies.

Cash accounting. Small- and medium-sized enterprises with an annual turnover of less than RSD50 million may opt to pay VAT after they have received payment.

Imported goods. VAT upon importation is due once the goods are placed in Serbian customs territory, unless the goods are placed in some of the suspension customs regimes.

Deposits and prepayments. Serbia does not have special time of supply rules for deposits and prepayments. The general time of supply rules outlined above apply.

Goods sent on approval for sale or return. Serbia does not have special time of supply rules for goods sent on approval for sale or return. The general time of supply rules outlined above apply. General rules indicated above are applicable.

Reverse-charge services. Serbia does not have special time of supply rules for supplies of reverse-charge services. The general time of supply rules outlined above apply.

Continuous supplies. Serbia does not have special time of supply rules for continuous supplies. The general time of supply rules outlined above apply.

F. Recovery of VAT by taxable persons

A taxable person may recover input tax, which is VAT charged on goods and services supplied to the person for business purposes. A taxable person generally recovers input tax by deducting it from output tax, which is VAT charged on supplies made.

Input tax includes VAT charged on goods and services supplied in Serbia, VAT paid on imports of goods and VAT applied to reverse-charge services.

Nondeductible input tax. The following list provides examples of items of expenditure for which input tax is not deductible (this list is not exhaustive):

- In many cases, expenditures related to acquisition and import of cars, boats, yachts, motorcycles, aircraft, fuel and spare parts, as well as goods and services related to their maintenance and storage
- Expenditure related to business entertainment, including catering, gifts, sporting events, recreation and other costs incurred in favor of business partners, potential business partners, representatives of business partners, and other individuals, for which there is no legal obligation
- Expenditure related to meals and transportation of employees, or other persons engaged in work, to or from the work

Partial exemption. If acquired goods or services are used partly for purposes of taxable supplies and partly for VAT-exempt supplies, the taxable person may not deduct input VAT totally. This situation is known as "partial exemption." The taxpayer should divide that part of the input VAT relating to taxable supplies and that which does not relate to taxable supplies, based on the economic background of supply. If this is not possible, then the calculation of the amount of input tax that may be recovered is made on a pro rata basis by using the following formula:

$$\text{Amount of deductible input VAT} \times \frac{\text{taxable turnover} + \text{exports}}{\text{taxable turnover} + \text{exports} + \text{exempt supplies}}$$

Total turnover, which is the divisor in the above equation, is the turnover executed from 1 January of the current year until the end of the tax period for which the VAT return is submitted.

Capital goods. Capital goods are facilities and equipment that are used in a business over several years. Input tax is generally deducted in the VAT year in which the goods are acquired. The amount of input tax recovered depends on the taxpayer's partial exemption recovery position in the VAT year of acquisition. However, the amount of input tax recovered for capital goods must be adjusted if the taxpayer's partial exemption recovery percentage changes in the period of 5 years from the first usage of the equipment, 10 years from the first usage of the facilities and 10 years from finishing the investment in the facilities.

A capital goods adjustment applies for a period represented in the difference between the aforementioned periods (5/10 years) and the period in which the taxpayer had the right to deduct input VAT. Exceptionally, the taxpayer does not have an obligation to adjust input VAT on the capital goods in the case of disposal of the equipment and facilities that may be considered as a functional unit.

Refunds. If the input VAT is higher than the output VAT, the taxpayer has a right to obtain a refund or to use this amount as a tax credit.

The refund should be performed, at the latest, 45 days after the deadline for submission of the tax return for the current period (or 15 days after the deadline for the taxpayers who mostly perform supply of goods abroad). The tax administration is liable to pay interest on delayed tax reimbursements at the same rate of penalty interest that applies to taxpayers for late payments of VAT (see *I. VAT returns and payments*).

Preregistration costs. This occurs in the tax period in which the supply of goods with the right to deduct input VAT was performed.

The VAT payer may deduct input VAT for the goods purchased within 12 months before starting to carry out VAT-able activities and which are in its possession on said day, under fulfilling prescribed conditions.

G. Recovery of VAT by non-established businesses

Non-established businesses may obtain refunds of VAT incurred in Serbia solely if they do not perform any supply of goods or services in Serbia, except for international transportation services, and under the terms of reciprocity. The refund request is submitted annually, and the deadline for submission is 30 June for the purchases made in previous year.

H. Invoicing

VAT invoices and credit notes. A taxpayer must provide a VAT invoice for all taxable supplies made, including exports. The invoice must comply with the requirements set out in the VAT law. A VAT credit note may be used to reduce the VAT charged on a supply of goods or services — provided the buyer is a VAT taxpayer and has confirmed that the input VAT has been corrected; a debit note may be used to increase the amount of VAT. Tax credit and debit notes must be cross-referenced to the original VAT invoice.

Proof of exports. An export declaration with confirmation that the goods have left Serbian territory is required.

Foreign-currency invoices. A Serbian VAT invoice for domestic supplies must be issued in Serbian dinars (RSD). If an invoice is received in a foreign currency, the amounts must be converted into RSD. The exchange rate used for imports is determined by customs, while the exchange rate for domestic VAT supplies is the middle exchange rate published by the National Bank of Serbia or the agreed exchange rate applicable on the date when the tax obligation takes place.

I. VAT returns and payments

VAT returns. The tax period is a calendar month or a quarter depending on the total turnover of the particular taxpayer in the last 12 months (if turnover exceeds RSD50 million).

Both monthly and quarterly VAT payers must submit the tax return within 15 days after the expiration of the tax period.

The obligation to file the VAT calculation breakdown along with the VAT return has been initially postponed due to the fact that the first version of VAT calculation breakdown was too burdensome from the perspective of both taxpayers and tax authorities. A new rulebook regarding VAT calculation breakdown has entered into force, and as of 1 July 2018, taxpayers will be obliged to file the POPDV form along with the VAT return. If the VAT payer fails to file the VAT calculation breakdown on the POPDV form along with the VAT return, it will be deemed as if the VAT return was not filed at all.

The deadline for VAT payment is the same as the deadline for the filing of VAT returns. The VAT payable by a taxpayer for a tax period equals the VAT on the total taxable value of supplies made during the tax period minus any input VAT allowed as a deduction.

Special schemes. The VAT payer whose total turnover in the previous 12 months is not more than RSD50 million may opt for reporting and paying the VAT once the receivables are collected (whereby input VAT is also reported once the payables are settled). VAT is also due if the payment is not received within six months after the supply was performed. Certain types of supplies, prescribed by the law are exempt of the application of this "collection system."

Electronic filing and archiving. The submission of a VAT tax return, as well as the submission of an amended VAT return, is completed electronically. The return is submitted on the prescribed PPPDV form.

Annual returns. Not applicable.

J. Penalties

Tax offenses are regulated within the Law on Tax Procedure and Tax Administration. For VAT relevant offenses, the following penalties may be applied:

- Penalties range from 10% to 100% of the unpaid VAT or at least RSD250,000 to RSD500,000 for legal entities and RSD50,000 to RSD100,000 for entrepreneurs.
- Penalties in fixed nominal amounts range from RSD100,000 to RSD200,000 for legal entities and RSD100,000 to RSD500,000 for entrepreneurs.
- Penalties range from RSD10,000 to RSD100,000 for the responsible person within a legal entity.
- Penalties for a nonresident legal entity conducting taxable supplies in Serbia, that does not have a head office or a fixed business unit in Serbia, failing to comply with the obligation to appoint a VAT representative ranges from RSD100,000 to RSD2 million.
- Penalties for a nonresident individual conducting taxable supplies in Serbia failing to comply with the obligation to appoint a VAT representative amounts to RSD50,000.

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A. At a glance

Name of the tax	Goods and services tax (GST)
Date introduced	1 April 1994
Trading bloc membership	Association of Southeast Asian Nations (ASEAN)
Administered by	Inland Revenue Authority of Singapore (IRAS) (http://www.iras.gov.sg)
GST rates	
Standard	7%
Other	Zero-rated (0%) and exempt
GST number format	
Local	M2-1234567-8, MR-1234567-8 and 19-9012345-X
Nonresident	F2-1234567-D
GST return periods	Quarterly Monthly (optional, subject to approval by GST Comptroller)
Thresholds	
Registration	SGD1 million
Recovery of GST by non-established businesses	No (unless the non-established business is registered for GST in Singapore)

B. Scope of the tax

GST applies to the following transactions:
- Taxable supplies of goods and services in Singapore, made in the course of a business by a taxable person
- Imports of goods into Singapore

C. Who is liable

A taxable person is a person who is registered or is required to be registered for GST.

Compulsory registration. The GST registration threshold is SGD1 million. For compulsory registration, the threshold applies in the following ways:

- Retrospectively: prior to 1 January 2019, registration was required if, at the end of any quarter, the value of taxable supplies in that quarter and the preceding three quarters exceeds SGD1 million. From 1 January 2019, registration is required if, at the end of any calendar year, the value of taxable supplies in that calendar year exceeds SGD1 million. However, registration is not required if the Comptroller of GST (the Comptroller) is satisfied that the value of taxable supplies in the next calendar year is not expected to exceed SGD1 million.
- Prospectively: registration is required if at any time reasonable grounds exist for believing that the value of taxable supplies in the next 12 months is expected to exceed SGD1 million.

Under the first test above, a business must notify the Comptroller within 30 days after the end of the relevant calendar year. Under the second test, a business must notify the Comptroller within 30 days after the beginning of the relevant period.

Group registration. Businesses that are under "common control" may apply to register as a GST group. Each member must be individually registered for GST. After group members are registered as a GST group, they are treated as a single taxable person and submit a single GST return. Supplies made between members within the same GST group are disregarded for GST purposes. Group members are jointly and severally liable for all GST liabilities.

A person that is not resident in Singapore or does not have an established place of business in Singapore may be part of the GST group if certain criteria are satisfied. If the GST group includes a person not resident in Singapore or not having an established place of business in Singapore, the representative member must satisfy additional criteria.

Divisional registration. If a taxable person carries on more than one business or operates several divisions, the person may apply to the Comptroller to register any of the businesses or divisions separately. Divisional registrations ease the GST administration for such businesses. On approval, each division is given a separate GST registration number and submits its own GST return. Supplies made between divisions within the divisional registration are disregarded for GST purposes.

Deregistration. A business that ceases operations must cancel its GST registration. A business that must deregister must notify the GST authorities within 30 days after ceasing to make taxable supplies.

A taxable person whose value of taxable supplies is not expected to exceed SGD1 million in the next 12 months may request deregistration from GST.

Non-established businesses. A "non-established business" is a business that has no business or fixed establishment in Singapore. A business that is not established in Singapore must register for GST if it makes taxable supplies exceeding the registration threshold of SGD1 million.

Tax representatives. A non-established business must appoint a local tax representative to register for GST.

Registration procedures. To register for GST in Singapore, businesses need to complete and submit the form GST F1, "Application for GST Registration," together with the required supporting documents to the Comptroller.

For partnership businesses applying for GST registration in Singapore, an additional form, GST F3, "Notification of Liability to be Registered: Details of All Partnerships and Partners," together with form GST F1, must be completed and submitted to the Comptroller.

For an overseas business with no establishment in Singapore and who makes taxable supplies in Singapore, the overseas business must appoint a local tax representative to be responsible for all its GST matters in Singapore such as collecting GST on local taxable supplies made and timely filing of GST returns.

An application for GST registration is typically processed in about 10 working days. In addition, for businesses applying for voluntary GST registration, the sole proprietor, partner, director or trustee of the business is required to complete two e-learning courses, "Registering for GST" and "Overview of GST" and pass the quiz before applying for the voluntary GST registration (subject to exceptions).

Businesses must apply for GST registration online via myTax Portal by the relevant personnel who have been authorized to use the IRAS website's e-services.

Late-registration penalties. Penalties are imposed for failure to register for GST, late payment of GST, late submission of GST returns, and the submission of incorrect returns.

Reverse charge. Currently not applicable. From 1 January 2020, a reverse charge will apply to services procured from overseas suppliers by a GST-registered person who is not entitled to full input tax credit or belongs to a GST group that is not entitled to full input tax credit. Reverse charge will also apply to a non-GST-registered person who procures services from overseas suppliers in excess of SGD1 million in a 12-month period and who will not be entitled to full input tax credit had it been GST-registered. Persons who are not entitled to full input tax credit include persons making significant exempt supplies (for example, financial institutions) or persons significantly engaged in nonbusiness activities (for example, charities).

Digital economy. Supplies of goods transacted over the internet does not alter the taxability of the transaction. A sale of digitized goods such as music and software over the internet is regarded as a supply of service.

From 1 January 2020, the supply of digital services by an overseas supplier to a Singapore non-registered person will be subject to GST via the Overseas Vendor Registration (OVR) regime. "Digital services" are defined in the draft legislation to mean any service supplied over the internet or other electronic network and the nature of which renders its supply essentially automated with minimal or no human intervention, and impossible without the use of information technology, and is inclusive of a non-exhaustive list of prescribed services such as digital products, software and software updates. Under the OVR "pay only regime," the overseas supplier will collect and remit GST without the ability to claim any input tax credits, and be subject to simplified GST reporting and documentation requirements. Under certain circumstances, the operator of an electronic marketplace would also be required to charge and account for GST on digital services made through the electronic marketplace to local consumers, on behalf of the overseas suppliers.

At the time of preparing this chapter, it is proposed under draft legislation that overseas suppliers and overseas electronic marketplace operators whose (i) global turnover exceeds SGD1 million and (ii) sale of digital services to consumers in Singapore exceed SGD100,000, would be liable for registration under the OVR regime. Local non-GST registered electronic marketplace operators would be liable for GST registration if the combined values of (i) digital services made on behalf of overseas suppliers through the electronic marketplace and (ii) the electronic marketplace's own taxable supplies, have exceeded SGD1 million at the end of any calendar year or is expected to exceed SGD1 million in the next 12 months.

Exemption from registration. Where a taxable person makes substantially zero-rated supplies and his collectible output tax is less than the amount of input tax claimable on his purchases in any 12-month period, the taxable person may request exemption from registration. Approval is subject to the Comptroller's discretion.

However, if any material change occurs with respect to the nature of supplies or proportion of zero-rated supplies, the taxable person is required to notify the Comptroller within 30 days after the date of the change or, if no particular date is identifiable as the date of the change, within 30 days after the end of the quarter in which the change occurred.

Voluntary registration. If the value of taxable supplies made by a business is below the registration limit, the business may register for GST voluntarily. Approval is subject to the Comptroller's discretion. A business that registers for GST voluntarily must remain registered for at least two years, unless otherwise allowed by the Comptroller.

Under GST law, "taxable supply" is defined as a supply of goods or services made in Singapore other than an exempt supply. Based on this definition, businesses that make wholly exempt supplies would not be eligible for GST registration. However, the GST Act allows a person that is not liable to be registered to apply for voluntary registration if it makes exempt supplies of financial services (as specified in Paragraph 1 of the Fourth Schedule to the GST Act) and the services would have qualified as international services if they were made by a taxable person.

In addition, a person who is not liable for GST registration may also apply for voluntary registration if the person makes or intends to make the following supplies:
- Supplies outside Singapore that would be taxable supplies if made in Singapore
- Supplies that are disregarded for GST purposes under the warehousing regime or Approved Contract Manufacturer and Trader Scheme and that would otherwise be taxable supplies

However, a person in the above scenarios must have a business establishment in Singapore or have his or her usual place of residence in Singapore.

D. GST rates

The term "taxable supplies" refers to supplies of goods and services that are liable to GST, including supplies that qualify for zero rating relief (subject to GST at 0%). The term "exempt supplies" refers to supplies of goods and services that are exempt from GST. Exempt supplies may give rise to a restriction on the input tax (see Section F).

The prevailing standard rate of GST in Singapore is 7%. The standard rate of GST applies to all supplies of goods or services, unless the supplies qualify for zero rating relief or exemption. The Singapore government has announced plans to raise the standard rate of GST by two percentage points, from 7% to 9%, sometime in the period from 2021 to 2025.

Exports of goods and international services are zero-rated. International services that qualify for zero rating are specifically listed in the GST Act. Exempt supplies include the sale or lease of residential property, the importation or supply of investment precious metals and the financial transactions listed in the Fourth Schedule to the GST Act. Exempt supplies may give rise to a restriction on the input tax (see Section F).

Option to tax for exempt supplies. Not applicable.

E. Time of supply

The time when GST becomes due is called the "time of supply" or "tax point."

The time of supply for both goods and services is generally the earliest of the following events:
- The date of issuance of an invoice
  Or
- The date of receipt of payment

However, exceptions to the above time-of-supply rules exist.

Imported goods. The time of supply for imported goods is either the date of importation, or the date on which the goods leave a duty suspension regime or free-trade zone.

Deposits and prepayments. Where the deposits form partial payment (i.e., prepayment) for the goods or services supplied, the abovementioned time-of-supply rules applies. GST has to be

charged on the amount of deposit and the transaction has to be accounted for in the accounting period in which the deposit is received.

Where the deposit is refundable and used as a security, the time of supply will not be triggered and GST is not chargeable at this stage.

Where the supply does not take place (e.g., the customer cancels the order), the GST-registered supplier would issue a credit note to the customer and refund the payment received. However commercially, the GST-registered supplier may seek compensation or recover miscellaneous costs incurred as a result of the order cancellation.

Goods sent on approval for sale or return. Where goods are supplied on approval, or sale or return, or similar terms to the customers, no sale takes place until the customer approves the goods and confirms the sale, although goods have been sent to the customer. In such cases, the time of supply will be treated as taking place at the earliest of the following events:
- The date of issuance of an invoice
- The date of receipt of payment
  Or
- Twelve (12) months after the removal of the goods

Reverse-charge services. No separate time of supply rules for reverse-charge services apart from certain transitional rules for reverse-charge services that span 1 January 2020 (i.e., the effective date of reverse-dharge implementation).

Continuous supplies. No separate time of supply treatment for continuous supplies, except where the GST-registered business issues a tax invoice for an advance period not exceeding twelve (12) months. If the invoice also contains, in addition to the particulars required of a tax invoice, the following particulars:
- The due dates of each payment
- The amount payable (excluding tax) on each due date
  And
- The rate of tax and the corresponding GST chargeable

Then GST shall be accounted for at the earlier of:
- The due date of each periodic payment
  Or
- The date of receipt of each periodic payment

Customer accounting (domestic reverse charge). With effect from 1 January 2019, customer accounting will be implemented for the local sale of prescribed goods by a GST-registered supplier to a GST-registered customer for his business purpose, if the GST-exclusive value of the sale exceeds SGD10,000 in a single invoice. The prescribed goods are mobile phones, memory cards and off-the-shelf software. It is termed "customer accounting" because the supplier is responsible for raising the tax invoice (showing the GST chargeable) and the customer is responsible for accounting for the output tax to the IRAS (i.e., onward paying the IRAS the GST charged).

F. Recovery of GST by taxable persons

A taxable person may recover the GST incurred on its expenses as input tax if the input tax is incurred in the making of taxable supplies or certain prescribed supplies. Input tax refers to GST incurred on goods and services supplied to the taxable person or goods imported into Singapore by the taxable person that are used or to be used for the purpose of any business carried on or to be carried on by the taxable person. A taxable person generally recovers input tax through its GST returns, by deducting it from output tax, which is GST charged on supplies made.

A valid tax invoice or import permit must be held to support a claim for input tax.

A taxable person is required to repay to the IRAS any input tax claimed for which payment has not been made to the supplier for more than 12 months from the due date of the payment.

Nondeductible input tax. Input tax may not be recovered on purchases of goods and services that are not used for business purposes (for example, goods acquired for private use by a taxable person and fringe benefits provided that these are not for the purpose of business). In addition, input tax may not be recovered for some items of business expenditure. The following lists provide some examples of items of expenditure for which input tax is not deductible and examples of items for which input tax is deductible if the expenditure is related to a taxable business use.

Examples of items for which input tax is nondeductible

- Purchases used for nonbusiness purposes
- Purchase, lease, hire, maintenance and running costs of private motor cars
- Medical and insurance expenses for employees
- Recreational club subscriptions

Examples of items for which input tax is deductible (if related to a taxable business use)

- Advertising
- Purchase of inventory
- Purchase, lease, hire and maintenance of trucks and vans
- Business entertainment
- Attendance at conferences

Partial exemption. Input tax directly related to making exempt supplies is generally not recoverable. If a taxable person makes both exempt and taxable supplies, the person may not recover input tax in full. This situation is referred to as "partial exemption." Zero-rated supplies are treated as taxable supplies for these purposes.

Unless otherwise approved by the Comptroller, partial exemption recovery is calculated in the following two stages:

- The first stage identifies the input tax that may be directly attributable to taxable and to exempt supplies. Input tax directly attributable to taxable supplies is deductible (unless specifically not deductible under the GST Act), while input tax directly related to making exempt supplies is generally not deductible (subject to exceptions).
- The second stage identifies the amount of the remaining input tax (for example, input tax on general business overhead) that may be allocated to taxable supplies and recovered. The calculation may be performed using the ratio of the value of taxable supplies over the value of total supplies (that is, taxable and exempt supplies), or it may be based on a special calculation agreed with the GST Comptroller.

Notwithstanding the above provisions, if the value of a taxable person's exempt supplies for an accounting period does not exceed both the average of SGD40,000 per month and does not exceed 5% of the total value of taxable and exempt supplies made in that accounting period, the input tax relating to the exempt supplies is treated as entirely attributable to taxable supplies. The GST Act provides relief for certain businesses to be treated as fully taxable if they make only certain types of exempt supplies.

Refunds. If the amount of input tax recoverable in a GST period exceeds the output tax in the same period, the excess is refundable. Refunds are generally made within three months after the date on which the Comptroller receives the GST return. If a taxable person submits monthly returns, the refund is generally made within one month from the date of receipt.

Interest at the prime lending rate is payable on the amount of any GST refund that is outstanding. Interest is calculated from the date on which the refund is due from the GST authorities.

Preregistration costs. Subject to certain conditions prescribed under the GST (General) Regulations, businesses may claim the GST incurred on business expenses incurred prior to its effective date of GST registration in its first GST return. Businesses are required to self-review their eligibility for the claims.

G. Recovery of GST by non-established businesses

Singapore does not refund GST incurred by non-established businesses that are not registered for GST in Singapore. Non-established businesses that are registered for GST may obtain a refund of GST only through the filing of GST returns.

H. Invoicing

Tax invoices and credit notes. A taxable person must issue a tax invoice for standard-rated supplies made to another taxable person within 30 days from the time of supply. A simplified tax invoice may be issued if the amount payable (including GST) does not exceed SGD1,000. The information required to be shown on a tax invoice and a simplified tax invoice is prescribed by GST law.

A tax invoice is necessary to support a claim for input tax credit.

A credit note may be used to reduce the GST charged and reclaimed on a supply of goods or services if a valid adjustment has been made. The document must contain generally the same information as a tax invoice, as well as the amount of tax credited, and it must refer to the date and number of the original tax invoice for the supply. If the date and number of the original tax invoice for the supply cannot be traced or identified, the taxable person must be able to satisfy the Comptroller by other means that the person has accounted for tax on the original supply.

Proof of exports. Exports of goods are zero-rated for GST purposes if they are supported by evidence confirming the departure of the goods from Singapore within 60 days from the time of supply (subject to exceptions). The evidence required includes the following documents:
- Export permit
- Bill of lading or airway bill
- Original invoice

Export documents prescribed by the Comptroller for supporting the zero-rating GST treatment vary according to the export scenario.

Foreign-currency invoices. If a tax invoice is issued in a foreign currency, the total amount payable before GST, the GST chargeable, and the total amount payable including GST must be converted to the Singapore dollar equivalent. The foreign currency must be converted to the Singapore dollar equivalent based on the selling rate of exchange prevailing at the time of supply. The Comptroller allows businesses to adopt their in-house exchange rates if the rates satisfy the following conditions:
- They are reflective of the Singapore money market at the relevant date. For example, exchange rates obtained from local banks, Singapore Customs, locally circulated newspapers, reputable news agencies and foreign central banks without exchange controls are acceptable to the IRAS.
- They are the daily buying rates, average of the buying and selling rates, or a good approximation of the daily exchange rates, corresponding to the time of supply.
- They are updated at least once every three months.
- They are consistently used for internal business reporting, accounting and GST purposes.
- They are used consistently for at least one year from the end of the accounting period in which the method was first used.

If the exchange rates used by businesses do not comply with these conditions, it is necessary for the companies involved to seek the Comptroller's approval of the use of an acceptable exchange rate.

B2C. GST invoices are not required to be issued to non-GST registered customers. However, a simplified GST invoice or a receipt must be issued if requested by the customer.

I. GST returns and payment

GST returns. Taxable persons generally file GST returns quarterly. However, taxable persons that receive regular refunds of GST may seek approval to file their returns monthly, to ease cash flow.

The GST return and payment in full are generally due one month following the end of the return period.

Annual returns. Annual returns are not required in Singapore.

Special schemes. A variety of schemes are available to assist businesses to ease the administrative burden associated with GST compliance, as well as to improve cash flow. These schemes include the Major Exporter Scheme (MES), the Approved Contract Manufacturer and Trader Scheme (ACMT), the Approved Third Party Logistics (3PL) Company Scheme, the Import GST Deferment Scheme (IGDS), the Approved Marine Customer Scheme (AMCS) and the Specialized Warehouse Scheme (SWS). In addition, information is outlined below on the cash accounting scheme.

Cash accounting scheme. Small businesses with an annual taxable turnover (excluding GST) of less than SGD1 million may apply for the cash accounting scheme which allows GST to be accounted for upon receipt of payment from the customers. Similarly, the business will claim the GST on its purchases only upon payment to the suppliers. Once approved, the business is on the scheme for three years. The business also remains on the scheme for the three years even if its taxable supplies exceed SGD1 million per annum during the three years.

Electronic filing. All registered businesses must file GST returns electronically. GST-registered businesses are not required to submit any other documents when the GST return is filed. However, GST-registered businesses are required to maintain records for a period of five years.

J. Penalties

A penalty of 5% of the tax due is assessed for late payment of GST. If the amount remains outstanding after 60 days, an additional penalty is assessed, equal to 2% of the tax due for each month, up to a maximum of 50% of the unpaid tax.

A penalty of SGD200 after the submission due date and an additional SGD200 for each completed month are assessed for the late submission of a GST return, up to a maximum penalty of SGD10,000.

Sint Maarten

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Please direct all inquiries regarding Sint Maarten to the persons listed below in the Curaçao office.

In Willemstad, Curaçao **GMT -4**

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Effective 10 October 2010, the Netherlands Antilles was dissolved. Sint Maarten became an autonomous country within the Kingdom of the Netherlands and now has its own laws and regulations.

A. At a glance

Name of the tax	Revenue tax (RT)
Local name	Belasting op bedrijfsomzetten
Date introduced	1 January 1997
Trading bloc membership	None
Administered by	Inspectie der Belastingen
RT rates	
Standard	5%
Other	Exempt
RT number format	4XX.XXX.XXX (9 digits)
RT return periods	Monthly (annually on request)
Thresholds	None
Recovery of RT by non-established business	No

B. Scope of the tax

The Revenue Tax (RT) applies to the following transactions:
- Delivery of goods or services by a local business in the course of its business in Sint Maarten
- Delivery of goods or services in Sint Maarten by a foreign business in the course of its business

C. Who is liable

A business entity or an individual who delivers goods or performs services (engages in taxable activities) in Sint Maarten. In principle, the business performing the services or delivering the goods is liable for RT. The definition of a business also includes a person who manages an asset to obtain revenue from the asset on a permanent basis also qualifies as a business. For example, leasing of real estate located in Sint Maarten became subject to RT, unless an exemption applies. The business realizing the revenue is liable to RT.

Non-established businesses. A "non-established business" is a business that does not have a fixed establishment in Sint Maarten. A non-established business may become liable for RT and accordingly become subject to registration if a fixed establishment is deemed to be present in Sint Maarten. Sint Maarten law does not provide a definition of a fixed establishment.

Special rules apply to E-zone companies, offshore companies and offshore banks.

E-zones. E-zone companies are not liable for RT on their supplies of services or goods to nonresidents.

Offshore companies and offshore banks. Companies and banks that are taxed under the so-called offshore tax regime and hold a foreign-exchange license are generally not liable for RT, because they are excluded from the definition of a business to the extent that these companies conduct offshore activities. The offshore regime is grandfathered up to and including the year 2019.

Group registration. RT grouping is not allowed under the RT law. Group entities that are closely connected must register for RT individually.

Tax representatives. A taxpayer may be represented by a third party based on a power of attorney.

Registration procedures. In general, a taxable entity that begins taxable activities must register with the Inspectorate of Taxes by completing an online registration.

Late-registration penalties. In general, a business that begins to perform taxable activities must register with the Inspectorate of Taxes. No specific deadline for registration is imposed. In addition, no specific penalty for late registration is imposed. However, if the late registration results in the late payment of RT or the late submission of RT returns, administrative penalties may be imposed.

Reverse-charge mechanism. Nonresident businesses who provide services must in principle pay the RT on these services. For this purpose, a non-established business is deemed to have chosen domicile at the office of the Inspectorate of Taxes.

However, a business resident in Sint Maarten for whom the services are performed must pay the RT if the nonresident business does not report and remit RT on such services. The business resident in Sint Maarten could be held liable for RT not remitted by the nonresident entrepreneur. To avoid noncompliance, the nonresident business and the business resident in Sint Maarten can file a joint request to apply the reverse-charge mechanism, and the business resident in Sint Maarten declares and pays RT.

Digital economy. RT legislation does not specifically mention any regulations in connection with the digital economy.

Deregistration. To deregister with the Inspectorate of Taxes, a taxpayer should provide proof of deregistration as issued by the Sint Maarten Chamber of Commerce and some additional documentation. The deregistration with the Inspectorate of Taxes should be completed once all tax filing and payment obligations have been met by the taxpayer.

Exemption from registration. The RT law in Sint Maarten does not contain any provision for exemption from registration.

D. RT rates

The term "taxable supply" refers to a supply of goods and services that are liable to RT. The term "revenue" refers to all payments that the business receives for the delivery of goods or services in the course of its business, excluding interest.

The standard RT rate of 5% applies to revenue realized from the delivery of taxable supplies, unless a specific measure provides for an exemption.

The term "exempt supply" refers to a supply of goods and services that are not liable to RT.

Examples of exempt supplies of goods and services

- Medical services
- Basic necessities such as bread, milk and sugar
- Water and electricity services
- Transportation services
- Betting and gaming (casino)
- Postal services
- Lease of real estate that is equipped and designated for permanent residence, to individuals who are residents of Sint Maarten

Exports. Revenue realized from supplies of exported goods by an "export business" is exempt from RT. However, to qualify for an RT exemption, exports must be supported by evidence that confirms that the goods have been transported outside Sint Maarten.

An "export business" is a business that realizes 50% or more of its total revenue by exporting goods outside Sint Maarten.

Option to tax for exempt supplies. RT legislation does not specifically mention any regulations in connection with the option to tax exempt supplies.

E. Time of supply

The time when RT becomes due is called the "time of supply." The basic time of supply is when the payment for a taxable supply is received.

Alternatively, on request, the time of supply occurs on the date on which the invoice is issued. In Sint Maarten, an invoice must be issued within 15 days following the end of the month in which the supply or service is performed.

Imported goods. RT legislation does not specifically mention any regulations in connection with imported goods.

Deposits and prepayments. There are no special time of supply rules in Sint Maarten regarding deposits and prepayments. As such, the general time of supply rules (as outlined above) applies.

Goods sent on approval for sale or return. There are no special time of supply rules in Sint Maarten for supplies of goods sent on approval for sale or return. As such, the general time of supply rules (as outlined above) applies.

Reverse-charge services. There are no special time of supply rules in Sint Maarten for reverse-charge services. As such, the general time of supply rules (as outlined above) applies, that the tax point arises upon receipt of payment.

Continuous supplies. There are no special time of supply rules in Sint Maarten for continuous supplies. As such, the general time of supply rule applies (i.e., the time of invoice). There must be at least one tax point per year.

F. Recovery of RT by taxable persons

RT may not be recovered in Sint Maarten.

G. Recovery of RT by non-established businesses

RT may not be recovered in Sint Maarten.

H. Invoicing

RT invoices and credit notes. A business must provide an invoice for all taxable supplies made, including exports.

Taxable businesses must retain copies of invoices for 10 years.

If a business issues a credit note, the amount mentioned on such credit note can be deducted from the revenue of the period during which the credit note is issued, provided that the amount indicated on the credit note has not yet been received or, if the amount has been received, such amount will be repaid within a month after issuance of the credit note.

Foreign-currency invoices. RT legislation does not specifically mention any regulations in connection with invoices to be issued in foreign currency.

Electronic invoices. The issuance of electronic invoices is allowed.

Proof of export. To qualify for the RT exemption applicable to the export of goods, the business must avail itself of documents that prove the goods have left Sint Maarten. This documentary proof consists of all of the following:
- A copy of the issued invoice with certain specifications
- A proof of payment
- Transport documentation evidencing that the goods have left the levy territory
- A copy of documentation from authorities in the country of destination evidencing that the goods have reached their destination

I. RT returns and payment

RT returns. RT returns are generally submitted for monthly periods. However, if certain circumstances exist, the tax authorities may allow annual periods upon request of a business, such as a person who manages an asset to obtain revenue from the asset on a permanent basis. Returns must be filed and RT due must be paid by the 15th day of the month following the end of the reporting period. The RT due over the period must be remitted with the return.

J. Penalties

RT penalties are assessed for the late submission of an RT return or for the late payment of RT, in the following amounts:
- For the late submission of an RT return, the maximum fine is ANG2,500.
- For the late payment of RT, fines ranging from 5% to 15% of the amount of the additional assessment may be imposed, with a maximum fine of ANG10,000.
- For a late payment caused by negligence or dishonest conduct, fines ranging from 25% to 100% of the RT payable may be imposed.

Criminal penalties may also apply in certain circumstances, such as in cases of fraudulent conduct.

Slovak Republic

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A. At a glance

Name of the tax	Value-added tax (VAT)
Local name	Daň z pridanej hodnoty (DPH)
Date introduced	1 January 1993
Trading bloc membership	European Union (EU) Member State
Administered by	Ministry of Finance (www.finance.gov.sk) Financial Directorate (www.financnasprava.sk)
VAT rates	
Standard	20%
Reduced	10%
Other	Zero-rated and exempt
VAT number format	SK0123456789
VAT return periods	Monthly (Quarterly period may be requested by some taxpayers with turnover below EUR100,000)
Thresholds	
Registration	For non-established persons, registration required before taxable activity commences. For established persons, turnover of EUR49,790 in a maximum period of 12 consecutive calendar months.
Intra-Community acquisitions	EUR14,000 in a calendar year
Distance sales	EUR35,000 in a calendar year
Recovery of VAT by non-established businesses	Yes, if VAT is paid on local sales, or if export supplies or intra-Community supplies are performed; otherwise follow Council Directive 2008/9/EC for VAT refund procedure

B. Scope of the tax

VAT applies to the following transactions:

- The supply of goods for consideration in the Slovak Republic by a taxable person acting as such

- The supply of services for consideration in the Slovak Republic by a taxable person acting as such
- The acquisition of goods from another EU Member State for consideration (see the chapter on the EU)
- The importation of goods

VAT also applies to the following transactions:

- The supply of goods or services by the VAT payer for its private use or for the private use of its staff, and of goods supplied free of charge or supplied for any purpose other than that of the VAT payer's business, if the input VAT is wholly or partly deductible
- The relocation of goods owned by a taxable person from the Slovak Republic to another EU Member State (or vice versa) effected by the taxable person or on the taxable person's account, for the purposes of the taxable person's business (exceptions apply, see the chapter on the EU)
- The use of tangible assets in the possession of the VAT payer for the payer's private use, for the private use of the payer's staff or for any purpose other than that of the payer's business, if the VAT on such assets is wholly or partly deductible

C. Who is liable

A taxable person is any business entity or individual that independently performs any economic activity regardless of the purpose and results of such activity.

The VAT registration threshold for taxable persons that have their seat, place of business or a fixed establishment in the Slovak Republic (Slovak taxable persons) is a turnover of EUR49,790 measured in a maximum period of 12 consecutive calendar months. A Slovak taxable person whose turnover equals or exceeds the registration threshold must file a VAT registration application by the 20th day of the month following the month in which the threshold is reached.

For the above purposes, turnover includes the value of supplies of goods and services, made in the Slovak Republic excluding tax. Revenue (income) generated from supplies that are exempt from VAT without input deduction (see Section D) is generally excluded from turnover for the above purposes. However, revenue (income) from insurance and financial services is included if these services are not provided as ancillary to the main taxable supply. Revenue (income) from the occasional sale of tangible property (except inventory) and intangible property is excluded from the definition of taxable turnover.

Voluntary registration. Taxable persons with any value of turnover or acquisitions may register voluntarily. Voluntary VAT registration is administratively complex and subject to detailed scrutiny from the Slovak tax authorities due to the recently introduced anti-fraud measures.

Intra-Community acquisitions. The VAT registration threshold for Slovak taxable persons and for Slovak nontaxable legal persons that acquire goods in the Slovak Republic from other EU Member States is a value of EUR14,000 of goods acquired in a calendar year. This type of VAT registration does not confer on the person the status of a VAT payer (that is, no input VAT deduction is possible). It only serves the purpose of allowing the person to pay the VAT due on the goods acquired. Registration is required before achieving the threshold.

Group registration. VAT grouping allows financially, economically and organizationally linked domestic taxable persons (including fixed establishments of foreign entities) to form a single taxable person. The VAT group is assigned a single VAT identification number. Supplies between the members of the VAT group are outside the scope of VAT. However, records of such supplies must be maintained for VAT purposes.

The Slovak VAT group registration becomes effective on 1 January if the group VAT registration application is filed by 31 October of the preceding calendar year.

Non-established businesses. A "non-established business" is a foreign business that has no seat, place of business, fixed establishment, residence or habitual abode in the Slovak Republic.

A fixed establishment of a foreign entity in the Slovak Republic is a permanent place of business that has both human and technical resources necessary for performing the business activities of the foreign entity. The registration of a branch in the Slovak Commercial Register does not automatically make the branch meet the fixed establishment criteria.

A non-established business must register for VAT in the Slovak Republic before it begins to perform activities that are within the scope of Slovak VAT, except for the importation of goods. Performance of only the following supplies of goods or services in the country does not trigger the registration obligation:

- Certain zero-rated transport services and zero-rated services ancillary to transport services
- Goods and services subject to the reverse charge by the recipient
- Goods transported to other EU Member States if the goods have previously been imported from a non-EU country and the foreign person has appointed an import VAT representative in the Slovak Republic
- Goods transported to other EU Member States or to non-EU countries if the goods have previously been supplied to the Slovak Republic from another EU Member State and the foreign person has appointed an intra-Community acquisition VAT representative in the Slovak Republic
- Goods supplied within a triangular transaction if the non-established business acts as middle party to the transaction (see the chapter on the EU)
- Gas and electricity supplies, if the recipient of the goods is required to pay VAT

The Slovak tax authorities are obligated to register the non-established person as a taxpayer, to issue a certificate on tax registration to that person, and to allocate the tax identification number immediately, no later than within seven days of the date of delivery of the application for tax registration. The non-established person shall become a VAT payer from the date shown in the certificate on tax registration.

There are no procedural fees related to submission of VAT registration application in the Slovak Republic.

VAT registration is carried out at the following designated office:

Tax Authority Bratislava
(Daňový úrad Bratislava)
Ševčenkova 32
P.O. Box 154
850 00 Bratislava
Slovak Republic

Import VAT representative. A non-established business may appoint a VAT representative for the purposes of making importations of goods that are to be treated as exempt from VAT on the basis of their subsequent intra-Community supply (that is, a zero-rated resale to another EU Member State) by the non-established business. The non-established business must appoint the representative using a power of attorney. The VAT representative must submit tax returns on a monthly basis as well as monthly EU Sales Lists on behalf of the importers. The importer of goods is not required to register for VAT purposes in the Slovak Republic.

Intra-Community acquisitions VAT representative. Effective 1 January 2018, the Slovak VAT act contains provisions about a new type of VAT representative. A non-established business may appoint a VAT representative for the purposes of making intra-Community acquisitions of goods in the Slovak Republic (i.e., acquisition of goods from another EU Member State) provided that these goods are intended to be subsequently supplied to another EU Member State or non-EU country or sold distance selling (with the place of supply in another EU Member State). The VAT

representative should be appointed using a power of attorney. The VAT representative is obliged to submit VAT returns, VAT ledgers and EU sales lists on behalf of the represented person on a monthly basis. The person represented by the VAT representative is not required to register for VAT purposes in the Slovak Republic provided that it does not perform any transactions subject to VAT reporting in the Slovak Republic (other than those described above). A VAT representative is allowed to represent more than one non-established business.

Reverse-charge services. A Slovak taxable person must apply VAT with respect to services provided from another EU Member State or a non-EU country if the following conditions are satisfied:

- The services are taxable and the place of supply of the services is in the Slovak Republic.
- The supplier is not the person liable to pay the VAT.

VAT is accounted for using the reverse-charge mechanism; the recipient of the service must account for VAT on the service, but is also entitled to recover the self-assessed VAT if certain conditions are met (see Sections D and F).

A Slovak taxable person is generally not required to apply the reverse charge if the service provider is established for VAT purposes in the Slovak Republic (in that case the service provider must account for the Slovak VAT due). However, the reverse charge applies if a taxable person or an entity that is not a taxable person and that is identified for VAT as a result of intra-Community acquisitions receives services supplied by a non-established person from another EU Member State or a non-EU country and if the place of supply is in the Slovak Republic as a result of the recipient's seat, place of business or fixed establishment (if the service is attributable to the fixed establishment). In such circumstances, the reverse charge applies regardless of whether the non-established service provider is registered for VAT in the Slovak Republic. If these services are provided to persons in their non-business capacity or to private individuals, the country where the supplier is established is considered to be the place of supply for the services.

The person liable to VAT with respect to goods (except in the case of distance selling) and services supplied by non-established businesses (from EU and non-EU countries) to taxable persons established in the Slovak Republic is the recipient of the goods and services, regardless of whether the supplier (foreign person) is registered for VAT in the Slovak Republic.

Domestic reverse charge. A Slovak VAT payer that purchases the following goods from another Slovak VAT payer must apply the reverse charge:

- Gold in the form of raw material semi-finished product or investment gold.
- Metal waste and scrap metal.
- Greenhouse gas emission allowances.
- Immovable property where the option to tax was elected by the supplier.
- Supply of goods following the cession of a reservation of ownership to an assignee and the exercising of this right by the assignee.
- Supply of immovable property within enforcement or bankruptcy proceedings.
- Supply of construction services, supply of construction under a contract of work (or similar type of contract) if it falls under Section F (*Constructions or construction works*) of the Statistical Classification of Products, and the supply of goods with installation or assembly, if the assembly or installation falls under Section F of the Statistical Classification of Products. In cases when it is not clear whether the construction service falls under Section F, but the supplier reasonably concludes that this service should be subject to the local reverse charge and includes the sentence on the invoice that the "application of reverse charge" applies, the customer is liable to pay the VAT due.
- Supply of goods falling within chapters 10 (cereals) and 12 (oil seeds and oleaginous fruits, miscellaneous grains, seeds and fruit, industrial or medicinal plants, straw and fodder) of the Common Customs Tariff, which are not commonly intended for final consumption in an

unchanged state. Previously, this provision applied if the tax base in the invoice was EUR5,000 or more; however, with effect from 1 January 2018, the limit of EUR5,000 is abolished.
- Supply of goods falling within chapter 72 (iron and steel) and items 7301 (sheet piling of iron or steel, whether or not drilled, punched or made from assembled elements, welded angles, shapes and sections of iron or steel), 7308 (structures and parts of structures of iron or steel, plates, rods, angles, shapes, sections tubes and the like, prepared for use in structures of iron or steel) and 7314 (cloth, grill, netting and fencing, of iron or steel wire, expanded metal of iron or steel) of the Common Customs Tariff. Previously, this provision applied if the tax base in the invoice was EUR5,000 or more; with effect from 1 January 2018, the limit of EUR5,000 is abolished.
- Supply of mobile phones that are made or adapted for use in conjunction with a licensed network and work on specified frequencies, if the tax base in the invoice is EUR5,000 or more.
- Supply of integrated circuits such as microprocessors and central processing units in a state prior to integration into end-user products, if the tax base in the invoice is EUR5,000 or more.

Joint and several liability. Joint and several liability of the customer for output VAT must be stated on invoices from the supplier. This relates to the value of VAT that the supplier did not pay to the tax authorities when the customer knew, could have known or should have known that the supplier would not remit the VAT. The Slovak VAT act lists the situations when the customer is deemed to have this knowledge: (i) the consideration for the supplied goods or services differs from the fair market value without any business reason, or (ii) the supplier and the customer meet the specific related parties definition. In these cases, upon a notice issued by the Slovak tax authorities, the customer is assessed the amount of the supplier's unpaid or underpaid VAT. The customer's excess VAT can be used to cover the underpayment.

Tax authorities monitor VAT payers who do not fulfill their VAT obligations and have been publishing a list of such persons on the web portal of the Financial Directorate since February 2013.

Tax representatives. The concept of a fiscal representative has not been introduced into the Slovak VAT act. Nevertheless, foreign or Slovak entities can appoint a representative to act on their behalf in front of the Slovak tax authorities in all tax matters, including VAT registration or compliance process, based on a Power of Attorney.

In addition, as already mentioned above there are concepts of a representative for import of goods and representative for intra-Community acquisition of goods if these are aimed to be further supplied to another EU Member State (or non-EU country respectively). Both concepts should relieve potential importers or acquirers of goods from another EU Member State (non-established persons) from administrative burden of VAT registration only due to performance of VAT exempt intra-Community supply of goods (export of goods to non-EU country respectively) following their import (delivery from another EU Member State respectively) to the Slovak Republic.

Registration procedures. The following documents should be submitted to Tax Authority Bratislava by the non-established person for the purposes of VAT registration:
- A completed application for VAT registration.
- An original extract from the Commercial Register or a notarized copy thereof.
- An official translation of the extract from the Commercial Register into the Slovak language (not required for the Czech language).
- If the person has appointed a representative, a power of attorney that does not need to be notarized but which if executed in any language other than the Slovak or Czech languages, must be accompanied by official translation thereof.

The documents may be delivered by the applicant for registration in the form of attachments to the application for registration or they may be submitted for review directly at the Tax Authority Bratislava. The documents may be delivered in hardcopy. In a case where the foreign entity

appoints a tax advisor or advocate for this purpose, the documents must be submitted electronically (tax advisors and tax advocates are obliged to communicate with Slovak tax authorities only by electronic means).

Late-registration penalties. The penalty for non-fulfillment of the registration obligation can range from EUR60 to EUR20,000. In principle, the Slovak VAT legislation does not allow a retroactive registration of a taxable person. However, with effect from 1 April 2009, a mechanism for reconciling VAT in the event of a late VAT registration has been introduced into the Slovak VAT legislation. A domestic or non-established person who failed to register for Slovak VAT is able to reconcile their VAT obligations retrospectively in a single VAT return filed for the period before the late VAT registration covering all transactions in the period during which it should have been registered.

Digital economy. Effective 1 January 2015, the place of supply of telecommunications, broadcasting and electronically provided services to nontaxable persons (B2C) is where the customer is established. From 1 January 2019, a threshold of EUR10,000 will be introduced for EU-established suppliers, below which these services remain subject to VAT in the Member State of the supplier (unless the supplier opts to apply the "main" rule, i.e., where the customer is established).

Mini One-Stop Shop. On 1 January 2015, the place of supply of broadcasting, telecommunications and electronic services rendered to nontaxable customers by providers established in the EU changed from the place where the supplier of the services is established to the place where the customer is established, has his permanent address or usually resides.

In this regard, the "One-Stop Shop" (which allows non-EU taxable persons supplying electronic services to consumers in the EU to register for VAT in one EU country, regardless of the number of other EU countries to which they are supplying the services) will be extended also to the EU suppliers, except if they are established in the Member State of the place of supply.

If a VAT payer applies for the Mini One-Stop Shop, the VAT return filing and VAT payment in respect of the local countries will be made in one Member State, but the VAT payer will still need to comply with the VAT rules and relating tax rules applicable in the Member State of the place of supply.

Deregistration. VAT payers that cease to conduct economic activities (i.e., activities subject to VAT in the Slovak Republic, as well as in another EU Member States) are obliged to file an application to deregister. The Slovak tax authorities may deregister a VAT-registered person in response to an application or at their own discretion if the VAT-registered person repeatedly fails to comply with administrative duties (e.g., filing of VAT returns, VAT ledgers, payment of VAT or tax audit-related duties).

Exemption from registration. As mentioned above, foreign businesses are not obliged to be registered for VAT purposes in the Slovak Republic if they are represented by an import VAT representative or intra-Community acquisition VAT representative and if they do not perform any other transactions subject to VAT reporting in the Slovak Republic than the listed ones.

Slovak established persons (i.e., persons having their seat, place of business or a fixed establishment in the Slovak Republic) whose turnover in the immediately preceding 12 consecutive calendar months did not exceed EUR49,790 are not obliged to register for VAT in the Slovak Republic.

A taxable person who plans to supply an immovable property, is obliged to register for VAT before making a supply of the immovable property by which it would exceed the mandatory registration threshold unless the supply is exempt from VAT.

A taxable person not registered for VAT or nontaxable legal person acquiring goods from another EU Member State is not obliged to register for VAT purposes in the Slovak Republic if the

value of intra-Community acquisitions (excluding VAT) does not exceed EUR14,000 in a calendar year. On the other hand, if a taxable person not registered for VAT in the Slovak Republic purchases services from other EU Member State subject to reverse-charge mechanism with a place of supply in the Slovak Republic while being considered as a person liable to VAT, it is obliged to register for VAT purposes in the Slovak Republic before the actual purchase of the services. Similarly, the Slovak established person not registered for VAT purposes in the Slovak Republic is obliged to register for VAT before it supplies services to another EU Member State if these have the place of supply in another EU Member State and the purchaser is considered a person liable to pay VAT.

A foreign person supplying goods to a Slovak nontaxable persons using distance selling is not obliged to register for VAT purposes in the Slovak Republic if the value of goods supplied (excluding VAT) during the calendar year does not exceed EUR35,000.

Voluntary registration. A taxable person might submit a voluntary VAT registration application in the Slovak Republic. Though, as mentioned above, Slovak tax authorities usually apply stricter rules when assessing such an application (they might, e.g., require the company to pay a tax guarantee).

D. VAT rates

The 20% standard VAT rate applies.

On 1 January 2007, the Slovak Republic introduced a reduced rate of 10% on selected pharmaceutical products and medical aids. Since 1 January 2008, the reduced rate has also applied to specific books, brochures and leaflets and books for children. From 1 January 2016, the reduced rate was extended and now applies to certain food products such as meat, fish, milk and bread. The standard VAT rate applies to all other supplies of goods or services, unless a specific measure in the VAT law provides for the zero rate or an exemption.

In the event of a change of VAT rates, taxpayers must use the VAT rates valid on the date on which the tax point arises.

If supplies are classified as zero-rated, no VAT is due, but the supplier may deduct related input tax.

Examples of zero-rated supplies of goods and services

- Exported goods
- Intra-Community supplies of goods
- Services related to the export of goods
- International transport of persons
- Financial and insurance services provided to a customer that is not established in the EU

The term "exempt supplies" refers to supplies of goods and services that are not liable to tax. Exempt supplies do not give rise to a right of input tax deduction (see Section F).

Examples of exempt supplies of goods and services

- Postal services
- Health care (except for supplies of pharmaceuticals and health aids)
- Public radio and television broadcasting (except for broadcasting of commercials and sponsored programs)
- Education
- Financial services
- Services related to sports and physical education
- Cultural services
- Social welfare
- Lotteries and similar games

- Transfer and lease of real estate (options to tax available for both except of residential real estate)
- Insurance and reinsurance services (including public social and health insurance)
- Services provided by a legal person to its members (if certain conditions are met)

Option to tax for exempt supplies. The transfer of immovable property, wholly or partly, carried out five years after the date of the first official approval of use or five years after the first day of the actual usage is VAT exempt. However, the VAT payer may opt to tax the transfer.

Similarly, the lease of immovable property is VAT exempt. Again, the VAT payer who leases non-residential real estate to a taxable person may opt to tax the lease.

E. Time of supply

The time when VAT becomes due is called the "chargeability of tax" or "tax point." In the Slovak Republic, VAT generally becomes chargeable on the date on which goods are supplied or services are performed.

Under the general rule, the tax point for goods or services is the date of the supply of the goods or services, or the date of the receipt of the payment, whichever is earlier. The date of supply of goods is the date of acquisition of the right to dispose of the goods as owner.

Continuous supplies of goods and services. If goods or services are supplied in parts or repeatedly, the goods or services are considered to be supplied at the latest on the last day of the period to which the payment for the goods or services relates.

If a payment for partial or repeated supplies of goods or services is agreed to for a period exceeding 12 calendar months, the tax point arises on the last day of the 12th month, until the supply of goods or services is finished.

A special rule applies if the following circumstances exist:
- A service is supplied partially or repeatedly during a period exceeding 12 calendar months and the agreed payment is for a period exceeding 12 calendar months.
- The service is supplied to a taxable person acting as such.
- The place of supply is in the Slovak Republic.
- The person required to pay VAT is the recipient of the service.

In the circumstances mentioned above, the tax point arises on 31 December of each calendar year, until the supply of such service is finished.

Specific rules also apply to partial or repeated intra-Community supplies of goods, partial or repeated supplies of gas, water, heat and electricity that are supplied along with leases of immovable property, and of electronic communication networks and electronic communication services.

Intra-Community supplies and acquisitions of goods. The tax point for goods that are supplied to another EU Member State and that meet the conditions for exemption from VAT in the Slovak Republic is either the date of the issuance of the invoice or the 15th day of the calendar month following the month in which the goods are supplied, whichever is earlier.

For intra-Community acquisitions, the tax point is either the date of the issuance of the invoice or the 15th day of the calendar month following the month in which the goods are acquired, whichever is earlier.

Reverse-charge services received. For reverse-charge services received by a Slovak taxable person, VAT becomes due on the date of supply of the service. Different rules apply to reverse-charge services supplied in parts or repeatedly (see *Continuous supplies of goods and services*).

Immovable property. The tax point for a transfer of real estate is the date on which the transfer of the property is registered in the Real Estate Cadastre or the date on which the property is made available for use to the purchaser, whichever is earlier. The tax point for the supply of a newly constructed building is the date of the handing over of the building.

Imported goods. The tax point for imported goods is when the customs authority accepts the customs declaration for the release of the goods into a customs regime triggering the payment of VAT. If this is not applicable, the tax point is when the liability to customs duties (including import VAT) arises in a different manner.

Cash accounting. The cash accounting scheme is available only to domestic VAT payers, who must meet the following criteria:
- The VAT payer's annual turnover did not exceed EUR100,000.
- The VAT payer is not in bankruptcy and has not entered liquidation.

Under the cash accounting scheme, the chargeable event (tax point) is only after the receipt of payment for the goods or services supplied and from the amount received from the customer. As regards the assigned receivables, effective from 1 January 2018, the tax point of such receivables should be the day of their assignment. General tax point rules do not apply in such a case. The same applies on the input VAT deduction right, which arises only after payment of an invoice (if paid partially, only on the amount of payment).

The invoice issued by a VAT payer who has opted for the scheme should include the legible statement "cash accounting scheme." If this information is not stated on the invoice, the VAT liability arises in accordance with standard rules for the determination of the tax point under the Slovak VAT act. A customer of a VAT payer running the scheme has the right to deduct input VAT on the day of payment for the supply (up to the paid amount).

The list of taxpayers who have opted for the cash accounting scheme will be maintained and published on the webpage of the Financial Directorate of the Slovak Republic.

Taxpayers may voluntarily quit the cash accounting scheme only at the end of the respective calendar year; however, if they exceed the turnover of EUR100,000, if they become a member of a VAT group or if their business ceases to exist, they are required to quit the scheme as of the following VAT period.

Prepayments. No prepayments related to VAT are paid in the Slovak Republic.

Leased assets. The delivery of goods based on a lease agreement under which ownership to the subject matter of the lease agreement is acquired, at the latest, upon the payment of the last installment is considered a supply of goods.

A lease transaction with purchase option agreed is regarded as a supply of services.

The lease of real estate or its part is VAT exempt, except for:
- The provision of accommodation in hotels, motels, guest houses, camps or private properties
- Lease of land for the purpose of parking of vehicles
- Lease of permanently installed equipment and machinery
- Lease of safes

A VAT payer who leases real estate to a taxable person may opt to tax the lease.

Goods sent on approval for sale or return. The Slovak VAT act does not contain any specific provisions related to goods sent on approval for sale or return. General conditions should apply in such a case.

F. Recovery of VAT by taxable persons

A VAT payer is entitled to recover input tax, which is the VAT charged on goods and services received if it is directly attributable to the taxable person's own supplies for which a deduction entitlement exists (mostly taxable and zero-rated supplies).

Input VAT may generally be recovered by deducting it from output VAT, which is VAT due on the supplies made. A VAT payer is entitled to deduct input VAT if the tax point for the supply in question has arisen with respect to the output and the VAT payer holds a valid VAT invoice or import document. The VAT payer may deduct input VAT in any VAT period after the VAT period in which the right to deduct arose up to the end of the calendar year (the financial year, if applicable). The VAT payer must possess the required documents (invoice, import declaration and other documents) by the time of the deadline for submission of the VAT return for that period. If the documents are not available until the end of the calendar (financial) year, the deduction must be made for the period in which the documents are received.

VAT payers submitting a supplementary VAT return due to belated receipts of invoices for intra-Community acquisitions of goods are entitled to deduct the respective VAT in this supplementary return if they have the related invoice at their disposal as of the filing date.

VAT payers are required to correct the amount of deducted VAT within 30 days from the date the VAT base was to be corrected by the supplier, even if the corrective invoice is absent.

For supplies of reverse-charge services and for goods supplied with assembly and installation by a foreign taxable person, it is not necessary for the Slovak recipient to hold an invoice, but inclusion of VAT in the recipient's VAT records is a pre-condition for deducting.

For imported goods, VAT must have been paid to the customs authority or, effective from 1 January 2017, included in the VAT records to be eligible for deduction.

Non-established taxable persons registered for VAT in the Slovak Republic cannot claim input VAT deduction on a VAT return if they only perform reverse-charge supplies in the Slovak Republic (even local reverse-charge supplies). Instead, a VAT refund procedure needs to be followed. This does not apply if supplies such as exports and intra-Community supplies of goods are performed, in which case the deduction of Slovak input VAT incurred can be made through the regular VAT return filed.

Interest on late payment of excess VAT deduction due to a tax audit. A taxpayer is entitled to interest on excess VAT if the payment of excess VAT was later than six months after the deadline for its usual refund. The interest is calculated as a percentage of the final amount of excess VAT (as confirmed by the tax inspectors), for the period starting six months after the deadline for its usual refund, until its actual refund. The interest rate applicable should equal twice the European Central Bank rate, valid on the first day of the calendar year for which the interest is calculated, with a minimum applicable annual rate of 1.5%.

Nondeductible input tax. A VAT payer may not recover the following input VAT:
- VAT that relates to activities that are not business activities
- VAT that relates to transactions regarded as VAT-exempt supplies
- VAT incurred on items of expenditure for which recovery is specifically excluded (for example, input tax related to meals and entertainment)

The following lists provide some examples of items of expenditure for which input tax is not deductible and examples of items for which input tax is deductible if the expenditure is related to a taxable business use.

Examples of items for which input tax is nondeductible

- Business entertainment

- The part of input VAT on acquisition of goods and services that represents its nonbusiness use, if the VAT payer elects not to apply output VAT on this nonbusiness use

Examples of items for which input tax is deductible (if related to a taxable business use)

- Purchase, lease or hire of vans and trucks
- Taxis
- Hotel accommodation
- Fuel used for business purposes
- Business use of mobile telephones
- Business gifts that are worth less than EUR17 each (not taxed on output)
- Commercial samples of goods for advertising purposes (not taxed on output)
- Parking

Partial recovery (partial exemption). Input tax on goods that are used for both business and for nonbusiness purposes is generally deductible. However, output VAT must be paid on the non-business use.

For fixed tangible assets intended to be used for both business and non-business purposes, the VAT payer may opt not to deduct a portion of the input VAT that reflects the nonbusiness use of these assets. As a result, the use of these assets for nonbusiness purposes is not subject to VAT.

The above option applies only to movable tangible assets with an acquisition price exceeding EUR3,319.39 (without VAT) and a useful life over one year. For immovable assets, the taxpayer needs to determine the proportion of use of the immovable asset for its business and nonbusiness purposes and deduct the input VAT only to the extent of the business use (for further details, see *Capital goods*).

For services received by a taxable person that are intended to be used for both business and non-business purposes, the VAT payer may not deduct VAT relating to nonbusiness use. However, if the VAT payer does not expect to use the services for non-business purposes, it may deduct input VAT relating to the entire consideration for the services. If the services are subsequently used for nonbusiness purposes, the VAT payer must account for output VAT (VAT on sales) on the portion of the consideration that is attributable to the nonbusiness use of the services.

For goods and services that are partially used for the provision of exempt supplies, only the portion of VAT related to taxable supplies may be deducted. For these purposes, taxable supplies include zero-rated supplies, and supplies that are specifically excluded from the application of VAT and that are entitled to input VAT deduction.

The deductible proportion is calculated based on the total revenue (or income) generated from taxable supplies made (those for which the input tax is deductible), divided by the total revenue (or income) from all supplies made. All values are exclusive of VAT. Because the terms "revenue" and "income" are not defined for VAT purposes, they should probably be understood in terms of their definitions for accounting purposes. "Revenue" is the term used for double-entry bookkeeping, while "income" is the term used for single-entry bookkeeping.

The following taxable supplies are excluded from the calculation of the deductible proportion:
- Incidental financial services exempt from VAT
- The sale of an enterprise or part of an enterprise (transfer of going concern)
- The sale of business assets (capital goods) excluding inventory
- Incidental real estate transactions (transfer or leasing of immovable property)

The deductible proportion is calculated for the entire calendar (financial) year and is rounded up to the nearest whole percentage. During the current calendar (financial) year, the deductible proportion calculated for the preceding year is used. If no percentage exists for the preceding year, the VAT payer may use a percentage agreed to with the tax authorities.

Capital goods. With respect to the purchase of immovable property to be used for both business and nonbusiness purposes, the input VAT is deductible only to the extent that the property is used for business purposes. If the nonbusiness use of the immovable property changes over a period of 20 years, a special Capital Goods Adjustment Scheme applies. This rule applies to immovable property acquired on or after 1 January 2011.

The previously valid 10-year period for the adjustment of deducted input VAT relating to immovable property is extended to 20 years. Under transitional provisions, the 10-year period applies to immovable property that was subject to the adjustment of input VAT deduction in the period from 2004 to 2010, regardless of when the property was acquired. Consequently, the extended 20-year period also applies to immovable property acquired before 1 January 2011 that was not subject to adjustment of the VAT deduction in the period from 2004 to 2010. Taxpayers must retain documentation relating to affected immovable property for a period of 20 years.

Adjustments of deducted input VAT relating to capital goods must also be preserved by the legal successor of the entity dissolved without liquidation, such as in cases of reorganizations such as mergers or de-mergers.

Effective 1 January 2019, deducted input VAT relating to movable capital goods has to be adjusted if the proportion between business and nonbusiness use changes over a period of five years after the capital goods were acquired.

Refunds. If the amount of deductible VAT in a VAT period exceeds the amount of output VAT in that tax period, the VAT payer may offset the difference against a VAT liability in the following tax period. The remaining difference between the amount of deductible VAT and output VAT that cannot be offset is refunded to a VAT payer by the tax authorities within 30 days after the date of the submission of a VAT return for the following tax period.

VAT payers may request the refund of excess VAT in a shorter period, which is 30 days after the deadline for submission of the VAT return for the VAT period in which excess VAT was reported, if the following conditions are met:

- The VAT payer is a monthly VAT payer.
- The VAT payer was registered for VAT purposes for at least 12 months before the month in which the excess VAT was reported.
- The VAT payer is not liable for underpayments exceeding EUR1,000 of other taxes, customs duties and mandatory social and health insurance over the six-month period preceding the month in which the excess VAT was reported.

If in the period for refund of excess VAT, the tax authorities deliver an appeal (letter) prompting the removal of defects in the submitted VAT return, the period for refund of excess VAT is interrupted from the day of delivery until the day on which the defects are removed. If the taxpayer generates or increases an amount of excess VAT through the filing of a supplementary VAT return, the tax authorities must refund the respective amount within 30 days after the submission of the supplementary VAT return.

If the tax authorities carry out a tax audit to verify the VAT payer's entitlement to a refund, the refund must be repaid within 10 days after the tax authorities complete the tax audit.

If the excess VAT is refunded in a shorter period (mentioned above) based on a VAT return containing incorrect data, the tax authorities impose a penalty amounting up to 1.3% per month of the excess VAT refunded.

Preregistration costs. The VAT payer may deduct tax related to goods and to services purchased before the day the person became the VAT payer if such purchases were not included in tax expenses in calendar years preceding the calendar year in which the person became a VAT payer, except for stock. As regards property acquired before the VAT registration, the VAT payer will decrease VAT for property which is depreciated by a proportional part of the VAT corresponding

to the depreciation. The VAT payer shall not be entitled to deduct the VAT if the goods and services are not used for the supplies of goods and services as the VAT payer.
Write-off of bad debts. The Slovak Republic did not implement bad debt relief provision.

Noneconomic activities. A taxable person shall be any person who independently carries out any economic activity, whatever the purpose or results of that activity.

According to the Slovak VAT act an economic activity shall mean any activity, from which an income is accrued and which includes the activities of producers, traders and persons supplying services including mining, construction and agricultural activities, activities carried on as a freelance occupation, intellectual creative activity and sporting activity. In addition, an economic activity is also considered to be the use of tangible property and intangible property with a view to obtaining income from the property; if the property is the common property of spouses, its use with a view to obtaining income is considered to be economic activity in equal proportion of each spouse, unless the spouses decide otherwise.

The execution of activities based on an employment relation, or other similar relation, when an individual is obliged to adhere to instructions or orders creating a subordination and super ordination from the point of view of conditions of the executed activities and conditions of remuneration, is not considered an independent execution of activities.

G. Recovery of VAT by non-established businesses

The Slovak Republic refunds VAT incurred by businesses that are neither established nor registered for VAT there.

The rules for VAT refunds in the Slovak Republic are in compliance with the general VAT refund rules adopted by Council Directive 2008/9/EC, which is part of the 2008 VAT package adopted by the European Commission (see the chapter on the EU).

In the Slovak Republic, the conditions for refunds are similar for EU businesses and non-EU applicants, except for the electronic request for refund and electronic communication applicable to EU business applicants. Non-EU business applicants must file the refund request using the form issued by the Slovak tax authorities.

To claim a refund, a foreign business must meet all of the following requirements:
- It is a registered VAT payer abroad or a registered payer of a similar general consumption tax.
- The foreign entity does not have a registered office, fixed establishment or place of business in the Slovak Republic (for non-EU applicants, the territory of the EU is applicable), during the period for which the VAT refund is requested.
- The input VAT is recoverable under Slovak law.
- During the period for which the VAT refund is requested, the foreign entity neither sold goods nor provided services in the Slovak Republic, other than the following:
  — Transportation and auxiliary services related to export and import of goods.
  — Services and goods with their assembly and installation, if the Slovak customer was the person liable to pay tax (reverse charge).
  — Electricity and gas if the Slovak customer was the person liable to pay tax.
  — Goods supplied to other EU Member States if such goods were imported in the Slovak Republic as VAT-exempt and if the foreign entity was represented by an import VAT representative (see Section C).
  — Goods supplied within a triangular transaction if the foreign business acts as the middle party in the transaction (see the chapter on the EU).

The Slovak tax authorities reject the application for a refund if the non-EU country in which the applicant's foreign business is established does not provide refunds to Slovak payers of VAT or similar consumption tax (reciprocity).

Refund application. The refund application for EU applicants must comply with the rules of Council Directive 2008/9/EC. Under the directive, applicants must file the electronic request in the EU Member State in which they have their seat, place of business, fixed establishment, residence or habitual abode.

The non-EU business application must be submitted using the form issued by the Slovak tax authorities, completed in the Slovak or English language.

Requests of non-EU applicants must be filed with Tax Authorities Bratislava by 30 June of the year following the year in which the VAT was incurred or the import VAT was paid. The request must be filed together with the following documents:
- The original invoices or import documents (for imports, documents evidencing payment of the tax must also be included)
- A certificate of status issued by the applicant's local tax authorities confirming that the applicant is registered for VAT in the country where it is established or has its permanent address

An annual claim may be filed if the total VAT incurred exceeds EUR50 for the calendar year. A foreign person from a third country may also file a VAT refund application for half a calendar year if the total VAT requested exceeds EUR1,000. If such a request was filed for the first half-year, the amount of VAT requested in the second half should exceed EUR50. The tax authorities must decide on the application for the refund within six months after the date the request is filed.

H. Invoicing

VAT invoices. A registered VAT payer must issue a VAT invoice for:
- Supply of goods or services having a place of supply in the Slovak Republic rendered to a taxable person or to a nontaxable legal person
- Supply of goods or services with a place of supply in another EU Member State (if a person liable to VAT is the recipient), even if the supply is exempt from VAT
- Supply of goods or services to a taxable person with a place of supply in a non-EU country
- Supply of goods in the form of distance selling with a place of supply in the Slovak Republic
- Intra-Community supply of goods
- Advance payments for goods and services

Taxable persons (non-VAT payers) providing services with a place of supply outside of the Slovak Republic are obliged to issue VAT invoices at the moment of the service being completed or a down payment for that service being received.

The obligation to issue a VAT invoice does not apply to supplies of goods and services with a place of supply in the Slovak Republic that are exempt from VAT with no right of VAT deduction, and to supplies of insurance and financial services with a place of supply in EU countries other than the Slovak Republic or in non-EU countries.

The invoice must be drawn no later than 15 days after the date the tax was chargeable, usually (1) the date of supply of goods or services or (2) the date on which the advance payment is received, or no later than 15 days from the end of the calendar month in which the payment was received if it concerns the provision of reverse-charged service.

For intra-Community supplies and services supplied with a place of supply outside the Slovak Republic, the invoice must be drawn no later than 15 days from the end of the month in which the supply of goods or services took place. In cases of corrective invoices, the deadline of 15 days counts from the end of the calendar month in which the facts giving rise to the correction occurred.

A document produced by an electronic cash register for goods and services can serve as a simplified invoice only if the price of the goods or services including VAT does not exceed EUR1,000

for cash payments and EUR1,600 for noncash payments. Documentation does not need to be produced by the electronic cash register for supplies of goods or services worth EUR100 and less. A simplified invoice does not need to include the unit price and information on the recipient.

An invoice issued by a member of a VAT group must mention identification details of the group member and the VAT number of the group.

It is necessary to hold a VAT invoice to support a claim for input tax deduction (with the exception of reverse-charge services received from abroad and purchases from abroad of reverse-charge goods supplied with installation or assembly).

The law also allows the sending or accessing of invoices electronically after agreement of the supplier with the customer.

Credit notes, debit notes and corrective invoices. If the tax base is corrected as a result of a decrease or increase in the price, the cancellation of all or part of a supply or the return of the goods, the VAT payer must issue a corrective invoice, credit note or debit note. Each document or notification correcting the original invoice should contain a reference to the serial number of the original invoice and the data subject to change. Such a document or notification is considered to be a simplified VAT invoice.

Proof of exports and intra-Community supplies. Goods exported outside the EU or supplied to a taxable person in another EU Member State are zero-rated for a VAT payer that sells upon meeting the conditions specified in the VAT legislation. A VAT payer that exports goods or supplies goods to other EU Member States is generally entitled to recover the related input VAT.

To qualify as zero-rated, exports must be supported by evidence confirming that goods were exported abroad. A VAT payer must substantiate the export of the goods with the following:
- Certified electronic customs declaration for the release of the goods into the customs regime of export, with the VAT payer required to hold the electronic customs declaration before the sixth month lapses after the month in which the exemption is claimed
- A transport document

To qualify for zero-rating, an intra-Community supply of goods must be supported by the following documents:
- Copy of the invoice
- Proof of dispatch if the transport is arranged by the supplier or the customer through one of the authorized postal service companies, or by a copy of a transportation document in which the receipt of goods in another EU Member State is confirmed by the customer, or by a person empowered by the customer where the transport is arranged through a third party or, if such documentation unavailable, receipt of goods proven by alternative evidence
- If transport is arranged by the supplier or customer using their own means of transport, the supplier's documentation confirming receipt of the goods by the customer or by a person empowered by the customer, which has to include:
  — Identification of the customer, description of the supplied goods and their amount, place and date when the goods were taken over by the customer (if transport performed by the supplier); place and date when transport was finished (if transport performed by the customer)
  — Name and surname of the driver providing the transport and the driver's signature and the registration number of the vehicle used in the transport
- Other documentation, particularly the contract on delivery of the goods, delivery note, payment confirmation on the purchase of goods, confirmation of payment for transportation service

If the transport is arranged by the customer, the VAT payer must have the documents under bullet two above (proof of dispatch, etc.) and bullet three (transport arranged by customer or supplier, etc.) available within six months after the end of the calendar month in which the supply of goods

occurred. If this is not met, the VAT payer shall apply output VAT in the tax period in which the six-month period elapsed.

Foreign-currency invoices. If the payment for a supply is requested in foreign currency, the total VAT must be converted into euros (EUR), using the exchange rate published by the European Central Bank on the date preceding the date of the tax point. Alternatively, the VAT payer can opt for a customs foreign exchange rate valid on the date of the tax point to be used over a calendar month. This option may not be revoked during the entire calendar year. For imports, the customs foreign-exchange rate rules apply.

I. VAT returns and payment

Slovak VAT returns must be submitted by the 25th day after the end of the tax period. Since 1 January 2014, VAT returns and all documents for the tax authorities must be submitted electronically, using either advanced electronic signature or other means of electronic filing agreed with the tax authorities. Payment of VAT liability in full is due by the same date.

VAT ledger. As of 1 January 2014, VAT payers are obliged to submit a detailed VAT ledger report as a separate filing along with the VAT return. The obligation arises for each VAT period, except when zero returns are filed or for re-exports of imported goods. The report should include the information for every invoice received or issued by the VAT payer, including corrective invoices and down-payment invoices, but excluding invoices for exports, zero-rated and exempt supplies. Simplified invoices are to be reported in aggregate values for the tax period. The exception applies only to simplified invoices received by the taxpayer if the total amount of deductible VAT from these invoices exceeds a threshold of EUR3,000 for a tax period. Such documents have to be reported in the VAT ledger separately and not in an aggregate amount. Information will need to be compiled by the VAT payer electronically and filed by means of the electronic filing portal provided by the Slovak Financial Directorate.

Effective 1 January 2015, the deadline for submission of the VAT ledger is 25 days after the end of the relevant tax period. The deadline is no longer tied to the date of the VAT return filing.

Special schemes. The Slovak VAT legislation stipulates the following special schemes:

- Special scheme for travel agents — Effective 1 January 2018, the range of entities required to apply the special scheme for travel agents includes those which (i) procure goods and services for the purpose of a journey/travel from other taxable persons ("accommodation and travel services") and those which (ii) act in their own name toward customers, whether they are taxable or nontaxable persons. According to the wording of the Slovak VAT act valid until the end of 2017, this obligation applied only if the services were supplied to customers who were nontaxable or were not acquiring the services for their business use. As of 2018, the special scheme for travel agents does not apply only to travel agencies and travel agents in the traditional sense, but to all VAT payers who procure travel services, such as accommodation and transport, in their own name. The taxpayers applying the special VAT scheme for travel agents should follow all specific rules stipulated by the Slovak legislation for this special scheme (e.g., the taxpayers applying the special scheme should not deduct input VAT from the acquired goods and services linked to the accommodation and travel services, the recipients of these services should not be able to deduct the input VAT from purchased accommodation and travel services. Since the issued invoices for the accommodation and travel services will not show any VAT, the taxpayers should track and keep separate VAT records with respect to the special scheme).
- Special scheme for call-off stock.
- Special arrangements applicable to second-hand goods, works of art, collectors' items and antiques.
- Special scheme for investment gold.
- VAT cash-accounting scheme.

- Special arrangements applicable to persons not established in the territory of the European Community supplying the services electronically.

As of 1 January 2015, special schemes apply for EU and non-EU established businesses providing telecommunications, broadcasting or electronic services to nontaxable persons (final consumers) located in the EU.

Electronic filing and archiving. The VAT payer has to complete the VAT return in the standard electronic form issued by the Ministry of Finance. All VAT payers are obliged to communicate only electronically with the Slovak tax authorities. In order to do so, the VAT payer should either use the advanced electronic signature or the VAT payer concludes an agreement on electronic filing with the Slovak tax authority in writing.

Following the EU Invoicing Directive, the Slovak VAT act provides that tax documents in paper form and in electronic form have equal status. The Slovak VAT act also stipulates the requirements for the invoice, whether in paper or in electronic form, which have to be secured from the time of issue until the end of the period for retention of the invoice. These requirements are the authenticity of origin (assurance of the identity of the supplier or the issuer of the tax document), the integrity of content (content of the tax document was not altered) and the legibility of a tax document (it is possible to read the tax document directly or by using a technical device). The tax document may be converted from paper form into electronic form and vice versa for retention purposes.

Generally, an invoice should be archived for 10 years for VAT purposes. However, if the invoice pertains to certain capital goods, it should be archived until the end of the period for the adjustment of VAT deductions.

Annual returns. Not applicable (only monthly or quarterly filings).

J. Penalties

The penalties for noncompliance with the VAT registration range from EUR60 to EUR20,000. The penalties for noncompliance with the reporting requirements range from EUR30 to EUR3,000. The penalty for the late submission of a tax return (after the statutory deadline) ranges from EUR30 to EUR16,000. If the taxpayer does not submit the tax return by the deadline stipulated by the tax authorities in an appeal, the penalty for late filing ranges from EUR60 to EUR32,000. If the taxpayer commits more than one offense, the tax authority will levy only one aggregate penalty for the offense that has the highest upper rate.

Interest on late payment applies in the following circumstances:
- The VAT liability is not paid by the deadline.
- The proper amount of the VAT liability or the amount stipulated in a decision of the tax authorities is not paid.

The rate of interest on late payment is calculated as the higher of the annual interest rate of 15% or four times the interest rate for main refinancing operations (the basic interest rate) of the European Central Bank.

A penalty is imposed if the VAT liability or excess VAT refund declared by the VAT payer in the tax return is different from the amount assessed by the tax authorities. This penalty amounts to 10% per annum or three times the base interest rate of the European Central Bank per annum (whichever is higher). The penalty is calculated on the difference between the value declared in the tax return and VAT assessed by the tax authorities.

An option to submit a supplementary tax return within 15 days of the beginning of the tax audit is allowed. This offers taxpayers the possibility of decreasing the imposed penalty, compared to

tax audit determination of the tax assessment to 7% per annum or twice the base interest rate of the European Central Bank per annum (whichever is higher).

If the difference is declared by the VAT payer in a supplementary VAT return, the penalty is calculated at 3% per annum or the basic interest rate of the European Central Bank per annum, whichever is higher.

Penalties also apply to late submission of EU reports (see Section K).

Effective 1 January 2016, a new system of penalties for noncompliance with tax obligations was introduced. The penalty amount depends on the time passed since the breach of obligation to declare and pay tax (instead of a one-off flat penalty). Minimum (1% of levied tax) and maximum (100% of levied tax) penalties are also introduced.

Intentional tax evasion may be regarded as a criminal offense, resulting in fines or imprisonment for a term of up to 12 years, depending on the amount of tax evaded. Similarly, hindering the tax administration (e.g., submission to the tax authorities of documents that give false or misleading information, failure to comply with a statutory obligation or obligations imposed by the tax authority during a tax audit) may be regarded as a criminal offense, resulting in imprisonment for a term of up to eight years.

For non-compliance (failure to submit, late submission of the VAT ledger, or declaring of incomplete or incorrect information), the tax authority is obliged to impose a penalty. The penalty can be up to EUR10,000 for initial omissions. In cases of repetitive omission, the penalty range extends to up to EUR100,000. Penalties apply to any adjustments reported, regardless of the character of the change.

The Ministry of Finance publishes a list of taxpayers' names on its website detailing amounts of unpaid tax. The list contains taxpayers' tax identification numbers and the amount of tax due in descending order.

K. EU filings

Intrastat. A Slovak taxable person that trades with other EU Member States must complete statistical reports, known as Intrastat, if the value of goods dispatched or received exceeds the exemption thresholds.

Separate reports are required for intra-Community acquisitions (Intrastat Arrivals) and for intra-Community supplies (Intrastat Dispatches).

Intrastat information is reported each calendar month (the reference period). Each report must be submitted to the local customs authority by the 15th day of the month following the reference period.

Exemption threshold. For 2018, the exemption threshold is EUR200,000 for Arrivals and EUR400,000 for Dispatches. If a VAT payer's turnover for the preceding calendar year did not exceed these thresholds, it was not required to submit an Intrastat report.

If the exemption threshold is exceeded, the VAT payer is required to submit Intrastat declarations (so-called complete declarations).

If the VAT payer does not exceed the exemption threshold or if the entity is not a Slovak VAT payer, it is not required to report the intra-Community movement of goods using Intrastat. Eligible VAT payers are required to complete and submit Intrastat declarations, including those months in which zero movements of goods occur.

A penalty may be imposed for late submission or for missing or inaccurate declarations, up to EUR3,320.

EU Sales Lists. A Slovak VAT payer must submit an EU Sales List (ESL) reporting the following transactions:

- Intra-Community supplies of goods
- VAT-exempt relocations of goods to the EU Member States (see the chapter on the EU)
- Supplies of goods within a triangular transaction if the VAT payer acts as first customer
- Supplies of services with the place of supply in another EU Member State to a taxable person or an entity that is not a taxable person but is identified for VAT, for which the recipient is liable to pay the VAT

Services exempt from VAT are not reported in ESLs. ESLs must be submitted on a monthly basis by the 25th day following the end of the respective calendar month. If the value of goods supplied during the calendar quarter does not exceed EUR50,000 and if the value of goods supplied during the preceding four calendar quarters did not exceed EUR50,000, the VAT payer can file quarterly ESLs instead of monthly ESLs by the 25th day following the end of the calendar quarter.

The Slovak law requires submission of the ESLs via electronic means.

If a VAT payer fails to submit an ESL within the statutory deadline, a penalty for noncompliance with non-monetary obligations ranging from EUR60 to EUR3,000 applies. In the event of a failure to submit an ESL after receiving a request from the tax authorities, the penalty may be imposed repeatedly. Because the amount of the penalty for noncompliance with non-monetary obligations depends on the severity, duration and consequences of the breach of obligations, the penalty for failing to submit the ESL should generally fall in the lower third of the range.

Slovenia

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A. At a glance

Name of the tax	Value-added tax (VAT)
Local name	Davek na dodano vrednost (DDV)
Date introduced	1 July 1999
Trading bloc membership	European Union (EU) Member State
Administered by	Ministry of Finance (Tax Administration) (http://www.fu.gov.si/)
VAT rates	
Standard	22%
Reduced	9.5%
Other	Zero-rated (0%) and exempt
VAT number format	SI12345678
VAT return periods	Monthly or quarterly
Thresholds	
Registration	
Businesses established in Slovenia	EUR50,000 in the preceding 12 months
Businesses not established in Slovenia	None
Cadastral income from agricultural and forestry land for agricultural and forestry activities	EUR7,500
Distance selling	EUR35,000
Intra-Community acquisitions	None
Recovery of VAT by non-established businesses	Yes

B. Scope of the tax

VAT applies to the following transactions:
- The supply of goods or services made in Slovenia by a taxable person
- The intra-Community acquisition of goods from another EU Member State by a taxable person

- Reverse-charge services received by a taxable person in Slovenia
- The importation of goods from outside the EU, regardless of the status of the importer

Special rules apply to intra-Community transactions involving new means of transport and distance sales (see the chapter on the EU).

C. Who is liable

A taxable person is any person who independently carries out in any place any economic activity, regardless of the purpose or results of that activity.

VAT registration is required before the beginning of taxable activities in Slovenia. Under the VAT law, retrospective VAT registration is not possible.

Group registration. VAT group registration is not allowed under the VAT law. Legal entities that are closely connected must register for VAT individually.

Non-established businesses. A "non-established business" is a business that does not have an establishment in Slovenia. A non-established business has to register for VAT purposes in Slovenia if it performs taxable activities in the territory of Slovenia. There is no registration threshold applicable for non-established businesses, which means that a non-established business has to register for VAT purposes prior to performing the first taxable transaction. The VAT registration threshold therefore does not apply for non-established businesses.

Consequently, non-established businesses must register for VAT if they make any of the following supplies:
- Intra-Community supplies
- Intra-Community acquisitions
- Distance sales in excess of the threshold
- Supplies of goods and services that are not subject to the reverse charge (for example, goods or services supplied to private persons)

Non-established businesses that perform only VAT exempt and/or zero-rated export transactions do not have to register for VAT.

Tax representatives. A nonresident business (taxable person) that has its seat outside the EU must appoint a tax representative.

A nonresident business (taxable person) from another EU Member State that does not have a registered business or fixed establishment in Slovenia may appoint a tax representative. Individuals and legal entities that are taxable persons in Slovenia can be appointed as tax representatives if they have an establishment or permanent address in Slovenia and are not a branch of a company.

A nonresident business, either established in another EU Member State or third country that wishes to account for an import in a VAT return has to appoint a VAT representative. The VAT representative is held jointly and severally liable for any VAT due on imports.

Reverse charge. The reverse charge applies to supplies of most services made by non-established businesses to taxable persons registered for VAT in Slovenia. The recipient of the services accounts for VAT using the appropriate Slovenian VAT rate. If the reverse charge applies, the non-established supplier is not required to register for VAT in Slovenia.

The reverse charge does not apply to the following services:
- Real estate
- Restaurant and catering services
- Cultural, artistic, scientific, educational, sporting, entertainment or similar services
- Valuations of movable tangible property or work on such property
- Short-term rentals of vehicles

Slovenia applies a domestic reverse-charge mechanism for certain supplies. However, if a foreign supplier makes supplies that are subject to the local reverse charge in Slovenia, this does not mean that it cannot still register locally for VAT in Slovenia. The following activities fall within the scope of the domestic reverse charge:

- Certain supplies and services falling in Category F of the Slovenian Standard Classification of Activities and the installation of montage houses
- Hiring out of staff used for activities falling in Category F of the Slovenian Standard Classification of Activities
- Supplies of real estate for which the parties opt for VAT taxation
- Supplies of used material waste and scrap (special listed goods)
- Trade of greenhouse gas emissions

Registration procedures. VAT registration consists of two phases. In the first phase the taxable person and its legal representative are entered in the Slovenian tax register and assigned tax numbers (paper forms available in English). Additionally, the taxable person is registered in the electronic filing system of the Slovenian tax authorities (paper forms available in English). For registration in the electronic filing system a special electronic certificate should be obtained. In the second phase the applicable form for VAT registration is submitted via this electronic system.

Depending on the responsiveness of the tax authorities, the timing of each step varies. A VAT registration usually takes 6 to 8 weeks to complete.

Late-registration penalties. A penalty may be imposed for late registration or failure to register for VAT in Slovenia and for late filing or failure to file VAT returns. Penalties vary from EUR2,000 to EUR125,000. For late payment or nonpayment of VAT, a penalty ranging between EUR2,000 and EUR125,000 may be imposed. In addition, interest for late payment is charged at a rate of 3% per year as of 1 January 2019. *However, please bear in mind that at the time of preparing this chapter, the interest rate for late payment is currently at the proposal stage and has not yet been finalized.* Penalties ranging from EUR200 to EUR4,100 may be imposed on the responsible person of the legal entity who commits an offense, in addition to the company itself.

Digital economy. Special rules apply to the place of supply for supplies of telecommunications, broadcasting and electronic services to non-VAT taxable customers. For further details of the VAT rules on electronic services in the EU, please refer to the European Union chapter. As of 1 January 2019, a threshold of EUR10,000 will apply.

Mini One-Stop Shop. Only VAT taxable persons that are established, have a permanent establishment or are VAT registered in Slovenia can register for MOSS in Slovenia. A VAT taxable person should be able to file the application for registration of MOSS via the electronic filing system of the Slovenian Tax Authorities. If a VAT taxable person registered for MOSS in Slovenia also provides electronically supplied services in Slovenia it should report the services provided in Slovenia via a regular VAT return and not through the special MOSS return. VAT refund claims in the member states of consumption of services should be filed through a VAT refund claim and not through the MOSS VAT return.

Deregistration. A taxable person can deregister for VAT by submitting a deregistration request to the tax authorities in electronic form through their online portal. The tax authorities should decide within 30 days. The taxable person is deregistered as of the date stated in the tax authorities' decision.

Exemption from VAT registration. Established businesses performing only VAT exempt transactions and non-established businesses that perform only VAT exempt and/or zero-rated export transactions do not have to register for VAT.

D. VAT rates

The term "taxable supplies" refers to supplies of goods and services that are subject to any rate of VAT, including supplies that are exempt with the right to deduct input VAT. The term "exempt supplies" refers to supplies of goods and services that are not subject to tax. Exempt supplies do not create the right to input tax deduction (see Section K).

Some supplies are classified as "exempt with the right to deduct input VAT," which means that no VAT is chargeable, but the supplier may recover related input tax. "Exempt with the right to deduct input VAT" supplies include exports of goods outside the EU and related services and intra-Community supplies of goods and intangible services supplied to another taxable person established in the EU or to a recipient outside the EU (see the chapter on the EU).

The VAT rates are:
- Standard rate: 22%
- Reduced rate: 9.5%

The standard rate of VAT applies to all supplies of goods or services, unless a specific measure provides for the reduced rate or exemption.

Examples of goods and services taxable at 9.5%

- Foodstuffs (except alcoholic drinks and catering services)
- Water supplies
- Passenger transport
- Books, newspapers and periodicals
- Services of authors and composers
- Agricultural products and services
- Pharmaceutical products and medical equipment
- Cultural events
- Hotel accommodation
- Use of sports facilities
- Services of undertakers and cemetery services

Examples of exempt supplies of goods and services

- Real estate transactions (except "new buildings")
- Financial services
- Insurance transactions
- Betting, gambling and lotteries
- Public radio and television broadcasts
- Education
- Health care and medical services
- Cultural services

Option to tax for exempt supplies. A taxable person may opt to tax real estate transactions (except "new buildings" and building land), provided that the recipient has the full right to deduct VAT. The tax authorities have to be notified of the option to tax no later than the last working day of the month following the month in which the transaction took place.

E. Time of supply

The time when VAT becomes due is called the "chargeable event" or "tax point." The following are the general rules in Slovenia for determining the chargeable event:
- VAT is due when goods are delivered or when services are performed.
- If no invoice is issued for supplied goods or services, VAT is due on the last day of the tax period (month) in which the goods are delivered or the services are performed.

Prepayments. If payment is made before the supply is made (prepayment), VAT is due on the day on which the prepayment is received. For intra-Community acquisitions or supplies of goods, prepayments do not create a tax point.

Intra-Community acquisitions. For intra-Community acquisitions of goods, VAT is due on the day when the invoice is issued. If an invoice for the supply is not issued or is issued before the supply is made, VAT is due on the 15th day of the month following the month in which the goods are delivered.

Imported goods. VAT for imported goods becomes due when the import is made or when the goods leave the duty suspension regime and are released for free circulation.

VAT on imports can be accounted for in the VAT return, subject to certain conditions.

Cash accounting for small businesses. A domestic taxable person whose taxable turnover (excluding VAT and excluding sales of assets) did not exceed EUR400,000 in the previous 12 months and whose turnover is not expected to exceed this limit in the next 12 months, may, under certain conditions, charge and pay VAT on a cash basis; that is, on the basis of payments received for its supplies of goods and services. A taxpayer that uses the cash accounting scheme may deduct input tax on its purchases only when the VAT is fully paid. For related companies, the turnover threshold applies to the whole group.

Reverse-charge services. For reverse-charge services, VAT becomes due when services are performed.

Continuous supplies of services. In case of continuous supplies of services where periodical invoices are raised or payments are made, VAT becomes due upon expiry of the period to which the payments or invoices relate. Where services are continuously supplied over a period of more than one year and no invoices are issued or payments are made during that period, VAT becomes due at the end of each calendar year, until such supplies of services come to an end.

Intra-Community supplies of goods. For intra-Community supplies of goods, VAT becomes due on the day when the invoice is issued. If an invoice for the supply is not issued, VAT becomes due on the 15th day of the month following the month in which the goods are supplied.

Leased assets. In case of a financial lease (where the ownership of goods is transferred to the lessee upon payment of the last installment) this is considered a supply of goods and VAT becomes due when the assets are physically handed over. An operational lease is considered a service and VAT becomes due when the service is performed.

Goods sent on approval for sale or return. Slovenia does not have special time of supply rules for supplies of goods sent on approval for sale or return. The general time of supply rules outlined above apply.

F. Recovery of VAT by taxable persons

A taxable person may recover input tax, which is VAT charged on goods and services supplied to it for business purposes. A taxable person generally recovers input tax by deducting it from output tax, which is VAT due on supplies made.

Input tax includes VAT charged on goods and services supplied in Slovenia, VAT paid on imports of goods and self-assessed VAT on intra-Community acquisitions of goods and reverse-charge services (see the chapter on the EU).

A valid tax invoice or customs document must generally accompany a claim for input tax recovery.

Nondeductible input tax. Input tax may not be recovered on purchases of goods and services that are not used for business purposes (for example, goods acquired for private use by an entrepreneur). In addition, input tax may not be recovered for some items of business expenditure.

Examples of items for which input tax is nondeductible

- Hospitality costs (accommodation, food and drinks, and entertainment)
- Purchase, lease, fuel and maintenance of cars and boats (except if used by driving schools or for public transportation)

Examples of items for which input tax is deductible (if related to a taxable business use)

- Advertising
- Purchase, lease, fuel and maintenance of buses and trucks
- Telephones
- Books and newspapers
- Attendance at seminars (except food and drinks)
- Raw materials

Partial exemption. Input tax directly related to the making of exempt supplies is generally not recoverable. If a taxable person makes both exempt and taxable supplies it may not recover input tax in full. This situation is referred to as "partial exemption."

Input tax directly relating to taxable supplies is fully recoverable, while input tax directly relating to exempt supplies is not recoverable.

To determine the amount of input VAT that may be recovered one of the following methods may be used:

- Deduction of input VAT using actual data, provided that the taxable person maintains (in its books and accounts or other records) information regarding the total amount of input VAT including the amount of input VAT that is deductible.
- Determination of the amount of deductible input VAT using a pro rata method for the whole business, if the taxable person is unable to determine the amount of input VAT as described above.
- Determination of the amount of deductible input VAT using several deductible amounts for each of its various fields of business activity separately. A "field of business activity" is any level of activity of the taxable person according to a standard classification of activities or organizational units of the taxable person (such as a separate plant or business unit).

Under the pro rata method, the total annual supplies on which input VAT is deductible (exclusive of VAT) is divided by the total annual supplies, including exempt supplies, state subsidies and grants.

Capital goods. Capital goods are items of capital expenditure that are used in a business over several years. Input tax is deducted in the VAT year in which the goods are acquired and taken into use. The amount of input tax recovered depends on the taxable person's partial exemption recovery position in the VAT year of acquisition and first use. However, the amount of input tax recovered for capital goods must be adjusted over time if the taxable person's partial exemption recovery percentage changes during the adjustment period.

In Slovenia, the capital goods adjustment applies to the following assets for the number of years indicated:

- Real estate: adjusted for a period of 20 years
- Other tangible fixed assets: adjusted for a period of five years

Refunds. If the amount of input tax recoverable in a tax period exceeds the amount of output tax payable in that same period, the taxable person has an input tax credit. An input tax credit is carried

forward to the following VAT tax period. However, a VAT-registered person is entitled to a refund of the input tax credit within 21 days after submitting a VAT return form for the tax period (if the VAT credit is claimed in the relevant VAT return).

The tax authorities pay interest on delayed repayments of VAT. The statutory rate of interest is 0.0247% per day.

Preregistration costs. According to the official guidance issued by the Slovenian tax authorities, a VAT taxable person has the right to deduct input VAT incurred prior to the VAT registration in Slovenia (under the assumption that all other conditions for VAT deduction are met).

Write-off of bad debts. If payment for a supply is not received a taxpayer may adjust (reduce) the VAT amount if according to the final court resolution of a completed bankruptcy procedure or successfully completed compulsory settlement the taxpayer's receivables were either not settled or not settled in full. The same applies to a taxpayer who obtains a final court resolution or another document clearly showing that in the closing execution procedure, the taxpayer's receivables were not settled or not settled in full. A taxpayer may also adjust the VAT amount if their receivables were not settled due to the fact that the debtor was deleted from the court register or any other relevant register or prescribed records.

Regardless of the above provisions in the Slovenian VAT legislation, the amount of non-paid VAT for outstanding receivables can be adjusted after submission of a claim for the respective receivable in the bankruptcy proceeding or compulsory settlement. However, this claim should first be recognized by the applicable officials in the bankruptcy proceeding or compulsory settlement.

Noneconomic activities. A VAT taxable person cannot deduct input VAT from goods and services that were used for its noneconomic activities.

G. Recovery of VAT by non-established businesses

Slovenia refunds VAT incurred by businesses that are neither established nor registered for VAT in Slovenia. Non-established businesses may claim Slovenian VAT to the same extent as VAT-registered businesses.

Businesses established in the EU can submit a claim for refund with the tax authorities of their country of establishment. Businesses established outside the EU can claim a refund under the terms of the EU 13th Directive. Slovenia applies the condition of reciprocity with respect to refund claims. This may exclude applicants from some non-EU countries.

Refund application. For non-EU businesses, the deadline for refund claims is 30 June following the calendar year in which the tax was incurred. This deadline is strictly enforced.

EU businesses can make refund claims for Slovenian VAT in accordance with the procedure in their country of establishment.

Claims filed in Slovenia must be submitted in the Slovenian language. Applications for refund must be accompanied by the relevant documentation (see the chapter on the EU).

The minimum claim period is three months. The minimum claim for a period of less than a year is EUR400. The maximum period is one year. For an annual claim, the minimum amount is EUR50. The claim period can be shorter than three months if this period represents the rest of the calendar year.

The tax authorities must stamp each submitted invoice and import document and return them to the claimant within 30 days of receipt. The tax authorities must also rule on the claim within six months after the submission of the claim. If the claim is approved, the refund is processed within six months after the submission of the claim by either remitting payment into a Slovenian bank

account or making a transfer abroad (the claimant is responsible for all expenses related to this repayment).

Applications for refunds of Slovenian VAT by non-EU businesses must be filed with the Slovenian tax authorities in electronic form through their online portal. In order to be able to gain access to the online portal of the tax authorities, a non-EU business and its legal representative(s) must obtain Slovenian tax numbers.

H. Invoicing

VAT invoices and credit notes. A taxable person must generally provide a VAT invoice for all taxable supplies made, including exports and intra-Community supplies. Invoices are not required for a limited range of supplies, including the following:

- Supplies by taxpayers that perform agricultural or forestry activities and sell these products and services to final consumers
- The sale of tickets, season tickets and tokens for passenger transport (trains, buses and cable cars), stamps, court stamps, postal forms, payments for participating in games of chance, periodicals, vending machine sales, sale of mobile phone cards by ATM, GMS network and the internet, sale of tokens from change machines and supplies of services at "teleservice points"
- Exempt financial services performed in Slovenia or outside the EU for which the taxable person issues a large number of documents to recipients

However, the taxable person should issue a consolidated document, such as a separate bank statement, which includes the value of services charged and the clause that VAT is not charged according to the applicable article of the VAT law.

A VAT invoice is necessary to support a claim for input tax deduction or refund under the applicable EU Directive refund scheme (see the chapter on the EU).

If the taxable amount subsequently changes as a result of the return of goods or the granting of a discount, the tax base is lowered accordingly. The taxable person may adjust (reduce) the amount of VAT payable if it informs the recipient in writing (for example, by issuing a credit note) about the nondeductible amount. A credit note must mention all information prescribed for an invoice including a reference to the invoice.

Electronic invoicing. Electronic invoicing is permitted in Slovenia, in line with EU Directive 2010/45/EU.

Proof of exports and intra-Community supplies. Slovenian VAT is not due on supplies of exported goods or on intra-Community supplies of goods (see the chapter on the EU). However, to qualify as VAT-free, exports and intra-Community supplies must be supported by evidence that the goods have left Slovenia. Acceptable proof includes the following documentation:

- For an export, a copy of the export document, officially certified by customs. In certain cases, an invoice stamped by customs, a mail freight declaration, or a transport document is acceptable.
- For an intra-Community supply, an invoice with the purchaser's VAT identification number and corresponding transport document (or other suitable document that clearly refers to the freight of goods related to the invoice).

Foreign-currency invoices. Invoices may be issued in a foreign currency. The VAT amount must always be in euros (EUR). The exchange rate that must be used is the foreign exchange rate of the European Central Bank (also published by the Bank of Slovenia) that is valid on the date on which the tax liability arises and that is published by the Bank of Slovenia.

B2C. Special rules apply to the place of supply for supplies of telecommunications, broadcasting and electronic services to non-VAT taxable customers. For further details of the VAT rules on electronic services in the EU, please refer to the European Union chapter.

Slovenian suppliers of these services are required to issue invoices to nontaxable customers.

VAT-registered suppliers can also issue simplified invoices to non-VAT registered customers (private consumers) only where the invoice amount does not exceed EUR100. If the invoice amount exceeds EUR100, then the VAT-registered supplier must issue a normal VAT invoice.

I. VAT returns and payment

VAT returns. Slovenian VAT returns are submitted for monthly or quarterly tax periods. Quarterly tax periods coincide with the months of March, June, September and December. A tax period for each taxable person is determined on the basis of its turnover in the preceding calendar year in accordance with the following rules:

- Taxable persons with a turnover up to EUR210,000 submit quarterly tax returns, unless the taxable person engages in intra-Community transactions and is liable to submit a recapitulative statement (see Section K).
- Taxable persons with a turnover greater than EUR210,000 submit monthly tax returns.

The tax period for newly established taxable persons is a calendar month for the first 12 months of business activity. The tax period for foreign taxable persons (non-established businesses) is always a calendar month.

VAT returns must be submitted and any VAT due must be paid in full by the last working day of the month following the end of each tax period. If the taxable person performs intra-Community supplies and must file a recapitulative statement (see Section K), the VAT return must be submitted by the 20th day of the month (or earlier if the 20th day is not a working day) following the reporting period (calendar month).

Special schemes. The special scheme for domestic reverse charges requires the supplier and recipient of these supplies to record the transaction and applicable VAT (charged amount and deduction) in specific boxes in the VAT return. Furthermore, the supplier must report the reverse-charged supplies (domestic) in a separate form to the Slovenian tax authorities.

Electronic filing and archiving. VAT returns must be filed through the electronic filing system of the Slovenian tax authorities ("eDavki"). For registration in the electronic filing system a special electronic certificate should be obtained (please see Section C: Registration procedures).

All received and issued invoices should be archived for 10 years after the end of the year to which they relate (20 years if the invoices relate to immovable property). A taxable person may archive invoices outside Slovenia after informing the tax authorities. The basic rule is that invoices must be archived in their original form. The condition for electronic archiving is that a taxpayer ensures that the file content cannot be modified or erased while at the same time it can be reproduced if needed.

Annual returns. Not applicable.

J. Penalties

Penalties are imposed for a range of VAT offenses. The following are the penalties:

- Late filing or non-filing of a VAT return: a penalty ranging from EUR2,000 to EUR125,000
- Late payment or nonpayment of VAT: a penalty ranging from EUR2,000 to EUR125,000
- An offense committed by a responsible person of a taxable entity: a fine ranging from EUR200 to EUR4,100

Interest. Default interest of 3% per year is imposed for the late payment of VAT due, effective from 1 January 2019. *However, please bear in mind that at the time of preparing this chapter, the interest rate for late payment is currently at the proposal stage and has not yet been finalized.*

Criminal offenses. The criminal offense of tax evasion is punishable by a term of imprisonment ranging from one to eight years.

K. EU filings

Intrastat. A Slovenian taxable person that trades with other EU countries must complete statistical reports, known as Intrastat, if the value of either its sales or purchases of goods exceeds certain thresholds. Separate reports are required for intra-Community acquisitions (Intrastat Arrivals) and for intra-Community supplies (Intrastat Dispatches).

For 2019, the threshold for Intrastat Arrivals is EUR140,000 and the threshold for Intrastat Dispatches is EUR220,000.

Intrastat returns must be submitted by the 15th day of the month following the reporting period (calendar month). If the 15th day is a nonworking day, the Intrastat return must be submitted by the last working day before the 15th day of the month.

Intrastat returns have to be submitted in electronic format via the internet (http://intrastat-surs.gov.si/).

For a legal entity, a penalty of up to EUR1,250 may be imposed for late submission, failure to submit, or for inaccurate Intrastat declarations. In addition, a penalty of up to EUR125 may be imposed on a person responsible for the return.

Recapitulative Statements (EU Sales List). If a Slovenian taxable person performs intra-Community supplies or reverse-charge services that are taxable for VAT purposes in the other EU state in a tax period, it must submit a Recapitulative Statement to the Slovenian tax authorities. The Recapitulative Statement is not required for any periods in which the taxable person does not make any intra-Community supplies (i.e., nil Recapitulative Statements).

The Recapitulative Statement must be submitted monthly by the 20th day of the month (or earlier if the 20th day is not a working day) following the reporting period (calendar month).

Penalties ranging from EUR2,000 to EUR125,000 may be imposed for late submissions, failures to submit, or inaccurate Recapitulative Statements.

South Africa

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A. At a glance

Name of the tax	Value-added tax (VAT)
Date introduced	30 September 1991
European Union (EU) Member State	No
Member of the Southern African Customs Union	Yes
Administered by	Commissioner for the South African Revenue Service (SARS) (http://www.sars.gov.za)
VAT rates	
Standard	15%
Other	Zero-rated (0%) and exempt
VAT number format	4220122222
VAT return periods	
Monthly	Annual taxable supplies in excess of ZAR30 million
Bimonthly	Annual taxable supplies of less than ZAR30 million, determined by the commissioner
Six-monthly or annually	Annual taxable supplies of less than ZAR1.5 million by farmers, farming enterprises, nonprofit associations (special cases)
Thresholds	
Registration	Annual taxable supplies of more than ZAR1 million Foreign suppliers of electronic services to South African residents exceeding ZAR50,000 (from 1 April 2019 this threshold is increased to ZAR1 million)
Recovery of VAT by non-established businesses	Yes (in limited circumstances)

B. Scope of the tax

VAT applies to the following transactions:
- The supply of goods or services made in South Africa by a registered person
- Reverse-charge services received by a person in South Africa that is not entitled to claim full input tax credits (referred to as imported services)
- The importation of goods from outside South Africa, regardless of the status of the importer

Goods that are imported from countries in the Southern African Customs Union (that is, Botswana, Lesotho, Namibia, South Africa and Swaziland) are not subject to customs duty, but they are subject to VAT.

C. Who is liable

Goods and services supplied in South Africa. A vendor is required to account for output tax on all goods and services supplied, unless the supply is specifically exempted by the Value-Added Tax Act.

A "vendor" (taxable person) is a person (business entity or individual) carrying on an activity in or partly in South Africa on a continuous or regular basis if, in the course of the activity, goods or services are supplied to another person for consideration exceeding the registration threshold. This includes persons who are registered for VAT in South Africa as well as persons who are required to register as vendors.

A person is required to register as a vendor if the value of taxable supplies exceeds (or is expected to exceed) ZAR1 million in any consecutive 12-month period or a signed contract is in place proving that the ZAR1 million threshold will be exceeded in the following 12-month period (except for some electronic services; see *E-commerce suppliers*).

Importers are liable to pay VAT on imported goods. There are certain exemptions where VAT is not chargeable, like when goods are donated by a nonresident to an association not for gain, personal use goods imported by tourists and goods temporarily admitted for processing or repairs.

Recipients of services are liable to pay VAT on imported services to the extent that the services will be utilized or consumed in the making of nontaxable supplies. Imported services are exempt from VAT if the value of the supply does not exceed ZAR100 per invoice.

Voluntary registration. A person whose turnover is below the compulsory registration threshold may register for VAT on a voluntary basis if the value of its taxable supplies exceeds ZAR50,000 in any 12-month period (excluding the provision of commercial accommodation, for which the threshold is ZAR120,000). Certain industries such as welfare organizations, projects funded by foreign donors, and municipalities can register even if they don't meet the voluntary registration threshold.

Group registration. VAT grouping is not allowed under South African VAT law. All legal entities must register for VAT individually. VAT is charged on transactions between separately registered entities within a commercial group in accordance with the general VAT rules and subject to the rules relating to supplies between related persons.

Non-established businesses. A "non-established business" is a business that has no fixed establishment in South Africa. A non-established business that makes taxable supplies of goods or services continuously or regularly in South Africa must appoint a tax representative and open a South African bank account to register for VAT. The VAT authorities may appoint any person as an agent for any other person to recover amounts due to the SARS.

E-commerce suppliers. Effective 1 June 2014, the supply of electronic services by a foreign supplier to recipients in South Africa is subject to VAT. The liability to register for VAT will arise where the electronic services are supplied from a place outside South Africa to a recipient that is

a resident of South Africa or where payment to the non-established business originates from a South African bank. Effective 1 April 2015 this specific inclusion applies where at least two of the following circumstances are present:
- The electronic services are supplied to a South African resident
- Any payment for such services is made from a South African bank
- The electronic services are supplied to a person with a business address, residential address or postal address in South Africa where a tax invoice will be delivered

The term "electronic services" is defined in a regulation that provides that the following services are electronic services where provided by means of an electronic agent, electronic communication or the internet for consideration:
- Educational services (distance teaching programs, educational webcasts, internet-based courses, internet-based educational programs or webinars, if the person supplying the educational service is not regulated by an educational authority in the foreign country)
- Games and games of chance (electronic games, interactive games and electronic betting or wagering)
- Internet-based auction services
- Miscellaneous services (e-books, audio visual content, still images and music)
- Subscription services (to any blog, journal, magazine, newspaper, games, internet-based auction service, periodical, publication, social networking service, webcast, webinar, website, web application or web series)

Prior to 1 April 2019, the VAT registration threshold for e-service suppliers is e-service supplies in excess of ZAR50,000 with no time period limitation. From 1 April 2019, this threshold is increased to supplies of e-services in excess of ZAR1 million during a 12-month period.

A new definition of "electronic services" applies from 1 April 2019 meaning all services supplied by means of an electronic agent, electronic communication or the internet for consideration qualifies as "electronic services," except for the following:
- Educational services supplied from outside South Africa and regulated by an educational authority in terms of the laws of that country
- Telecommunications services
- Services supplied from a place outside South Africa by a company that is not a resident of South Africa to a company that is a resident of South Africa if both those companies form part of the same group of companies (which requires a direct or indirect 100% equity shareholding) and the company that is not a resident of South Africa itself supplies those services exclusively for the purposes of consumption of those services by the company that is resident of South Africa

Where electronic services are supplied after 1 April 2019 by an intermediary who is acting on behalf of another person who is the principal for the purposes of that supply, the supply is deemed to be made by the intermediary and not the principal if the following requirements are complied with:
- The intermediary should be a vendor.
- The principal should not be a resident of South Africa and not a registered vendor.
- The electronic services are supplied or to be supplied by the principal to a person in South Africa.

The effect of the above is that the principal is not required to register for VAT and levy VAT on the electronic services, but the intermediary has to do so instead.

Deemed supplies. In addition to actual goods and services supplied by a vendor, the VAT act also deems certain supplies to be supplies of goods or services. The person making the deemed supply is liable to pay VAT. Deemed supplies include the following:
- Ceasing to be a vendor
- Short-term indemnity payments

- Change in use
- Excess payments not refunded within four months
- Fringe benefits
- Receipts of payments from government by designated entities for purposes of taxable supplies
- Trading stock used for private purposes
- Betting and gambling transactions

Tax representatives. A registered VAT vendor needs to appoint a natural person residing in South Africa as a tax representative to assist in tax matters and to represent the entity in South Africa.

Reverse charge. In South Africa, a reverse charge only applies if the services are intended to be used in the making of nontaxable supplies by the recipient of the services. The recipient of the services is liable to account for the VAT thereon.

Registration procedures. A VAT 101 form needs to be completed and supporting documentation such as the following needs to be presented (note that exact requirements change regularly and can differ per office):

- Company registered in South Africa with the Companies and Intellectual Property Commission (CIPC):
  - — Copy of certificate of incorporation
  - — Copy of identity document or passport of two members/directors/shareholders/trustees of the company
  - — Bank details
  - — Original letter from bank
  - — Three months' bank statements with original bank stamp
  - — Copy of financial information listed as source under financial particulars (to determine value of taxable supplies (no cash flow projections or business plans will be accepted)
  - — If a practitioner is submitting the application on behalf of a vendor, a power of attorney authorizing the practitioner to act on behalf of the vendor
  - — Copy of identity document, driving license or passport of representative vendor
  - — For holding/subsidiary company or nonresident company
  - — VAT 119i form indemnity for banking details where third party's bank details are used
  - — VAT 121 form if tax period is category E
    - — Confirmation of business address
    - — Recent copy of the business municipal account, or utility bill or CRA01 form
    - — Confirmation of residential address
    - — Recent copy of the residential municipal account, or utility bill or CRA01 form of individual, partner or representative vendor
- Non-established company:
  - — Copy of certificate of incorporation — if in a foreign language it must be translated in writing into English
  - — If the foreign company has a physical presence in South Africa, copy of the municipal account of the business must be submitted
  - — Where the foreign company has no physical/business address in South Africa; proof of the physical address of the representative vendor is required
  - — Certified copy of passport documents of the members directors/shareholders/trustees of the company
  - — Copies of financial information listed as source in the financial particulars section of the application form to determine value of taxable supplies, if the value is not in South African currency, the South African rand equivalent must be provided (no cash flow projections or business plans will be accepted)
    - — Bank details
    - — Original letter from bank
    - — Three months' bank statements with original bank stamp

  - — VAT 119i form indemnity for banking details where third party's bank details are used
  - — Relevant material required for representative vendor/authorized practitioner
  - — In case of a practitioner, a Letter of Authority or Power of Attorney to authorize the practitioner to act on behalf of the applicant
  - — Certified copy of identity document of representative vendor
- "Electronic service" company:
  - — Copy of certificate of incorporation
  - — Proof of registration with foreign authority, i.e., issued Tax Registration Certificate issued in the country of residence confirming registration of any tax administered by that foreign country
  - — Copy of identity document or passport of the appointed foreign representative or specified contact person with regards to the registration application
  - — Copy of a recent bank statement from the South African registered bank in South Africa (if a bank account was opened in South Africa — it is, however, not a requirement to have a South African bank account in the case of registering a foreign electronic service provider)

Late-registration penalties. A person has to register for VAT within 21 days of becoming liable for registration. A 10% late payment penalty, interest at the prescribed rate (currently 10.5% per annum) and an understatement penalty of between 5% and 200% of the VAT payable may be levied in a case where a person registers late. Where such late registration is made under a voluntary disclosure application, the understatement penalty will not be levied and the person can apply for a remission of the 10% late payment penalty.

Digital economy. See *E-commerce suppliers* above.

Deregistration. A vendor can apply to SARS to be deregistered if its taxable supplies during a 12-month period is below the ZAR1 million threshold. If a vendor's taxable supplies during a 12-month period is below the voluntary registration threshold of ZAR50,000, the commissioner will automatically deregister the person. The deregistration rules apply to all vendors.

If a vendor ceases to carry on all enterprises, the commissioner must be notified within 21 days.

Exemption from registration. The VAT law in South Africa does not contain any provision for exemption from registration.

D. VAT rates

The term "taxable supplies" refers to supplies of goods and services that are subject to tax at either the standard rate (15%) or zero rate (0%). A vendor must account for VAT at the standard rate on all supplies of goods and services, unless the supply is specifically exempted or zero-rated under the VAT Act.

Examples of goods and services taxable at 0%

- Exports of goods and related services
- International transport of passengers and goods, and related services
- Certain supplies of goods that are used exclusively in an export country
- Services supplied outside South Africa and to foreign branches and head offices
- Certain basic foodstuffs
- Illuminating kerosene and leaded and unleaded gasoline
- Supply of gold coins issued by the reserve bank
- Supply of an enterprise capable of separate operation as a going concern (provided that all of the requirements are met)
- Supply of fuel levy goods and certain fuels obtained from crude to be refined to produce fuel levy products
- Receipt of certain grants
- Supply of intellectual property for use outside of South Africa

- Supply of services to nonresidents subject to certain provisions
- Triangular supplies (the vendor supplies goods to a nonresident but delivers them in South Africa; special requirements apply)

The term "exempt supplies" refers to supplies of goods and services that are not subject to tax. A vendor is not entitled to claim a deduction on expenses incurred to make exempt supplies (see Section F).

Examples of exempt supplies of goods and services

- Financial services, including Sharia finance premiums.
- Fare-paying passenger transport by road or rail.
- Educational services.
- Child care.
- Donated goods supplied by certain nonprofit (charitable) bodies.
- Rental of residential accommodation.
- Immovable property located outside South Africa.
- The supply of goods by a non-established business before the goods are entered for home consumption, unless the non-established business applies in writing to the SARS to have the supplies zero-rated.
- Certain supplies made by bargaining councils to their members are exempt from VAT. The exemption was previously limited to situations in which the supplies were covered by membership contributions.

Option to tax for exempt supplies. Not applicable.

E. Time of supply

The time when VAT becomes due is called the "time of supply" or "tax point."

In South Africa, the basic time of supply is the earlier of the issuance of an invoice or the receipt of payment.

Other tax points are used for a variety of situations, including betting transactions, construction transactions, supplies made from vending machines and "lay-by" sale agreements.

The tax point for supplies of goods between related persons is when the goods are removed by or made available to the purchaser or recipient of the goods. The time of supply for the supply of services between related persons is when the services are performed.

The tax point for goods consigned or delivered to a branch or main business outside South Africa is when the goods are actually consigned or delivered. The tax point for services supplied to a branch or main business outside South Africa is when the services are performed.

Continuous supplies. The tax point for periodic supplies is the earlier of the date on which payment is due or the date on which payment is received.

Installment credit agreements. For installment credit agreements, the supply is deemed to take place at the earlier of when the goods are delivered or any payment of consideration is made.

Immovable property. The supply of immovable property is deemed to take place at the earlier of the following dates:

- The date on which the registration of the transfer is made in a deeds registry
- The date on which payment is received

Imported goods. The tax point for imported goods varies depending on the source of the goods being imported. The following are the applicable rules:

- For goods that are imported from a Southern African Customs Union country: when the goods are brought into South Africa at the border post

- For goods imported from other countries: when the goods are cleared for home consumption
- For goods imported and entered into a licensed Customs and Excise storage warehouse: when the goods are cleared from the warehouse for home consumption

Where an importer is registered for VAT purposes and will utilize or consume the imported goods in the making of taxable supplies, the importer may claim the VAT paid on importation as an input tax deduction. Where a customs deferment account is used by the importer (or its clearing agent) the importer needs to ensure that the VAT is paid to SARS before it claims an input tax deduction. The importer is entitled to claim the VAT paid on importation as an input tax deduction in the tax period in which the goods are released in terms of the customs and excise act.

Goods sent on approval for sale or return. There are no special time of supply rules for supplies of goods sent on approval for sale or return. As such, the basic time of supply rule (as outlined above) applies and is the earlier of the issuance of an invoice or the receipt of payment.

Leased assets. The time of supply for leased assets is to the extent that payment becomes due or is received, whichever is the earlier.

Reverse-charge services. The time of supply for reverse-charge services is the earlier of when the supplier issues an invoice or the time payment is made in respect of the supply.

F. Recovery of VAT by taxable persons

A registered vendor may recover input tax (that is, VAT charged on goods and services supplied to it for business purposes) by offsetting it against output tax, which is VAT charged on supplies made in a particular tax period provided they have valid tax invoices.

Input tax includes VAT charged on goods and services supplied in South Africa and VAT paid on the importation of goods.

Secondhand goods. A vendor is entitled to an input tax deduction on the acquisition of secondhand goods located in South Africa. Secondhand goods are specifically defined as goods that were previously owned and used, excluding animals. The definition of "secondhand goods" was amended with effect from 1 April 2015 to exclude gold and goods containing gold. This definition has subsequently been amended to exclude goods consisting solely of gold and gold coins. Other secondhand goods containing gold, such as computers or watches, acquired for the sole purpose of supplying those goods in substantially the same state, still qualify for the notional input tax deduction with effect from 1 April 2017. In addition, the VAT Act was amended to make it clear that a vendor must hold a completed VAT264 — Declaration (http://tinyurl.com/z2pjkr8) or supply of secondhand repossessed or surrendered goods — External Form.pdf in order to deduct notional input tax on secondhand goods acquired.

Nondeductible input tax. Input tax may not be recovered on purchases of goods and services that are not used for taxable purposes (for example, goods acquired for private use or services used for making exempt supplies). In addition, input tax may not be recovered for specifically excluded business expenditure, such as entertainment.

Examples of items for which input tax is nondeductible

- Purchase or hire of a motor car (subject to certain exceptions)
- Business and staff entertainment (subject to certain exceptions)
- Business gifts (to the extent that the gift constitutes "entertainment," as defined)
- Club subscriptions

Examples of items for which input tax is deductible (if related to a taxable business use)

- Purchase, hire and maintenance of vans and trucks
- Attendance at conferences and seminars

- Vehicle maintenance costs (including motor cars)
- Mobile phones
- Air transport within South Africa
- Aviation fuel
- Trading stock
- Raw materials
- Marketing expenditure

Partially deductible input tax (partial exemption). Input tax directly related to the making of exempt supplies is not recoverable. If a taxable person makes both exempt and taxable supplies, it may recover only a portion of the input tax incurred. In South Africa, the deductible portion is determined using the following two-stage calculation:

- The first stage identifies the input tax directly attributable to taxable and exempt supplies. Input tax directly attributable to taxable supplies is deductible, while input tax directly related to exempt supplies is not deductible.
- The second stage identifies the amount of the remaining input tax (for example, input tax on general business overhead) that cannot be directly attributed to the making of taxable or exempt supplies. Such input tax may be deducted only to the extent that it relates to the making of taxable supplies. In general, the deductible portion is determined by comparing the value of taxable supplies to total supplies. However, a vendor may apply to the SARS for another equitable apportionment method (for example, apportionment based on floor space or activity), particularly if significant investment income, foreign-exchange gains or other nontaxable passive income is realized.

Refunds. If the amount of input tax recoverable in a period exceeds the amount of output tax payable in that period, a refund of the excess may be claimed.

The SARS pays interest at the prescribed rate if it does not pay the refund claimed within 21 business days after the date on which the VAT return is received by the SARS. The SARS is not liable for interest if the vendor did not provide bank account details, if the returns furnished were incomplete or defective in any material respect or if the return is being investigated.

Preregistration costs. Where goods or services are acquired for or on behalf of a company or in connection with incorporation of that company, the goods or services will be deemed to be received by that company if the person who paid the cost was reimbursed and the goods were acquired in the carrying out of that company's enterprise. The goods or services will be deemed to have been paid by that company in the same tax period during which the reimbursement took place. This shall not apply in any of the following circumstances:

- Expenses occurred more than six months prior to incorporation.
- The company does not have sufficient records to substantiate that the goods or services received were taxable supplies.
- The expenses relate to secondhand goods.

G. Recovery of VAT by non-established businesses

VAT incurred by businesses that are neither established nor registered in South Africa may be recovered only with respect to goods that are exported from South Africa. The goods must be exported from a designated port within 90 days after the invoice date. A refund may be claimed from the VAT Refund Administrator. No claim may be made with respect to services (such as hotel accommodation and restaurant meals) consumed in South Africa.

A business that regularly or continuously supplies goods or services in South Africa may be liable to register as a VAT vendor, even though the business is neither established nor registered in South Africa, if it carries on an enterprise and meets the registration requirements. In this instance, the non-established business registered as a vendor may recover input tax through the normal VAT return process.

H. Invoicing

VAT invoices and credit notes. Vendors are required to issue a full tax invoice for all supplies made if the consideration (that is, the total amount received inclusive of VAT) amounts to ZAR5,000 or more. If the total amount in money for the supply is less than ZAR5,000, the supplier may issue an abridged tax invoice. Tax invoices may be issued electronically if the encryption meets SARS requirements and if the invoice recipients agree in writing to accept electronic invoices.

The following information is required to be on a full tax invoice:
- The words "tax invoice," "VAT invoice" or "invoice" (however, a pro forma invoice is not a tax invoice)
- The name, address and VAT registration number of the supplier
- The name, address, and where the recipient is a registered vendor and the VAT registration number of the recipient
- An individual serialized number and the date on which the tax invoice was issued
- Full description of the goods or services supplied
- Quantity or volume of goods or services supplied
- The value of the supply, VAT amount and the VAT-inclusive amount of the supply

The following information is required for an abridged tax invoice:
- The words "tax invoice," "VAT invoice" or "invoice" (however, a pro forma invoice is not a tax invoice)
- The name, address and VAT registration number of the supplier
- An individual serialized number and the date on which the tax invoice was issued
- Full description of the goods or services supplied
- Quantity or volume of goods or services supplied
- The value of the supply, VAT amount and the VAT-inclusive amount of the supply

Registered foreign suppliers of electronic services are required to issue abridged tax invoices.

In some cases, tax invoices need not be issued (for example, for certain periodic supplies) if the underlying documentation, such as a rental agreement, includes the information contained in a tax invoice.

A VAT credit note or debit note may be used to reduce VAT charged and reclaimed on a supply of goods or services. A credit note or a debit note may be issued only if the tax charged is incorrect or if the supplier has paid incorrect output tax as a result of one or more of the following circumstances:
- The supply has been canceled
- The nature of the supply has been fundamentally varied or altered
- The previously agreed consideration has been altered by agreement with the recipient of the supply
- All or part of the goods or services has been returned to the supplier
- An error has occurred in stipulating the amount of consideration agreed upon for that supply

If a credit note adjusts the amount of VAT charged, it must be clearly marked "credit note" and must refer to the original tax invoice. It must briefly indicate the reason that it is being issued and provide sufficient information to identify the transaction to which it refers.

Agents must issue a tax invoice within 21 days of making a supply on behalf of a principal. Furthermore, an agent importing goods on behalf of a principal is required to issue a statement to the principal containing certain particulars in regard to importations for a particular period.

Proof of exports. Exports can be classified as either direct exports or indirect exports. Direct exports (that is, the selling vendor is responsible to deliver the goods at an address outside South

Africa) can be zero-rated if certain documentary requirements are met. In the case of indirect exports (that is where the recipient is responsible for exporting the goods from South Africa), the supplying vendor may only zero-rate the supply if the goods are supplied to a non-established recipient and the supplier ensures that the goods are delivered at a designated harbor or airport from where the recipient exports the goods, or the goods are delivered to the recipients appointed agent that exports the goods via road or rail.

Documentation that must be retained in the case of an indirect export where the supplier is (under certain circumstances) entitled to elect to apply a zero-rate is:
- A copy of the zero-rated tax invoice
- The customer's order or the contract between the customer and supplier
- The customs documentation
- Proof that the movable goods have been received by the customer in the export country
- The transport documentation as required for the relevant mode of transport (i.e., road manifest, a copy of the combined consignment note and wagon label issued by the rail operator, or a copy of the container terminal order or freight transit order issued by the container operator or the rail operator, the sea freight transport document or the airfreight transport document)
- Proof of payment for the movable goods supplied to the customer

Where the supplier contracts with a cartage contractor to deliver the goods to a customer outside South Africa the following additional documentary proof:
- Proof that the supplier paid the transport costs
- In the case of transport by road, a copy of the proof of delivery issued by the cartage contractor that the movable goods have been received by the customer in the export country

Documentation that must be retained in the case of an indirect export where the supplier elects to apply a zero-rate is:
- A copy of the zero-rated tax invoice
- A copy of the customer's trading license (i.e., a document indicating that the customer is carrying on a business outside South Africa)
- The customer's order or the contract between the customer and supplier
- Proof of payment for the movable goods supplied to the customer
- A letter from the customer authorizing a person to represent the customer and a copy of such person's passport
- Proof of delivery of the goods to the harbor or airport
- Export documentation

Documentation that must be retained in the case of an indirect export where the supplier elects to apply a zero-rate and where the customer's agent exports the goods from South Africa via road or rail is:
- A copy of the zero-rated tax invoice
- A copy of the customer's trading license (i.e., a document indicating that the customer is carrying on a business outside South Africa)
- A letter from the customer authorizing a person to represent the customer and a copy of such person's passport
- The customer's order or the contract between the customer and the supplier
- Proof of payment for the movable goods supplied to the customer (the proof of payment must be in compliance with South African Reserve Bank (SARB) requirements where applicable)
- Proof of delivery of the goods to the customer's agent's premises
- A statement from the customer's agent containing an inventory reconciliation of all the movable goods received from the supplier and exported by the agent or a cartage contractor engaged by either the customer or its agent to the customer
- Confirmation of the proof of export from the customer's agent

Foreign-currency invoices. In general, a tax invoice must be issued in South African rand (ZAR). However, if the invoice relates to a zero-rated supply, the tax invoice may be issued in any currency. If an invoice is issued in a foreign currency, the rand equivalent of the net amount, the VAT amount and the gross amount (or just the gross amount with a statement that it includes 15% VAT) must be disclosed on the invoice and must be determined using one of the following exchange rates:

- The daily exchange rate on the date the time of supply occurs
- The daily exchange rate on the last day of the month preceding the time of supply
- The monthly average rate for the month preceding the month during which the time of supply occurs

The exchange rate as published on the following websites may be used:

- The South African Reserve Bank (www.resbank.co.za/Research/Rates/Pages/SelectedHistoricalExchangeAndInterestRates.aspx)
- Bloomberg (www.bloomberg.com/markets/currencies/cross-rates)
- The European Central Bank (www.ecb.europa.eu/stats/exchange/eurofxref/html/index.en.html)

I. VAT returns and payment

VAT returns. The tax return period is monthly for persons with annual taxable turnover in excess of ZAR30 million. The tax return period is bimonthly for persons with annual taxable turnover below ZAR30 million. Other tax periods are available (six-month and annually) for special categories of persons with annual taxable supplies lower than ZAR1.5 million, such as farmers, farming enterprises and nonprofit associations, but only with the prior agreement of the SARS.

VAT returns must be filed by the 25th day after the end of the tax period or, if returns are filed and paid electronically through the SARS e-filing system, by the end of the month following the tax period. Payment is due in full by the same date. If the due date falls on a Saturday, Sunday or a public holiday, the due date is the last business day before the 25th, or the last business day before the end of the month in the case of electronic filing.

J. Penalties

A penalty equal to 10% of the net VAT due is imposed if the VAT return is submitted late or if the VAT payment is made after the due date. The SARS may remit the penalty if satisfied that:

- The penalty has been imposed for a first incidence of noncompliance or involved an amount of less than ZAR2,000
- Reasonable grounds for the noncompliance exist
- The noncompliance at issue has been remedied
- If exceptional circumstances are present

Interest. Interest is charged at the prescribed rate on late payments of VAT, calculated for each month or part of a month. A vendor may request the SARS to remit interest if the late payment was due to circumstances beyond the vendor's control (like natural or human disaster, civil disturbance or disruption and serious illness or accident).

Understatement penalty. In the case of an understatement, the taxpayer has to pay, in addition to the VAT payable, an understatement penalty determined according to an understatement penalty percentage table, which ranges between 5% and 200%. An understatement means prejudice to the SARS or the fiscus in respect of a tax period as a result of:

- A default in rendering a return
- An omission from a return
- An incorrect statement in a return

Where a default is disclosed to SARS under a voluntary disclosure application before SARS commences with an audit or investigation, the understatement penalties are reduced to 0%.

A range of other offenses related to VAT can result in additional tax and penalties, including fines and, for severe offenses, imprisonment for a period not exceeding 24 months.

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A. At a glance

Name of the tax	Value-added tax (VAT)
Local name	Impuesto sobre el Valor Añadido (IVA)
Date introduced	1 January 1986
Trading bloc membership	European Union (EU) Member State

Administered by	Ministry of Finance (http://www.aeat.es and http://www.mindhap.es)
VAT rates	
Standard	21%
Reduced	4%, 10%
Other	Exempt and exempt with credit
VAT number format	A – 1 2 3 4 5 6 7 8 or N – 1 2 3 4 5 6 7 C or W – 1 2 3 4 5 6 7 C (in case of permanent establishment) (ES prefix must be added if the taxable person is included in the VAT Information Exchange System [VIES] census)
VAT return periods	Monthly (if turnover exceeded EUR6,010,121 in the preceding year or if the taxable person is included in the monthly VAT refund procedure, or if the company is included in a VAT group, or if the company applies for ISI system) Quarterly Annual statement (required for all taxable persons)
Thresholds	
Registration	None
Distance selling	EUR35,000
Intra-Community acquisitions	None
Recovery of VAT by non-established businesses	Yes (under certain conditions)

B. Scope of the tax

VAT applies to the following transactions:
- The supply of goods or services made in Spain by a taxable person
- The intra-Community acquisition of goods from another EU Member State by a taxable person
- The importation of goods from outside the EU, regardless of the status of the importer
- Reverse charge on goods and services received by a taxable person in Spain

For VAT purposes, the territory of Spain excludes the Canary Islands, Ceuta and Melilla.

C. Who is liable

A "taxable person" is any business entity or individual that makes taxable supplies of goods or services, intra-Community acquisitions, imports or distance sales in the course of a business in Spain.

No VAT registration threshold applies in Spain. A taxable person that begins its activity must notify the VAT authorities of its liability to register.

Special rules apply to foreign or "non-established businesses."

Group registration. VAT grouping is allowed under Spanish VAT law. Notwithstanding this rule, companies that belong to a VAT group must still register for VAT purposes individually. This is such that the VAT group as a whole will be assigned by a Spanish tax ID number and, in addition, each entity belonging to the group will have its own Spanish tax ID number.

Non-established businesses. A non-established business that makes supplies of goods or services in Spain must register for VAT if it is liable to account for Spanish VAT on the supply.

The reverse-charge mechanism generally applies to supplies made by non-established businesses to taxpayers. Under this mechanism, the taxpayer is the recipient of the goods or services supplied.

If a foreign taxable person supplies goods to a company established in Spain, the recipient of the supply becomes liable for VAT purposes. However, the reverse-charge mechanism does not apply to certain items, including the following:
• Goods acquired through distance or mail-order sales
• Exempt exports
• Exempt intra-Community supplies

The reverse-charge mechanism also applies if a foreign taxable person supplies goods in Spain to another foreign taxable person.

If a foreign taxable person supplies services to a company established in Spain, the company established in Spain is treated as the taxpayer.

If a foreign taxable person supplies services subject to Spanish VAT to another foreign taxable person, in general, the supplier is liable for the VAT due.

Tax representatives. A non-established business must register in Spain for VAT purposes if it makes any of the following supplies:
• Intra-Community supplies or acquisitions
• Distance sales in excess of the threshold
• Supplies of goods and services that are not subject to the reverse-charge mechanism
• Exports

In general, non-established taxpayers must appoint a tax representative in Spain.

Taxable persons established in the EU, foreign companies established in the Canary Islands, Ceuta or Melilla, and foreign companies established in a country that has a mutual assistance agreement with Spain, are exempt from the above general rule. However, in practice, the tax authorities require the appointment of a VAT representative even for companies established in the EU, because it is mandatory to have a Spanish address where communications issued by the tax authorities can be easily received.

A fiscal representative is no longer compulsory when an EU company is going to be registered for VAT in Spain. However, a fiscal representative is required for non-EU companies. The fiscal representative must be tax registered and willing to act as the local representative of the company, managing queries and filing obligations of the company for dealings with the tax authorities.

Registration procedures. To obtain a Spanish VAT number, an application must be made in Spanish, which requires certain supporting information such as a memorandum and Articles of Association/an extract from the company's national trade register, a Power of Attorney for the company's fiscal representative or the company/person in charge of the registration or a census form 036 to be filed before the Spanish tax authorities. This form must be filed physically (no electronic filing).

The Spanish tax authorities require the person or persons signing on behalf of a nonresident entity for the purposes of its registration to have a nonresident ID number in Spain. Therefore, a new 030 form is required by the Spanish tax authorities in connection with the registration of nonresident entities.

Although this obligation could be argued according to law (it is not required according to the wording of the VAT act currently in force), the Spanish tax authorities are refusing to register nonresident entities without the ID numbers of their representatives.

In principle, the registration should be performed before the commencement of the economic activity in Spain; however, it is a common practice to request the registration on the same date that the economic activity would start.

Once all the necessary information is gathered, the registration should be obtained on the same day that the registration return (036 form) is filed.

Late-registration penalties. A penalty of EUR400 may be assessed for late registration. This penalty may be reduced to EUR200 if the taxpayer registers voluntarily (albeit late) without receiving a prior request from the Spanish tax authorities.

Digital economy. The place of supply for services rendered through electronic means to private individuals is the place where the recipient is established.

As from 1 January 2019, new rules apply to the place of supply for supplies of telecommunications, broadcasting and electronic services to non-VAT-taxable customers. Under Council Directive 2017/2455, the Spanish VAT Law and Regulation will include a reference to the new additional requirement to determine the place of supply of telecommunications, broadcasting and electronic services. Disregarding the fulfillment of other requirements, this new condition requires that the total value, exclusive of VAT, of the referred supplies does not in the current calendar year exceed EUR10,000, or the equivalent in national currency, and did not do so in the course of the preceding calendar year.

In case the aforementioned threshold is surpassed, the place of supply would be deemed as the Member State where the recipient of telecommunications, broadcasting and electronic services is established.

Mini One-Stop Shop. In connection with the special scheme applicable to services rendered through electronic means:
- The regime is applicable, not only to business-to-consumer (B2C) services rendered through electronic means, but to B2C telecommunications services, radio and television broadcasting services.
- A simplification is included in order to avoid VAT registration in each Member State for e-suppliers, businesses providing B2C services rendered through electronic means are allowed to file a single, periodical VAT return and payment in connection with its supplies in each Member State.

Deregistration. To deregister for VAT purposes, the taxpayer submits, either physically or online, a census return (036 form) to the Spanish Tax Authorities.

Deregistering from the census as a professional entrepreneur involves more, as it cancels the tax identification number. The same census return (036 form) is submitted in the same way, but it must be accompanied by additional documentation.

Exemption from registration. Exemption from VAT registration in Spain is allowed for the following legal or individual bodies:
- Taxpayers who only carry out transactions that do not give right to the total or partial VAT deduction (e.g., exempt supplies — cultural, medical, financial transactions) or taxpayers who carry out transactions that are subject to the agriculture, livestock and fishing special scheme, or legal persons that do not carry out transactions as professionals or entrepreneurs, when the intra-EU acquisitions of goods carried out by the mentioned legal persons are not subject to VAT
- Bodies that do no act as professionals or entrepreneurs that carry out intra-EU acquisitions of new means of transport
- Bodies that occasionally carry out VAT exempt supplies of new means of transport
- Professionals or entrepreneurs not established in the Spanish VAT territory who only perform in Spain, transactions for which they are not considered to be a taxable person
- Professionals or entrepreneurs not established in the Spanish VAT territory who only carry out supplies in Spain of intra-EU acquisitions of goods and subsequent supplies of those goods

In addition to the above, it is important to note that there are two types of VAT registrations in Spain; this is the full VAT registration and the limited VAT registration.

The limited VAT registration applies in cases where nonresident entities need a VAT number for the purpose of carrying out intra-EU acquisitions of goods, or deemed intra-EU acquisition of goods, or imports of goods. However, they are not deemed as taxable persons in respect of subse-

quent supplies of those goods performed within Spain (since, for instance, the reverse charge applies to the ongoing local supplies of those goods).

The full VAT registration under the General VAT taxpayer regime is needed when the nonresident entity is going to perform transactions in Spain, for which it is considered to be a taxable person, such as domestic supplies where output VAT should be charged; exports of goods, or intra-EU supplies of goods.

Voluntary registration. The VAT law in Spain does not contain any provision for voluntary VAT registration, as there is no registration threshold (i.e., all entities that make taxable supplies are obliged to register for VAT in the terms described above).

Non-established businesses. A non-established business is required to register for VAT in Spain, unless one of the scenarios described above under the exceptions for VAT registration section applies.

D. VAT rates

The following are the VAT rates in Spain:
- Standard rate: 21%
- Reduced rates: 4% and 10%

The standard rate of VAT applies to all supplies of goods or services, unless a specific measure provides for a reduced rate or exemption. Additionally, the following changes have been introduced:
- Cultural live shows/entertainment (from July 2017, live spectacles tax rate has been reduced from 21% to 10% as per the General State Budget Law dated 27 June 2017)
- Cinema tickets (from January 2018, cinema tickets tax rate is reduced from 21% to 10% as per the General State Budget Law that is to be approved for 2018)

Examples of goods and services taxable at 4%

- Basic foodstuffs
- Books, journals and magazines
- Pharmaceutical products for humans
- Certain goods and services for handicapped persons
- Provision of housing from 20 August 2011 through 31 December 2012

Examples of goods and services taxable at 10%

- Food and drink for human or animal consumption
- Pharmaceutical products for animals
- Prescription glasses and contact lenses
- Medical equipment (from January 2015, certain medical equipment taxed at standard 21% rate)
- Residential dwellings
- Passenger transport
- Hotel and restaurant services
- Garbage collection
- Trade fairs and exhibitions

Exempt supplies generally do not give rise to a right to deduct input VAT paid.

Examples of exempt supplies of goods and services

- Immovable property, in certain cases
- Medical services
- Finance
- Insurance
- Universal postal services

Option to tax for exempt supplies. The option to tax supplies of real estate goods (land or building) was modified as of January 2015. Taxpayers may opt to pay tax on such supplies if:
- The recipient has the right, total or partial, to deduct input VAT.
- The recipient has no right to deduct input VAT, but the goods acquired would be destined, totally or partially, to carry out operations giving the right to deduct input VAT.

E. Time of supply

The time when VAT becomes due is called the "time of supply" or "tax point." The basic time of supply for goods is when the goods are placed at the disposal of the purchaser. The basic time of supply for services is when the service is performed. If the service is ancillary to a supply of goods, the time of supply is when the goods are placed at the disposal of the purchaser. A VAT invoice must generally be issued at the time of supply.

Prepayments. The tax point for prepayments or advance payments is the date when the advance payment is received.

Intra-Community supplies and acquisitions of goods. The time of supply for intra-Community supplies of goods is the earlier of the 15th day of the month following the month in which the goods are removed from the supplier or the date when the invoice is issued. Regarding intra-Community acquisitions of goods, the tax point is the time when the goods are placed at the consumer's disposal. The general rule for prepayments does not apply to intra-Community supplies and acquisitions of goods; that is, a prepayment does not modify the tax point.

Imported goods. The time of supply for imported goods is the date of importation (according to the customs documents), or the date on which the goods leave a duty suspension regime.

Cash accounting. A cash accounting scheme came into effect in Spain with effect from 1 January 2014. Under this scheme, taxpayers report the VAT charged on sales of goods or supply of services on the date when the payment is received, and the right to deduct input VAT arises when payment is made. The scheme is optional and is subject to certain requirements.

Reverse-charge services. No specific tax point rules apply.

Continuous supplies of services. The tax point is when each payment is due.

Leased assets. The tax point is when each payment is due.

Goods sent on approval for sale or return. There are no special time of supply rules in Spain for supplies of goods sent on approval for sale or return. As such, the general time of supply rules apply (as outlined above). However, where the goods are returned, the taxable amount must be modified and a rectifying invoice should be issued from the supplier.

F. Recovery of VAT by taxable persons

A taxpayer may recover input tax, which is VAT charged on goods and services supplied for business purposes. A taxpayer generally recovers input tax by deducting it from output tax, which is VAT charged on supplies made. Input tax may be deducted in the accounting period in which the output VAT was charged or in any successive period, up to a period of four years from the time of supply.

Input tax includes VAT charged on goods and services supplied in Spain, VAT paid on imports of goods and VAT self-assessed on intra-Community acquisitions of goods and reverse-charge transactions.

A valid tax invoice or customs document is required to apply for input tax deduction.

Nondeductible input tax. Input tax may not be recovered on purchases of goods and services that are not used directly and exclusively for business purposes. In addition, input tax may not be recovered for some items of business expenditure.

In general, input VAT may be claimed with respect to travel, hotel and restaurant expenses if the Spanish corporate income tax law allows for a deduction, which is often the case.

The following lists provide some examples of items of expenditure for which input tax is not deductible and examples of items for which input tax is deductible if the expenditure is related to a taxable business use.

Examples of items for which input tax is nondeductible

- Business entertainment
- Business gifts (unless of very low value)
- Alcohol and tobacco
- Private expenditure

Examples of items for which input tax is deductible (if related to a taxable business use)

- 50% of purchase, hiring, leasing, maintenance and fuel for cars, vans and trucks (a higher percentage of deduction is allowed if the taxable person provides to the authorities evidence proving that the percentage of time used for business purposes exceeds 50%)
- Attending conferences, seminars and training courses
- Advertising
- Business use of home telephone or mobile phone
- 50% of parking
- Taxis, restaurant meals, hotel accommodation and travel expenses if the expense is allowable under the Spanish income tax or corporate tax law or if the taxable person has the appropriate documentation (generally, an invoice)

Partial exemption. Input VAT directly related to the making of exempt supplies is, as a rule, not recoverable. If a Spanish taxable person makes both exempt and taxable supplies, it may not recover input VAT in full. The amount of input VAT that a partially exempt business may recover is calculated using the general pro rata method or the direct allocation method. The general pro rata method is generally used unless the taxable person chooses the direct allocation method. However, the direct allocation method must be used if the general pro rata method provides a VAT recovery amount that exceeds by 20% (10% starting in 2015) or more the amount of input tax recoverable using the direct allocation method.

General pro rata method. The general pro rata method is based on the ratio of taxable turnover and total turnover during the calendar year. Because the taxpayer cannot know its annual ratio for the current calendar year when filing its periodic VAT returns, the pro rata percentage for the preceding year or an agreed provisional percentage is used. The calculation is regularized in the last period of the VAT year (that is, the actual figures for the year are calculated and applied and any further adjustment is made).

Direct allocation method. The direct allocation method consists of the following two-stage calculation:

- In the first stage, the taxpayer must distinguish between input VAT that corresponds to taxable and to exempt supplies. Input VAT directly allocated to taxable supplies is deductible, while input VAT directly related to exempt supplies is not deductible.
- The remaining input VAT that is not allocated directly to exempt and taxable supplies is apportioned using the general pro rata method. The recovery percentage is rounded up to the nearest whole number (for example, a percentage of 16.3% is rounded up to 17%).
- Taxable persons can opt for the direct allocation method in December of the current year. That method is then applied to the deductions for that whole year and in the following two years.

Deductions in different sectors. If a taxable person undertakes activities in different economic sectors, it must apply different methods to calculate the partial exemption deduction for each sector, as if each economic activity were carried out by an independent business. This rule applies if the business undertakes activities that are subject to different pro rata recovery percentages. A business is deemed to undertake such activities in the following circumstances:

- The activities fall under different groups according to the national classification of economic activities.
- The pro rata percentage for VAT recovery for one economic sector of the business differs by more than 50 percentage points (either higher or lower) from another sector of the business.

If goods or services are used in one of the distinct economic sectors, the VAT paid is recovered according to the pro rata recovery percentage for that sector. However, if goods or services are used by more than one economic sector, the amount of VAT recovered must be based on the general pro rata method.

Capital goods. Capital goods are items of capital expenditure that are used in a business over one year and that have an acquisition price exceeding EUR3,000. Input VAT is deducted in the VAT year in which the goods are acquired and first used. The amount of input VAT recovered depends on the taxpayer's pro rata recovery percentage in the VAT year of acquisition and first use. However, the amount of input VAT recovered for capital goods must be adjusted over time if the taxable person's pro rata recovery percentage differs by 10 percentage points during the adjustment period or if the goods are transferred or sold during the adjustment period.

In Spain, the capital goods adjustment applies to the following assets for the number of years indicated:

- Immovable property: adjusted for a period of 10 years (the year of the acquisition and first use and the following nine calendar years)
- Movable property: adjusted for a period of five years (the year of the acquisition and first use and the following four calendar years)

The adjustment is applied each year following the year of acquisition and first use, to a fraction of the total input tax (1/10 for immovable property and 1/5 for other movable capital goods). The adjustment may result in either an increase or a decrease of deductible input VAT, depending on whether the ratio of taxable supplies made by the business increases or decreases, compared with the year in which the capital goods were acquired and first used.

Refunds. If the amount of input VAT recoverable exceeds the amount of output VAT payable, a refund may be claimed. A business may choose to request a refund of the excess VAT or to carry it forward to offset output VAT in the following four years.

Two different procedures are available with respect to applications for refund of the excess input VAT. These procedures are summarized below.

General procedure. Under the general procedure, the taxable person may only apply for the refund in the last VAT return of the year (monthly or quarterly). The tax authorities have a six-month period beginning on the date of the application to analyze whether the taxable person has the right to obtain the refund. After such term is exceeded, delay interest on the refund due is payable to the taxable person.

Special procedure. Under the special procedure, the taxable person may apply for inclusion in the monthly VAT refund census. Taxable persons included in such a census may apply for the VAT refund in each monthly VAT return. The tax authorities have a six-month period beginning on the date of the application to analyze whether the taxable person has the right to obtain the refund. After such term is exceeded, delay interest on the refund due is payable to the taxable person.

Preregistration costs. Not applicable.

Write-off of bad debts. As of 2015, entities with a turnover of EUR6,010,121 or lower could consider that a credit qualifies as bad debt, and thus, the taxable amount could be modified once six months or one year has elapsed as of the date of the accrual.

The term to amend the taxable base is extended from one to three months, as of the date of bankruptcy declaration.

Noneconomic activities. Recovery of input tax incurred in relation to noneconomic activities is not recoverable in Spain.

Recovery of VAT by non-EU resident individuals. Effective from 1 January 2019, a new electronic mechanism regarding the procedure for the VAT refund to travelers living or with residence outside the EU will enter into force. It would be compulsory to prove the exemption by a new electronic document, the so-called "DER" (*documento electrónico de reembolso*).

This new system called "DIVA" implies the introduction of a new electronic document (DER), which has to be filled out by the taxable person who performs supplies of goods to travelers that are leaving the EU territory. Apart from the corresponding invoice, the taxable person must issue the electronic document called DER, which should include the following information:

(i) Acquired goods
(ii) Applicable VAT quota
(iii) Acquirer identification
(iv) Date of birth
(v) Passport or, if applicable, ID number
(vi) QR code

For the purpose of requesting the VAT refund, the goods shall leave the EU territory within the next three months and the traveler has to physically identify the goods before the customs authorities, which would certify that the goods effectively leave the EU territory by sealing the DER. As an alternative, this new document also allows the traveler to validate the DER itself by scanning the QR code in specific locations enabled by the Spanish tax authorities in certain Spanish airports/ports. Once the DER is sealed, the nonresident traveler is entitled to request the VAT refund from the supplier, who must reimburse the VAT quota in the following 15 days.

G. Recovery of VAT by non-established businesses

Spain refunds VAT incurred by businesses that are not established in Spain. Non-established businesses may claim Spanish VAT to the same extent as VAT-registered businesses.

For businesses established in the EU, refund is made under the terms of the EU 2008/9/EC Directive (one-stop shop system from 1 January 2010). For businesses established outside the EU, refund is made under the terms of the EU 13th Directive on the condition of reciprocity. Spanish VAT is refunded only to non-EU claimants established in Canada, Israel, Japan, Monaco, Norway and Switzerland. A non-EU claimant must appoint a VAT representative in Spain.

The condition of reciprocity is not required in connection with input VAT borne on accommodation, travel and restaurant services related to attendance at fairs or exhibitions in Spain.

For the general VAT refund rules under the EU 2008/9/EC Directive and the EU 13th Directive, see the chapter on the EU.

Refund application. As a result of the entry into force of the EU VAT Package, effective from 1 July 2010, VAT refund applications corresponding to VAT borne in Spain by non-established businesses from the EU are filed in the EU Member State where the business is established instead of with the Spanish tax authorities.

Applications from businesses not established in Spain or in another EU Member State must continue to be filed with the Spanish tax authorities.

Repayment interest. The Spanish VAT authorities have made the commitment to pay refunds within four months after the date on which the claim for a refund is submitted, but if additional information is requested, the reimbursement procedure could take up to eight months. Interest is paid on late refunds.

H. Invoicing

VAT invoices and credit notes. A Spanish taxpayer must generally provide a VAT invoice for all taxable supplies made, including exports and intra-Community supplies. VAT invoices are not automatically required for certain transactions if the taxable amount does not exceed EUR400 (EUR3,000 for certain retail transactions). Simplified invoices are issued instead, unless requested by the customer.

A VAT invoice is necessary to support a claim for input VAT deduction or a refund under the EU 2008/9/EC Directive or the EU 13th Directive refund schemes (see the chapter on the EU).

A credit note (*factura rectificativa*) must be cross-referenced to the original invoice and must contain the same information together with the reason for the amendment and the final corrected position.

Electronic invoicing. Effective 1 January 2013, the VAT law has been amended to permit electronic invoicing in line with EU Directive 2010/45/EU. As of 15 January 2015, it is mandatory to issue electronic invoices in connection with the supplies performed with Spanish public entities.

The "Immediate Submission of Information" (ISI) system entered into force on 1 July 2017. This change to the VAT system moves from a system that has been in place for the last 30 years, to a new system whereby VAT books are registered with the electronic office of the Spanish tax authorities, by supplying invoice information on an almost immediate basis.

Companies will be required to keep VAT books with the electronic office of the Spanish tax authorities, by electronically providing invoice details. In this regard, companies are required to send the Spanish tax authorities their invoice data and the Spanish tax authorities will use this information to configure the different VAT books of the company in real time.

In addition, the Spanish tax authorities will use the ISI system to cross-check in real-time information provided by suppliers and clients. Therefore, discrepancies between information provided by the company and information provided by third parties should be avoided, as they can be immediately detected by the Spanish tax authorities and could have negative consequences for both parties. Please see *Section I. VAT returns and payment* for more detail on the ISI.

Proof of exports and intra-Community supplies. VAT is not chargeable on supplies of exported goods or on intra-Community supplies of goods (see the chapter on the EU). However, to qualify as zero-rated, exports and intra-Community supplies they must be supported by evidence that the goods have left Spain. Acceptable proof includes the following documentation:

- For an export, the documentation consists of the customs declaration (export SAD) with evidence that it was filed and admitted by the customs authorities, transport documents and an indication on the invoice of the article of the Spanish VAT law that allows exemption with credit for the supply.
- For an intra-Community supply, the supplier must retain a copy of the invoice indicating the customer's valid VAT identification number (issued by another EU Member State), together with a range of commercial documentation, such as bills of lading, transport documentation and proof of payment.

Foreign-currency invoices. If a VAT invoice is issued in a foreign currency, the values for VAT purposes and the VAT amounts must be converted to euros. The exchange rate that is used must

be the official selling rate published by the Bank of Spain for the date on which the VAT is due. The VAT amount must be expressly stated in euros.

B2C. The Spanish Invoicing Regulation foresees in its article 4 a list of transactions that can be documented by a simplified invoice (replacing the former "tickets"), for instance in a retail supply.

Furthermore, the mentioned article establishes a list of transactions that can be documented through a simplified invoice, such as:
- Ambulance supply of goods or supply of services
- Home delivered supply of goods or supply of services
- Passenger and luggage transport services
- Hotel and catering services provided by restaurants and similar establishments, as well as the supply of drinks or meals to be consumed immediately
- Services provided by dance halls and discotheques
- Telephone services provided through the use of telephone booths for public use, as well as through cards that do not allow identification of the person who is phoning
- Hairdressing services and those provided by beauty institutes
- Use of sports halls
- Photo development and services provided by photographic studios
- Parking services
- Movie rental
- Dry cleaning and laundry services
- Use of toll roads

In addition, effective 1 January 2015, new rules apply to the place of supply for supplies of telecommunications, broadcasting and electronic services to non-VAT taxable customers. For further details of the VAT rules on electronic services in the EU, please refer to the European Union chapter.

Spanish suppliers of these services are required to issue invoices to nontaxable customers.

I. VAT returns and payment

VAT returns. Periodic VAT returns are submitted in Spain on a monthly or quarterly basis, depending on the taxable person's turnover and activities. All taxable persons must also complete an annual summary VAT return.

Taxable persons whose turnover in the previous year exceeded EUR6,010,121 must file their VAT returns on a monthly basis. Taxable persons included in the monthly VAT refund census must also file monthly VAT returns (and the VAT books [Form 340]), because they are entitled to apply for a VAT refund on a monthly basis.

Periodic VAT returns must be filed and paid by the due date. Quarterly VAT returns must be submitted and paid by the 20th day of the month following the end of the quarter for the first three calendar quarters, and by 30 January of the following year for the last calendar quarter. Monthly VAT returns must be filed and the tax paid by the 20th day of the month following the month of the assessment.

The annual summary VAT return must be filed by 30 January.

Special schemes. The special scheme for travel agencies has been modified following the ECJ's judgment in case C-189/11, dated 26 September 2013, including among others the opt-out possibility in connection with business-to-business (B2B) supplies where the normal VAT regime could be applied.

The special scheme for services rendered through electronic means is modified following the ECJ's judgment in case C-360/11, dated 17 January 2013, as follows:
- The regime is applicable, not only to business-to-consumer (B2C) services rendered through electronic means, but also to B2C telecommunications services, radio and television broadcasting services.
- A simplification is included in order to avoid VAT registration in each Member State for e-suppliers: businesses providing B2C services rendered through electronic means would be allowed to file a single, periodical VAT return and payment in connection with its supplies in each Member State.

The special group entities scheme has new requirements:
- All entities within the group must be bound by financial, economic and organizational links.
- Holding companies can be the dominant entity of a VAT group.

Immediate Submission of Information (ISI). The "Immediate Submission of Information" (ISI) system entered into force from 1 July 2017. Under the new system, the information related to all invoices issued, received, customs documents and accountancy documents, if any, must be transmitted electronically and almost immediately to the Spanish tax authorities, so that the Spanish tax authorities have all of the information relating to the operations carried out by VAT taxpayers in real time. In particular, the information related to each invoice issued or received must be electronically communicated to the Spanish tax authority within four working days of the date of its issuance or from the date it was accounted for respectively.

The new system will be compulsory for businesses and professionals who are required to file VAT returns on a monthly basis, in other words those who:
(i) Have a turnover of over EUR6 million
(ii) Are included in the monthly refund regime
(iii) Are applying the VAT grouping provisions

The system can be used by any other business or professional by filing a census form, whereby they expressly opt to be included in the system.

From July 2017, the deadlines for filing VAT returns for taxpayers who file on a monthly basis will be extended to the 30th day of the following month, or for the return relating to January, until the last day of February. Additionally, taxpayers obliged to comply with the ISI would not be obliged to file the annual summary, the VAT books form (form 340) and the annual return of transactions with third parties (form 347).

Delays or failure in the provision of information could lead to the imposition of penalties up to 0.5% of the invoice amount, with a quarterly minimum of EUR300 and maximum of EUR6,000.

Electronic filing and archiving. VAT returns (303 forms) and the Informative Annual Summary VAT return (390 form) must be filed through electronic means by using an electronic signature owned by the taxpayer or a third party duly empowered. When the VAT returns (303 forms) result in amounts to be paid or refunded, a Spanish bank account number is required.

Annual returns. The Informative Annual Summary VAT return (390 form) contains the information declared in the periodical VAT returns of the corresponding calendar years and additional information. It must be filed electronically between 1 January and 30 January of the following year.

J. Penalties

The following surcharges apply to the late submission of VAT returns or late payment of VAT before any request by the tax authorities:
- Delay up to three months: 5% of the tax due
- Delay between three months and six months: 10% of the tax due

- Delay between 6 months and 12 months: 15% of the tax due
- Delay longer than 12 months: 20% of the tax due plus interest

K. EU filings

Intrastat. A Spanish taxable person that trades with other EU countries must complete statistical reports, known as Intrastat, if the value of its EU sales or purchases of goods exceeds certain thresholds. Separate reports are required for intra-Community acquisitions (Intrastat Arrivals) and for intra-Community supplies (Intrastat Dispatches).

The current threshold for Intrastat Arrivals in 2018 is EUR400,000. The current threshold for Intrastat Dispatches in 2018 is also EUR400,000.

The Intrastat return submission period is monthly. The submission deadline is the 12th day following each month. A taxable person required to file Intrastat returns must file them each month even if they are nil returns.

The penalty for late or incorrect filing depends on the level of infringement. Penalties range from EUR60 to EUR30,050.

EU Sales and Acquisitions List. If a Spanish taxable person makes intra-Community supplies or intra-Community acquisitions of goods and/or services in any return period, it must submit an EU Sales and Acquisitions List (ESAL). An ESAL return is not required for any period in which the taxable person does not make any intra-Community supplies or acquisitions of goods and/or services.

In principle, ESAL returns are submitted on a monthly basis. However, ESAL returns must be filed on a quarterly basis if the intra-EU supplies of goods and/or services performed in the current quarter or during the four preceding calendar quarters do not exceed the threshold of EUR50,000.

Taxable persons whose turnover does not exceed EUR35,000 may file annually under certain conditions.

ESALs must be submitted by the 20th day of the month following the end of the monthly or quarterly filing period. The last monthly or quarterly ESAL for a year must be filed by 30 January of the following year.

Penalties may be imposed for late, missing or inaccurate ESALs.

Suriname

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Plans to replace the turnover tax with a VAT system in Suriname are ongoing, the exact timing of this is unknown.

A. At a glance

Name of the tax	Turnover tax (TOT)
Local name	Omzetbelasting
Date introduced	30 December 1997
Trading bloc membership	CARICOM
Administered by	Inspectie der Belastingen
Rates	
Standard rate for services provided	8%
Standard rate for delivery of goods	10%
Standard rate for import of goods	10%
Other	25%, 0%
TOT number format	XXXXX (5 digits)
TOT return periods	Monthly
Thresholds	None
Recovery of TOT by non-established businesses	No

B. Scope of the tax

TOT applies to the following transactions:
- The supply of services in Suriname by an entrepreneur as part of its business
- The delivery of goods that are produced in Suriname by an entrepreneur
- The import of goods in Suriname

C. Who is liable

In principle, a taxable entrepreneur is a business entity or individual who delivers goods or performs services (tax activities) in Suriname.

Small entrepreneurs. A small entrepreneur is a resident individual who has a turnover of SRD6,000 or less per calendar year. Small entrepreneurs will not be liable and will not be required to submit TOT returns for monthly periods if a request is filed with and granted by the tax authorities. Small entrepreneurs, who are not liable for TOT and are not required to submit TOT returns, will also not be able to deduct the TOT incurred.

Group registration. TOT grouping is not allowed under the TOT legislation. Legal business entities must register for TOT individually.

Registration procedures. To register, an applicant submits a registration form in hard copy along with certain requested documentation to the tax authorities. Completion of the registration process should take approximately one week.

Tax representatives. A taxpayer may be represented by a third party based on a power of attorney or a license from the Tax Inspector.

Late-registration penalties. No specific penalty is imposed for late registration. However, if late registration results in a late payment of TOT or late submission of TOT returns, penalties may be imposed (see Section J).

Non-established businesses. A "non-established business" is able to register for TOT in Suriname.

Reverse-charge mechanism. For services provided in Suriname by a non-established business to a resident entrepreneur, the reverse-charge mechanism applies. In this case, the resident entrepreneur that receives these services is liable for TOT and has to report and pay TOT on these services.

Digital economy. There are no specific rules relating to the digital economy. B2B and B2C supplies of electronic services to customers in Surinam are not taxable in Suriname.

Deregistration. To deregister with the tax authorities, a taxpayer should provide proof of deregistration as issued by the Suriname Chamber of Commerce. The deregistration with the tax authorities should be completed once all tax filing and payment obligations have been met by the taxpayer.

Exemption from registration. There is no specific exemption from registration in Suriname TOT law.

Voluntary registration. There is no specific mentioning of voluntary registration in Suriname TOT law.

D. TOT rates

In Suriname, a standard rate of 10% applies for both the delivery and import of goods. A standard rate of 8% applies for the supply of services. For imported luxury goods, a TOT rate of 25% applies.

Exports. For the exports of goods, a special TOT rate of 0% applies. However, to qualify for the 0% TOT rate, export documentation issued by customs should be in place.

Suriname has an exemption for goods related to the so-called primary necessities of life, such as fresh potatoes, vegetables and fruits. The government publishes an exhaustive list.

Option to tax for exempt supplies. There are no specific rules providing for the option to tax for exempt supplies.

E. Time of supply

The time when TOT becomes due is called the "time of supply."

In Suriname, the cash accounting scheme applies. On this basis, the actual time of supply is when payments are received for the supply of services and delivery of goods.

Imported goods. For imported goods the "time of supply" is considered to be the moment of importation.

Deposits and prepayments. The tax point arises upon receipt of the payment for the goods or services.

Goods sent on approval for sale or return. In the case of importation, the tax point is upon import. In the case of a local supply, the tax point arises upon receipt of the payment.

Leased assets. In all cases, the tax point arises upon receipt of the payment.

Reverse-charge services. The reverse-charge mechanism applies for services supplied to Suriname entrepreneurs by non-established businesses. The tax point arises upon receipt of the payment.

Continuous supplies. The tax point arises upon receipt of the payment for continuously supplied goods or services.

F. Recovery of TOT by taxable persons

The TOT paid on machinery, raw materials, auxiliary or intermediate product or on services used directly for the production of TOT-taxable goods in Suriname can be deducted from TOT due, provided that the invoices on which the TOT is charged by the supplier of the goods or the person who performed the services meet specific requirements. Similarly, TOT paid in a TOT period on imported goods that are used directly for the production of TOT-taxable goods in Suriname is also deductible provided that the TOT paid is stated on the document on which the goods are imported.

If the TOT paid exceeds TOT due in a period, the excess will be refunded by decree of the Tax Inspector.

Examples of items for which input tax is non-deductible

- Input TOT due on services to a manufacturer with services that are not directly related to the production of taxable goods by this manufacturer in Suriname.

Examples of items for which input tax is deductible

- Input TOT due on the delivery of raw materials to a manufacturer with raw materials that are used by this manufacturer in Suriname for the production of taxable goods.

Partial exemption. TOT is only deductible when directly related to the production of taxable goods so partial exemption does not apply.

Refunds. Under certain conditions, refunds of TOT paid with regard to the delivery of goods can be granted to a resident entrepreneur in the event that such entrepreneur is in a disadvantageous competitive position.

Preregistration costs. TOT incurred prior to registration should be deductible.

G. Recovery of TOT by non-established businesses

Recovery of TOT by non-established businesses is not possible.

H. Invoicing

Invoices and credit notes. A taxable entrepreneur must issue invoices that are dated and numbered for all taxable delivery of goods and services. Taxable entrepreneurs must retain a copy of their invoices for 10 years.

The invoices, which contain the TOT due, must be issued within 15 days after the end of the month in which the goods are delivered or in which the services are provided.

No special regulation is included in the Suriname TOT legislation with regard to the issuance of a TOT credit note.

Foreign-currency invoices. Upon request of the entrepreneur, invoices can be issued in foreign currency.

Electronic invoices. No special regulation is included in the Suriname TOT legislation with regard to the issuance of electronic invoices.

Proof of export. There is no special regulation included in the Suriname TOT legislation with regard to invoices in case of export.

I. TOT returns and payment

TOT returns. TOT returns are generally submitted for monthly periods. Returns must be filed and TOT due must be remitted before the 16th day of the month following the end of the reporting period. The TOT due for the period must be remitted together with the return.

Special schemes. Special TOT regulations may apply for companies in the oil and gas sector.

Electronic filing and archiving. Electronic filing of TOT returns is not possible. No special regulation is included in the Suriname TOT legislation with regard to electronic archiving.

Annual returns. The possibility of an annual TOT return is not included in the Suriname TOT legislation.

J. Penalties

TOT penalties are assessed for the late submission of a TOT return or for the late payment of TOT due in the following amounts:

- For the late submission of a TOT return, the fine can vary between SRD10 and SRD1,000.
- For the late payment of TOT due, the penalty can vary between SRD10 and SRD1,000.
- If the late payment is caused by negligence or intent, penalties ranging from 5% to 100% of the outstanding TOT due may be imposed.

Criminal penalties may also apply in certain circumstances.

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A. At a glance

Name of the tax	Value-added tax (VAT)
Local name	Mervärdesskatt (Moms)
Date introduced	1 January 1969
Trading bloc membership	European Union (EU) member state
Administered by	Ministry of Finance (http://www.sweden.gov.se/sb/d/2062)

VAT rates	
Standard	25%
Reduced	6% and 12%
Other	Exempt and exempt with credit
VAT number format	SE 5 5 6 1 2 3 1 2 3 4 0 1
VAT return periods	Monthly (if turnover exceeds Swedish kronor [SEK] 40 million) Quarterly (with the possibility to opt for monthly) Annually (if turnover is below SEK1 million)
Thresholds	
Registration	SEK30,000
Distance selling	SEK320,000
Intra-Community acquisitions (for exempt taxable persons)	SEK90,000
Recovery of VAT by non-established businesses	Yes

B. Scope of the tax

VAT applies to the following transactions:
- The supply of goods or services made in Sweden by a taxable person
- The intra-Community acquisition of goods from another EU Member State by a taxable person
- Reverse-charge services received by a taxable person in Sweden
- The importation of goods from outside the EU, regardless of the status of the importer

C. Who is liable

A taxable person is an individual or business entity that makes taxable supplies of goods or services, intra-Community acquisitions or distance sales in the course of a business in Sweden.

A domestic reverse charge applies to construction services that a company provides to a construction company, to emission allowances that a company sells to a VAT-registered purchaser, and to certain waste and scrap metals when supplied to a VAT-registered purchaser. This rule also applies to foreign traders that sell or purchase goods or services.

A VAT registration threshold of SEK30,000 applies in Sweden. If a taxable person exceeds transactions subject to VAT of SEK30,000 annually, it must notify the VAT agency of its liability to register. Any taxable persons conducting business transactions that have not yet exceeded the threshold for the fiscal year are not liable to report and pay VAT for those transactions unless registered for VAT. Taxable persons whose annual turnover subject to VAT does not exceed the threshold may opt to register for and pay VAT.

Special rules apply to foreign or "non-established businesses."

Group registration. Companies in the financial sector as well as companies in "an agency relationship" for income tax purposes may form a VAT group. If a VAT group is formed, the group is liable for tax if it engages in business that implies tax liability.

Only entities with a fixed establishment in Sweden may be part of a Swedish VAT group. A VAT group consists of taxable persons that are closely connected to each other "financially, economically and organizationally." All three of these requirements must be satisfied. The following are the applicable rules:
- A "financial link" exists between two companies if one company holds more than 50% of the votes in the other.

- An "economic link" exists if the companies continually exchange goods or services.
- An "organizational link" exists if the group members have some joint administrative functions, such as joint management or joint marketing.

Non-established businesses. A non-established business that makes supplies of goods or services in Sweden must register for VAT if it is liable to account for Swedish VAT on the supply or if it makes intra-Community supplies or acquisitions of goods.

A domestic reverse charge generally applies to supplies made by non-established businesses to VAT-registered persons in Sweden. Under this measure, the taxable person that receives the supply must account for the Swedish VAT due. If the reverse charge applies, the non-established business is not required to register for Swedish VAT. The reverse charge does not apply to the transport of persons, cultural services or supplies made to private persons or nontaxable legal persons.

Consequently, non-established businesses must register for Swedish VAT if they make any of the following supplies:
- Intra-Community supplies or acquisitions (see the chapter on the EU)
- Distance sales in excess of the threshold (see the chapter on the EU)
- Supplies of goods and services that are not subject to the domestic reverse charge

Businesses that are established in the EU are not required to appoint a tax representative to register for VAT in Sweden. However, EU businesses may opt to appoint a tax representative. This measure also applies to businesses established in any non-EU country that has mutual assistance provisions with the EU or with Sweden.

Businesses that are established outside the EU must generally appoint a resident tax representative to register for Swedish VAT. A tax representative is not jointly liable for VAT debts with the business that it represents.

Registration procedures. The most effective way to register is online at https://www.verksamt.se/en/web/international/home. A Swedish electronic identification is required to use the online service. Otherwise, fill out the hard copy SKV 4620. Non-established taxable persons use form SKV 4632, application for foreign entrepreneurs.

The Swedish Tax Agency's website provides a how-to guide, application forms to fill out and other necessary information. The site is also available in English. See www.skatteverket.se. The how-to guide is under the "Employers, Businesses and Corporations" heading and more information is available under the "Tax Information" and "VAT Information" headings.

Normally, it takes between three and six weeks to register for VAT.

Late-registration penalties. No specific penalty is assessed for late registration. However, interest is charged on any VAT paid late as a result of late registration.

Tax representatives. For information about representatives for non-established businesses, see above.

Reverse charge. The reverse charge applies to foreign companies without a permanent establishment in Sweden supplying goods stored in Sweden to taxable persons. The domestic reverse charge applies for supply of construction and building services to other taxable persons selling construction and building services more than occasionally, trading with emission licenses, gold and other specific metals and scrap metal.

Digital economy. Special rules apply to the place of supply for supplies of telecommunications, broadcasting and electronic services to non-VAT taxable customers. For further details of the VAT rules on electronic services in the EU, please refer to the European Union chapter.

Mini One-Stop Shop. Taxable persons who provide electronic services, telecom applications, telecom services and broadcasting services to consumers or other nontaxable persons in another member state are reporting VAT to the state where the buyer is domiciled.

To make it easier for taxable persons to report VAT to different member states one can use the e-application MOSS (Mini One-Stop Shop). Suppliers report the VAT to this e-service, which automatically registers the information with the Swedish Tax Agency and transfers the right amount of VAT to the different Member States. With MOSS suppliers report VAT through one declaration and not to each country where they have customers.

To use this service suppliers must be registered for Swedish VAT and have a Swedish electronic identification. That enables them to sign in to MOSS through e-services at www.skatteverket.se and then receive a request for application to the MOSS service.

Deregistration. To deregister from VAT, the most effective way is to do it online at www.verksamt.se. A Swedish electronic identification is needed to gain access. If you do not have an electronic identification, use form SKV 4639 and send it to the address printed on the form. Foreign entrepreneurs must often use hard copies, since they do not have Swedish electronic identification.

Exemption from registration. Taxable persons that only make supplies that are exempt from VAT (i.e., supplies that are zero-rated) are not required to register for VAT.

Voluntary registration. A taxable person that is not required to register for VAT as a result of its turnover being below SEK30,000 can still choose to voluntarily register for VAT. If a taxable person does choose to voluntarily register for VAT, it cannot change this decision until at least two years have passed since the end of the business year during which the taxable person was registered for VAT.

D. VAT rates

The term "taxable supplies" refers to supplies of goods and services that are liable to a rate of VAT.

The VAT rates are:
- Standard rate: 25%
- Reduced rates: 6% and 12%

The standard rate of VAT applies to all supplies of goods or services, unless a specific measure provides for a reduced rate or an exemption.

Examples of goods and services taxable at 6%

- Books and newspapers
- Copyrights and artistic rights
- Cultural services (apart from cinema services, which are taxed at the standard rate)
- Passenger transport

Examples of goods and services taxable at 12%

- Foodstuffs
- Hotel accommodation
- Restaurant and catering services
- Reparation of bicycles, shoes, leather goods, clothing and household textiles

The term "exempt supplies" refers to supplies of goods and services that are not liable to tax and that do not give rise to a right of input tax deduction (see Section F). Some supplies are classified as "exempt with credit," which means that no VAT is chargeable, but the supplier may recover related input tax. Exempt with credit supplies include exports of goods and related services, as

well as supplies of intangible services made either to another taxable person established in the EU or to any recipient outside the EU (see the chapter on the EU).

Examples of exempt supplies of goods and services

- Immovable property
- Medical services
- Finance
- Insurance
- Pharmaceutical supplies (exempt with credit)

Option to tax for exempt supplies. Renting property or premises is an exempt service, but the supplier has the option to treat it as taxable when renting to taxable persons. Suppliers can choose the option to tax by issuing an invoice with VAT.

E. Time of supply

The time when VAT becomes due is called the "time of supply" or "tax point." The basic time of supply for goods is when the goods are delivered. The basic time of supply for services is when the service is completed. If the consideration is paid in full or in part before the goods are delivered or the services provided, the actual tax point becomes the date on which payment is received (but the tax point only applies for the amount paid).

Prepayments. For prepayments or advance payments, the tax point is the date on which the advance payment is received.

Intra-Community acquisitions. The time of supply for intra-Community acquisitions of goods is the same as the time of supply for domestic supplies.

Intra-Community supplies. An invoice must be issued for an intra-Community supply at the latest on the 15th day of the month following the supply.

Imported goods. The time of supply for imported goods is when the import takes place.

Reverse charge. The time of supply for goods or services subject to the reverse charge is the earlier of the date of delivery or the date on which payment is received.

Cash accounting. Sweden operates a cash accounting scheme with a threshold of EUR350,000.

Continuous supplies of services. The VAT law in Sweden does not contain any specific time of supply rules for continuous supplies of services.

Leased assets. Depends if it is a prepayment or not, see above.

Goods sent on approval for sale or return. The VAT law in Sweden does not contain any specific time of supply rule for goods sent on approval for sale or return.

F. Recovery of VAT by taxable persons

A taxable person may recover input tax, which is VAT charged on goods and services supplied to it for business purposes. A taxable person generally recovers input tax by deducting it from output tax, which is VAT charged on supplies made.

Input tax includes VAT charged on goods and services supplied in Sweden, VAT paid on imports of goods and VAT self-assessed on intra-Community acquisitions of goods and reverse-charge services (see the chapter on the EU).

A valid tax invoice or customs document must generally support a claim for input tax.

Nondeductible input tax. Input tax may not be recovered on purchases of goods and services that are not used for business purposes (for example, goods acquired for private use by an entrepreneur). In addition, input tax may not be recovered for some items of business expenditure.

Examples of items for which input tax is nondeductible

- Purchases of cars
- Business entertainment (in excess of the allowable expense limits)
- Private expenditure

Examples of items for which input tax is deductible (if related to a taxable business use)

- Purchase, lease, maintenance and fuel for vans with a weight exceeding 3,500 kg and trucks
- Maintenance and fuel for cars and 50% lease of a car used for business (1,000 km a year)
- Conferences, seminars and training courses
- Advertising
- Business use of a mobile phone
- Hotel accommodation (excluding restaurant expenses)
- Restaurant expenses (SEK300 per person and occasionally alcohol included)
- Business entertainment (SEK180 exclusive of VAT)
- Business gifts (with a value of SEK180 or less exclusive of VAT and valued less than SEK225 inclusive of VAT)

Partial exemption. Input tax directly related to exempt supplies is not generally recoverable. If a Swedish taxable person makes both exempt and taxable supplies, it may not recover input tax in full. This situation is referred to as "partial exemption." "Exempt-with-credit supplies" do not create any partial exemption, as these supplies are treated as taxable supplies for these purposes.

The amount of input tax that a partially exempt business may recover is generally calculated in the following two stages:

- The first stage identifies the input VAT that may be directly allocated to taxable and to exempt supplies. Input tax directly allocated to taxable supplies is deductible, while input tax directly related to exempt supplies is not deductible.
- The remaining input tax that is not allocated directly to exempt and taxable supplies is then apportioned based on the value of taxable supplies compared with total turnover, or it is apportioned by another reasonable method. If turnover is used to calculate the recoverable amount, the recovery percentage can be rounded up to the nearest whole number.

Capital goods. Capital goods are items of capital expenditure that are used in a business over several years. Input tax is deducted in the VAT year in which the goods are acquired. The amount of input tax recovered depends on the taxable person's partial exemption recovery position in the VAT year of acquisition. However, the amount of input tax recovered for capital goods must be adjusted over time if the taxable person's partial exemption recovery percentage changes in any year during the adjustment period or if goods are taken from a taxable sector or activity for use in an exempt sector or activity, or vice versa.

The capital goods adjustment applies to the following assets for the number of years indicated:

- Investments made on immovable property after 1 January 2001 that cost more than SEK400,000 exclusive of VAT: adjusted for a period of 10 years
- Machinery and equipment that cost more than SEK200,000 exclusive of VAT: adjusted for a period of five years

The adjustment is applied each year following the year of acquisition to a fraction of the total input tax (1/10 for immovable property and 1/5 for machinery and equipment). The adjustment may result in either an increase or a decrease of deductible input VAT, depending on whether the

ratio of taxable supplies made by the business has increased or decreased compared with the year in which the capital goods were acquired.

Refunds. If the amount of input VAT recoverable in a month exceeds the amount of output VAT payable, the taxable person has an input tax credit. A refund of the credit is triggered automatically by the submission of the VAT return.

Preregistration costs. Input VAT on preregistration costs give a right to deduction if connected to a business taxable for VAT. However, the taxable person has the burden of proof showing that the costs are related to the taxable business.

Write-off of bad debts. You are entitled to adjust your output VAT when a bad debt occurs. The reduction should be adjusted in the same period as the bad debt loss is confirmed. The bad debt loss is confirmed when the customer is bankrupt or when a debt collector has been used engaged and established that the customer does not have any assets. From a VAT perspective, it is not enough to just send reminders to the customer.

Noneconomic activities. The input VAT needs to be connected and have a direct link to taxable business activities, to be deductible. The right to deduction is dependent on, and connected to, the meaning of "supplies." Supplies mean providing services or goods in exchange for some sort of compensation. The compensation needs to have a direct connection to the supplied goods or services and be determined at the latest time for deliverance.

There are some court cases stating that you are not considered performing taxable activities if you supply services or goods without issuing any invoices.

G. Recovery of VAT by non-established businesses

Sweden refunds VAT incurred by businesses that are neither established nor registered for VAT in Sweden. Non-established businesses may claim a refund of Swedish VAT to the same extent as VAT-registered businesses.

A refund is made to businesses established in the EU under the terms of EU Directive 2008/9. For businesses established outside the EU, a refund is made under the terms of the EU 13th Directive. Sweden does not exclude claimants from any non-EU country.

For the general VAT refund rules under EU Directive 2008/9 and the EU 13th Directive, see the chapter on the EU.

For businesses established outside the EU, the deadline for refund claims is 30 June of the year following the calendar year in which the tax is incurred. For businesses established in the EU, the deadline is 30 September.

Claims may be submitted in Swedish, English, French or German. Applications for refund from businesses established outside the EU must be accompanied by the appropriate documentation (see the chapter on the EU).

Businesses established in the EU may not make an application for a refund on paper to the Swedish tax authority. Instead, they must submit the application electronically to the tax authority where they are established.

The minimum claim period is three months, while the maximum period is one year. The minimum period of three months does not apply to a period ending at the end of a calendar year. The minimum claim for a period of less than a year but of at least three months is SEK4,000, and the minimum amount for an annual claim or for the remainder of a calendar year is SEK500.

The following is the address for applicants from Albania, Austria, Bosnia-Herzegovina, Bulgaria, Croatia, Denmark, the Faroe Islands, France, Germany, Greenland, Hungary, Iceland, Italy, Kosovo, Macedonia, Montenegro, Poland, Portugal, Romania, Serbia, Slovakia, Slovenia, Spain and Turkey:

Skatteverket
Utlandsskattekontoret
SE-205 31 Malmö
Sweden

The following is the address for applicants from other countries:

Skatteverket
Utlandsskattekontoret
SE-106 61 Stockholm
Sweden

Applicants from EU Member States apply for refunds through their respective domestic tax authority.

Repayment interest. The average handling period in Sweden for refund claims under the EU 13th Directive is two to three months, and the time limit is six months. However, interest is not paid on late repayments. The time limit for the tax authority to deal with refund applications from businesses established within the EU is four months. If a claim for refund is granted, but repaid after this time limit, interest is paid. This rule applies if the applicant has complied with any requests for extra information from the tax authority within the time limit.

H. Invoicing

VAT invoices and credit notes. A Swedish business must generally issue VAT invoices for all supplies made to other businesses or legal persons. Invoices are not required for retail transactions with private persons.

A VAT invoice containing the information required by the VAT act is necessary to support a claim for input tax deduction or a refund for foreign businesses (see the chapter on the EU).

Credit notes may be issued in the following circumstances:
- They may be used to correct genuine errors or overcharges.
- They may be issued following the cancellation of a supply.
- They may give effect to a bonus or discount.
- They may be issued as a result of the renegotiation of consideration for a supply.

A credit note must show an unambiguous reference to the original invoice and the reduction in value and VAT on the supply.

Electronic invoicing. Electronic invoicing is permitted in Sweden, in line with EU Directive 2010/45/EU.

Proof of exports and intra-Community supplies. VAT is not chargeable on exported goods or on intra-Community supplies of goods (see the chapter on the EU). However, to qualify as exports and intra-Community supplies, the export or supply must be supported by evidence confirming that the goods have left Sweden. Acceptable proof includes the following documentation:
- For an export, the stamped customs documentation and commercial documentation (such as bill of lading, copy of the invoice, delivery note and proof of payment)
- For an intra-Community supply, a copy of the invoice indicating the customer's valid VAT identification number (issued by another EU member state), plus a range of commercial documentation (such as bill of lading, transport documentation, proof of payment and proof of receipt)

The Swedish courts have ruled that the supplier of goods has the burden to prove that the goods have actually left Sweden.

Foreign-currency invoices. Swedish taxable persons may maintain their accounts in either EUR or SEK. If a VAT invoice is issued in a different currency, the values for VAT purposes and the VAT amounts must be converted to EUR or SEK.

B2C. Suppliers are not required to issue invoices to private consumers according to Swedish regulation regarding supply of electronic services.

I. VAT returns and payment

VAT returns. Periodic VAT returns are submitted in Sweden for monthly, quarterly or yearly periods, depending on the taxable person's turnover.

VAT liabilities are normally reported on the same tax return form as payroll taxes and employee income tax amounts withheld by employers. Monthly VAT returns must be filed if the taxable person's turnover exceeds SEK40 million. Otherwise quarterly reporting may apply. However, a taxable person may opt to file monthly. A yearly reporting period applies for taxable persons whose turnover is less than SEK1 million per year.

VAT returns must be filed with full payment of VAT. Monthly VAT returns generally must be submitted by the 26th day of the month after the end of the reporting period. Quarterly VAT returns must be submitted by the 12th day of the second month after the end of the reporting period. The same rules apply to taxable persons that have yearly turnover of less than SEK40 million and that apply for monthly VAT returns. Taxable persons whose turnover exceeds SEK40 million must file monthly returns by the 26th day of the month following the return period.

Returns must be completed and return liabilities must be paid in SEK.

Special schemes. Not applicable. There are no special schemes available in Sweden.

Electronic filing and archiving. Taxpayers are obliged to file invoices and other bookkeeping for seven years after the financial year. This includes both invoices for input and output VAT. The invoices should be stored in the same format as they have been received or issued.

If the invoices are being filed electronically other tax authorities from other member states can demand access to them for control purposes. They are allowed access if the Swedish Tax Agency would have been allowed access.

Annual returns. If your turnover is less than SEK1 million, you can choose to submit VAT returns annually.

J. Penalties

A penalty of SEK625 is imposed for late filing of a VAT return. The penalty is increased to SEK1,250 if the Tax Agency has ordered the VAT return to be submitted. Late payment of VAT results in the imposition of an interest penalty. The interest consists of base interest plus 15%. The base interest is 1.25% as of 1 January 2013.

K. EU filings

Intrastat. A Swedish taxable person that trades with other EU countries must complete statistical reports, known as Intrastat, if the value of its annual sales or purchases of goods exceeds certain thresholds. Separate reports are required for intra-Community acquisitions (Intrastat Arrivals) and for intra-Community supplies (Intrastat Dispatches).

The threshold for Intrastat Arrivals is SEK9 million. The threshold for dispatches is SEK4.5 million.

The Intrastat reporting period is monthly. The submission deadline is normally between the 10th and 15th day following the reporting period for paper returns and between the 13th and 18th day for electronic returns.

Intrastat reports must be filed in SEK.

In principle, penalties may be imposed for late filing of Intrastat reports or for errors or omissions. However, penalties are rarely imposed. If a penalty is assessed, the courts take several factors into consideration (such as the size of the business and its turnover) in determining the amount owed.

EU Sales Lists. If a Swedish taxable person makes intra-Community supplies in any return period, it must submit an EU Sales List (ESL). An ESL is not required for any period in which the taxable person has not made any intra-Community supplies.

ESLs must be submitted monthly with respect to goods. An ESL regarding supplies of services must be submitted quarterly. However, if a business supplies both goods and services, the reporting must be in accordance with the rules regarding goods. Taxable persons may apply to make quarterly submissions if the total amount of supplies and transfers of goods does not exceed SEK1 million for the current quarter as well as for the preceding four quarters. The due date is the 20th day of the month following the end of the ESL return period for paper ESLs and the 25th day for electronic ESLs.

ESL reports must be filed using amounts expressed in SEK.

A penalty of SEK1,000 is imposed for late, missing or inaccurate ESLs.

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A. At a glance

Name of the tax	Value-added tax (VAT)

Local names	Mehrwertsteuer (MWST) Taxe sur la valeur ajoutée (TVA) Imposta sul valore aggiunto (IVA)
Date introduced	1 January 1995
Trading bloc membership	European Free Trade Association (EFTA)
Administered by	Federal Tax Administration (https://www.estv.admin.ch/ estv/en/ home.html)
VAT rates	
Standard	7.7%
Reduced and special	2.5% and 3.7%
Other	Zero-rated and exempt
VAT number format	CHE-123.456.789 MWST
VAT return periods	Quarterly Biannually (if the taxable person has applied to use the net tax rate method) Monthly (optional if excess of input over output VAT occurs regularly)
Thresholds	
Registration	CHF100,000, global turnover (however, voluntary registration is possible)
Recovery of VAT by non-established businesses	Yes (with the observance of the reciprocity rule)

B. Scope of the tax

VAT applies to the following transactions:

- The supply of goods or services made in Switzerland for consideration by a taxable person. In this context, it should be noted that Swiss VAT regulation follows a rather broad definition of "supplies of goods" including, e.g., sale of energy (gas, oil, electricity), lease agreements, work performed on goods, even if the goods are not altered by the work but only tested, calibrated, regulated, programmed, checked for their function, etc. Suppliers domiciled abroad that are obliged to be VAT registered in Switzerland must account for the Swiss VAT related to taxable supplies performed in Switzerland.
- The receipt of reverse-charge services or, in some cases, work on immovable goods by any person in Switzerland who purchases the items from an entity that is established outside Switzerland and that is not registered for VAT in Switzerland (services and work on immovable goods for which the recipient is liable for the VAT due). Services and work on immovable goods purchased by nontaxable persons are not subject to the reverse charge if the amount due to the foreign supplier does not exceed CHF10,000 per calendar year.
- The importation of goods from outside Switzerland and Liechtenstein, regardless of the status of the importer.

Liechtenstein is considered to be the domestic territory for Swiss VAT purposes. Likewise, Switzerland is considered to be part of the territory of Liechtenstein for the purposes of VAT in Liechtenstein.

C. Who is liable

A taxable person is any person who, regardless of the legal form, purpose or result, carries out a business in Switzerland. Carrying out the business involves the independent exercising of

professional or commercial activities together with the intention to execute regular transactions and acting externally in one's name.

Group registration. Legal entities with their seat in Switzerland or commercial units in Switzerland can form a VAT group if they are related as a result of "joint supervision." The group may include Swiss branches of foreign entities, to the extent that the foreign entities are under the same "joint supervision" as the other VAT group members. Although Liechtenstein is considered to be domestic territory for Swiss VAT purposes (and vice versa), it is not possible to form a VAT group that includes both Swiss and Liechtenstein entities.

The tax group must appoint a tax representative who will deal with the VAT-related proceedings of the group. The minimum period for which the tax group can exist is one year.

VAT group members are treated as a single taxable person with a single VAT number.

The following are the significant aspects of grouping:
- The VAT group submits a single, consolidated VAT return for all of its members.
- VAT is not chargeable on transactions between group members.
- All VAT group members are jointly and severally liable for the group's VAT liabilities.

Non-established businesses. A "non-established business" is a business that does not have a legal seat or fixed establishment in the territory of Switzerland. A non-established business that makes supplies of goods or services in Switzerland must register for VAT if it is liable to account for Swiss VAT on the supplies.

A foreign business making any local supply of goods or services in Switzerland that are not subject to reverse charge in Switzerland (e.g., a foreign supplier of B2C digital services) becomes liable for Swiss VAT if its global turnover exceeds the CHF100,000 thresold. This results in an obligation for any non-established business with a global turnover of more than CHF100,000 annually, to register for Swiss VAT from the first franc of taxable turnover generated in Switzerland (whereas a Swiss-established business is obliged to register for Swiss VAT only once the threshold of CHF100,000 is reached).

As of 2019 onward, non-established entities supplying low-value goods to Swiss customers for a total of CHF100,000 or more annually need to register for Swiss VAT, import the goods and charge Swiss VAT on the sale to Swiss customers.

Tax representatives. A non-established business (see *Non-established businesses*) must appoint a tax representative if it supplies goods or services subject to Swiss VAT.

Reverse charge. The reverse-charge mechanism applies to the following situations:
- A Swiss recipient receives services from a supplier domiciled abroad who is not registered for Swiss VAT, and the place of supply is in Switzerland (place of supply in the customer country). Exceptions apply for telecommunication or electronic services to nontaxable recipients.
- Data carriers without market value are imported into Switzerland, and certain services and rights are associated with these data carriers.
- Work on immovable goods located in Switzerland is provided by a business established abroad and not registered for Swiss VAT purposes, and the supply has not been subject to import VAT.
- A supply of electricity power in cables, natural gas via the natural gas distribution grid and district heat by a business that is established abroad and not VAT registered in Switzerland to a taxable recipient in Switzerland.

A Swiss recipient is liable for the settlement of VAT under the reverse-charge mechanism if the recipient is a taxable person or if the value of the supplies received exceeds CHF10,000 per calendar year.

The place of supply for most supplies of services is the customer's country (fallback rule). In the circumstances described above, the customer must account for VAT under the reverse-charge procedure. However, some exceptions exist. These exceptions, for which additional consideration regarding the place-of-supply rules needs to be made, include the following:

- Services that require the physical presence of the customer, who is a natural person, at the place where these services are provided (for example, beauty or curative therapies and treatments, family advisory and child care), even if exceptionally supplied from a distance
- Services of travel agents and event organizers
- Services in the fields of culture, art, sport, science, education or entertainment, and similar services including the activities of organizers and related activities
- Restaurant services
- Passenger transport services
- Services related to immovable property (for example, intermediation, administration, valuation, services in connection with the preparation and coordination of construction works such as architectural, engineering and supervising services and land and building monitoring, and accommodation services)
- Services in the field of international development and humanitarian aid

The rule providing that the place of supply is the domicile of the recipient applies to supplies of electricity power or natural gasoline in pipes, even though those supplies are treated as supplies of goods and not services.

The reverse-charge mechanism applies to electronic services, supplies of electricity power in cables, natural gas via the natural gas distribution grid and district heat and telecommunication services only if the Swiss service recipient is a VAT-registered business. Consequently, foreign businesses that provide electronic supplies of services to persons who are not registered for VAT must register for VAT in Switzerland and charge Swiss VAT if their turnover exceeds the annual threshold of CHF100,000. For all other services, the reverse-charge mechanism applies regardless of whether the recipient of the services is registered for VAT. If a supplier is registered for Swiss VAT purposes, the reverse charge no longer applies and VAT must be charged on all taxable services supplied to Swiss recipients.

Supplies that are VAT exempt with or without credit are not subject to the reverse charge.

Registration procedures. Businesses that intend to register for Swiss VAT need to file an application with the Swiss federal tax authorities. The application must be filed electronically via the Swiss federal tax authorities' webpage, available in German, French and Italian at https://www.estv.admin.ch/estv/en/home/mehrwertsteuer/dienstleistungen/formulare-online/anmeldung-beider-mwst.html. On average, the application procedure takes about two weeks.

Late-registration penalties. Taxable persons should be registered with the federal tax administration in writing within 30 days after the commencement of their tax liability or 60 days for persons who become taxable solely because of the acquisition tax. A penalty may be levied for late VAT registration. In the case of tax evasion, fines of up to CHF800,000 may be charged. The amount of the fine varies depending on the circumstances.

Digital economy. Foreign businesses that provide electronic supplies of services to persons domiciled in Switzerland who are not registered for VAT must register for VAT in Switzerland and charge Swiss VAT if their worldwide turnover exceeds the annual threshold of CHF100,000.

Deregistration. Taxable persons are required to notify the Swiss federal tax authorities in writing within 30 days after ceasing their entrepreneurial activities in Switzerland or with concluding the liquidation procedure at the latest.

Exemption from registration. An exemption from the liability to register for VAT applies to any person who:
- Generates a worldwide annual turnover from taxable supplies of less than CHF100,000
- Carries on a business based abroad that exclusively makes supplies in the Swiss territory that are VAT exempt with credit and/or supplies of services with its place of supply in Switzerland but subject to the reverse charge in Switzerland
- Provides supplies of electricity power in cables, natural gas via the natural gas distribution grid and district heat by a business to a taxable recipient in Switzerland

Voluntary registration. Any person who carries on a business and is exempt from the liability to register (tax liability) has the right to waive exemption from the tax liability, provided that it has an establishment or a taxable activity in Switzerland. Exemption from tax liability must be waived for at least one tax period.

D. VAT rates

The term "taxable supplies" refers to supplies of goods and services that are liable to VAT at any rate.

The VAT rates are:
- Standard rate: 7.7%
- Reduced rate: 2.5%
- Special rate of 3.7% (for hotel accommodation)

The standard VAT rate applies to all supplies of goods or services, unless a specific measure provides for a reduced rate or an exemption.

Examples of goods and services taxable at 2.5%
- (e-)Books, (e-)newspapers and (e-)magazines
- Food and drinks (except provided by hotels and restaurants)
- Drugs
- Water in pipes

Examples of goods and services taxable at 3.8%
- Hotel accommodation, including breakfast

The term "tax-exempt without credit" refers to supplies of goods and services that are not liable to tax and that do not give rise to a right of input tax deduction (see Section F). Some supplies are classified as tax exempt with credit (zero-rated), which means that no VAT is chargeable, but the supplier may recover the related input tax.

Examples of tax-exempt without credit supplies
- Health care (in some cases; unless opted for taxation)
- Financial services
- Insurance
- Education (unless opted for taxation)
- Real estate (unless opted for taxation)

Examples of tax-exempt with credit supplies
- Exports of goods and services
- Supplies of certain goods and services to airlines
- Services with the place of supply abroad
- Supplies of investment gold (effective 1 January 2014, the scope of the term "investment gold" has been broadened and is not limited to specific forms of investment gold)

Option to tax for exempt supplies. Certain supplies of goods and services may be voluntarily subjected to tax by openly charging VAT on the invoice (option), e.g., certain health care, educational and cultural services as well as renting or leasing of immovable property. However, restrictions may apply and the right to opt should be reviewed on a by-case basis.

E. Time of supply

The time when VAT becomes due is called the "time of supply" or the "tax point." In Switzerland, taxable turnover must be declared for the VAT quarter (or VAT month, if monthly declarations are filed) in which the sales invoice for a supply is issued or in which payment is received (if no invoice is issued). If the declaration is made on a cash basis, the turnover must be declared for the quarter in which payment is collected.

Prepayments. The tax point for a prepayment is when the supplier receives the consideration or when the invoice is issued, whichever is earlier.

Reverse charge. The tax point for reverse-charge services for a taxable person is when the invoice is received or when the service fee is paid. In all other situations, including declarations made on a cash basis, the effective payment date is decisive.

Imported goods. The time of supply for imported goods is the official date of importation.

Goods sent on approval for sale or return. There are no special time of supply rules in Switzerland for supplies of goods sent on approval for sale or return. As such, the general time of supply rules apply (as outlined above).

Leased assets. There are no special time of supply rules in Switzerland for supplies of leased assets. As such, the general time of supply rules apply (as outlined above).

Continuous supplies. There are no special time of supply rules in Switzerland for continuous supplies. As such, the general time of supply rules apply (as outlined above). However, exceptions apply when the VAT rates change, and then specific transitional rules would apply.

F. Recovery of VAT by taxable persons

A taxable person may recover input tax, which is VAT on purchases, to the extent that the purchases of goods and services are related to taxable supplies, including tax-exempt supplies with credit and supplies rendered outside Switzerland or Liechtenstein that would be taxable if rendered domestically. A taxable person generally recovers input tax by deducting it from output tax, which is VAT charged on supplies made.

Input tax includes VAT charged on goods and services supplied in Switzerland and Liechtenstein, VAT paid on imports of goods and VAT self-assessed on reverse-charge supplies.

According to a recommendation of the Swiss VAT authorities, a valid tax invoice or customs document and proof that the input VAT was paid should support a claim for input tax.

Nondeductible input tax. Input tax may not be recovered on purchases of goods and services that are not used for taxable business purposes (for example, goods acquired for private use by an entrepreneur).

Examples of items for which input tax is nondeductible

- Private expenditure

Examples of items for which input tax is deductible (if related to a taxable business use)

- Purchase, hire, lease, maintenance and fuel for cars, vans and trucks (output tax is due on the private use of company cars)
- Parking

- Conferences, seminars and training courses
- Books
- Business use of home telephone (output tax is due on the private element)
- Advertising
- Transport
- Hotel accommodation
- Business gifts (subject to restrictions; output tax may be due)

Partial exemption. Input tax directly related to making tax-exempt supplies without credit is generally not recoverable. If a Swiss taxable person makes both tax-exempt supplies without credit and taxable supplies, it may not recover input tax in full. This situation is referred to as "partial exemption."

The amount of input tax that a partially exempt business can recover may be calculated using the following two-stage calculation:

- The first stage identifies the input VAT that can be directly allocated to taxable or to tax-exempt supplies without credit. Input tax directly allocated to taxable supplies is deductible, while input tax directly related to tax-exempt supplies without credit is not deductible. Tax-exempt supplies with credit are treated as taxable supplies for these purposes.
- The next stage identifies the amount of the remaining input tax (for example, input tax on general business overheads) that can be partially recovered. The calculation of the recoverable portion can be performed using a general pro rata method based on the respective values of taxable and tax-exempt without credit supplies made. In addition to the general pro rata method, other industry-specific methods are available, such as the lump-sum method for banks.

Refunds. If the amount of input VAT recoverable in a period exceeds the amount of output VAT payable in the same period, the taxable person is entitled to a refund of the excess amount. A VAT repayment is paid automatically within 60 days after the return is received by the Swiss VAT authorities.

Preregistration costs. Not applicable.

G. Recovery of VAT by non-established businesses

Switzerland refunds VAT incurred by businesses that are neither established nor registered for VAT in Switzerland or Liechtenstein and that have not made any supplies in Switzerland or Liechtenstein.

Non-established businesses may generally claim Swiss VAT to the same extent as Swiss VAT-registered businesses. However, restrictions apply to certain types of expenditure for claimants established in certain countries.

Refunds are made on the condition of reciprocity. Repayments are currently made to claimants from the following countries.

Australia	Greece	Poland
Austria	Hong Kong	Portugal
Bahrain	Hungary	Romania
Belgium	Ireland	Saudi Arabia
Bermuda	Israel	Serbia
Bulgaria	Italy	Slovak Republic
Canada	Japan	Slovenia
Croatia	Latvia	Spain
Cyprus	Lithuania	Sweden
Czech Republic	Luxembourg	Taiwan
Denmark	Macedonia	Turkey

Estonia	Malta	United Arab
Finland	Monaco	Emirates
France	Netherlands	United Kingdom
Germany	Norway	United States

Refund application. The deadline for refund claims is 30 June following the calendar year in which the supply received was invoiced. This deadline is strictly enforced.

Claims may be submitted in French, German or Italian. The claimant must appoint a representative who is a natural person or a legal entity whose domicile or registered office is in Switzerland.

The claim period is one year. The minimum claim amount is CHF500. Erroneously paid VAT on supplies that are not subject to VAT or exempted from VAT with credit will not be refunded.

The following documentation must accompany the claim (the forms indicated below are available for download at the website of the Swiss VAT authorities):
- Completed VAT refund claim (Forms 1222 and 1223). Form 1222 identifies the Swiss tax representative that needs to be appointed to apply for the refund.
- Original VAT invoices.
- Proof of payment (if requested by the Swiss tax authorities).
- A Certificate of Taxable Status for the claimant, which is issued by the competent tax authorities in the country where the claimant is established, to prove the business status of the claimant.

Applications for refunds of Swiss VAT may be sent to the following address:

Eidgenoessische Steuerverwaltung
Hauptabteilung Mehrwertsteuer
Schwarztorstrasse 50
CH-3003 Bern
Switzerland

Repayment interest. Refunds are generally made within six months after the date of application. However, the Swiss VAT authorities pay interest on refunds made after this period if reciprocity rules are observed.

H. Invoicing

VAT invoices and corrections. A Swiss taxable person must generally provide a VAT invoice for all taxable supplies made, including exports. A VAT invoice is necessary to support a refund under the VAT refund scheme for non-established businesses.

A VAT credit or debit note may be used to correct the VAT charged and reclaimed on a supply of goods or services. These documents must be cross-referenced to the original VAT invoice.

Proof of exports. Swiss VAT is not chargeable on supplies of exported goods. However, to qualify as VAT-free, export supplies must be supported by evidence that the goods have left Switzerland. Acceptable proof includes the officially validated customs documentation.

Foreign-currency invoices. If a Swiss VAT invoice is issued in a currency other than Swiss francs (CHF), the amounts must be converted into Swiss francs, using the appropriate exchange rates published by the federal tax administration, which are available on its website (monthly or daily rates are available). If no clear tax advantage is gained, the use of a group exchange rate may be allowed.

Electronic invoicing. Electronic invoicing is permitted. However, data and information transmitted and stored electronically that are relevant for claiming input tax, or levying or collecting tax, have

to meet the following requirements in order to be of the same evidential value as data and information readable without auxiliary means:
• Proof of origin
• Proof of integrity
• Dispatch not contested

These requirements can be met by applying an advanced electronic signature.

B2C. Swiss VAT law does not, in general, distinguish between B2B or B2C supplies. The only exception is in the context of supplies of electronic services and the application of the reverse-charge mechanism to those services. As such, there are no special rules for invoices issued to private consumers, and therefore full VAT invoices must be issued for all supplies.

I. VAT returns and payment

VAT returns. Swiss VAT returns are usually submitted for quarterly periods. If the taxable person has applied to be taxed under the net tax rate method (that is, the tax due is calculated by multiplying the gross total taxable turnover by the balance tax rate authorized by the Swiss tax authorities), VAT returns must be submitted on a half-yearly basis. Taxable persons with a regular excess of input over output VAT may apply to submit monthly returns. The VAT return is due, together with full payment, 60 days after the end of the VAT settlement period.

VAT liabilities must be paid in Swiss francs.

Special schemes. *Net tax rate scheme.* If a taxable person does not generate more than CHF5.020 million turnover from taxable supplies annually and in the same period does not have to pay more than CHF109,000 in VAT, calculated at the net tax rate that applies to him, he may report VAT under the net tax rate method. When using the net tax rate method, the VAT due is determined by multiplying the total of the taxable considerations, including tax, generated in the reporting period in Switzerland by the net tax rate approved by the Swiss federal tax authorities. The net tax rates take into account the input tax amounts usual in the relevant branch of the industry. They are fixed by the Swiss federal tax authorities after consultation with the industry association concerned. Authorization to report under the net tax rate method must be requested from the Swiss federal tax authorities and the method must be used for at least one tax period.

Flat tax rate scheme. In principle, the flat tax rate method is similar to the net tax rate method, but may be applied only by public authorities and related institutions, in particular private hospitals and schools or licensed transport undertakings and associations and foundations.

Margin scheme. Effective from 1 January 2018, a VAT margin scheme was introduced to supplies of works of art, antiquities and collector's items.

In general, if the taxable person has acquired collectibles such as works of art, antiques and the like, it may deduct the purchase price from the sales price in order to calculate the tax, provided that it has not deducted any input tax on the purchase price (margin tax). If the purchase price is higher than the selling price, the loss can be offset by subtracting the difference from the taxable turnover. If such collector's items are imported by the reseller, the paid import tax may be added to the buying-in price.

Electronic filing and archiving. Taxable persons can choose to file VAT returns electronically. A one-time registration is necessary (https://www.estv.admin.ch/estv/de/home/mehrwertsteuer/diestleistungen/mwst-abrechnung-online.html). However, filing electronically does not prevent a non-established business from appointing a tax representative (see *Non-established businesses*).

Data and information that are relevant for claiming input tax, or levying or collecting tax can be transmitted and archived electronically or in a similar manner. They have the same evidential

value as data and information that are readable without auxiliary means, provided the following requirements are met:
- Proof of origin
- Proof of integrity
- Dispatch not contested

Special legal provisions that require the transmission or storage of the data and information mentioned in a particular form are in place.

Annual returns. There is no requirement to file an additional annual return in Switzerland. However, if the taxable person discovers errors in his tax returns in the course of drawing up his annual accounts, it must correct them at the latest in the so-called finalization return within 180 days (plus 60 days) after the end of the relevant business year.

J. Penalties

Interest at a rate of 4% a year may be assessed for the late payment of VAT. Penalties may be also assessed for the late submission of a VAT return.

Any person who willfully or negligently reduces the tax claim to the detriment of the state by not declaring in a tax period all receipts; declaring receipts from supplies exempt from the tax that are too high; not declaring all supplies subject to reverse charge; declaring expenses entitling to an input tax deduction that are too high; obtaining an incorrect refund; or obtaining an unjustified tax abatement can be liable for a fine of up to CHF800,000. If the tax advantage obtained by the act is greater than the threatened penalty and the offense was committed willfully, the fine may be increased to a maximum of two times the tax advantage.

Taiwan

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A. At a glance

Name of the tax	Business tax (including value-added tax [VAT] and gross business receipts tax [GBRT])
Introduced	13 June 1931 (revised December 2015)
Trading bloc membership	WTO, APEC, ECFA
Administered by	Ministry of Finance (MOF)
Rates	
VAT	5%, 0% and exempt
GBRT	0.1% to 25%
VAT number format	10001111 (eight digits)
Return periods	Bimonthly
Thresholds	
Registration	None (a business entity that conducts business activities in Taiwan must register)
Recovery of VAT by non-established businesses	Yes for VAT registered e-commerce businesses.

B. Scope of the tax

Taiwan imposes business tax, which consists of VAT and GBRT.

Business tax applies to the following:
- Sale of goods in Taiwan. A transaction involving goods is a transfer of ownership of goods to others for consideration. This is not limited to goods exchanged for money. The exchange of goods for other goods is also included.
- Sale of services in Taiwan. A transaction involving services is the rendering of services to others or supplying goods for the use of others for consideration.
- Import of goods into Taiwan by individuals or companies.

Taxable persons may be subject to both VAT and GBRT. For example, a bank may be subject to VAT on its rental sales and GBRT on its interest income.

Input tax is deductible only with respect to VAT.

Exempt supplies apply to both VAT and GBRT. Zero-rated supplies apply only to VAT.

In general, both VAT and GBRT liabilities are based on the sales amount, which includes all of the consideration received from sales of goods and services, and expense reimbursements.

C. Who is liable

Taxable persons. The following persons are considered taxable persons for business tax purposes:
- Business entities that supply goods or services.
- Consignees or holders of imported goods.
- Purchasers of services supplied by foreign entities that have no fixed place of business in Taiwan. However, if a business entity purchasing services is solely engaged in the operation of goods or services that are subject to VAT in Taiwan, the business entity is not subject to business tax on its purchases of services supplied by a foreign entity.
- Foreign entities with no fixed place of business in Taiwan reach the threshold of annual sales of digital services to individual buyers in Taiwan (B2C supply of digital services).

Non-established businesses. Business tax also applies to the following taxable supplies made by nonresidents:
- Taxable sales of goods in which non-established businesses consign goods to Taiwanese entities, that sell the consigned goods on behalf of the foreign non-established businesses. A consignment agreement shall be in place in order to carry out the consignment of goods
- Taxable sales of services by foreign entities that have no fixed place of business in Taiwan to Taiwanese entities described in the third bullet in *Taxable persons*
- Taxable sales of digital services by foreign entities with no fixed place of business in Taiwan to Taiwanese individual buyers

The business tax rate is 2% for the purchase of core business-related services from foreign financial institutions that do not have a fixed place of business in Taiwan. For purchases of other services, the business tax rate is the standard rate of 5%.

However, public and private schools at any level or educational or research institutions that purchased services provided by foreign enterprises, institutions, groups or organizations that have no fixed place of business within the territory of Taiwan, for educational, research or experimental purposes are not required to pay business tax.

Representative offices. A representative office of a foreign enterprise is prohibited from engaging in revenue generation activities but may engage in certain limited activities, such as liaison and procurement services for its head office. Reimbursements from the head office to the representative office are not taxable.

Registration procedures. Applications for business tax registration shall be filed after the completion of company registration but before commencement of operation in Taiwan. In principle, the business tax registration process is done automatically by a local tax administration office of the national tax authority as soon as it receives the approved and filed basic information related to the company's registration, from the competent authority in charge of company registration. The company may need to submit additional documents if formally requested by a local tax administration office of the national tax authority.

Foreign enterprises, institutions, groups, or organizations, without a fixed place of establishment, providing e-commerce services to Taiwanese individuals are now required to register with Taiwan's tax authority. Foreign e-commerce operators will be assigned a taxpayer ID number that should be used when filing bimonthly VAT returns. The registration and VAT return filing obligations are required if the annual e-commerce sales revenue exceeds NTD480,000 (USD16,000). If the sales revenues are in currencies other than NTD, the amount should be converted to NTD

at a buying exchange rate announced by the Bank of Taiwan on the last date of the bimonthly VAT filing.

Late-registration penalties. Late business tax registrations are subject to the greater of the following penalties:
- Penalty of not less than TWD3,000 and not more than TWD30,000, which may be imposed repeatedly if the registration is not filed within the period prescribed by the tax authority
- Penalty of up to five times the amount of tax evaded

Group registration. Not applicable. Each company shall have its own VAT registration number. Two or more companies or other corporate bodies cannot register as one entity with one VAT registration number.

Reverse charge. A nonresident entity is not allowed to register the VAT number and collect VAT in Taiwan, except for the foreign entities that meet the third bullet in *Taxable persons*. In this regard, for the importation of goods, the VAT will be borne by the importer, generally the domestic purchaser. For the importation of services where the purchaser is a purely value-added business tax entity and the purchased services are used solely in conducting business in taxable goods or services, such services are exempted from the business tax.

Digital economy. On 24 April 2017, the Taiwan Ministry of Finance released amendments to the value-added and non-value-added Business Tax Act. Under the amendments, foreign suppliers selling e-commerce services to Taiwanese individual purchasers (B2C) and that have annual sales that exceed TWD480,000 must register for business (meaning business purpose, as foreign suppliers are required to register this) and pay VAT directly or indirectly through appointment of a tax-filing agent. The effective date for the amendments is 1 May 2017.

Deregistration. If there is any change to the details of a registered business, or if there is a merger, consolidation, ownership transfer, dissolution or cessation of a business entity, an application for amendment to registration or cancellation of registration must be filed with the competent tax authority within 15 days after the occurrence of such an event. An application by a business entity, for amendment to registration or cancellation of registration, may only take effect upon the payment in full of taxes, or upon the provision of security, provided, however, that this requirement shall not apply in the case of application for amendment due to merger, consolidation, increase of capital or a change in business address or scope of business.

Exemption from registration. Business entities engaged solely in the business of the sale of exempt goods or services, as provided in the list below and government entities of all levels may be exempted from applying for taxation registration.

The following goods or services may be exempted from applying for taxation registration:
- The water supplied to farmland for irrigation
- The medical services, medicine, ward lodging and meals provided by hospitals, clinics and sanitariums
- The social welfare services provided by social welfare organizations or institutions or labor organizations, duly established with permission of the competent authority, and social welfare services consigned by the government
- The education services offered by schools, kindergartens, and other educational and cultural institutions, including cultural services offered under government's consignment
- The goods or services sold by student-run shops of vocational schools that do not serve outsiders
- The proceeds from goods sold in tenders, charity sales and charity shows held by charity and relief institutions organized according to the law, provided that the total proceeds are solely used by said institutions after deducting the necessary expenditures for the tenders, charity sales and charity shows

- The goods or services sold by employee welfare organizations of government bodies, state enterprises and social organizations that are organized and operated under relevant laws and are not open to the public
- The goods or services sold by prison workshops and their finished goods stores
- Services rendered by post and telecommunication offices in accordance with the law; and business consigned under government mandate
- The service of consigned sale of stamp tax tickets and postage stamps
- The goods or services sold by peddlers or hawkers
- Feed and unprocessed raw agricultural, forestry, fishing and livestock products, and by-products; the agricultural, forestry, fishing and livestock products, and by-products of farmers' and fishermen's harvests sold by farmers and fishermen
- The fish caught and sold by fishermen
- The research services supplied by scientific or technological institutions that are established under the approval of the government
- The government at all levels

Voluntary registration. The VAT law in Taiwan does not contain any provision for voluntary VAT registration.

D. VAT and GBRT rates

The VAT rates are 5% (the standard rate) and 0%.

The following are the GBRT rates:
- 0.1% for traders in the agricultural wholesale market and small businesses supplying agricultural products
- 1% for small businesses and other business entities that are excluded by the MOF from reporting their transactions
- 1% for reinsurance premiums of insurance enterprises (5% for operations other than authorized core businesses)
- 2% or 5% on the sale of services by local financial institutions (for banking and insurance companies: generally 5%, except for certain transaction types; for the other financial institutions: 2% on their core business revenue and 5% on their non-core business revenue)
- 2% or 5% on the purchase of services from foreign financial institutions
- 15% for nightclubs or restaurants providing entertainment
- 25% for saloons or tearooms, coffee shops, and bars offering companionship (in nightclubs, customers can ask wait staff to sit aside, serve drinks, chat and sing karaoke)

Examples of zero-rated supplies

- Export of goods
- Services related to exports
- Services rendered in Taiwan but used outside Taiwan
- Sales of goods or services to taxable persons in bonded areas for the buyers' operations

Examples of exempt supplies of goods and services

- Certain essential and unprocessed foods
- Sale of lands
- Certain bonds and securities
- Sales of fixed assets that are not regularly traded by certain businesspersons subject to GBRT

Option to tax for exempt supplies. Suppliers may opt to treat the above examples of exempt supplies of goods and services as taxable.

E. Time of supply

The following are the rules for the timing of VAT liabilities:
- Goods: at the earlier of the delivery of goods or payment of the proceeds
- Services: in general, on payment of the remuneration or when service is delivered
- Continuous supplies of services: in general, on payment of the remuneration
- For imported goods: on customs declaration

In general, liability for GBRT arises on receipt of payments.

Imported goods. The holder of imported goods is liable to pay the 5% VAT at customs.

Deposits and prepayments. The VAT law in Taiwan does not contain any provision for deposits and prepayment.

Goods sent on approval for sale or return. The tax is due when the goods are sold. If the goods are returned to the seller, the seller should obtain the qualified documents (e.g., certificate of sales/purchases returns or allowances on merchandise sold) to reverse the entry and adjust the amount of tax payable.

Leased assets. The VAT law in Taiwan does not contain any provision specifically related to leased assets.

Reverse-charge services. Except for digital services for business-to-consumer (B2C) transactions, the reverse-charge mechanism applies to services and goods rendered by a foreign entity that does not have a fixed place of business in Taiwan.

The purchaser of such services shall, prior to the 15th day of the period following the period in which the payment is made, compute and pay the tax due on the supply.

In addition, VAT on such goods shall be levied by Customs at the time of importation.

Continuous supplies. The VAT law in Taiwan does not contain any provision specifically related to continuous supplies.

F. Recovery of VAT by taxable persons

Deductibility of input VAT. Input VAT is deductible in the current and next filing periods. If a taxpayer reports the input VAT after the next filing period, the taxpayer must provide the reasons in an attachment to the tax return.

Non-deductible input tax. Input VAT is not deductible if supporting documents with respect to purchased goods or services are not obtained or maintained. In addition, input VAT is not deductible if it is incurred on purchases of the following:
- Goods or services that are not used in the principal or ancillary business operations of the purchaser. However, input tax on purchases made for national defense construction, troop morale and contributions to the government is deductible.
- Goods or services for social relations purposes.
- Goods or services provided to individual employees.
- Passenger cars for personal use.

Examples of items for which input tax is deductible (if related to a taxable business use)

- Any input tax derived from the goods or services that are used in the principal or ancillary business operations of the purchaser shall be deductible, except for the above mentioned non-deductible input tax.

Capital goods. Input VAT on the acquisition of fixed assets is refundable to business entities.

Refunds. Overpaid VAT is refundable after verification by the relevant tax office if any of the following conditions are satisfied:
- The overpaid amount of VAT results from zero-rated sales.
- The overpaid amount of VAT results from the acquisition of fixed assets.
- The overpaid amount of VAT results from the cancellation of registration through a merger or consolidation, transfer of ownership, dissolution or cessation of business.
- Other special circumstances approved by the MOF exist.

Partial exemption. If a business entity applying VAT engages on a concurrent basis in the business of tax-exempt goods or services or in the business applying GBRT, the business entity is prohibited from deducting a certain part of the input tax from the output tax. The non-deductible ratio is subject to be computed according to the prescribed formula.

Preregistration costs. Input VAT borne by the business entity prior to its completion of setting up, the input VAT may be deductible.

G. Recovery of VAT by non-established businesses

Effective from 1 July 2010, a foreign non-established entity may qualify for a refund of VAT incurred on the purchases of goods and services with respect to its participation in an exhibition or its engagement in "temporary commercial events" in Taiwan if the following conditions are met:
- The input VAT reaches a minimum of TWD5,000 in a year.
- Reciprocal treatment is given by the other foreign jurisdiction under the same circumstances.

For purposes of the above rule, "temporary commercial events" refer to activities including traveling, training, inspection, market research, procurement, organizing or attending international conferences, tender invitations, information exchanges, marketing seminars and other business activities approved by the MOF that are relevant to the core or ancillary business operations of the companies.

H. Invoicing

VAT invoices and credit notes. Business entities selling goods or services must issue Government Uniform Invoices (GUIs) to purchasers.

GUIs are generally printed and sold by the government. However, qualified business entities can apply to print their own invoices. The MOF prescribes the forms, items to be recorded and the uses for the invoices.

The tax authority has regulated a new format of GUIs in the cloud ("eGUIs"), which are defined as electronic GUIs and issued by business entities to purchasers via the vehicles (i.e., email address) approved by the tax authority.

Proof of exports. The following are examples of documentation that may be used to substantiate exports:
- Goods exported: a copy of the international parcel receipt issued by the postal service, except for goods exported through customs that are exempt from such documentation requirement
- For services rendered with respect to exports or services rendered in Taiwan but used outside of Taiwan: a copy of the foreign-currency receipt
- For goods sold to entities located in bonded areas: document issued by customs proving that such sale is an export or a copy of the GUI certified by the bonded purchaser

A business entity applying for a zero business tax rate on goods or services, for services relating to export or services provided in Taiwan but used overseas must submit the following evidence:

- If the foreign exchange obtained has been settled for sale to or deposited into a bank designated by the Taiwan government, the documentary evidence of the foreign exchange sale or deposit issued by the designated foreign exchange bank
- If the foreign exchange obtained has not been sold and settled or deposited into a bank designated by the Taiwan government, a photocopy of the original receipt of the foreign exchange with the amount specified therein

Foreign-currency invoices. GUIs must be issued in New Taiwan (NT) dollars, with the exception of foreign e-commerce companies. The foreign currency can be noted as a remark on the GUIs.

B2C. A VAT invoice is generally required for all sales of goods and/or services. However, due to the regulations on cross-border e-commerce services, introduced in May 2017, foreign service providers (unless they have a fixed place of business, such as a branch office in Taiwan) can be exempted from issuing VAT invoices until the end of 2018.

The foreign e-commerce operators ("FECOs") are required to issue eGUIs aforesaid.

The tax authority announced that there will be no penalties (up to NTD1 million) imposed for FECOs not issuing cloud GUIs from 1 January 2019 to 31 December 2019.

When issuing eGUIs, foreign e-commerce operators can use the business' native language. The transaction date on the eGUI should be recorded in AD (i.e., Anno Domini, e.g., 1 January, 2018). This is different for Taiwanese business entities, as they list the transaction date in local description method (i.e., 1 January, 2018 would be listed as 1 January, 2017, which is the description method for the Taiwanese year) on the GUI. The unit price, the price and the total amount can be listed using the currency native to the business, but the business should indicate the currency used.

Electronic invoicing. Electronic invoicing is permitted for all VAT taxpayers, but it is not mandatory. However, the Taiwanese government has been promoting electronic invoicing since 2010. Registered entities that wish to use e-invoices are required to register for an account (to access the official e-invoice platform) using the electronic certification or signature obtained via the e-invoice service platform or a value-added service center.

I. Business tax returns and payments

Business tax returns. Business tax returns must be filed for two-month periods by the 15th day following the end of the period. It is possible to apply for monthly VAT filings if a business entity is eligible for zero-rated VAT. Business tax returns must be accompanied with all relevant documentation, and excess output VAT must be paid to the tax authorities before the returns are filed. Receipts of payments made must be filed with the returns.

Special schemes. Not applicable.

Electronic filing and archiving. Electronic filing is optional for the taxpayer. It has been widely adopted by most business entities.

Annual returns. Additional filing of an annual return is not required. However, business entities would be required to recalculate the nondeductible ratio on a yearly basis to adjust the reported nondeductible input VAT, if certain criteria are met.

J. Penalties

Penalties are imposed for failure to file or make correct payment and for filing after the prescribed deadline.

Returns and payment. A business entity that fails to file the sales amount or the detailed list of GUIs used within the prescribed time limit may be liable to the following penalties:

- If the filing is past due for less than 30 days, a surcharge for late filing equal to 1% of the tax payable may be imposed for every two days overdue. The surcharge may not be less than TWD1,200 and not more than TWD12,000.
- If the filing is past due in excess of 30 days, a surcharge for non-filing equal to 30% of the assessed tax payable may be imposed. The amount of this surcharge may not be less than TWD3,000 and not more than TWD30,000.
- If there is no tax payable, the surcharge for late filing or non-filing shall be TWD1,200 and TWD3,000, respectively.

Tax evasion. A taxpayer may be subject to a fine for tax evasion ranging up to five times of the amount of tax evaded if any of the following circumstances exist:

- A business is conducted without an application for business registration being filed.
- The sales amount or detailed list of GUIs used is not submitted and the amount of business tax due is not paid within 30 days after the prescribed deadline.
- The sales amount is not reported or is underreported.
- The business is conducted after applying for deregistration or after suspension of business by the relevant collection authority.
- The amount of input tax is falsely reported.
- Business tax is not paid for the purchase of services provided by foreign entities within 30 days after the prescribed deadline.
- Tax is evaded in another manner.

Tanzania

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This chapter refers to Mainland Tanzania throughout, not Tanzania Zanzibar.

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A. At a glance

Name of the tax	Value-added tax (VAT)
Date introduced	1 July 2015 (effective date of VAT Act, 2014; VAT originally took effect on 1 July 1998)
Trading bloc membership	SADC, EAC
Member of the Southern African Customs Union	Yes (SADC)
Administered by	Tanzania Revenue Authority (www.tra.go.tz)
VAT rates	
Standard	18%
Special Relief	Removed (however, see Section D)
Other	Zero-rated (0%) and exempt
VAT number format	00-111111-A
VAT return periods	Monthly
Thresholds	
Registration	TZS100 million in a year
Recovery of VAT by non-established businesses	No

B. Scope of the tax

VAT applies to the following transactions:
- The supply of goods and services in Tanzania by a taxable person
- Reverse-charge services received by a taxable person in Tanzania
- The importation of goods from outside Tanzania

C. Who is liable

A registered person that makes supplies of taxable goods and services in Tanzania in the course of furtherance of economic activity is liable for VAT.

VAT registration is required on the attainment of annual turnover of TZS100 million. A taxable person must notify the Tanzania Revenue Authority of its liability to register for VAT within 30 days of becoming liable.

Cancellation of registration. A taxable person who ceases to be liable for registration must notify the commissioner in writing within 14 days after ceasing to become liable. Failure to make such notification, where such failure is made knowingly and recklessly, is punishable by a fine of 100 to 200 currency points (one currency point equals TZS15,000). In any other case, the penalty is from 50 to 100 currency points. Serious failures may lead to criminal proceedings that could result in a custodial sentence.

If the commissioner is satisfied with the notice and if the payment of all VAT due is made, the commissioner cancels the registration, effective from the date of the notification.

Divisions and branches. If an economic activity is carried on in divisions or branches, a taxable person shall have a single registration that covers all economic activities undertaken by that person's divisions or branches.

Changes in business activities. If the business activities of a taxable person change, the taxable person must notify the commissioner within 14 days after the date of the change.

Non-established businesses. A "non-established business" is a business that does not have a fixed establishment in Tanzania. The law requires a non-established business to appoint a resident person in Tanzania to act on its behalf in matters relating to VAT (also see *Tax representatives* below). A permanent establishment or branch of a foreign business must register for VAT if it makes taxable supplies of goods or services. A person importing goods or services from a nonresident must pay the Tanzanian VAT due.

Registration procedures. If a taxable turnover exceeds TZS100 million, a taxable person is obliged to apply for the VAT registration within 30 days of becoming liable to make such an application. A taxable person or anyone that the company appoints can submit the application. The application should be accompanied by the following documents: Copies of Memorandum and Article of Association, Certificate of Incorporation, Business license, Tax Identification Number (TIN) Certificate, Lease Agreement and two passport-size photographs for one of the directors. Complete VAT Application Form No. ITX245.02.E, and submit either the hard copy or electronically within 30 days. Online registration is available at www.tra.go.tz. Registration can be completed within 14 working days, if all the required documents are available.

Late-registration penalties. Traders that meet the registration threshold but do not register are liable for a fine of from 100 to 200 currency points where failure is made knowingly or recklessly and a fine of from 50 to 100 currency points in any other case.

Notwithstanding any penalties imposed for late registration, a person is liable to pay interest on the VAT due.

Group registration. Not applicable.

Tax representatives. According to the provisions of section 64 of the VAT act 2014, where a nonresident carries on economic activities in Tanzania without having a fixed place making taxable supplies, the nonresident shall appoint a resident representative in Tanzania to act on his or her behalf in matters relating to VAT. Upon acceptance of the representative appointed by the

commissioner, the representative will perform on behalf of the taxable person all activities required under the VAT act 2014, including the following:
- Applying for registration, canceling registration and fulfilling other obligations in relation to registration
- Paying any VAT or fine, penalty, or interest imposed on the nonresident

The nonresident shall notify the commissioner, in writing, that a tax representative has been appointed. A resident person who is a VAT representative of more than one nonresident shall register separately for VAT with respect to each nonresident.

Reverse charge. Applicable for imported services whereby the receiver of the service will be assumed to be the service supplier, and so the input tax will be the same as the output tax for the service imported.

Digital economy. Nonresident suppliers of business-to-consumer (B2C) telecommunication services and e-services are required to register for VAT.

Deregistration. A taxable person who ceases to be liable for registration must notify the commissioner in writing within 14 days after ceasing to become liable. A failure to make such notification is an offense punishable by a fine of from 100 to 200 currency points where failure is made knowingly or recklessly and by a fine of from 50 to 100 currency points in any other case.

The commissioner will cancel the registration if satisfied that the following conditions exist:
- The person is not carrying on an economic activity.
- The person has ceased to produce taxable supplies.
- The person's taxable turnover falls below the registration threshold.

The cancellation of registration shall be effective from the date set out in the notice of cancellation/deregistration.

Exemption from registration. Businesses whose supplies mainly consist of exempt supplies (such as supplying specified agricultural, fisheries, beekeeping and dairy implements, and specific unprocessed agricultural products) are not required to register for VAT, since their turnover will not generally meet the registration threshold. However, a person supplying zero-rate supplies is required to be registered for VAT if the registration threshold is met. Tanzania does not have any provision to exempt such suppliers from registration.

Voluntary registration. The VAT law in Tanzania provides for voluntary registration for intending traders who expect to reach the registration threshold in a period of 12 months or half of the registration threshold in a period of 6 months. Also irrespective of whether the registration threshold is met or not, suppliers of professional services are required to be registered for VAT.

D. VAT rates

The term "taxable supplies" refers to supplies of goods and services that are liable to a rate of VAT, including the zero rate.

The following rates of VAT currently apply:
- Standard rate: 18%.
- Special Relief rates: removed. However, special relief remains for taxable persons who entered into a binding agreement relating to exploration and prospecting of minerals, gas or oil with the government of Tanzania before 1 July 2015, the effective date of the VAT Act, 2014.
- Zero rate: (0%).

The standard rate of VAT applies to most supplies of goods or services in Tanzania. A zero rate applies to exports and certain other supplies (see below).

Examples of goods and services taxable at 0%

- Exports of goods
- Supplies of goods and supplies of immovable property to an address outside Tanzania
- Exports of taxable services to an address outside Tanzania
- Supplies of goods to a tourist or visitor by a licensed duty-free vendor who holds documentary evidence that the goods have been removed from Tanzania
- Supply of ancillary transport services for goods in transit through mainland Tanzania, where the service is an integral part of the international transport service and in respect of goods stored at the port, airport or a declared customs area for not more than 30 days while awaiting onward transport

Examples of exempt supplies of goods and services

- Agricultural, horticultural or forestry machinery for soil preparation or cultivation, except lawn mower or sports ground rollers and parts
- Agriculture implements (e.g., liquid and powder sprayers, spades, shovels, mattocks, picks, hoes, forks, tractor trailers)
- Agriculture inputs (e.g., fertilizers, pesticides, fungicides, herbicides, rodenticides, fungicides)
- Fishery implements (e.g., fishing nets, fishing vessels, factory ships and other vessels for processing or preserving fishery products)
- Beekeeping implements (e.g., beehives, honey strainers, bee hive smokers)
- Dairy equipment (e.g., milking machines, cream separators, milking machines)
- Medicine or pharmaceutical products not including food supplements or vitamins supplied to the government entities
- Articles designed for people with special needs (e.g., spectacle lenses, sunscreen for use by albinos)
- Educational materials (e.g., dictionaries, encyclopedias, other printed books, instructional chats, diagrams)
- Health care services (e.g., medical, dental, nursing, convalescent, rehabilitation) provided by an institution approved to provide such services, under the supervision or control of a person who is registered as being qualified to perform the services under Tanzania laws or whose qualifications to perform the services are recognized in Tanzania
- Transportation of persons by any means of conveyance other than taxicab, rental car or boat
- Petroleum products and equipment for natural gas (e.g., petrol, diesel, kerosene, CNG plants equipment, natural gas pipes, transportation and distribution pipes)
- Intermediary services (e.g., financial services supplied free of charge, insurance premiums for aircraft)
- Import of goods by a registered and licensed explorer or prospector for exclusive use in oil, gas or mineral exploration or prospection activities, if also relieved from customs duties
- Educational services
- Immovable property (e.g., sale of vacant land)
- Tobacco not stemmed or stripped
- Preparations of a kind used in animal feeding
- Fertilized eggs for incubation
- A motor vehicle designed for use by persons with disability
- Importation of an ambulance by a registered health facility other than a pharmacy, health laboratory or diagnostic center
- Female personal hygiene products (e.g., sanitary pads)
- Financial services for which no consideration is charged

In addition to the above list, the Minister for Finance has additional powers to grant exemptions on imports by a Government entity or supplies to a Government entity of goods or services to be used solely for the implementation of Government projects, regardless of how the said project is

funded (i.e., whether by the Government directly or by a concessional/non-concessional loan, or by a bank or a financial institution representing another government).

Option to tax for exempt supplies. Not applicable.

E. Time of supply

The time when VAT becomes due is called the "time of supply" or "tax point." The tax point is the earliest of the following events:

- The time when the invoice for the supply is issued by the supplier
- The time when the consideration for the supply is received in whole or in part
- The time of supply, which is one of the following:
  - The time at which the goods are delivered or made available
  - The time at which the services are rendered, provided or performed
  - The time at which the immovable property is "created, transferred, assigned, granted, supplied to the customer" or "delivered or made available," whichever is earliest

Imports. VAT on imported goods is charged and payable when the custom duty, tax or levy is payable in accordance with the customs law. VAT on imports of capital goods may be deferred.

Deposits and prepayments. There is no specified time of supply for deposits and prepayments in the Tanzanian legislation, however, value-added tax on a taxable supply for which a deposit or prepayment has been made becomes payable when the deposit is made.

Goods sent on approval for sale or return. Goods are considered to be supplied at the time when they are delivered or made available.

Leased assets. The time of supply of leased assets is the earlier of when the property is transferred or made available to the customer.

Reverse-charge services. The time of supply for services is the time when the services are rendered, provided, or performed.

Continuous supplies. Each periodic or progressive supply is treated as a separate supply for determination of the VAT amount.

F. Recovery of VAT by taxable persons

A taxable person may recover input tax, which is VAT charged on goods and services supplied for business purposes. A taxable person claims input tax by deducting it from output tax, which is VAT charged on supplies made. Taxable persons must claim input tax within six months after incurring the expense.

Input tax includes VAT charged on goods and services purchased in Tanzania and VAT paid on imports of goods and services for which input tax is deductible.

Apportionment of input tax. A supplier of both taxable and exempt supplies is required to apportion input tax incurred in respect of supplies made by them. A taxable person may claim the whole of input tax directly attributable to taxable supplies but is not allowed to claim input tax directly attributable to exempt supplies.

Nondeductible input tax. VAT may not be recovered on purchases of goods and services that are not used for business purposes (for example, goods acquired for private use by a taxable person). In addition, input tax may not be recovered with respect to certain business expenses.

The following lists provide some examples of items of expenditure for which input tax is not deductible and examples of items of expenditure for which input tax is deductible if the expenditure is related to a taxable business use.

Examples of items for which input tax is nondeductible

- Purchase of a passenger vehicle or of spare parts, repair services, or maintenance services for a passenger vehicle unless the person's economic activity involves hiring out or providing transport services in passenger vehicles (with seating capacity of more than 16 persons) and the vehicle was hired for that purpose
- Business entertainment unless involved in the ordinary course of the person's economic activity
- Membership or right of entry for any person in a club, association or society of a sporting, social or recreational nature
- An exportation of raw minerals; effective 20 July 2019, there will also be a restriction of input VAT credit for the exportation of raw agricultural products, raw forestry products, raw aquatic products and raw fauna products

Examples of items for which input tax is deductible (if related to a taxable business use)

- Purchases of goods for furtherance of economic activity
- Payments for services, such as audit fees
- Advertising
- Consultancy fees
- Accommodation

Partial exemption. VAT directly related to making exempt supplies is not recoverable. A registered person that makes both exempt and taxable supplies cannot recover VAT tax in full. This situation is referred to as "partial exemption."

Under the Tanzanian VAT law, there is only one method for calculating the amount of credit recoverable for input tax purposes if a taxable person supplies both taxable and exempt goods, services or immovable property.

The following are the bases of recovery of input tax:

- If taxable supplies are greater than 90% of total supplies, credit is allowed for all of the input tax.
- If taxable supplies are less than 10% of total supplies, credit is not allowed for any of the input tax.
- In all other cases, there will be partial recovery of the input tax.

Refunds. A taxable person may claim a refund of the excess of input tax over output tax on supplies within a tax period. The Commissioner-General of the Tanzania Revenue Authority may grant a taxable person a refund within 90 days after the filing of a VAT refund claim. If excess credits arise in successive periods, the taxable person may apply to the commissioner for refunds to be made monthly.

Each VAT refund claim filed with the commissioner must be approved and supported by a certificate of genuineness issued by an auditor registered with the National Board of Accountants and Auditors (NBAA).

Repayments are made if the taxable person qualifies for a refund. The filing of VAT refund claims can be made within a period of three years after the VAT return is submitted.

At the time of preparing this chapter, nonprofit organizations are no longer eligible to obtain a refund of input tax credit incurred on the acquisition or importation of taxable goods and services.

Preregistration costs. Input tax incurred on preregistration costs is not recoverable in Tanzania.

G. Recovery of VAT by non-established businesses

Tanzania does not refund VAT incurred by a foreign business unless the business is registered for VAT.

H. Invoicing

VAT invoices and credit notes. A supplier of taxable goods and services must issue a fiscal receipt to the purchaser at the time of supply.

Credit notes and adjustment notes may be used to reduce the VAT charged on supplies of goods or services. Adjustment notes must show the same information as fiscal receipts and the nature of or reason for the adjustment.

Proof of exports. Goods exported from Tanzania are zero-rated. However, to qualify for zero rating, exports must be supported by evidence that proves the goods left Tanzania. Suitable evidence includes the following documents:
- A sales invoice
- A bill of lading, road manifest or airway bill
- Export permit
- In addition to the above, any other evidence requested by the commissioner

Foreign-currency invoices. Foreign-currency invoices are treated in the same manner as invoices in local currency. The tax authorities do not require the use of a standard exchange rate to convert the value of foreign invoices into Tanzanian shillings. In practice, the tax authorities accept the rate used by the taxable person if the rate is within the range of prevailing market exchange rates.

B2C. It is a mandatory obligation for suppliers to use an electronic fiscal device to issue invoices (i.e., fiscal receipts) for all supplies made irrespective of whether the customer is a VAT-registered person or not. Noncompliance with the requirement to issue invoices through an electronic fiscal device is subject to penalties.

Electronic invoicing. There are no specified rules with regards to e-invoicing or managing digital copies of invoices. However, there is a requirement to maintain documents in paper or electronic form for a period of five years from the relevant dates.

Periodic statement. A supplier of financial services is required to issue periodic statements to customers that shall be deemed to be tax invoices. The periodic statement must be issued within 10 days following the end of the month to which the tax period relates.

I. VAT returns and payment

VAT returns. The VAT tax period is one month. Returns must be filed within 20 days after the end of the tax period. Payment of VAT is due in full on the same date. A nil return must be filed if no VAT is payable (either because the taxable person has made no supplies or because input tax exceeds output tax in the period).

If the normal submission date falls on a public holiday or a weekend, the VAT return must be submitted on the next working day after that day.

An electronic document is considered filed by a person and received by the commissioner when a document registration number is created using the person's authentication code.

Special schemes. Not applicable.

Deferment of VAT on imported capital goods. An importer of capital goods can apply for deferment of VAT if the VAT payable for each unit of the capital goods is Tanzanian shillings (TZS) 10 million or more. Previously, approval could only be granted if the VAT payable was at least TZS20 million.

Electronic filing and archiving. VAT-registered persons are required to file monthly VAT returns by using the TRA web-based system. Daily reports (Z-reports) are filed electronically to record all transactions.

Annual returns. Not applicable. Tanzania only has monthly VAT returns.

J. Penalties

The late filing of a VAT return or failure to pay tax by the due date is subject to a penalty of 2.5% of the amount of tax assessable with respect to the tax return less tax paid by the start of the period or 15 currency points, whichever is higher. The penalty is payable for each month or partial month for which the failure continues.

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A. At a glance

Name of the tax	Value-added tax (VAT)
Date introduced	1 January 1992
Trading bloc membership	Association of Southeast Asian Nations (ASEAN)
Administered by	Thai Revenue Department (http://www.rd.go.th)
VAT rates	
Standard	7% (increase expected after 30 September 2019)
Other	Zero-rated (0%) and exempt
VAT number format	Same as tax identification number
VAT return periods	Monthly
Thresholds	
Registration	Annual revenue of THB1.8 million
Recovery of VAT by non-established businesses (foreign legal entities)	No (unless the non-established business is registered for VAT in Thailand as a result of carrying on a business either in its own right or through an agent)

B. Scope of the tax

VAT applies to the following transactions:
- The supply of goods or services consumed in Thailand by a taxable person
- The importation of goods or services into Thailand
- The export of goods or services out of Thailand

C. Who is liable

A taxable person is any entity or person that falls into any of the following categories:
- A seller of goods in the course of a business or profession in Thailand
- A provider of services in the course of a business or profession in Thailand
- An importer of goods and services
- Any person deemed by the law to be a trader, such as a local agent of an overseas corporation that sells goods or provides services in Thailand

VAT registration. VAT registration must be made within 30 days after revenue exceeds THB1.8 million, or before the commencement of business. An overseas trader is eligible to register for VAT only if it will do business in Thailand for at least one year, or at least three months if engaged in a government project funded by a foreign loan or foreign aid.

Voluntary registration. A business may register for VAT voluntarily if its taxable turnover is below the VAT registration threshold (annual revenue of THB1.8 million). A business may also register for VAT voluntarily in advance of making taxable supplies.

Reverse charge. If an overseas service provider or supplier of goods temporarily carries on a business in Thailand but is not registered as a Thai VAT operator or if such person provides services overseas for use in Thailand to a payer of service fees in Thailand, the customer for the goods or services in Thailand must self-assess the VAT due and remit it to the Thai tax authorities. Payment must be made by the seventh day of the month following the month of the payment of the income. If the customer for the goods or services is registered as a VAT operator in Thailand, it may recover the VAT paid by crediting it against the output VAT.

Exemption from registration. No exemption from VAT registration applies to businesses that carry on taxable activities. However, certain activities are exempt from VAT (see Section D).

Registration procedures. The application for VAT registration can be submitted in hard copy to the respective area revenue office or online via the revenue department's website.

For a hard copy submission, the registration application and required supporting documents must be submitted to the area revenue office where the business is located. In the case where the taxpayer has several branches, the registration application must be submitted to the revenue office where the head office is located. If all required documents are fully submitted, the VAT registration should be approved on the same day.

For an online VAT registration, the applicant, who already has a tax identification number, can submit its application via the website of the revenue department (www.rd.go.th) 24-hours a day. The supporting documents are not required to be uploaded via the website at the time of registration, but the tax official will visit the applicant's registered office to inspect all supporting documents prior to approving the VAT registration. The result of the registration application will be sent by email to the applicant within 15 days of the submission date.

Late-registration penalties. Penalties are imposed for failure to register for VAT. The penalty is 200% of the VAT payable each month during the period of the failure to register for VAT.

Group registration. Not applicable.

Non-established businesses. To register as a VAT operator in Thailand, the non-established business must be engaged in activities that allow it to generate tax invoices in Thailand. As a result, input tax can be matched to the output tax and the non-established business can prove that the input tax is relevant to its business operations in Thailand. A non-established business cannot register for VAT simply to claim input tax if it does not have any activities that generate income in Thailand.

Tax representatives. Not applicable.

Digital economy. For business-to-business (B2B) transactions, the business customer in Thailand would be expected to self-assess for VAT for purchases of digital services provided by an overseas business. The customer will need to lodge a separate self-assessment return together with the remittance of the VAT payable by the 7th day of the following month that the payment is made. The customer (who is VAT registered) is entitled to include the self-assessed VAT remitted as its input tax in computing VAT. The customer is entitled to treat it as input tax in the tax month that the VAT remittance form was filed with receipt obtained from the revenue department, provided that the service payments are related to the VAT-able business and not prohibited under Thai tax law.

For business-to-consumer (B2C) transactions, the customer would also be expected to self-assess the VAT. The customer needs to lodge a separate self-assessment return together with the remittance of VAT payable by the 7th day of the following month that the payment is made. However, from a practical standpoint, there are significant limitations on the enforcement of the self-assessment of the VAT for private individuals.

In July 2018, the Cabinet approved in principle a draft bill to amend the current VAT law related to services rendered by foreign e-business operators. This VAT specific development follows the draft tax proposal on foreign e-business activities, introduced and opened for a public consultation in 2017. The amendment primarily focuses on the collection of VAT on services rendered by foreign e-business operators to individuals in Thailand.

Under the bill, foreign businesses who provide services through electronic media or foreign-based digital platforms to non-VAT registrants in Thailand, for use of the services in Thailand, will be required to register and pay VAT to the Thai revenue department, if annual service income from non-VAT registered customers exceeds THB1.8 million (USD56,000).

Unless certain conditions are met, the rule also applies to foreign-based digital platform operators whose platform (e.g., website, application or online marketplace) is used by a foreign e-business operator to provide services to non-VAT registrants in Thailand.

Subject to a public hearing and subsequent legislative procedure, the law will become effective 180 days after it is published in the Royal Gazette. *At the time of preparing this chapter, the new VAT rules have not been published in the Royal Gazette and as such are not yet in effect in Thailand.*

Deregistration. A business that ceases operations must cancel its VAT registration by deregistering with the tax authorities within 15 days after the date of ceasing operations.

D. VAT rates

VAT in Thailand is currently levied at a rate of 7% on the value of goods sold or services consumed in Thailand. The VAT rate of 7% will apply until 30 September 2019. This rate may likely be increased by one to three percentage points, subject to the interim government announcement in due course.

VAT applies to all stages of production, distribution and sale, including the importation of tangible and intangible goods and services.

For the importation of goods from a seller located outside of Thailand or customs-free zone area, the importer must pay the VAT due to the customs authority, which collects the VAT on behalf of the Thai tax authority, at the time of importation.

The export of goods and services is eligible for a zero rate of VAT. To qualify as an export of services, services performed in Thailand must be used in a foreign country. If the services are partially used in Thailand, the part of the services used in Thailand is subject to VAT at a rate of 7%.

The following activities are exempt from VAT:
- Sale of agriculture products, animals and animal products (except canned foods)
- Sales of fertilizers, drugs or chemicals for caring for plants or animals, and insecticides or pesticides for plants or animals
- Sales of ground fishmeal and animal feeds
- Sales of newspapers, periodicals and textbooks
- Rendering of services in the fields of medicine, auditing or litigation
- Hospital services
- Domestic transportation of all types and international transportation by land
- Leasing of immovable property
- Business subject to Specific Business Tax (SBT)

Option to tax for exempt supplies. Operators of the following VAT exempted businesses are entitled to register for VAT:
- Sale of goods not for export or provision of services as follows:
  - — Sale of agricultural products
  - — Sale of animals
  - — Sale fertilizers
  - — Sale of fish meals, animal feeds
  - — Sale of drugs and chemical products for plants and animals
  - — Sale of newspapers, magazines or textbooks
- Provision of domestic transport by aircraft
- Export of goods as the trader in the export processing zone under the laws governing industrial estate of Thailand
- Provision of the service of transporting fuel oils through pipes in Thailand
- Business with the value of tax base not exceeding the value of the tax base for a small business fixed by Royal Decree

E. Time of supply

The time when VAT becomes due is called the "time of supply" or "tax point."

The tax point for the supply of goods is the time of delivery unless one of the following events occurs earlier:
- Ownership transfer
- Receipt of the payment
- Issuance of the tax invoice

The tax point for the supply of services is the receipt of the payment unless one of the following events occurs earlier:
- Issuance of the tax invoice
- In the case of services provided without charge, the use of the services by the service provider or the other recipient persons

The tax point for the import of goods is the time of importation, which is the time of customs clearance.

The tax point for the export of goods is the time of payment of export duty or, if the goods are exempt from customs, the date on which the goods clear customs.

Deposits and prepayments. The time of supply rule for deposits and prepayments (for both goods and services) is the time of receipt of the payment.

Goods sent on approval for sale or return. There are no special time of supply rules in Thailand for supplies of goods sent on approval for sale or return. As such, the general time of supply rules apply (as outlined above).

Reverse-charge services. As referred to in the "Reverse charge" section above, the time of supply rule for reverse-charge services is by the 7th day of the following month that the payment is made. If the customer for the goods or services is registered for VAT in Thailand, it may recover the VAT paid by crediting it against the output VAT.

Continuous supplies. There are no special time of supply rules in Thailand for continuous supplies. As such, the general time of supply rules apply (as outlined above).

Imported goods. As referred to in the section above, the time of supply for the supply of imported goods is the time of importation, which is the time of customs clearance. In addition, the payment of import VAT cannot be deferred to the next VAT return.

F. Recovery of VAT by taxable persons

A taxable person may recover input tax, which is VAT charged on goods and services supplied to it for business purposes. A taxable person generally recovers input tax by deducting it from output tax, which is VAT charged on supplies made.

Input tax includes VAT charged on goods and services supplied in Thailand, VAT paid on imports of goods into Thailand and VAT self-assessed on reverse-charge services.

Nondeductible input tax. Input tax may not be recovered on purchases of goods and services that are not used for business purposes (for example, goods acquired for private use by an entrepreneur). In addition, input tax may not be recovered for some items of business expenditure as prescribed under the Thai VAT Law.

Examples of items for which input tax is nondeductible

- Entertainment expenses or similar expenses
- Passenger cars (except for car sales or rental business)
- Goods or services relating to passenger cars such as gasoline and repairs (except for car sales or rental business)
- Construction of buildings sold or used for a non-VAT business within three years after completion

In addition, the following input tax is not recoverable:

- Input tax arising from certain types of business activities that are not subject to VAT
- Input tax shown on an abbreviated tax invoice or a tax invoice that bears signs of correction or alteration of the particulars required by law
- Input tax not substantiated by a tax invoice
- Input tax recorded in an incomplete tax invoice
- Input tax shown on a tax invoice issued by a person not authorized to do so

Examples of items for which input tax is deductible (if related to a taxable business use)

Generally, input tax that is attributable on expenses related to the VAT-able business is deductible for VAT computation:

- Input tax on purchase of raw materials
- Input tax on purchase of capital assets
- Input tax on purchase of goods for resale
- Input tax on royalty payment
- Input tax on sale and marketing expenses
- Import VAT paid to customs department for import of goods into Thailand
- Self-assessed VAT paid to revenue department on reverse-charge mechanism

Partial exemption. Not applicable.

Refunds. The VAT refund can be made within three years from the last day of filing date.

Preregistration costs. Any input tax attributable to the pre-registration costs prior to the VAT registration date is not recoverable.

G. Recovery of VAT by non-established businesses

VAT incurred by a non-established business (that is, an overseas legal entity) may be recovered, unless the non-established business is registered as a VAT operator in Thailand.

H. Invoicing

Tax invoices and credit notes. A Thai VAT operator is required to issue a tax invoice for all taxable supplies made, including exports. A tax invoice is necessary to support a claim for input tax deduction or a refund.

A tax credit note may be used to reduce the VAT charged and reclaimed on a supply. The credit note must reflect the reasons for its issuance as allowed by the VAT law. The credit note must be cross-referenced to the original tax invoice and must contain the required information as prescribed under the Thai VAT Law.

Proof of exports. An export of goods may be eligible for the zero rate of VAT if the goods are physically exported and if the export is supported by evidence confirming the departure of the goods from Thailand. The evidence required includes the following documents:
- Customs documentation
- Original invoice

Foreign-currency invoices. Tax invoices can be issued in a foreign currency if approval has been obtained from the tax authorities.

B2C. There are no specific invoicing rules for B2C. As such, Thai VAT registered businesses are liable to issue full tax invoices to all its customers, regardless of whether or not the customer has requested it.

Electronic invoicing. Electronic invoicing is not mandatory, but it is allowed in Thailand.

A normal taxpayer can only issue electronic tax invoices if it is approved by the revenue department. Basically, the taxpayer must have a good internal control system and reliable process to prove that the e-Tax invoices will contain the same accurate details when they are created and have the Certificate Authority from the registered service provider and one digital signature.

The electronic tax invoice could be maintained in an electronic copy for the inspection of the tax authority. Without the approval to issue electronic tax invoices, the taxpayer is liable to issue the tax invoice in hard copy and deliver such tax invoice to its customers when the VAT is triggered and maintain the copy of the tax invoice in hard copy for the inspection of the tax authority.

I. VAT returns and payment

VAT returns. VAT returns are submitted monthly. A supplier of goods and services must collect VAT from the purchaser of the goods or the recipient of a service and remit it to the Thai tax authority by the 15th day of the month following which the tax point is triggered (for example, the time of delivery, receipt of payment or issuance of an invoice; see Section E).

For reverse-charge services, the Thai service recipient is required to self-assess the VAT and remit it to the Thai tax authority by the seventh day of the month following the month in which the payment is made.

Special schemes. Not applicable.

Electronic filing and archiving. The VAT operator can file its monthly VAT returns provided that it obtains the approval from the Thai revenue department.

Annual returns. Not applicable.

J. Penalties

A penalty of 100% of the tax shortfall is assessed for the late payment of VAT, plus a monthly surcharge of 1.5% of the tax shortfall (capped at 100% of the tax shortfall). However, if a taxable person does not receive a notice of call for examination, the penalty may be reduced to the following:

- 2% if the payment is made within 15 days after the due date
- 5% if the payment is made after 15 days but not later than 30 days after the due date
- 10% if the payment is made after 30 days but not later than 60 days after the due date
- 20% if the payment is made more than 60 days from the due date

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A. At a glance

Name of the tax	Value-added tax (VAT)
Date introduced	1 January 1990
Trading bloc membership	Caribbean Community (CARICOM)
Administered by	Board of Inland Revenue Value Added Tax Administration Centre 2-4, Ajax Street Port-of-Spain Trinidad
VAT rates	
Standard	12.5% (from February 2016)
Other	Zero-rated and exempt
VAT number format	999999 (6 digits)
VAT return periods	Bimonthly, or otherwise determined
Thresholds	
Registration	TTD500,000 (from 1 January 2016)
Recovery of VAT by non-established businesses	No

B. Scope of the tax

VAT is charged on the entry of goods imported into Trinidad and Tobago and on the commercial supply of goods or prescribed services by a registered person.

C. Who is liable

The Trinidad and Tobago VAT law imposes a registration requirement on any person that makes commercial supplies in Trinidad and Tobago in excess of TTD500,000 in a 12-month period.

A person that intends to make commercial supplies may apply for registration. However, the application must be supported by additional information indicating that the value of the person's commercial supplies will exceed TTD500,000 in a 12-month period. Suitable evidence includes

incorporation documents, contracts showing evidence of commencement of business, bank statements and invoices issued.

Group registration. VAT grouping is not allowed under the Trinidad and Tobago VAT law. Legal entities that are closely connected must register for VAT individually.

Divisions of companies. On request, the Board of Inland Revenue may approve the separate registration of the divisions of a company, and in such cases, supplies between divisions would be subject to tax.

Non-established businesses and tax representatives. A branch of a foreign corporation is registered in the same manner as a resident taxable person. A "non-established business" is a business that does not have a fixed establishment in Trinidad and Tobago. A non-established business that makes commercial supplies in Trinidad and Tobago must register for VAT if it meets the registration requirements.

A foreign individual or company that must register for VAT may need to appoint an agent or manager who is resident to assume the responsibilities of principal relating to compliance under the VAT act.

Reverse charge. No reverse-charge mechanism applies in Trinidad and Tobago.

Registration procedures. A written application for registration must be submitted on the prescribed form. The application must be supported by evidence to show that the value of the person's commercial supplies will exceed TTD500,000 in a 12-month period. Such evidence may include incorporation documents, contracts entered into, bank statements and invoices issued. An applicant will be registered within one week after the receipt of the application provided that all the relevant documentation has been provided. There is no provision for online registration.

Late-registration penalties. Penalties are imposed for late registration for VAT and for other offenses on summary conviction (see Section J).

Digital economy. Non-established businesses that make cross-border supplies of goods or electronic services to customers in Trinidad and Tobago are not required to register for VAT in Trinidad and Tobago, as the services are regarded as taking place outside Trinidad and Tobago.

Deregistration. A registered person who is not required and will not be required under the VAT Act to be registered may apply to the Board of Inland Revenue to have his or her registration cancelled. The Board of Inland Revenue may refuse to cancel the registration on the grounds that the person has, within the last two years, made supplies requiring that he or she be registered.

Exemption from registration. If a nonresident of Trinidad and Tobago wishes to supply goods or services solely to a VAT-registered person, for the purpose of it making commercial supplies in Trinidad and Tobago, the nonresident's supply is regarded as not taking place in Trinidad and Tobago, unless, the supplier and recipient agree that the supply is to be regarded as taking place in Trinidad and Tobago. The nonresident is not required to register for VAT if the supply is treated as taking place outside of Trinidad and Tobago, provided the supplier is not required to be registered as a result of making other supplies.

Voluntary registration. Voluntary registration is not allowed in Trinidad and Tobago.

Tax representatives. A non-established business that registers for VAT in Trinidad and Tobago is not required to appoint a tax representative, however, the business can choose to appoint one. Any person who carries on a business, in Trinidad and Tobago, on behalf of a principal may perform the functions under the VAT act.

In the absence of the appointment of a tax representative, the Board of Inland Revenue may deem a person who carries on business on behalf of a non-established business to be its agent for the purpose of compliance and accountability.

D. VAT rates

The term "taxable supplies" refers to supplies of goods and prescribed services that are made in the course or furtherance of any business that is liable to VAT. Taxable supplies are referred to as "commercial supplies." Taxable supplies include supplies that are standard rated and zero rated. Schedule 3 of the VAT law determines what constitutes a supply of goods or services. The term "prescribed services" means any services not listed as exempt services in Schedule 1 of the VAT act.

In Trinidad and Tobago, the applicable VAT rates are the standard rate of 12.5% and the zero rate (0%). The standard rate of 12.5% applies to all supplies of goods or services, unless a specific measure provides for the zero rate or an exemption.

Examples of goods and services taxable at 0%

- Exported goods
- Medicines
- Water and sewerage services supplied by a public authority

The term "exempt supplies" refers to supplies of goods and services that are not liable to tax. Exempt supplies do not give rise to a right of input tax deduction (see Section F).

Examples of exempt supplies of goods and services

- Financial services
- Medical services
- Residential property rentals
- Real estate brokerage
- Public postal services
- Prescribed bus and taxi services
- Betting and gaming

Option to tax for exempt supplies. Not applicable.

E. Time of supply

The time when VAT becomes due is called the "time of supply" or "tax point." In general, the tax point for goods and services supplied by a taxable person is the earliest of the following events:

- The date of issuance of the invoice by the supplier
- The date of receipt of payment for the supply
- The date on which the goods are made available to the recipient or the services are performed

A taxable person must account for VAT in the VAT period in which the tax point occurs, regardless of whether payment is received. A person registered for VAT may recover input VAT indicated on the tax invoices.

Imported goods. VAT on the entry of imported goods becomes due and payable at the time when the goods have entered. The importer is liable to account for the tax and must pay it.

Deposits and prepayments. For deposits and prepayments, a supply of goods or services takes place when payment is made for the supply. The treatment does not vary for refundable or non-refundable amounts or if the supply does not take place.

Goods sent on approval for sale or return. Where goods are supplied to a person under an agreement whereby the recipient has an option to return the goods to the supplier, the supply takes place when the goods are made available to the recipient.

Reverse-charge services. In Trinidad and Tobago, the reverse charge for services does not apply. As such, there are no special time of supply rules.

Continuous supplies. Where a supply of services is continuous (e.g., electricity and telecommunications), the supply takes place when an invoice for the supply is issued by the supplier, but only to the extent of the supply to which the invoice relates.

Where services are supplied under an agreement (e.g., property rental) that expressly provides for the consideration to be paid in periodic payments, whether or not the services are provided periodically, the services are regarded as being successively supplied at the times when the periodic payments are made or become due, whichever is earlier, to the extent that an invoice for the services is not issued by the supplier.

Where goods are supplied progressively or periodically under an agreement that provides for the consideration for the supply to be paid from time to time upon the supplier issuing invoices, the goods are regarded as being supplied at the time when:
(a) An invoice for the supply of the goods is issued by the supplier
(b) Payment for the supply of the goods is made
Or
(c) Payment for the supply of the goods becomes due

F. Recovery of VAT by taxable persons

The tax paid on goods and services that are acquired for the purpose of making taxable supplies is deductible as input tax. Input tax is offset against output tax, which is the tax charged on the making of commercial supplies. Input tax is deductible when the goods and services are acquired.

Goods or services are deemed to be for the purpose of making commercial supplies if the supplier acquired, imported or produced the goods or services for any of the following purposes:
- Their supply or resupply as a taxable supply
- Their consumption or use (whether directly or indirectly, or wholly or partly) in producing goods or services for supply as a taxable supply
- Their consumption or use (whether directly or indirectly, or wholly or partly) with respect to a commercial enterprise

Nondeductible input tax. Input tax may not be recovered on purchases of goods and services that are not used for business or where the person only makes exempt supplies.

Partial recovery. The Trinidad and Tobago VAT law provides that if all the supplies made by a taxable person during a tax period are commercial supplies, the input tax incurred in the period is deductible in full. However, if some, but not all, of the supplies made by the person during the tax period are commercial supplies, a partial recovery calculation is required. The following are the rules for the calculation of allowable input tax:
- All of the input tax for the period that is directly related to the making of commercial supplies (regardless of whether the supplies are made during that tax period) is recoverable.
- None of the input tax for the period that is directly related to supplies that are not commercial supplies (regardless of whether the supplies are made during that tax period) is recoverable.
- A proportion of the input tax for the period that relates both to commercial and non-commercial supplies is recoverable. The recoverable portion is calculated based on the value of commercial supplies made during the period compared with the value of total supplies made during the period.

If a taxable person makes no commercial supplies during the tax period, the recoverable input tax is the portion, if any, of the input tax for the period that the tax authorities consider to be "fair and reasonable."

Refunds. If the amount of input VAT recoverable in a VAT period exceeds the amount of output VAT payable for that VAT period, the excess may be refunded. VAT returns must be submitted within 25 days after the end of the VAT period. If this deadline is met and if the refund is unpaid after six months, the legislation provides for the tax authorities to pay interest on the outstanding balance, at the rate of 1% per month or part of a month, chargeable from the day after the expiration of the period until the date on which the outstanding amount is satisfied.

Preregistration costs. Pre-registration input VAT is generally not deductible. However, input tax may be claimed in respect of any stock in trade that is on hand at the time of registration. Evidence showing that the inventory on hand was audited by a chartered accountant must be produced at the time of registration.

G. Recovery of VAT by non-established businesses

Foreign businesses that make commercial supplies in Trinidad and Tobago may register and recover tax with respect to their local operations in the same manner as resident businesses. However, Trinidad and Tobago does not refund VAT paid by foreign businesses that are not registered for VAT in the country.

H. Invoicing

Sales invoices and credit notes. A taxable person must generally provide a VAT invoice for all taxable supplies made, including exports. A VAT invoice is necessary to support a claim for input tax deduction.

A credit note may be used to reduce the VAT charged and reclaimed on a supply of goods and services. A credit note generally mentions the same information as a VAT invoice.

Exports. VAT is not chargeable on supplies of exported goods. However, to qualify as VAT-free, exports must be supported by evidence that the goods have left Trinidad and Tobago.

Foreign-currency invoices. If a supply is made to a person outside of Trinidad and Tobago, the invoice may be issued in a foreign currency. However, in accounting for the tax payable, the taxable person must account for the tax in Trinidad and Tobago dollars. In converting the invoice, the exchange rate used must be the rate at which the Central Bank of Trinidad and Tobago would have purchased that currency in the form of notes at the time of the supply.

B2C. Fast food outlets, gas stations and cinemas are exempted from the requirement to issue a tax invoice, unless one is requested by the recipient of the supply.

Electronic invoicing. The Trinidad and Tobago VAT legislation includes no provisions for electronic invoicing.

I. VAT returns and payment

VAT returns. The tax year is divided for taxable suppliers into two-month tax periods, and suppliers are required to submit a VAT return covering all taxable transactions up to and including the last day of each tax period. For administrative convenience, the total number of registrants is divided into two basic categories and an ad hoc category, whose tax periods are as follows:

- Category A: two-month periods ending with the last day of January, March, May, July, September and November
- Category B: two-month periods ending with the last day of February, April, June, August, October and December
- Category C: tax periods as determined by the Board of Inland Revenue

Every registrant is required to submit a VAT return on the prescribed form, along with the amount of tax due, to the Board of Inland Revenue by the 25th day of the month following each tax period.

Special schemes. Not applicable.

Electronic filing and archiving. Not applicable.

Annual returns. Not applicable.

J. Penalties

Penalties are assessed for errors and omissions with respect to VAT accounting. A fine of TTD1,000 is imposed for the late submission of a VAT return on summary conviction. In addition, a penalty of 8% and interest at the rate of 2% per month or part of a month is charged on late payments of VAT.

In addition to the above, the VAT Act provides for other penalties including a penalty of TTD6,000, which is imposed for a failure to notify the tax authorities of changes relating to the registration.

Certain offenses may give rise to criminal penalties.

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A. At a glance

Name of the tax	Value-added tax (VAT)
Local name	Taxe sur la Valeur Ajoutée (TVA)
Date introduced	2 June 1988
Trading bloc membership	None
Administered by	Ministry of Finance (http://www.portail.finances.gov.tn)
VAT rates	
Standard	19% (effective 1 January 2018)
Reduced	7%, 13% (effective 1 January 2018)
Other	exempt
VAT number format	Tax ID Number/VAT Code A, B, P, D or N/number of establishments
VAT return period	Monthly
Thresholds	
Registration for retail traders only	TND100,000
Recovery of VAT by non-established businesses	Yes

B. Scope of the tax

VAT is applicable mainly to the following transactions:
- Supplies of goods and services made in Tunisia
- Imports of goods and services

Industrial activities are generally subject to VAT except for the production of agricultural and fish products. Other activities subject to VAT include professional services, wholesale trade (excluding foodstuffs), and retail trade (for traders that make annual turnover of TND100,000 or more), excluding foods, medicine, pharmaceuticals and products subject to administrative approval tariffs.

C. Who is liable

A taxable person is an individual or legal entity that is registered for VAT in Tunisia and any other entity that engages in independently taxable transactions other than import sales.

In addition, a person (individual or legal entity) that supplies goods or services for consideration as part of the person's business activities but is not required to register for VAT may opt for VAT registration if any of the following conditions are satisfied:
- It carries out operations that are not within the scope of VAT.
- It carries out export activities that are exempt from VAT.
- It supplies products or services that are exempt from VAT to persons subject to VAT.

Group registration. The Tunisian VAT law does not allow VAT grouping. Legal entities that are closely connected must register for VAT individually.

Non-established businesses. Nonresident companies that do not have a permanent establishment in Tunisia but carry out taxable transactions are subject to VAT. Accordingly, Tunisian customers must withhold the entire VAT charge on payments for services supplied by nonresident entities. The nonresident must add Tunisian VAT to its invoice. The customer withholds the VAT amount, remits it to the Tunisian tax administration and pays the amount due for the services, exclusive of VAT, to the foreign provider.

The customer should also obtain a "discharge certificate" in support of the VAT remittance and provide it to the bank transferring the amount due. Failing to be provided with such discharge, the bank performing the transfer could incur penalties of up to 20% of the amount of taxable revenues. However, Tunisian customers that are nonresident from an exchange regulation standpoint are exempted from the requirement to obtain such a discharge certificate.

Non-established companies may register for VAT with the Tunisian tax administration. In such case, the VAT withholding procedure is not required.

Registration procedures. Each individual who would practice an industrial, commercial or non-commercial profession, and every legal entity must, before the initiation of the activity, file at the territorially competent tax control office a declaration of existence according to the preset model required by the tax authorities. The declaration of existence must be accompanied by:
- A copy of the Articles of Association for the legal entities
- A copy of the agreement or the administrative authorization, if the activity or the place where the activity is performed are subject to a prior authorization

After filing the declaration of existence, the taxpayer obtains a tax identification card, which includes the tax identification number.

The application for registration must be submitted by the taxpayer itself or its legal representative or by any other person with a power of attorney to register.

There is no online registration for VAT purposes.

Tax representatives. Current Tunisian tax legislation does not provide representation for tax purposes.

Nevertheless, where non-established businesses that are not VAT registered in Tunisia provide supplies to a Tunisian customer, this latter shall fully withhold the VAT due in Tunisia.

Alternatively, those businesses may opt to report the VAT withheld directly and deduct the VAT paid on the purchases of goods and services necessary to perform the transactions subject to VAT. To do so, they must:
- Submit a declaration of tax existence by filing a prescribed form with the relevant tax office
- File a VAT return

Late-registration penalties. In addition to the consequences of filing VAT returns late (see Section J), a fine that varies between TND1,000 and TND50,000 is applicable. However, this fine does not apply if the taxpayer regularizes the situation prior to a tax audit.

Reverse charge. The reverse charge applies when services or goods are used/consumed in Tunisia and supplied by nonresident entities.

Digital economy. There are no rules specifically applicable to the digital economy.

There are no particular VAT registration requirements with regard to non-established business that supply cross-border supplies of goods or electronic services.

For imported goods, there is no requirement for the nonresident supplier to collect the Tunisian VAT (neither by direct payment nor through the reverse charge). In practice, the VAT is paid by the Tunisian importer when the goods are cleared at customs.

For imported intangibles, (i.e., supplies that do not require payment of the VAT at customs), if the Tunisian client is a business, it is required to apply the VAT reverse charge. The VAT that has been declared as output tax under the reverse charge may be refundable as if it qualifies as input VAT. For supplies of intangibles made to an individual for their personal use, the Tunisian regulations do not provide a particular rule for the collection of VAT (neither through VAT registration nor the reverse charge).

Deregistration. In the case of termination of activity, the taxpayer submits a termination application, with the tax identification card and declaration of existence, to the territorially competent tax control office.

In case of a deregistration following an optional VAT registration by a person or legal entity not subject to VAT (because its economic activities), the deregistration, or the renunciation of the status of a taxable person, would be made after 31 December of the fourth year that follows the year of the optional registration. The deregistration in this case leads to the regularization of the VAT which has been deducted on the purchased inventories and assets during the period of the optional registration.

Exemption from registration. Even if sales are subject to the zero VAT rate, there are no rules that allow an exemption from the registration.

Voluntary registration. If a Tunisian customer is required to apply the reverse charge to VAT on cross-border payments, a non-established and nonresident supplier may opt for registration for VAT purposes if the supplier incurs input VAT on the purchases that are necessary for the services rendered in Tunisia, and if the input VAT generates a VAT credit position or VAT/receivable position for the supplier. The input tax credit may be refundable upon request.

D. VAT rates

The VAT rates in Tunisia are as follows:
- Standard rate: 19%
- Reduced rates: 13% and 7%
- Other: Exemption or exclusion from the scope of VAT

The standard rate applies on transactions within the scope of application of the VAT, unless laws and regulations provide for the application of a different rate, a suspension or an exemption.

Effective 1 January 2018, the 6% VAT rate increased to 7%, the 12% rate increased to 13% and the 18% rate increased to 19%. These provisions, however, do not apply to imported goods if their transport support their direct delivery to a destination in the Tunisian customs territory documents

(established before the entry into force of the Finance Act for the year 2018), provided they were entered for consumption without being placed into a free warehouse or free zone customs.

This provision also does not apply to amounts paid up to 31 December 2018, with regard to contracts concluded with the State, local authorities and companies and public institutions before 1 January 2018, covering the acquisitions of works, services, materials, equipment and supplies.

Examples of supplies taxed at the 13% rate

- Services rendered by lawyers, tax advisors and other experts.
- Sales of low-voltage electricity intended for domestic consumption, and the sale of medium- and low-voltage electricity used from the functioning of water pumping equipment for agricultural irrigation.
- Starting 1 January 2018, the VAT rate of 13% applies to sales of buildings constructed for the exclusive use of housing by real estate developers for the profit of private persons or by public real estate developers (the rate of 13% will increase to 19% effective 1 January 2021). As per the 2019 Finance Act, the supplies of buildings constructed for the exclusive use of housing by real estate are allowed to deduct the VAT charged on the stock held on 31 December 2017. The deduction of the VAT does not give rise to the possibility of refund of the non-attributed VAT credit.

Examples of supplies taxed at the 7% rate

- Transport of goods
- Activities carried out by doctors and analytical laboratories
- Materials and supplies for pharmaceutical products
- Tourism activities

The full roster of VAT at the rate of 7% is included within Appendix B (New) of the VAT code. The 2019 Finance Act reduced the VAT rate for some services and goods from 13% to 7% (such as some renewable energies tools, electricity dedicated to agriculture, etc.)

Examples of exempt supplies

- Banking interest
- Maritime air transport
- Food products (milk, flour ...)

The full roster of VAT exemptions is included within Appendix A (New) of the VAT code.

Examples of supplies outside the VAT scope

Agriculture is out of the scope of the application of VAT.

VAT suspension. VAT may also be suspended. A special authorization from the tax administration is required to obtain a suspension of VAT on purchases.

A VAT suspension is available to entities engaged in exporting, to financial institutions working mainly with nonresidents, to entities governed by the Hydrocarbons Code and, in certain circumstances, to entities engaged in activities described in the Investment Incentives Code.

Entities subject to VAT may be entitled to VAT suspension on their local purchases of raw materials and equipment to be used in their projects realized abroad exceeding TND3 million.

Other regimes suspend VAT as well, such as the regime for air transport companies in respect of domestic and international transport, the regime for companies responsible for the implementation of social housing, the regime for Tunisian citizens resident abroad who realize projects in Tunisia, the regime for donations as part of an international cooperation, etc.

VAT suspension may be obtained by requesting a VAT suspension certificate from the tax administration. This certificate may be issued annually or for certain transactions. A copy of the cer-

tificate and a copy of the original purchase order certified by the tax authorities are presented to the seller to ensure that the seller does not add VAT to the invoice. The tax administration approval is based on whether the company has the right to be eligible for such "incentive" regime and on whether the company's tax return filings for the different tax heads are up to date.

Option to tax for exempt supplies. According to the tax legislation in force, there is a possibility to opt for the VAT regime regarding services, goods and activities exempt for VAT or positioned out of the scope of VAT.

E. Time of supply

The time when the taxable event is considered to have taken place and VAT becomes due is called the "time of supply" or "tax point."

Goods. The time of supply for the sale of goods is when the goods are delivered to the customer.

Services. The time of supply for services is when the service is rendered or when the payment is made (fully or partially) if the settlement is made before the completion of the service.

Imported goods. The time of importation for imported goods is when the goods are cleared at customs.

Deposits and prepayments. For the importation of goods: the VAT is due (paid to customs) by the customs clearance.

For the domestic supply of goods: the tax is due when the goods are supplied. The taxable event is not linked to deposits and advanced payments. The VAT is generally due by the delivery of goods.

For the provision of services: deposits and advanced payments are considered as the time of supply if the settlement is made before the completion of the service. The VAT is generally due by the production of the service, or by the collection of the price or the advances in case they occur before the provision of the service.

Goods sent on approval for sale or return. The tax law does not explicitly refer to goods delivered for approval, the delivery is when the supply is considered to be made. In practice, the VAT is due when the goods are received. If the goods are returned, they should be subject to a credit note on which the amount of the returned goods is mentioned with VAT.

Reverse-charge services. The reverse charge is due when the payment is processed. In fact, the VAT must be withheld by taxpayers registered in Tunisia for tax purposes in one of the following circumstances:

— When the payer is the State, or local authorities, or businesses and public institutions, 25% of the due VAT should be withheld when the payment is processed
— When the VAT is due on cross-border payments, 100% of the due VAT should be withheld when the payment is processed

Continuous supplies. For these circumstances, there are no specific rules for the time of supply.

F. Recovery of VAT by taxable persons

A taxpayer may recover VAT with respect to purchases of goods and services that are used for business activities and contribute effectively to the realization of taxable transactions. The VAT deduction is made on the basis of a valid invoice, customs document or withholding VAT certificate.

According to article 18 of the Tunisian VAT code, the invoice shall mention:
- The transaction date
- The customer identification, address and tax identification
- The designation of the goods or services and tax prices
- Rates and amounts of tax on value added
- The terms "export sales" or "sales under suspension of VAT"

Other information may be required to be mentioned on the invoices, depending on the specificities of the activities (e.g., clinics).

Companies partially subject to VAT deduct VAT based on the following rules:
- Full deduction is allowed for VAT on purchases used exclusively in a business activity that is subject to VAT.
- No deduction of VAT is allowed for purchases used exclusively in a business activity that is not subject to VAT.
- Deduction on a proportionate basis is allowed for purchases used in both a business activity subject to VAT and a business activity not subject to VAT.

G. VAT withheld at source by public and governmental bodies

A withholding tax with regard to VAT is due at the rate of 25% on amounts equal to or exceeding TND1,000 (including VAT) and must be paid by the state, local authorities, enterprises and public institutions in return of their acquisitions of goods, equipment, services, buildings and businesses.

Nondeductible input tax. Input tax may not be recovered on purchases of goods and services that are not used for business purposes and that are considered to be nondeductible expenses for corporate tax purposes (for example, goods acquired for private use by an entrepreneur).

Examples of items for which input tax is nondeductible
- Passenger vehicles used for the transport of persons (other than those representing the purpose of the business such as taxi and car rental companies), cars used by hotels for tourist trips, and also the rental of passenger vehicles and any other expenses incurred in order to ensure their operation and their maintenance
- Purchases made from individuals or legal entities that are outside the scope of VAT but that have invoiced VAT incorrectly
- Goods, properties and services fully paid in cash in amounts equal to or exceeding TND5,000 (excluding VAT)
- VAT on goods and services acquired from residents in tax havens

Refunds. VAT liability (output VAT) is computed by multiplying all taxable sales by the applicable VAT rate. The enterprise subtracts the total VAT paid on purchases of goods (input VAT) from output VAT and pays the net amount to the tax administration. If the input VAT exceeds the output VAT, the resulting amount is refunded with a restitution claim made to the tax administration and, in the majority of the cases, after a tax audit has been completed by the tax administration.

The regime of VAT credit refunds varies according to the source of the credit and the local tax authority.

The common regime, under which the VAT credit is fully refundable, applies in the following circumstances:
- The VAT credit will be refundable without a tax audit if the credit is due to:
  — Exports (refund in 7 days)
  — Withholding tax on VAT
  — Sales with the suspension of the VAT
  — Investments made according to the Investment Incentives Code (refund in 30 days)

If the VAT credit is due to:

- The normal course of business (for example, the VAT on purchases exceeds the VAT on sales), then the VAT credit is refundable, if it persists on six consecutive tax returns, as part of one of two processes:
  - — For businesses that have the legal obligation to designate a legal auditor, if the financial statements are certified with an audit report that requires no modification that has an impact on the tax basis, an advance of 50% of the VAT credit is provided before a tax audit, and the remaining amount is refundable after a tax audit (refund in 60 days).
  - — For other cases, an advance of 15% of the VAT credit is provided before a tax audit, and the remaining amount is refundable after a tax audit (refund in 120 days).
- For companies under the control of the Directorate of Large Business (DGE), the VAT credit is fully refundable before a tax credit, in seven days, under the following conditions:
  - — The report of the legal auditor does not contain an amendment affecting the tax basis.
  - — The legal auditor certifies in a separate audit report that the VAT credit to be refunded is accurate.

If, after a tax audit, the tax authorities confirm the validity of a VAT credit, it is fully refundable notwithstanding the appeals procedures that may follow.

Partial exemption. Input tax directly related to making exempt supplies is generally not recoverable. If a taxable person makes both exempt and taxable supplies, it may not recover its input tax in full. This situation is referred to as "partial exemption."

A Tunisian taxable person that makes both taxable and exempt supplies may calculate the amount of input tax it may recover in several ways. The standard partial exemption calculation method consists of the following two-stage calculation:

- The first stage identifies the input tax that may be directly allocated to taxable and to exempt supplies. Input tax directly allocated to taxable supplies is deductible, while input tax directly related to exempt supplies is not deductible. Supplies that are exempt with credit are treated as taxable supplies for these purposes.
- The second stage identifies the amount of the remaining input tax (for example, input tax on general business overhead) that may be allocated to taxable supplies and recovered. The amount of recoverable VAT is determined by making a pro rata calculation based on the respective values of taxable and exempt supplies made.

Preregistration costs. The input VAT on preregistration costs appearing on invoices prior to the tax registration cannot be recovered by a future taxable person before having the status (under incorporation) since the deductibility of input VAT needs the issuing of an invoice that includes mandatory mentions pertaining to the payer (article 18 of the VAT code) and that cannot be provided during the incorporation stage (such as tax ID).

Recovery of VAT by non-established businesses. Nonresident traders that do not have a permanent establishment in Tunisia but are registered with the VAT authority are allowed to recover VAT incurred. To register with the VAT authority, the nonresident taxpayer must be performing a contract in Tunisia.

Nonresident traders that have a permanent establishment in Tunisia but that are not registered for VAT purposes, are subject to a discharging withholding tax in terms of VAT at the rate of 100% of the VAT due.

Nonresident traders that are not registered with the VAT authority may not recover VAT incurred. In addition, such traders are subject to the VAT withholding system described in Section C.

H. Invoicing

VAT invoices and credit notes. Tunisian taxable persons must provide VAT invoices for all taxable supplies and services, including exports, made to other taxable persons. Recipients of supplies must retain copies of invoices.

A VAT credit note as such may not be used to reduce VAT charged and reclaimed on a supply of goods or services. Instead, the initial transaction must be voided and a new VAT invoice must be issued for the correction of genuine mistakes.

Proof of exports. Tunisian VAT is not chargeable on supplies of exported goods. However, to qualify as VAT-free, the exported goods must be documented by a customs declaration proving that the goods have left Tunisia. In addition, persons subject to VAT that are primarily or exclusively engaged in activities relating to exports may benefit from suspended VAT on their purchases of goods and services required for the production of exported goods.

Foreign-currency invoices. A VAT invoice for transactions performed between two resident entities according to the exchange legislation must be issued in Tunisian dinars, according to the exchange legislation. If one or both of the parties are nonresident, the VAT invoice may be issued in a foreign currency.

B2C. There are no special rules for VAT invoices issued for suppliers made by taxable persons to private consumers.

Electronic invoicing. Electronic invoicing is permitted for taxpayers. Taxpayers using electronic invoices must submit a declaration to the competent tax authorities together with a certificate provided by the authorized entity's automated management system for electronic invoices processing. Electronic invoicing is mandatory for companies that fall under the Division for Large Enterprises.

Electronic invoicing users are not obliged to maintain digital copies of invoices, the authorized invoicing entity assumes the responsibility of keeping the digital invoices and may issue to the sender or the receiver a digital copy if requested.

I. VAT returns and payment

VAT returns. Tunisian VAT returns must be filed on a monthly basis. Returns must be filed by the 28th day of the following month for legal entities and by the 15th day of the following month for individuals.

Special schemes. For sales and purchases under the VAT suspension regime, the purchaser and the supplier must each make an electronic declaration, before the 28th day of the month that follows the quarter of the calendar year.

Electronic filing and archiving. The electronic filing of a monthly VAT returns is mandatory for entities whose annual revenue exceeds TND1 million. Below this threshold, electronic filing is optional.

Annual returns. Not applicable.

J. Penalties

For late filing of VAT returns or underpayments of VAT, penalties are imposed at a rate of 0.5% per month or fraction of a month for which the return or payment is late.

The following are other penalties related to VAT:
- 1.25% per month or fraction of a month for underpayments of VAT resulting from a tax audit
- 0.5% per month or fraction of a month in certain other cases
- 0.625% per month or fraction of a month when the taxpayer agrees to pay the tax due, as determined by the audit, and makes payment to the tax administration within 30 days of that acknowledgment (i.e., the penalties will be reduced by 50%)

For the sales and purchases under the VAT suspension regime, fines and penalties, which would be incurred by the purchaser and the supplier in case they do not comply with some formalities, are as follows:
- The purchaser: In case of undeclared purchase orders, the taxpayer must pay a fine that amounts to TND2,000 per undeclared purchase order for the first five purchase orders and TND5,000 each starting from the sixth purchase order.
- The seller: If the seller makes sales without obtaining an original of a certified purchase order, he would be subject to a fine that amounts to 50% of the VAT that would have been invoiced if the sales had been made out of the exceptional VAT suspension regime.

VAT credits unduly refunded under the full refund without a prior tax audit framework are subject to an administrative tax penalty equal to 100% of the VAT credit:
- Refund of the VAT derived from exportations of goods or services used or consumed out of Tunisia
- Refund of the VAT for the profit of the enterprises under the control of the Directorate of Large Business (DGE)

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A. At a glance

Name of the tax	Value-added tax (VAT)
Local name	Katma deger vergisi (KDV)
Date introduced	2 November 1984
Trading bloc membership	European Customs Union The system of Pan-Euro-Mediterranean Cumulation
Administered by	Revenue Administration (http://www.gib.gov.tr)
VAT rates	
Standard	18%
Reduced	1% and 8%
Other	Full exemption and partial exemption
VAT number format	1234567890
VAT return periods	Monthly
Thresholds	
Registration	None
Recovery of VAT by non-established businesses	Limited

B. Scope of the tax

VAT applies to the following transactions:

- The supply of goods or services made in Turkey by a taxable person in the course of performing commercial, industrial, agricultural or independent professional activities
- Services received in Turkey or benefited from in Turkey by a taxable person or any other person responsible for payment of the tax
- Goods and services imported into Turkey

C. Who is liable

A taxable person is any person or legal entity that is registered or must register for VAT in Turkey. Any entity that has a fixed place of business or regularly carries out commercial or professional operations in Turkey must register in Turkey.

No VAT registration threshold applies. VAT registration is granted automatically by the tax office when a business registers for corporate and income tax purposes. It is necessary to have a fixed place of business to register for tax. A fixed place of business includes a residence, place of business and registered head office or business center in Turkey. Only entities that are registered for tax may import goods into Turkey.

Group registration. VAT grouping is not permitted under Turkish VAT law. Legal entities that are closely connected must register for VAT separately. Related parties are regarded as separate for tax purposes.

Non-established businesses. A "non-established business" is a business that has no fixed establishment in Turkey. A non-established business may not register for VAT only. If a Turkish taxable person receives services from an entity that does not have a fixed establishment in Turkey, VAT is accounted for using the reverse-charge mechanism (that is, the Turkish recipient of the service must self-assess VAT).

Reverse charge. The reverse charge is a form of self-assessment for VAT through which the recipient of services accounts for the tax. The reverse charge applies if certain services subject to Turkish VAT are made by a person that is not resident in Turkey or that does not have a permanent establishment or headquarters in Turkey. The Ministry of Treasury and Finance is authorized to determine the parties responsible for the payment of VAT. The recipient does not need to be a taxable person under Turkish VAT law. The recipient may be an individual or an institution.

The reverse charge applies to the following services performed or used in Turkey:
- Transfers of copyrights, patents, licenses, trademarks, know-how and similar rights
- Import commissions
- Services of independent professionals, such as engineering, consulting, data processing and provision of information
- Interest payments made to foreign entities other than banks and financial institutions
- Rental services
- Transfer or assignment of the right to use capacity for the transmission, emission, or reception of signals, writings, images, sounds, or information of any nature by wire, radio, optical or other electromagnetic systems
- Other services not specified in this list

Penalties for reverse-charge supplies. Penalties apply to several VAT offenses, including failure to account for VAT under the reverse-charge mechanism. The penalty is the full amount of tax that has not been accounted for (i.e., 100% of the tax due). The amount of interest is calculated starting from the due date of the tax payment until the date on which the penalty notice is issued.

Tax representatives. Not applicable for VAT purposes.

Registration procedures. There is no online application system. An application must be submitted to the tax office with the documents listed below:
- Articles of association of the company
- Registration certificate or original trade registry gazette
- Signature circular document indicating the authorized signatories and their signature samples

- Trade registry document of the legal entity founder or authorized signatory (if any)
- Notarized passport copies of the authorized signatories and founders of the company
- Potential tax numbers of the founders and signatories which are obtained from the tax office
- Notarized lease agreement in the name of the company
- Originally signed Form of Commence Business (standard form to be received from the tax authority)
- Power of attorney (only if the application will be conducted by a representative)

Approximately one week after submitting an application with the above documents, the tax officer will conduct an inspection at the registered office of the company. This is to determine whether or not there actually is an office space with adequate equipment. The authorized signatory of the company shall be present for this inspection to sign the necessary documents, or such documents shall be signed by the representative via a power of attorney. Upon completion, the tax number will be issued within a few days.

Late-registration penalties. In case of late registration, the following penalties could apply:
- Tax loss penalty
- Late payment charge (interest)
- Irregularity penalty

Digital economy. VAT on electronically supplied services by non-established businesses (i.e., no residence, business place, legal center and business center) in Turkey to Turkish non-VAT taxpayers (a B2C supply) must be declared and paid by the supplier (the provider of the service). The service providers must register for "Special VAT Registration for Electronic Service Providers." Such service providers declare the VAT related to these transactions electronically with the VAT Return No. 3. There is no VAT registration threshold for these types of suppliers.

These service providers must fill in the form on the Turkish Revenue Administration's website (www.digitalservice.gib.gov.tr) before filing the VAT Return No. 3 for the first time. Upon completing and filing the aforesaid form online, the "Special VAT Registration for Electronic Service Providers" will be registered in the name of the service provider.

VAT is accounted for until the 24th day of the month following the tax period as per monthly tax periods of the calendar year. The return shall be filed electronically with the VAT Return No. 3 through the internet tax office in Turkish liras.

The VAT declared in this context must be paid until the 26th day of the month for the return period. Payment can be made to tax offices and banks that are authorized to collect taxes or through the Turkish Revenue Administration's website (www.gib.gov.tr) using debit cards of the banks that are authorized to collect taxes or credit cards.

Deregistration. In the case of the closing down of a business or the dissolution of a legal entity, the person authorized to represent the company must submit written notice to the tax office within one month of the date of closure. After submitting the application for the liability cancellation, a visit to the relevant workplace is performed by the authority to confirm its closure.

Exemption from registration. The VAT law in Turkey does not contain any provision for exemption from registration.

Voluntary registration. The VAT law in Turkey does not contain any provision for voluntary VAT registration as there is no registration threshold (i.e., all entities that make taxable supplies are obliged to register for VAT).

D. VAT rates

The term "taxable supplies" refers to supplies of goods and services subject to VAT.

In Turkey, the following VAT rates apply:
- Standard rate: 18%
- Reduced rates: 1% and 8%

The standard VAT rate applies to all supplies of goods or services, unless a specific measure provides for a reduced rate or exemption.

Examples of goods and services taxable at 1%

- Newspapers and magazines
- Basic foodstuffs
- Used passenger cars

Examples of goods and services taxable at 8%

- Foodstuffs
- Books
- Pharmaceuticals
- Medical products
- Some construction equipment
- Admission charges for cinemas, theaters, and operas

The term "exempt supplies" refers to supplies of goods and services not subject to VAT. "Partially exempt" supplies (as specified in Articles 16 and 17 of the VAT law) do not give rise to a right of input tax deduction (see Section F). Some supplies are classified as "fully exempt," which means that no VAT is due, but the supplier may recover related input tax. These supplies include exports of goods and related services.

Examples of partially exempt supplies of goods and services

- Leasing immovable property by an individual
- Financial transactions
- Supplies to certain cultural bodies
- Supplies by and to certain governmental bodies
- Water for agriculture
- The supply of unprocessed gold, foreign-exchange money, stocks and bonds, duty stamps, scrap metal, plastic and certain other items
- Storage services performed at bonded warehouses or temporary storage places
- Delivery of goods or performance of services in free-trade zones

Examples of fully exempt supplies of goods and services

- Exports of goods and services
- Services rendered at marinas and airports for marine and air conveyances
- International transport
- Supplies to persons engaged in petroleum exploration
- Supplies of goods to investment certificate holders
- Sales to the Directorate of the Defense Industry

Option to tax for exempt supplies. Taxpayers may submit a request to opt to tax exempt transactions by applying to the tax office in writing. The taxpayers who have an option to tax approved, and become liable for VAT in this way will not be able to change this option for a minimum of three years after the date of the option to tax applying.

The option to tax cannot be requested for:
- Exemptions with the purpose of culture and education, social utility and military
- Exemption regarding the transactions within the scope of banking and insurance tax and the transactions of insurance agents related to insurance activities

Excise tax (special consumption tax). An excise tax is imposed on the import, manufacture and first acquisition of a range of goods. The following are the groups of products subject to excise tax:
- Petroleum, gas and derivatives
- Automobiles and other vehicles
- Tobacco and specific beverages
- Luxury products

E. Time of supply

The time when VAT becomes due is called the "time of supply" or "tax point." The basic time of supply for goods is when they are delivered. The basic time of supply for services is when they are performed. However, if the supplier issues an invoice before the time of supply, VAT applies to the extent that the supply is covered by the invoice.

Prepayments. A prepayment or deposit does not result in a taxable transaction.

Continuous supplies of services. If services are received continuously but payment is made periodically, the tax is declared every month. If the invoice is issued before the declaration period, the tax point is the date of the invoice.

Goods sent on approval. The tax point for goods sent on approval is when the customer accepts the goods and a supply is made.

Imported goods. The time of supply for imported goods is either the date of importation or the date on which the goods leave a duty suspension regime.

Leased assets. There are no special time of supply rules in Turkey for supplies of leased assets.

Reverse-charge services. There are no special time of supply rules in Turkey for supplies of reverse-charge services.

F. Recovery of VAT by taxable persons

A taxable person may recover input tax, which is VAT charged on goods and services supplied to it for business purposes. A taxable person generally recovers input tax by deducting it from output tax, which is VAT charged on supplies made.

Input tax includes VAT charged on goods and services supplied in Turkey, VAT paid on imports of goods and VAT self-assessed on reverse-charge services.

If the input VAT exceeds the output VAT, the excess amount is generally not refunded but can be carried forward to subsequent VAT periods (see *Refunds*).

A valid invoice or customs document must generally accompany a claim for input tax. The right of deduction may be exercised in the tax period in which the purchase documents are entered into the recipient's books of account, but only until the end of the calendar year following the calendar year in which the taxable event takes place.

Nondeductible input tax. Input tax is not recoverable if it is charged on purchases of goods and services that are not used for business purposes and are considered to be nondeductible expenses for corporate tax purposes. In addition, input tax may not be recovered for partially exempt transactions.

Examples of items for which input tax is nondeductible

- Input tax of nondeductible expenses in corporate tax law
- Input tax of passenger cars
- Input tax of lost goods (covering all situations where goods were lost, other than an earthquake, flood disaster or fire disaster that has been announced by the Ministry of Finance as a force majeure)

Examples of items for which input tax is deductible (if related to a taxable business use)

- All kinds of commercial expenses for operating activities of the entity
- All direct and indirect expenses for commercial purposes of the entity

Partial exemption. An input tax deduction is granted for taxable supplies and for supplies that are exempt with credit. An input tax deduction is not granted for partially exempt supplies. If a taxable person makes both taxable and partially exempt supplies, it may recover only input tax related to supplies that are taxable or fully exempt.

Refunds. If the amount of input VAT recoverable in a period exceeds the amount of output VAT payable in the same period, a refund is, as a rule, not granted. In most cases, the taxable person must carry forward the excess amount to a future VAT period. Refunds of the excess are available only for the following:

- VAT related to supplies of goods subject to a reduced rate
- VAT related to supplies of goods and services that are exempt with credit

The amount of the VAT refund may be credited against other tax liabilities.

Preregistration costs. The amount of incurred VAT for the prior costs and expenditures related to the registration process could be deductible after the registration process is complete.

G. Recovery of VAT by non-established businesses

Turkey does not refund VAT incurred by non-established businesses, except for the following:

- Expenses by nonresident international transporters on repairs, fuel and spare parts
- Expenses by non-established businesses on fairs and exhibitions (if the business' country of residence is on mutual terms with Turkey)
- Expenses by foreign producers of cinematographic works approved by the Ministry of Culture and Tourism

H. Invoicing

VAT invoices and credit notes. Turkish taxable persons must provide invoices for all taxable supplies and services. Taxpayer recipients of the supplies and services must retain copies of the invoices.

Credit notes may not be used to reduce VAT charged and reclaimed on supplies of goods or services.

Proof of export. Turkish VAT is not charged on exports. However, to qualify as VAT-free, export supplies must be supported by evidence that confirms that the goods have left Turkey. The evidence required consists of the customs declaration, which clearly identifies the exporter, the customer, the goods and the export destination, and invoice information.

Foreign-currency invoices. An invoice issued for a domestic sale must be issued in Turkish lira. The invoice may also show the invoiced amount in a foreign currency if the TRY equivalents are stated.

An invoice issued for an export sale may be issued in a foreign currency. The amount of the invoice must be recorded in the supplier's books together with the exchange rate on the date of the transaction.

B2C. For supplies made by taxable persons to private consumers (i.e., not VAT registered), where the price of the supply is below TRY1,000, a till receipt is sufficient to be issued from the supplier to the purchaser, and there is no obligation to issue a full VAT invoice unless requested by the purchaser. *At the time of preparing this chapter, the price of supply for B2C invoices is TRY1,000. However, this is the amount for 2018 and the amount for 2019 has not yet been announced.*

Electronic invoicing. The Turkish taxpayers fulfilling the following conditions are required to use an e-invoicing system:

a) Taxpayers whose gross sales revenue is TRY10 million or more in 2014 and subsequent fiscal years.
b) Taxpayers with licenses from Energy Market Regulatory Authority for their activities in production, importation, delivery, etc., of goods listed in the List I attached to the Special Consumption Tax Law No. 4760 and dated 6 June 2002. Those who have dealership licenses will not be evaluated within the scope of this clause for specifically owning dealership license.
c) Taxpayers who produce, import or build goods in List III attached to the Special Consumption Tax Law.

Taxpayers who are permitted to use e-archiving, must e-archive the invoices, and those that are issued electronically, must be archived electronically. Taxpayers who are allowed to benefit from the e-archive application have to issue, deliver, archive and, whenever requested, submit the invoices as e-invoices, which are issued for those who are registered for e-invoicing. Taxpayers may use e-archiving in two methods: through their own information technology system or through a special integrator information technology system that has been authorized by the Revenue Administration.

I. VAT returns and payment

VAT returns. The VAT return period is monthly. Returns must be submitted electronically through the internet by the 24th day of the month following the end of the return period. Payment in full must be made by the 26th day of the same month.

Tax return liabilities must be paid in Turkish lira.

Special schemes. Returns must be declared in the form which was designated according to the provisions of Tax Procedural Law.

Electronic filing and archiving. Taxpayers are obliged to submit their tax returns by using the Ministry of Treasury and Finance's system called "e-beyanname." All tax returns must be submitted through this system and are electronically archived. Tax returns from previous periods are easily retrievable from this system.

Annual returns. Not applicable.

J. Penalties

No specific penalties relate to VAT offenses. Penalties are prescribed by the Tax Procedures Code, which defines various acts of noncompliance with the tax laws.

Uganda

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A. At a glance

Name of the tax	Value-added tax (VAT)
Date introduced	1 July 1996
Trading bloc membership	Common Market for Eastern and Southern Africa (COMESA); East African Community
Administered by	Uganda Revenue Authority (https://www.ura.go.ug/)
VAT rates	
Standard rate	18%
Others	Zero-rated (0%) and exempt
VAT number format	10-digit numeric tax identification number in the form of 1234567890
VAT return periods	Monthly, with return due by the 15th day of the month following the month covered by the return
Thresholds	
Registration	Annual amount of UGX150 million (approximately USD4,000)
Recovery of VAT by non-established businesses	Not allowed

B. Scope of the tax

VAT applies to the following transactions:
- Taxable supplies of goods and services made in Uganda by taxable persons
- Imports of goods other than exempt imports
- Supplies of imported services other than exempt services

C. Who is liable

The persons liable for VAT in Uganda vary according to the type of supply. The following persons are liable for VAT in Uganda:
- Taxable supply in Uganda: the taxable person making the supply
- Import of taxable goods: the importer
- Import of taxable services: the recipient of the services

The annual registration threshold is UGX150 million.

A "taxable person" is defined in the Uganda VAT Law as someone that is registered or required to be registered for VAT in Uganda.

Group registration. The Uganda VAT act does not allow group registration.

Non-established businesses. A "non-established business" is a business that does not have a fixed place of abode or business in Uganda. Non-established businesses are not liable to charge and account for VAT except where they provide specified electronic services delivered remotely to persons who are not taxable persons in Uganda at the time of supply.

Tax representative of a nonresident business. Any individual controlling the nonresident person's affairs in Uganda, such as a manager of a business belonging to the nonresident person or any representative appointed by the nonresident person in Uganda, is referred to as the nonresident person's tax representative. The tax representative is responsible for performing any duty or obligation imposed by the tax law on a taxpayer, including the submission of returns and payment of tax.

Registration procedures. A person that is not already a registered person must apply to be registered in accordance with the VAT act by the following dates:
- Within 20 days after the end of any period of 3 calendar months if during that period the person made taxable supplies, the value of which exclusive of any tax exceeded UGX37.5 million (approximately USD11,000)
- At the beginning of any period of three calendar months if reasonable grounds exist to expect that the total value of taxable supplies, exclusive of any tax, to be made by the person during the period will exceed UGX37.5 million (approximately USD11,000)

Applications for VAT registration are done online (https://www.ura.go.ug/) using a form/template prescribed by the Commissioner General. A person who applies for registration is registered and issued a certificate of registration if the Commissioner General is satisfied that the person is eligible for registration under the VAT act and has a fixed place of abode or business. The Commissioner General must also be satisfied that that person:
- Will keep proper accounting records relating to any business activity
- Will submit regular and reliable tax returns
- Is a fit and proper person to be registered

Registration for VAT takes an average of two days from the date a complete application is submitted.

Late-registration penalties. A person who fails to apply for registration as required by the VAT law is liable to pay a penalty equal to double the amount of the tax payable during the period commencing on the last day of the period when the obligation to register arises until either the person files an application for registration or the tax authority registers the person forcefully.

Reverse charge. Generally, not applicable except for the import of services made by a contractor or licensee in the petroleum or mining sector, or a person providing business process outsourcing services.

Specifically, reverse charge does not apply in the following cases:

(i) In cases where the importer of the service is registered (or required to be registered) for VAT in Uganda (i.e., a taxable person), the business of the supplier from which the services are supplied is in Uganda

(ii) In cases where the importer of the service is a nontaxable person, the services are performed in Uganda by a person who is in Uganda at the time of the supply or the services are in connection with immovable property in Uganda or the services are radio or television broadcasting services received in Uganda or the services are electronic services delivered to a person in Uganda or the supply of intellectual property rights in Uganda or the supply of telecommunication services

At the time of preparing this chapter, there is currently controversy on the issue of reverse-charge VAT on imported services regarding whether the place of supply provision is applicable to the imported services provision. The matter is before the courts of law and the Tax Appeals Tribunal and a decision is yet to be issued.

Digital economy. For business-to-business (B2B) transactions, the customer would have imported a service and would therefore be expected to account for the output VAT on imported services.

For business-to-consumer transactions, the content is an imported service for which the individual customer is required to account for VAT through a self-charging mechanism. However, there would be no mechanism for the individual to account for VAT if the individual does not meet the VAT registration threshold requirements.

Deregistration. In the following circumstances, the VAT-registered person should submit an application for VAT deregistration online by amending the taxable person's Tax Identification Number (TIN):

- If the taxable person has ceased to make supplies of goods or services for consideration as part of their business activities
- If, with respect to the most recent period of three calendar months, the value of taxable supplies exclusive of tax does not exceed one-quarter of the annual registration threshold and if the value of taxable supplies exclusive of tax for the previous 12 calendar months does not exceed 75% of the annual registration threshold

However, the Commissioner General may also initiate the cancellation of a person's VAT registration if the Commissioner General is satisfied that any one of the following circumstances exist:

- The taxable person is neither required nor entitled to apply for VAT registration
- The taxable person has no fixed place of abode or business
- The taxable person has not kept proper accounting records relating to its business activity
- The taxable person has not submitted regular and reliable tax returns
- The taxable person is not, in the opinion of the Commissioner General, a fit and proper person to be registered

The Commissioner General is required to serve notice in writing on a taxable person of a decision to cancel or refuse to cancel registration within 14 days of making the decision. The cancellation of registration takes effect from the end of the tax period in which the registration is canceled.

Deregistration does not affect the person's obligations and liabilities while the person was still a taxable person under the VAT act, including the lodging of VAT returns and payments of any taxes due.

Exemption from registration. The VAT law in Uganda does not contain any provision for exemption from registration.

Voluntary registration. The VAT law in Uganda contains a provision for application for voluntary registration of persons supplying goods or services for consideration. In exercising the discretion whether to grant the voluntary registration or not, the Commissioner General must be satisfied that the person has a fixed place of abode or business; will keep proper accounting records; will submit regular and reliable tax returns and that the person is a fit and proper person to be registered.

D. VAT rates

The term "taxable supply" refers to a supply of goods or services, other than an exempt supply, made in Uganda, by a taxable person for consideration in the course of his or her business activities.

The following are the VAT rates in Uganda:
- Standard rate: 18%
- Zero rate: (0%)
- Exempt: (not in the VAT regime)

The standard rate of VAT generally applies to taxable supplies of goods or services. The zero rate applies to exports plus other supplies, examples of which are listed below.

Examples of supplies of goods and services taxable at 0%

- Exports of goods or services from Uganda
- International transport of goods or passengers and tickets for their transport
- Drugs and medicines
- Educational materials
- Seeds, fertilizers, pesticides, and hoes
- Sanitary towels and tampons and inputs for their manufacture
- Leased aircraft, aircraft engines, spare engines, spare parts for aircraft and aircraft maintenance equipment
- The supply of cereals grown and milled in Uganda
- The supply of handling services provided by the National Medical Stores in respect of medical supplies, funded by donors

Exempt supplies generally do not give rise to a right to deduct input tax.

Examples of exempt supplies of goods and services

- Livestock, unprocessed foodstuffs and unprocessed agricultural products except wheat grain
- Postage stamps
- Financial services
- Services related to health insurance, life insurance, micro insurance and reinsurance services
- Unimproved land
- Sale, letting or leasing immovable property, other than:
  - — Sale, lease or letting of commercial premises
  - — Sale, lease or letting for parking or storing cars or other vehicles
  - — Sale, lease or letting of hotel or holiday accommodation
  - — Sale, lease or letting for periods not exceeding three months
  - — Sale, lease or letting of service apartments
- Education services
- Veterinary, medical, dental, and nursing services
- Social welfare services
- Betting, lotteries and games of chance
- Goods as part of a transfer of a business as a going concern by one taxable person to another taxable person
- Burial and cremation services
- Precious metals and other valuables to the Bank of Uganda for the State Treasury

- Passenger transportation services (other than tour and travel operators)
- Petroleum fuels subject to excise duty (motor spirit, kerosene and gas oil), spirit-type jet fuel, kerosene-type jet fuel and residual oils for use in thermal power generation to the national grid
- Dental, medical and veterinary goods, including:
  - — Dental, medical and veterinary equipment
  - — Ambulances
  - — Contraceptives of all forms
  - — Maternity kits (mama kits)
  - — Medical examination gloves
  - — Medicated cotton wool
  - — Mosquito nets, acaricides, insecticides and mosquito repellent devices
  - — Diapers
- Animal feeds and premixes
- Selected machinery, tools and implements suitable for use only in agriculture
- Crop extension services
- Irrigation works, sprinklers and ready-to-use drip lines
- Deep cycle batteries, composite lanterns and raw materials for the manufacture of deep cycle batteries and composite lanterns
- Menstrual cups
- Agriculture insurance premium or policy
- Photosensitive semiconductor devices, including photovoltaic devices, regardless of whether they are assembled in modules or made into panels, light-emitting diodes, solar water heaters, solar refrigerators and solar cookers
- Solar power
- Life jackets, life-saving gear, headgear and speed governors
- Any goods or services supplied to the contractors and subcontractors of hydroelectric power projects
- Movie production
- Bibles and Qur'ans and textbooks
- Services to conduct feasibility study, design and construction:
  - — Construction materials to a developer or operator of an industrial park or free zone, the developer's investment capital is at least USD100 million and the operator's should be at least USD15 million (foreigner) or USD10 million in case of a citizen
  - — Locally produced materials for construction of premises, infrastructure, machinery and equipment or furnishings and fittings that are not available on the local market to a hotel or tourism facility developer whose investment capital is USD8 million with room capacity exceeding 100 guests
  - — Locally produced materials for construction of premises, infrastructure, machinery and equipment or furnishings and fittings to a hospital facility developer whose investment capital is at least USD5 million and who develops a hospital at the level of a national referral hospital with capacity to provide specialized medical care
- Earth moving equipment and machinery for development of an industrial park or free zone to a developer of an industrial park or free zone
- Wet processing operations and garmenting, cotton lint, artificial fibers for blending; polyester staple fiber, viscose rayon fiber yarn other than cotton yarn, textile dyes and chemicals garment accessories, textile machinery spare parts, industrial consumables for textile production, textile manufacturing machinery and equipment
- Fabrics and garments made in Uganda by vertically integrated textile mills that operate spinning, weaving/knitting, wet processing operations and garmenting
- Production inputs into iron ore smelting into billets for further value addition in Uganda
- Production inputs into limestone mining and processing and processing into clinker in Uganda and the supply of clinker for further value addition in Uganda

- Production inputs necessary for processing of hides and skins into finished leather products in Uganda and the supply of leather products wholly made in Uganda

E. Time of supply

The time when VAT becomes due is called the "time of supply." The following are the rules for the time of supply:

- If goods are applied for a person's own use, the time of supply is the date on which the goods or services are first applied to the person's own use.
- If the goods or services are supplied as a gift, the time of supply is the date on which ownership in the goods passes or the performance of the service is completed.
- In all other cases, the time of supply is the earliest of the following dates:
  - — The goods are delivered or made available, or the performance of the service is completed.
  - — The payment for the goods or services is made.
  - — A tax invoice is issued.

If goods are supplied under a rental agreement or if goods or services are supplied under an agreement or law that provides for periodic payments, the goods or services are treated as successively supplied for successive parts of the period of the agreement or supplied as determined by that law, and each successive supply occurs on the earlier of the date on which payment is due or received.

Imported goods. VAT on imported goods is due at the time of import.

Deposits and prepayments. The time of supply occurs and VAT is due on the date on which the payment for the goods or services is made.

Goods sent on approval for sale or return. The time of supply occurs and VAT is due on the date on which the goods are delivered or made available.

Leased assets. The assets are treated as successively supplied for successive parts of the period of the agreement and each successive supply occurs on the earlier of the date on which payment is due or received.

Reverse-charge services. Where applicable in cases of import of services made by a contractor or licensee in the petroleum or mining sector, or a person providing business process outsourcing services, the reverse charge and VAT is due at the time of import of the services. The same treatment applies to imported goods.

Continuous supplies. The goods or services are treated as successively supplied for successive parts of the period of the agreement and each successive supply occurs on the earlier of the date on which payment is due or received.

F. Recovery of VAT by taxable persons

A credit is allowed to the taxable person for the tax payable with respect to taxable supplies made to that person during the tax period and all imports of goods made by that person during the tax period, if the supply or import is for use in the business of the taxable person.

On registration, a credit is allowed to a taxable person for input tax paid or payable with respect to taxable supplies of goods, including capital assets, made to the person, and imports of goods, including capital assets, made by the person before registration, if all of the following conditions are satisfied:

- The supply or import was for use in the business of the taxable person.
- The goods are on hand at the date of registration.
- The supply or import occurred not more than six months for capital goods and four months for other supplies before the registration date.

Nondeductible input tax. VAT may not be recovered on purchases of goods and services that are not used for business purposes (for example, goods acquired for private use by an entrepreneur). In addition, input tax may not be recovered for certain business expenses.

The following lists provide some examples of items of expenditure for which input tax is not deductible and examples of items for which input tax is deductible if the expenditure is for purposes of making a taxable supply.

Examples of items for which input tax is nondeductible

- Taxable supply or import of a passenger automobile and the repair and maintenance of the automobile, including spare parts
- Entertainment (provision of food, beverages, tobacco, accommodation, amusement, recreation or hospitality of any kind) unless the person is in the business of providing entertainment or supplies meals or refreshments to his or her employees in premises operated by him or her, or on his or her behalf solely for the benefit of his or her employees

Examples of items for which input tax is deductible (only if related to a taxable business use)

- A supply or import of a passenger automobile and the repair and maintenance of the automobile, including spare parts, if the automobile is acquired by the taxable person exclusively for the purpose of making a taxable supply of that automobile in the ordinary course of a continuous and regular business of selling, dealing in or hiring of passenger automobiles
- Entertainment if the taxable person is in the business of providing entertainment
- Supplies of meals or refreshments by employers to their employees in premises operated by the employers or on the employers' behalf, solely for the benefit of the employees

Partial exemption. If a taxable supply to, or an import of goods by, a taxable person is partly for a business use and partly for another use, the amount of the input tax allowed as a credit is the part of the input tax that relates to the business use.

If the percentage of the total amount of taxable supplies to the total amount of all supplies made by the taxable person during the period (other than the supply of goods as part of the transfer of a business as a going concern) is less than 5%, the taxable person may not credit any input tax for the period.

If the percentage of the total amount of taxable supplies to the total amount of all supplies made by the taxable person during the period (other than the supply of goods as part of the transfer of a business as a going concern) is more than 95%, the taxable person may credit all input tax for the period.

The Commissioner General may approve a proposal by a taxable person for the apportionment of input tax credit when the taxable person makes both taxable and exempt supplies.

Refunds. If, for a tax period, a taxable person's input tax credit exceeds the person's liability for tax for that period, the Commissioner General must refund the excess to the person within one month after the due date for the return for the tax period to which the excess relates, or within one month of the date when the return was filed if the return was not filed by the due date.

Notwithstanding the above, if the taxable person's input credit exceeds his or her liability for tax for that period by less than UGX5 million, the Commissioner General may offset the excess amount against the future liability of the taxable person, except in the case of an investment trader or person providing mainly zero-rated supplies. In addition, with the consent of the taxable person, if the taxable person's input credit exceeds his or her liability for tax for that period by UGX5 million or more, the Commissioner General may offset the excess amount against the future liability of the taxable person, or apply the excess in reduction of any other tax not in dispute that is due from the taxpayer.

A claim for a refund of input tax must be made in a return within three years after the end of the tax period in which tax was overpaid.

Preregistration costs. A credit is allowed to a taxable person on becoming registered for input tax paid or payable in respect of:
- All taxable supplies of goods, including capital assets, made to the person prior to the person becoming registered
- All imports of goods, including capital assets, made by the person prior to becoming registered

Where the supply or import was for use in the business of the taxable person, the input tax paid for those supplies is creditable provided that the goods are on hand at the date of registration and that the supply or import occurred not more than six months prior to the date of registration.

G. Recovery of VAT by nonresidents

Uganda does not refund VAT incurred by foreign non-established businesses and there is no mechanism for refunding VAT to foreign visitors or tourists at the port of exit from Uganda.

H. Invoicing

VAT invoices and credit notes. A tax invoice must contain the following particulars:
- The words "tax invoice" written in a prominent place
- The commercial name, address, place of business, and the tax identification number of the taxable person making the supply
- The commercial name, address, place of business, and the tax identification number of the recipient of the taxable supply
- The individualized serial number and the date on which the tax invoice is issued
- A description of the goods or services supplied and the date on which the supply is made
- The quantity or volume of the goods or services supplied
- The tax rate for each category of goods and services described in the invoice
- The total amount of tax charged, the consideration for the supply exclusive of tax and the consideration inclusive of tax

A credit note must contain the following particulars:
- The words "credit note" in a prominent place
- The commercial name, address, place of business, and the tax identification and VAT registration numbers of the taxable person making the supply
- The commercial name, address, place of business, and the tax identification and VAT registration numbers of the recipient of the taxable supply
- The date on which the credit note was issued
- Tax rate
- Taxable value of the supply shown on the tax invoice, the correct amount of the taxable value of the supply, the difference between those two amounts, and the tax charged that relates to that difference
- A brief explanation of the circumstances resulting in the issuance of the credit note
- Sufficient information to identify the taxable supply to which the credit note relates

Proof of exports. Goods that are supplied by a registered taxpayer to a person in another country that are delivered by a registered taxpayer to a port of exit for export may be invoiced at the zero rate if the registered taxpayer obtains documentary proof and if the goods are removed from Uganda within 30 days of delivery to a port of exit.

The Commissioner General may require that goods for export specified in a notice in the *Uganda Gazette* be distinctively labeled by the registered taxpayer. The Commissioner General will issue guidelines to specify the color, size, and type of labels.

For an export transaction to qualify for the zero rate, a registered taxpayer must show as proof of export the following:
- A copy of the bill of entry or export certified by the customs authorities
- A copy of the invoice issued to the foreign purchaser with tax shown at the zero rate
- Evidence sufficient to satisfy the Commissioner General that the goods have been exported, in the form of an order from, or signed contract with, a foreign purchaser, or transport documentation that identifies the goods such as transit order or consignment note, copy of bill of lading, copy of airway bill or copy of transit document

If services are supplied by a registered taxpayer to a person outside Uganda, the services qualify for a zero rate only if the taxpayer can provide evidence that the services are used or consumed outside Uganda. This evidence can be in the form of a contract with a foreign purchaser and must clearly indicate that the place of use or consumption of the service is outside Uganda or that the service is provided for a building or premises outside Uganda.

Foreign-currency invoices. Foreign-currency invoices are treated in the same manner as local-currency invoices. However, the tax authorities require that for purposes of accounting for output VAT and input VAT, the exchange rate prescribed by the tax authorities for that tax period is used.

B2C. Taxable persons (i.e., those registered for VAT or required to be registered for VAT in Uganda) making supplies to any person, are required to issue all customers with a VAT invoice. Simplified tax invoices can only be issued by a registered person with a taxable turnover below UGX100 million (approximately USD28,000) per annum to another registered taxable person and in respect to individual items on the invoice that do not exceed UGX50,000 (approximately USD14) and the total invoice value does not exceed UGX100,000 (approximately USD28).

Electronic invoicing. Electronic invoicing is not mandatory but is available for taxpayers. It is optional. Taxpayers do not have to apply to use electronic invoicing, and there are no special rules for taxpayers to use it. However, records (including invoices) kept in electronic format should be capable of being retrieved and converted to a standard record format equivalent to that contained in an acceptable paper record.

I. VAT returns and payment

VAT returns. The VAT tax period is one month. Returns must be filed by the 15th day after the end of the tax period. Payment is due in full by the same date. A "nil" return must be filed if no VAT is payable (either because the taxable person does not make any supplies or input tax exceeds output tax in the period).

If the normal filing date falls on a public holiday or on a weekend, the VAT return must be submitted on the last working day before that day.

Special schemes. Not applicable.

Electronic filing and archiving. All VAT returns are now being submitted online following the introduction of the e-tax system. The returns are populated and uploaded using return templates designed by the tax authorities. Similarly, amendments to VAT returns are also done online.

Annual returns. Where a taxable person who deals in both exempt and taxable supplies apportions its input tax using the fraction of taxable supplies to total supplies made in any tax period, the taxable person is required to make a calculation of input tax based on the annual value of taxable and exempt supplies within the period following the end of the year.

J. Penalties

The late submission of a return is subject to a penalty of UGX200,000 or an interest charge at 2% compounded for the period the return is outstanding, whichever is higher.

A person who fails to pay tax imposed before the due date is liable for a penal tax on the unpaid tax at 2% compounded.

The interest due and payable on unpaid tax shall not exceed the aggregate of the principal tax and penal tax.

For the avoidance of doubt, where the interest due and payable as at 30 June 2017 exceeds the aggregate referred to above, the interest in excess of the aggregate shall be waived.

A person is liable to pay penal tax equal to double the amount of tax due, refund or an offset claim if the person knowingly or recklessly makes a statement or declaration to an official that is false or misleading regarding a material item or omits from a statement made to an officer any matter or item without which the statement is materially misleading and if the tax properly payable by the person exceeds the tax that was assessed based on the false or misleading information, the amount of the refund claimed is false or the person submitted a return with an incorrect offset claim.

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A. At a glance

Name of the tax	Value-added tax (VAT)
Local name	Podatok na dodanu vartist (PDV)
Date introduced	1 January 1992
Trading bloc membership	None
Administered by	State Fiscal Service of Ukraine (http://www.sfs.gov.ua)
VAT rates	
Standard	20%
Reduced	7%
Other	Zero rate and exempt
VAT number format	Tax identification number (TIN): 12, 10 or 9 digits, depending on type of entity
VAT return periods	Monthly (quarterly for certain groups of taxpayers)
Thresholds	
Registration	Taxable supplies in excess of UAH1 million during preceding 12 calendar months
Recovery of VAT by non-established businesses	No

B. Scope of the tax

VAT applies to the following transactions:
- Supply of goods if the place of supply is within the customs territory of Ukraine including the free-of-charge transfer and the transfer of title to pledged property to the creditor, transfer of title to goods under a commodity loan and transfer of a financial lease object to a lessee
- Supply of services if the place of supply is within the customs territory of Ukraine
- Import of goods into Ukraine
- Export of goods from Ukraine
- Supply of services with respect to the international transportation of passengers, luggage and shipment of cargo by railway, automobile, sea and air transport
- Deemed supplies in cases specified by law

The following transactions are exempt from VAT (the list is not exhaustive and conditions may apply):
- Supplies of certain types of software (temporarily, until 1 January 2023)
- Most banking services
- Insurance and reinsurance services and services of securities traders
- Transfer of property with respect to pledges or operational leases
- Mergers and acquisitions
- Certain transactions under the product-sharing agreements when the taxable person maintains special tax accounting

In general, supplies of goods and services, where the place of supply is within the customs territory of Ukraine, are considered taxable by Ukrainian VAT.

Place of supply of goods. The following goods are deemed to be supplied in Ukraine:
- Goods located in Ukraine at the time of their supply, if they are not shipped, transported, assembled or installed
- Goods located in Ukraine at the time when shipment or transportation begins
- Goods assembled or installed in Ukraine, if such assembly or installation is performed by the seller or on its behalf

Place of supply of services. The following are the rules for determining the place of supply of services:
- Services related to movable property (for example, repairs and services auxiliary to transportation), services in the areas of culture, art, education, science, sport and entertainment, organization of training courses and seminars and certain other services: the place of their actual supply
- Services related to immovable property: the actual location of the immovable property
- Consulting, engineering, legal, accounting, audit, secondment, advertising, forwarding, information technology, data processing, telecommunication, broadcasting and certain other services: the place where the service recipient is incorporated
- Other services: the place where the supplier is registered

C. Who is liable

A VAT taxpayer is any legal entity, individual (entrepreneur) or representative office of a nonresident that meets any of the following conditions:
- The person that is registered as a VAT taxpayer or is subject to a registration as a VAT taxpayer
- The person imports goods into Ukraine in amounts subject to taxation (provided such person is liable for payment of taxes on the import of goods)
- The person maintains accounting under joint activity (JA) arrangements
- The person performs asset management
- The person disposes of seized, abandoned or unclaimed property as well as property inherited or transferred to the state (regardless of threshold and tax status of such person)
- The person is liable to administer tax with respect to services supplied by railway transportation companies

If an importer is not registered as a VAT taxpayer and imports goods in amounts subject to tax, it pays VAT during customs clearance without registration.

If a nonresident entity (including a permanent establishment of a nonresident that has not registered for VAT) supplies services with a place of supply in Ukraine, the service recipient must accrue and pay VAT to the treasury.

A legal entity, individual entrepreneur (except for an entrepreneur who uses the simplified taxation system and belongs to certain groups) or representative office of a nonresident must register

as a VAT taxpayer if its taxable supplies exceeded UAH1 million (net of VAT) during the preceding 12 calendar months.

A registrant is assigned a tax identification number (TIN), which is 12 digits for legal entities and permanent establishments of nonresidents (except those for which a 9-digit number applies — see below) and 10 digits for private entrepreneurs. A 9-digit TIN is assigned to the following entities:

- Entities paying tax from a joint activity without establishing a legal entity
- Property managers under property-management agreements
- Investors under product-sharing agreements
- Permanent establishments of nonresidents that do not have an identification number in the Unified State Register of Enterprises and Organizations of Ukraine
- Permanent establishments of nonresidents created through:
  - A building site, construction, assembly or installation project if it lasts more than six months
  - Employees/other personnel hired by a nonresident for the provision of services (excluding provision of personnel) if these activities last more than six months within any 12-month period
  - Residents authorized to act exclusively on behalf of a given nonresident

Group registration. Not applicable.

Non-established businesses (foreign legal entities). In general, VAT registration of the non-established business is not possible. If a nonresident falls under mandatory VAT registration requirements or wishes to opt for voluntary VAT registration, it must first establish a business presence in Ukraine.

No VAT recovery mechanism is available for non-established businesses.

Registration procedures. Existing entities that are subject to a mandatory registration file registration request by the 10th day of the calendar month following the month in which the threshold (UAH1 million) was achieved.

It is possible to file the registration application electronically provided the requestor registered a valid electronic signature in accordance with acting legislation. The request must be submitted personally by the individual (entrepreneur) or the company's director/representative.

The tax authority includes the entity in the register of VAT taxpayers within three working days after receipt of the registration request or from the date indicated by the requestor (in case of voluntary registration). The tax authority issues the VAT registration certificate.

Information about registered VAT taxpayers and entities de-registered as VAT taxpayers is available online at the following link: https://cabinet.sfs.gov.ua/cabinet/faces/public/reestr.jspx.

Late-registration penalties. Late registration or violation of other tax registration requirements may trigger a fine of UAH170 for self-employed persons and UAH510 for the legal entities or JA tax agents. For a repeated violation, the amount of the fine increases to UAH340 and UAH1,020, respectively.

If the tax authorities determine that late registration caused tax understatement and reassesses the taxpayer's tax liability, general fines for tax understatement apply. The fines are imposed at the following percentages of the understated tax liability:

- 25% for the first violation
- 50% for a repeated (within 1,095 days) violation

An interest penalty may also apply.

In addition, the taxpayer is not eligible for a VAT credit or refund with respect to input VAT incurred before VAT registration.

Tax representatives. Not applicable.

Reverse charge. Not applicable.

Digital economy. For business-to-business transactions, there is no VAT if the payment qualifies as a royalty. VAT is expected to apply if the payment represents a service fee (and the service is deemed to be supplied in Ukraine). In this case the customer should self-assess VAT through the reverse-charge mechanism.

Under the general rule, the place where services are supplied is deemed to be at the place of the service provider's registration. In this case, no VAT implications are anticipated in Ukraine, since the nonresident's business is based outside of Ukraine. However, if the services qualify as a special type of service (e.g., those in the sphere of informatics or data processing, including the use of computer systems, development, supply and testing of software, or use of intellectual property objects, including those under license agreements), these services may be deemed as supplied at the place of the service recipient's registration (i.e., in Ukraine). VAT would apply in those cases, and the customer would have to self-assess VAT through the reverse-charge mechanism.

Temporary (until 2023) VAT exemption may apply to supply of software (including "online services," although there is no certainty as to the scope of this term) and transactions with software where payment does not qualify as royalty (e.g., sale to end-users, sale of data media with software). Eligibility for the exemption should be analyzed and contractual language will be important for this analysis.

For business-to-consumer transactions, the qualification of transactions for VAT purposes should be the same as described in above. However, even if VAT should formally apply, there may be no VAT payer in Ukraine, since the individual consumer is not a VAT payer and cannot reverse charge VAT by itself, and therefore nobody will be liable for VAT in this case.

Deregistration. An entity registered as a VAT payer for the past 12 months may apply for deregistration if the value of its taxable supplies for the past 12 calendar months was below UAH1 million. Deregistration is also available at the request of the VAT payer or the tax authorities in cases such as the following:

- The entity took a decision to liquidate.
- The VAT payer has been registered as a single taxpayer, which does not envisage payment of VAT.
- The VAT payer has not been filing VAT return for 12 consecutive months and/or has filed VAT returns evidencing absence of taxable supplies/purchases.
- A court judged the entity's statutory documents to be invalid.
- A court ruled to liquidate the legal entity due to bankruptcy.
- The taxpayer is liquidated under a court decision, or the entity is relieved from VAT under a court decision.
- The individual entrepreneur has died.
- A joint activity or asset management or production sharing agreement expires.

Once deregistered, the entity is not allowed to credit input VAT and invoices.

Exemption from registration. VAT law in Ukraine does not contain any provision for exemption from registration for VAT.

Voluntary registration. A person that does not reach the registration threshold may still opt for a voluntary VAT registration. Existing entities willing to register voluntarily file a registration request not later than 20 calendar days prior to tax period from which these entities would qualify as VAT

taxpayers. Such entities may indicate the date from which they would qualify as VAT taxpayers in their application. Newly registered entities may register voluntarily through applying in writing to the state registrar who then passes this application to the tax authorities.

D. VAT rates

The following VAT rates apply:
- Standard rate: 20%
- Reduced rate: 7%
- Zero rate: (0%)

The standard rate of VAT applies to all supplies of goods and services falling within the scope of VAT, unless the law provides a zero rate, 7% rate or VAT exemption for a specific transaction.

Examples of goods and services taxable at 7%

- Supplies within Ukraine and import into Ukraine of registered medicines and medical devices that are either duly registered or which compliance with technical regulations is supported by a compliance certificate
- Supplies within Ukraine and import into Ukraine of medicines, medical devices and/or medical equipment for use in clinical trials permitted by the Ministry of Health of Ukraine

Examples of goods and services taxable at 0%

- Exports of goods (under customs regime of export, re-export (return of goods), duty-free shop and free customs area)
- International transportation of passengers, luggage and shipments of cargo
- Processing and repairs of imported movable property that is subsequently exported from Ukraine

Examples of exempt supplies of goods and services (conditions apply)

- Supplies of certain types of software (temporarily, until 1 January 2023)
- Health care and rehabilitation services
- Supplies of baby nutrition
- Educational services
- Charity
- Supply of land plots (except for those located under real estate objects and included in their value under legislation)
- Supplies of housing (except for the first supply)
- Supplies of periodical printed mass media (newspapers and journals), books, etc., of domestic production
- Religious and funeral services
- Supplies to embassies, consulates and representations of international organizations (for their own needs) on a reciprocal basis
- Imports of cultural items produced 50 or more years ago
- Disposals by banks and financial institutions of property pledged by non-VAT taxpayers
- Sales or purchases by banks of liabilities on deposits
- Imports of certain equipment for wind and solar power plants
- Export of soya beans (from 1 September 2018 till 31 December 2021), rape and colza seeds (from 1 January 2020 till 31 December 2021) — exemption without credit to be applied (this exemption is not available to export of these goods by agricultural manufacturers of these goods grown on agricultural lands, permanently used or leased by them)

Option to tax for exempt supplies. Under Ukraine's tax code a taxpayer may elect to reject or postpone tax exemption for a period of months. However, in practice this is difficult to implement.

E. Time of supply

The Ukrainian VAT laws do not contain the concept of "time of supply." Instead, the tax code contains detailed rules with respect to the time for recording VAT liabilities and recognizing VAT credits.

VAT liability. Under the general "first event" rule, VAT liability arises on the occurrence of the first of the following events:
- The date on which goods or services are dispatched or rendered
- The date on which payment is received with respect to a supply of goods or rendering of services

Special rules apply to certain transactions, including the following:
- For the import of goods, VAT liability arises on the filing of the customs declaration for customs clearance.
- For the import of services (where the place of supply is within Ukraine), VAT liability arises on payment or execution of the act of acceptance, whichever occurs first.
- For long-term agreements, VAT liability arises on the delivery of the work results.
- For financial leasing, VAT liability arises on the transfer of the lease object to the lessee.

VAT credit. Under the "first event" rule for VAT credit, the right to a VAT credit arises on occurrence of the first of the following events (provided other conditions are met):
- The date on which the taxpayer makes the payment for goods or services
- The date on which the taxpayer receives the goods or services

Special rules include the following:
- For the import of goods, the right to VAT credit arises on the payment (accrual) of VAT on the filing of the customs declaration for the customs clearance.
- For the import of services, the right to VAT credit arises on the date the VAT invoice is self-issued and registered in the Unified Tax Invoice Register.
- For long-term agreements, the right to VAT credit arises on the receipt of the work results (execution of the acts of work acceptance).
- For financial leasing, the right to VAT credit arises on the receipt of the lease object by the lessee.

Reverse-charge mechanism. A reverse-charge mechanism applies if a nonresident entity (including a permanent establishment of the nonresident that has not registered for VAT) supplies services for which the place of supply is within Ukraine.

In these cases, the VAT liability would arise for the service recipient under the reverse-charge procedure. The service recipient accrues a VAT liability on the payment for the services or the execution of the act of acceptance, whichever occurs first. The service recipient registered as a VAT taxpayer may record a VAT credit after registration of the VAT invoice in the Unified Tax Invoice Register.

Imported goods. Import of goods is subject to VAT at 20% rate or 7% rate (applies to a limited range of the goods) unless exemption is available under current legislation. Tax base includes contractual value or customs value of the goods, whichever is higher, including excise tax and customs duty paid. VAT liabilities arise and VAT is paid during filing import customs declaration for customs clearance of the goods. It is not possible to delay payment of import VAT. The importer may credit import VAT in the tax return for a tax period in which import VAT was paid. VAT credit should be supported by import customs declaration. Customs may allow payment of VAT by installments for a period of up to 24 or 36 months during import of certain equipment for own manufacturing needs under the procedure approved by the government. The time of installments depends on the type of the equipment. VAT amount payable should be guaranteed to customs through financial/banking guarantee or pledge of the equipment.

Deposits and prepayments. There are no special time of supply rules in the Ukraine for deposits and prepayments. As such, the general time of supply rules apply (see above). For prepayments (except for export/import of goods) these normally trigger a VAT event. If the supply does not take place and the seller returns prepayment, the seller and the buyer may adjust the output and input VAT, respectively, based on the adjustment note to the VAT invoice properly registered in the Unified Tax Invoice Register.

Goods sent on approval for sale or return. There are no special time of supply rules in the Ukraine for supplies of goods sent on approval for sale or return. As such, the general time of supply rules apply (see above).

Continuous supplies. There are no special time of supply rules in the Ukraine for continuous or rhythmic (two times and more per month) supplies of goods and services. As such, the general time of supply rules apply (see above). However, the law prescribes that in such cases the supplier may issue aggregate VAT invoices to each buyer registered for VAT or one aggregate VAT invoice for supplies to buyers not registered for VAT, by the last day of the month. A VAT invoice must be registered in the Unified Tax Invoice Register within the statutory deadlines. Generally, VAT invoice is to be issued when the VAT liability arises.

F. Recovery of VAT by taxable persons

VAT credit. In general, VAT credit is available only for registered VAT taxpayers with respect to input VAT paid in connection with the acquisition or production of goods, fixed assets or services.

A VAT taxpayer may claim VAT credit with respect to the following transactions:
- Purchases or production of goods and services
- Purchases (building and construction) of fixed assets
- Import of goods and/or fixed assets into Ukraine
- Receipts of services supplied by nonresidents in the customs territory of Ukraine
- Imports of noncurrent assets into the customs territory of Ukraine under lease agreements

A taxpayer must be able to confirm a VAT credit with a VAT invoice registered in the Unified Tax Invoice Register or a customs declaration. A duly registered VAT invoice is sufficient grounds for crediting input VAT and no other evidences are required.

If a VAT taxpayer failed to claim a VAT credit in the reporting period based on suppliers' VAT invoices/corrections to VAT invoices registered in the Unified Tax Invoice Register, it may claim a VAT credit during the 1,095 calendar days beginning with the date of the issuance of the VAT invoice/correction to the VAT invoice.

A VAT credit is recognized regardless of whether goods or services or fixed assets were used in taxable transactions or whether the taxpayer performed taxable transactions in the reporting period.

Non-recoverable VAT (full and partial). At the end of the tax period, the VAT payer must recognize VAT liability and register a VAT invoice in respect of 1) the goods, services or noncurrent assets that are designated for use or start to be used in nontaxable or nonbusiness transactions and 2) noncurrent assets converted into nonproductive assets. However, taxpayers may deduct such VAT for corporate profit tax purposes if certain conditions are met.

Items for which input tax is nondeductible. Input tax credits are not available for supplier invoices that are not registered in the Unified Tax Invoice Register, for imports that are not supported by customs declarations or on purchases that are not related to the business activity.

Items for which input tax is deductible. Input tax is deductible on all items related to taxable business use.

Refunds. VAT due to the budget is calculated as a positive difference between VAT liability (output VAT collected from the customers with respect to sales of goods and services) and VAT credit.

If a taxpayer has a negative difference, the difference may be used to decrease the tax debt or may be carried forward as a tax credit to the next reporting period or claimed as a tax refund in the amount not exceeding the threshold of VAT invoices' registration calculated when the VAT return is filed. A refund may be provided by way of remittance of funds to the taxpayer's bank account or through offset against liabilities/debt on other taxes payable to the State Revenue.

From 10 January 2017, the tax authorities maintain a single register of VAT refund claims.

In the register, the refund is available in sequential order depending on the date of relevant claim (i.e., the earlier the claim is included in the register, the earlier the refund will be provided). The register is publicly available via the tax authority website.

From 1 February 2017 in parallel to the regular register, there will be a temporary register of VAT claims submitted prior to 1 February 2016 and where tax was not refunded as of 1 January 2017. The government would split amounts designated by the State Budget Law for refund between the two registers.

Within 30 days after the deadline for submission of a VAT return and application for refund, the tax authorities perform a desk audit to check the data in the return. The tax authorities may perform a documentary tax audit where a VAT refund includes negative VAT amounts relating to transactions made prior to 1 July 2015 that were not covered by documentary tax audits or on purchase transactions made prior to 1 January 2016 for entities that used the special VAT regime for agricultural producers. The taxpayers receive the refund after confirmation of the refund amount with the tax authorities after the tax audit. This confirmation is to be reflected in the register of VAT refund claims. The State Treasury of Ukraine must transfer funds to the taxpayer's bank account within five days after confirmation of the refund amount in the register.

Penalty for late refund. Under the tax code, an amount of VAT that is not refunded on time is considered to be a debt of the state revenue. An interest penalty at a rate of 120% of the National Bank of Ukraine (NBU) rate applies to this debt amount until it is settled.

Partial exemption. If the taxpayer carries on both VAT-able and non-VAT-able transactions, at the end of the tax period the taxpayer must recognize the VAT liability and register a VAT invoice for the amount of VAT on purchases used to make exempt supplies, determined on a pro rata basis. The pro rata coefficient is generally based on the percentage of taxable supplies to total supplies in the preceding calendar year. Based on the current year results, the taxpayer must recalculate the pro rata coefficient according to actual volume of taxable and exempt supplies and adjust VAT credit in the tax return for the last tax period of current year.

Preregistration costs. VAT on purchases made prior to a buyer's registration as a VAT taxpayer, is not creditable.

G. Recovery of VAT by non-established businesses

The Ukrainian tax law does not allow nonresident entities that do not have business presence in Ukraine to recover VAT.

H. Invoicing

VAT invoices. A Ukrainian VAT taxpayer (seller) must provide an electronic VAT invoice registered in the Unified Tax Invoice Register to the buyer. The VAT invoice must be issued on a date when the tax liability arises for the seller and is registered by the end of the month (for VAT invoice issued from the 1st to the 15th day of the calendar month) and by the 15th day of the following month (for VAT invoices issued from the 16th day of the calendar month). The VAT

invoice must contain all of the necessary elements and must bear a duly registered electronic signature. A supplier must issue separate VAT invoices for VAT-exempt and VAT-able supplies.

If a VAT invoice is improperly completed or is not registered in the Unified Register, the buyer does not have the right to a VAT credit, but the supplier must report the relevant VAT liability. If improper completion of the VAT invoice (except for mistakes in the HS code of the goods) still allows identification of the transaction, such VAT invoice should be allowed for registration.

From 1 July 2017, the authorities may block registration of VAT invoices based on the risk assessment system that automatically monitors all VAT invoices. In this case, the authorities would request additional explanations/documentation (to be submitted within 365 calendar days after arising tax liabilities reflected in the tax return) sufficient for unblocking registration of VAT invoices.

In some cases, the buyer has the right to a VAT credit without the VAT invoice on the basis of the following documents:
- Transport ticket or an invoice for hotel or communication services
- Checks for goods or services for an amount not exceeding UAH200 per day
- Customs cargo declaration for the import of goods

Foreign-currency invoices. VAT invoices are issued in Ukrainian currency, which is the hryvnia (UAH).

Proof of exports. Export of goods should be supported by duly executed export customs declaration certified by customs to evidence that the goods actually left customs territory of Ukraine.

B2C. VAT invoices (registered in the Unified Tax Invoice Register) are required even for supplies by taxable persons to private customers. It is not mandatory to provide such a VAT invoice to the private customer, unless they request this.

Electronic invoicing. Electronic VAT invoicing is mandatory for all taxpayers. As outlined above, a VAT invoice must contain all of the necessary elements and must bear a duly registered electronic signature.

Credit notes. If output/input VAT needs to be adjusted (e.g., due to change of compensation, return or goods/advance payment), the seller must issue electronically an adjustment note to the VAT invoice that must be registered in the Unified Tax Invoice Register either by the seller (in case of compensation increase) or by the buyer (in case of compensation decrease). The format of the adjustment note is approved by the Ministry of Finance.

I. VAT returns and payment

VAT return. Entities that use the month as a tax period file tax return within 20 calendar days of the following month. Entities that use the quarter as a tax period file the tax return within 40 calendar days of the following quarter. Tax is payable within 10 days after the filing deadline.

Special schemes. *Tourist operators:* For tourist operators who sell tourist products for use in or outside of Ukraine, 20% VAT is applied on a margin calculated as a difference between the value of the tourist product and expenses incurred in relation to creating such a tourist product. For tourist operators acting as intermediaries for foreign tourist service providers and for Ukrainian tourist agents, 20% VAT is levied on a remuneration payable to such entities. Input VAT on services included in the tourist product is not creditable whereas input VAT on any tourist services not included in the value of the tourist product is creditable.

Works of art margin scheme: The supply of works of art (HS headings 9701-9706) by dealers is subject to a marginal profit tax scheme if they were purchased from:
- Entities not registered as VAT taxpayers

- VAT taxpayers where the supply is exempt or not subject to VAT
- VAT taxpayers using a marginal profit tax scheme
- Authors of works of art or their legal successors

The taxable base includes the seller's marginal profit (excluding VAT). The VAT rate is 20%. The dealer (seller) is not required to issue a VAT invoice. The dealer who buys works of art from the above entities is not entitled to credit input VAT. Export of works of art is not subject to zero VAT during export (i.e., input VAT, if any, is not recoverable). The dealer is required to maintain separate accounting of transactions involving purchase and sale of works of art.

Electronic filing and archiving. All registered VAT taxpayers must file tax declarations electronically.

Beginning in 2015, a system of electronic VAT administration is based on the interaction of the Unified Tax Invoice Register (UTIR) with the special VAT accounts.

VAT accounts are free for all VAT taxpayers in the State Treasury of Ukraine. Under this system the supplier is able to register a VAT invoice in UTIR for an amount that exceeds its VAT credit only when the taxpayer pays the corresponding amount of money into its VAT account. The VAT invoice registration threshold is calculated according to a formula. The formula also includes an allowed overdraft calculated as the average monthly amount of VAT that was declared as payment for the past 12 months (overdraft is to be recalculated quarterly). This overdraft is not available to taxpayers registered for VAT for less than 12 calendar months as of 1 January 2016 or registered as VAT payers after that date and becomes available in the quarter following the quarter in which the 12-month VAT-registration period has been achieved.

Taxpayers will be able to replenish their VAT accounts or transfer funds remaining after settlements to their regular bank account (in the latter case, the VAT registration threshold would be reduced but a negative amount is not acceptable). Taxpayers will not be able to transfer money from the VAT accounts at their discretion. Neither funds from customers nor VAT refunds are transferred to the VAT account.

If a VAT taxpayer's registration is canceled, its VAT account will be closed and the net balance of the account will be transferred to the state revenue.

The treasury communicates data about the net balance of the VAT account to the Unified Register online. If the total of input VAT and VAT account balance is insufficient, the taxpayer will not be able to register the issued VAT invoice with the Unified Register. Consequently, the customer of the VAT taxpayer in question will not be entitled to recognize VAT credit.

At the end of the reporting period, the tax on the added value generated by such supplier should be accumulated in its VAT account. VAT payable to the state revenue at the end of the reporting period will be settled by means of funds in the VAT account.

Annual returns. Not applicable.

J. Penalties

The Ukrainian tax law provides for the financial sanctions described below for violations of the VAT law.

The following are the penalties for failure to file or late filing of the VAT declaration:
- UAH170 for each violation
- UAH1,020 for repeated violations within a year

If a failure to properly file the tax return results in the understatement of tax liabilities, additional fines apply.

Penalties are imposed for the overstatement of a VAT refund or the understatement of VAT liabilities if the tax authorities increase the amount of VAT liabilities or decrease the VAT refund. The penalties are imposed at the following percentages of the reassessed tax liability or overstated VAT refund:
- 25% if the violation was made the first time within a 1,095-day period
- 50% if the violation was repeated within a 1,095-day period

It is not clear whether an overstatement of negative VAT result (that does not lead to tax understatement or the overstatement of VAT refund) is subject to a fine.

The following are the penalties for the understatement of tax liabilities if the taxpayer corrects the mistake made in the VAT return:
- 3% of the understatement of tax liabilities if it submits an adjustment calculation
- 5% of the understatement of tax liabilities if it corrects the mistake in the tax return for the next reporting period
- 5% of the understatement for the failure to submit an adjustment calculation

The following penalties are imposed for late payments:
- 10% of unpaid liabilities if the period of delay is up to 30 days
- 20% of unpaid liabilities if the period of delay exceeds 30 days

The following penalties are applied for failure to timely register VAT invoices (excluding VAT invoices for exempt and zero-rated transactions that do not need to be issued to buyers) in the UTIR:
- 10% of VAT amount if the delay is up to 15 calendar days
- 20% of VAT amount if the delay is from 16 to 30 calendar days
- 30% of VAT amount if the delay is from 31 to 60 calendar days
- 40% of VAT amount if the delay is 61 days to 365 calendar days

If tax authorities detect failure to register a VAT invoice, they will issue the tax-notification decision and apply a penalty in the amount of 50% of the VAT amount. This penalty will not be applied where a VAT invoice is registered prior to tax audit.

The above penalties (10%-50%) are not applied where the VAT invoice is registered within 10 calendar days after receipt of the tax-notification decision.

If the tax authorities block registration of a VAT invoice based on the risk assessment system, the above penalties are not applied for the duration of the blocking period.

A failure to register a VAT invoice after 10 calendar days following the receipt of the tax-notification decision may attract a penalty in the amount of 50% of VAT.

The following fines are applied for mistakes in a VAT invoice detected by the tax authorities during a documentary out-of-schedule tax audit at the buyer's request:
- UAH170 and obligation to correct the mistake
- 10% of the VAT amount if the mistake is not corrected within 15 calendar days
- 20% of the VAT amount if the mistake is not corrected within 16 to 30 calendar days
- 30% of the VAT amount if the mistake is not corrected within 31 to 60 calendar days
- 40% of the VAT amount if the mistake is not corrected within 61 to 90 calendar days
- 50% of the VAT amount if the mistake is not corrected within 91 to 120 calendar days
- 60% of the VAT amount if the mistake is not corrected within 121 to 150 calendar days
- 70% of the VAT amount if the mistake is not corrected within 151 to 180 calendar days
- 100% of the VAT amount if the mistake is not corrected after 181 calendar days

These penalties are not applied until 31 December 2017 for mistakes in a VAT invoice regarding indication of the tariff code of goods or code of services under the State Classifier of Products and Services.

In addition to the above, the interest penalty may apply for tax understatement and late payment.

The interest penalty for late payment applies from the first business day on which the tax liability becomes overdue (that is, after expiration of the deadline for settling the tax liability indicated in the tax return or in the tax-notification decision issued by the tax authorities). Where taxpayers voluntarily correct errors in tax returns, late payment interest applies from 91st calendar day after expiration of the deadline for payment of tax. The interest penalty for tax understatement applies to the whole period of understatement of the tax liability, even though the taxpayer may have recourse to the administrative or court appeal procedure.

The rate of the interest penalty equals 120% (100% in cases where taxpayers voluntarily correct errors in tax returns) of the yearly NBU discount rate for each day of tax understatement.

In addition to financial sanctions, administrative or criminal liability may apply.

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A. At a glance

Name of the tax	Value-added tax (VAT)
Date introduced	1 January 2018
Gulf Cooperation Council (GCC) Member State	Yes
Administered by	Federal tax authority (www.tax.gov.ae)
VAT rates	
Standard	5%
Other	Zero-rated and exempt
VAT number format	XXXXXXXXXXXXXX (15 digit combination)
VAT return periods	
Quarterly	General rule

Monthly	Determined by the federal tax authority at its discretion based on size and sector of the taxpayer
Thresholds	
Registration	
Mandatory	AED375,000
Voluntary	AED187,500
Deregistration	
Mandatory	AED187,500
Voluntary	AED375,000
Recovery of VAT by non-established businesses	Yes, available from 2019

B. Scope of the taxes

VAT applies to the following transactions:
- The supply (and deemed supply) of goods and services made in the UAE by a taxable person
- The acquisition of goods from another GCC Member State by a taxable person
- Reverse-charge services received by a taxable person in the UAE
- The importation of goods into the UAE, regardless of the status of the importer

Designated zones. A "designated zone" specified by a decision of the Cabinet, shall be treated as being outside the UAE and outside the GCC, subject to the following conditions:
- The designated zone is a specific fenced geographic area and has security measures and Customs controls in place to monitor entry and exit of individuals and movement of goods to and from the area
- The designated zone shall have internal procedures regarding the method of keeping, storing and processing of goods therein
- The operator of the designated zone complies with the procedures set by the authority

A transfer of goods between designated zones shall not be subject to VAT if the following two conditions are met:
- Where the goods, or part thereof, are not released, and are not in any way used or altered during the transfer between the designated zones
- Where the transfer is undertaken in accordance with the rules for customs suspension according to GCC Common Customs Law

Where goods are moved between designated zones, the federal tax authority may require the owner of the goods to provide a financial guarantee for the payment of the VAT, which that person may become liable for, should the conditions for movement of the goods not be met.

If a supply of goods is made within a designated zone to a person to be used by him or by a third person, a special rule applies. The place of supply shall be the UAE unless the goods are to be incorporated into, attached to or otherwise form part of or are used in the production or sale of another good located in the same designated zone and which itself is not consumed.

The place of supply of services is considered to be inside the UAE if the place of supply is in the designated zone. This means that services supplied in a designated zone are subject to VAT if supplied by a taxable supply.

The place of supply of water or any form of energy shall be considered to be inside the UAE if the place of supply is in a designated zone.

Goods located in a designated zone on which the owner has not paid VAT will be treated as imported into the UAE by the owner if the goods are consumed by the owner, unless these goods

are incorporated into, attached to or otherwise form part of or are used in the production of another good located in a designated zone which itself is not consumed, or the goods are unaccounted for.

Any person established, registered or who has a place of residence in a designated zone shall be deemed to have a place of residence in the UAE for the purposes of the VAT law.

C. Who is liable

A "taxable person" is any person registered or required to register for VAT in the UAE.

Every individual/business who has a place of residence in the UAE, or in another GCC Member State, where the total value of all taxable supplies made in the past 12 months or expected taxable supplies in the next 30 days, exceeds AED375,000, must register for, collect and remit VAT. This includes non-executive directors receiving director fees in excess of the registration threshold.

Where a person has a requirement to register based on the above, they must apply to the federal tax authority to register within 30 days of the end of that month. Where a person does not file its VAT registration application despite being required to do so, the federal tax authority shall register that person with effect from the date on which the person first became liable to be registered for VAT, and impose the necessary penalties.

For registrations based on supplies made in the last 12 months, the registration will take effect from the first day of the month following the month in which the person is required to register, or from an earlier date as agreed between the federal tax authority and the person.

For registrations based on expected supplies in the next 30 days, the registration will take effect from the date on which there are reasonable grounds for believing the person will be required to register, or from an earlier date as agreed between the federal tax authority and the person.

A taxable person who has been late in registering for VAT, is liable to account for and pay to the federal tax authority the VAT due on all taxable supplies and imports made by that person before registering.

Non-established businesses. Every individual/business that does not have a place of residence in the UAE, or in another Implementing GCC Member State, and where no other taxable person is obliged to pay the VAT due on these supplies in the UAE (i.e., via the reverse-charge mechanism), must register for VAT if they make taxable supplies of goods or services. A GCC Member State is only regarded as an Implementing State if it is fully compliant with the provisions of the Common VAT Agreement of the States of the Gulf Cooperation Council and recognize the UAE as Implementing State.

An individual/business who has a place of residence in a UAE designated zone shall be deemed to have a place of residence in the UAE for the purposes of UAE VAT.

The federal tax authority shall register a non-established business from the date on which it started making supplies in the UAE, or from an earlier date as agreed between the federal tax authority and the business.

A non-established business may not take the value of goods and services imported into the UAE to determine whether they are entitled to apply for VAT registration, if the calculation of VAT for such goods and services is the responsibility of the importer via the reverse-charge mechanism.

Registration procedures. A UAE VAT registration application must be made on the federal tax authority portal (www.eservices.tax.gov.ae). The following details must be provided:

- Company information: including, the UAE trade license; if the company has a place of residence in the UAE; legal name of the company in English and Arabic; certificate of incorporation

- Details of the authorized signatory: including, copy of the signatory's passport; copy of the signatory's Emirates ID; signatory's scanned copy of proof of authorization, for example, power of attorney
- Contact and bank account details, for taxable persons in a repayment position
- Actual or estimated financial information, for example, audited or non-audited financial statements, or revenue forecasts
- Cross-border flows of goods and/or services, specifying if they will be in relation to any other GCC Member States
- Details and evidence of business relationships

Upon receipt of the application, the federal tax authority will usually process the application within 20 business days. If the application is successful, the taxable person will receive its VAT registration certificate, containing the tax registration number, registered address, effective registration date, first and subsequent registration periods and VAT return due date.

Voluntary registration. A taxable person who is not obliged to register for VAT, may apply for VAT registration where it is expected that its supplies will exceed AED187,500 in the next 30 days. It should be able to provide evidence of an intention to make taxable supplies or incur expenses which are subject to VAT (at the standard rate) in excess of AED187,500.

Where a taxable person applies to register for VAT voluntarily, the federal tax authority shall register it with effect from the first day of the month following the month in which the application is made, or from an earlier date as agreed between the federal tax authority and the person.

Exemption from registration. A taxable person providing zero-rated supplies only may be exempt from the mandatory VAT registration obligation. Any taxable person excepted from the VAT registration obligation must inform the federal tax authority of any changes to their business that would make them subject to VAT, within 10 business days of making such supplies.

The federal tax authority has the right to collect any VAT due and administrative penalties for the period of exception if the taxable person was not entitled to the exception from VAT registration.

Imports. Imports into the UAE by a VAT registered person can be accounted for under the reverse-charge mechanism. Imports by a non-VAT registered person will be subject to VAT at import, with an actual payment of VAT required. The goods may not be released until the VAT has been paid.

Reverse charge. Generally, the reverse charge VAT is applicable to the purchase of services from other GCC Member States and non-GCC taxable persons, as well as on intra-GCC acquisitions of goods.

A "domestic" reverse charge is applicable to supplies made in the UAE of any crude or refined oil, unprocessed or processed natural gas, or any hydrocarbons, and the recipient of these goods intends to either resell the purchased goods as any of these types of goods, or to use these goods to produce or distribute any form of energy.

The domestic reverse charge is also applicable to supplies of gold, diamonds and any products where the principal components are gold or diamonds. The supplies must be made to recipients registered for VAT in the UAE, who intend to either resell such goods or use them to produce or manufacture any such the goods.

This domestic reverse charge shall not apply in any of the following situations:
- Before the supply takes place, the customer has not provided a written confirmation to the supplier that their acquisition of the goods is for the purpose of resale
- The customer is VAT registered and the supplier has not verified the VAT registration of the customer by means approved by the federal tax authority

- Where the supply would have been subject to the zero-rate VAT
- Where the supply includes a supply of goods or services other than crude or refined oil, unprocessed or processed natural gas, or any hydrocarbons

If the supplier was aware (or was supposed to be aware) that the customer was not VAT registered at the time the supply takes place, the supplier and the customer shall be jointly and severely liable for any VAT due and relevant penalties.

Self-supplies. Goods or services that a taxable business supplies to itself are not taxable. This includes instances where one member of a tax group provides services to another member of the same tax group.

If a branch of a business is registered for UAE VAT, and supplies goods and/or services to a head office or another branch, that transaction is disregarded (i.e., outside the scope of UAE VAT).

Group registration (tax group). Two or more taxable persons, may apply for VAT registration as a tax group if all of the following conditions are met:
- Each taxable person has a place of establishment or fixed establishment in the UAE.
- The taxable persons must be related parties.
- One or more taxable persons must control the other taxable person(s), i.e., there must be common ownership.

A tax group must select one of its registered members to act as the representative member of the tax group.

An application to form a tax group must be made by a taxable person. This person is the representative member of the VAT group.

All members of a tax group shall be jointly and severally liable for the VAT obligations of that tax group arising during its registration.

Any goods or services supplied to any of the members of the tax group (including imports) will be deemed to be supplied to the representative member. Any supplies made by a member of the tax group shall be deemed to be made by the representative member, which includes output tax charges or input tax incurred by any of the members.

Any supplies made by a member of the VAT group to another member of the same group, may be disregarded for VAT purposes. The tax group registration takes effect from the first day of the tax period following the tax period in which the application is received, or any date as determined by the federal tax authority.

Where the federal tax authority establishes that two or more taxable persons are associated as a result of their economic, financial and regulatory practices in business, the federal tax authority may register them as a tax group. Such notice may only be issued where the federal tax authority is satisfied that to treat such businesses separately would create a VAT advantage. In this scenario, the federal tax authority may only register a taxable person as part of a tax group if the taxable person's business includes making taxable supplies (or imports), and would exceed the mandatory registration threshold.

Tax representatives, tax agents and appointed persons. The registered tax agent may act on a taxable person's behalf in respect of its VAT obligations in the UAE, by submitting a notification. Notwithstanding the appointment of a tax agent, the taxable person shall maintain individual responsibility for all such obligations. In performing their duties as a tax agent, the tax agent may rely on information provided to them by the person unless the tax agent has reasonable grounds for believing that the information may be incorrect. The federal tax authority may also rely on

the information provided to it by the tax agent in the case of a tax audit, even after the expiry of the agency engagement or the dismissal of the tax agent.

A local tax agent must be licensed and registered with the federal tax authority, where a file shall be kept regarding all matters of professional conduct associated with the agent. In order for the agent to be registered with the federal tax authority, he must satisfy several conditions, including:
- To be of good conduct and behavior
- Never have been convicted of a crime or misdemeanor
- The ability to communicate orally and in writing in both Arabic and English
- To pass any tests to meet qualification standards as may be specified by the authority
- To perform his activity through a legal person approved by the Ministry of Economy and the local competent authority

The federal tax authority shall not deal with any tax agent where the federal tax authority has been informed that the agency engagement has ended or that the tax agent has been dismissed.

Deregistration. A taxable person must apply to the federal tax authority to deregister from VAT within 20 business days of the occurrence of any of the following cases:
- If the taxable person stops making taxable supplies and does not expect to make any such supplies over the next 12-month period
- If the value of the taxable supplies made over a period of 12 consecutive months is less than AED187,500 and the taxable person does not anticipate its total value of supplies (or costs subject to VAT to be incurred) will exceed AED187,500 during the next 30-day period

If the deregistration application is approved, the federal tax authority shall cancel the VAT registration of the taxable person with effect from the last day of the tax period during which the taxable person has met the conditions for deregistration, or from another date determined by the federal tax authority.

A taxable person may not apply for VAT deregistration within 12 months of the date of VAT registration (where registered voluntarily).

Where a taxable person requests to be deregistered from VAT due to the reduction of its taxable supplies to less than AED375,000, the federal tax authority will, if in agreement with the taxable person, cancel the VAT registration. This is in effect from the date requested by the taxable person in the application, or the date on which the request is made if the taxable person did not indicate a preferred deregistration date.

Digital economy. For the purposes of UAE VAT, telecommunication services include the supply of equipment or devices which can deliver, broadcast, convert or receive communications, such as wired/wireless communications, music, viewable images and signals used to operate machinery.

Electronic services include services delivered over an electronic network or marketplace, including the supply of domain names, web-hosting, software (including updates), images, music, magazines, advertising space, distance learning and live streaming.

Where telecommunication and electronic services are supplied within the UAE, the place of supply will be within the UAE to the extent that the use and enjoyment of the supply is within the UAE. Where the services are supplied outside the UAE, the place of supply shall be outside the UAE to the extent that the use and enjoyment of the supply is outside the UAE. The actual use and enjoyment shall be where the recipient consumes and enjoys the services, regardless of the place of contract or payment.

Telecommunications services may be zero-rated where the supplier has a place of residence within the UAE and makes the supply to either:
- Another telecommunications supplier who has a place of residence outside the implementing states
- A person who is not a telecommunications supplier, but who has a place of residence outside the UAE, where the services is initiated outside the implementing states

At the time of preparing this chapter, the respective tax authorities of the UAE and KSA are not treating each other as Implementing States. Consequently, until being recognized as Implementing States by the UAE, GCC Member States are treated the same as non-GCC countries. Therefore, the zero-rating provisions are still applicable. This situation should, however, be monitored as, going forward, GCC Member States that implemented VAT may be recognized as Implementing States.

D. Tax rates

The term "taxable supplies" refers to supplies of goods and services that are subject to VAT and does not include supplies that are exempt from VAT.

In the UAE, the following positive rates of VAT apply:
- Standard rate: (5%)
- Zero rate: (0%)

The standard rate of VAT applies to all supplies of goods or services, unless a specific measure provides for the zero rate or an exemption.

Examples of zero-rated supplies of goods and services

- A direct or indirect export of goods to outside of the GCC territory (with certain evidence and timings)
  - A movement of goods into a designated zone from a place in the UAE or a supply of goods to a designated zone shall not be considered an export of those goods
- Export of services, where the following conditions are met:
  - The services are supplies to a recipient of services who does not have a place of residence in the GCC and who is outside the UAE at the time the services are performed
  - The services are not supplied directly in connection with real estate situated in the UAE or any improvement to the real estate or directly in connection with moveable personal assets situated in the UAE at the time the services are performed
  - The services are actually performed outside the GCC or are the arranging of services that are actually performed outside the GCC
  - The supply consists of the facilitation of outbound tour packages, for that part of the service
- Export of telecommunications services, in the following situations:
  - A supply of telecommunications services by a telecommunications supplier who has a place of residence in the UAE to:
    - A telecommunications supplier who has a place of residence outside the GCC
    - A person who is not a telecommunications supplier and who has a place of residence outside of the UAE for a telecommunications service that is initiated outside the GCC
- Intra-GCC and international transport of passengers and goods, which starts or ends in the UAE
- The supply of sea, air and land transport services for the transportation of passengers and goods (including related goods and services designed for the operation, repair, maintenance or conversation of these means of transport, and supply of rescue planes and ships for the provision of sea and air help in addition to fishing vessels)
- The supply or import of investment precious metals (gold, silver, platinum that is a metal of purity of 99% or more and the metal is in a form tradeable in global bullion markets)

- The first supply of residential buildings of the following cases:
  — Within three years of its completion, either through sale or lease in whole or in part
  — Specifically designed to be used by charities through sale or lease
  — Buildings converted from nonresidential to residential through sale or lease
- The supply of crude oil and natural gas
- The supply of educational services and related goods and services, for nurseries, preschool, school education, and higher education institutions owned or funded by federal or local government
- The supply of preventive and basic health care services and related goods and services, made by a health care body or institution, doctor, nurse, technician, dentist or pharmacy, licensed by the Ministry of Health or by any other competent authority — this includes the supply of medications and medical equipment registered with the Ministry of Health and Prevention, or imported with permission or approval

Examples of exempted supplies of goods and services

- Financial services, as outlined below, that are not conducted in return for an explicit fee, discount, commission, and rebate or similar. Also any Islamic financial products, being financial products under contract which are certified as Islamic Shariah compliant, which simulate the intention and achieve effectively the same result as a non-Shariah compliant financial product, will be treated in a similar manner as the equivalent non-Shariah financial product for the purpose of applying exemption from VAT.
  — Issue, allotment, or transfer or ownership of an equity security or debt security
  — Provision or transfer of ownership of a life insurance contract or the provision of reinsurance in respect of any such contract
  — Exchange of currency, whether effected by the exchange of bank notes or coin, by crediting or debiting accounts, or otherwise
  — The issue, payment, collection, or transfer of ownership of a cheque or letter of credit
  — The issue, allotment, drawing, acceptance, endorsement, or transfer of ownership of a debt security
  — The provision of any loan, advance or credit
  — The renewal or variation of a debt security, equity security, or credit contract
  — The provision, taking, variation, or release of a guarantee, indemnity, security, or bond in respect of the performance of obligation under a cheque, credit, equity security, debt security
  — The operation of any current, deposit or savings account
  — The provision or transfer of ownership of financial instruments such as derivatives, options, swaps, credit default swaps, and futures
  — The payment or collection of any amount of interest, principal, dividend, or other amount whatever in respect of any debt security, equity security, credit and contract of life insurance
  — Agreeing to do so, or arranging, any of the activities outlined above, other than advising thereon
- Supply of residential buildings, unless it is zero-rated, where the lease is more than six (6) months or the tenant of the property is a holder of an ID card issued by the Federal Authority for Identity and Citizenship.
- Supply of bare land, meaning land that is not covered by completed or partially completed buildings or civil engineering works.
- Supply of local passenger transport services in a qualifying means of transport by land, water or air from a place in the UAE to another place in the UAE.

Option to tax for exempt supplies. The UAE does not operate an option to tax for exempt supplies.

E. Time of supply

The time at which VAT becomes due is called the "time of supply" or "tax point." The time of supply is the earliest of any of the following dates:

- The date on which the goods were transferred (if such transfer was under the supervision of the supplier)
- The date on which the recipient of the goods took possession of the goods (if the transfer was not under the supervision of the supplier)
- Where the goods are supplied with assembly and installation, the date on which the assembly or installation of the goods was completed
- Where the goods are supplied on a returnable basis, the date on which the recipient of the goods accepted the supply, or a date no later than twelve (12) months after the date on which the goods were transferred or placed under the recipient of goods disposal
- The date when the performance of services has taken place
- The date of receipt of payment or the date on which the tax invoice was issued

Imports. In the case of imports, the tax becomes due on the date when the goods are imported into the UAE, under the Customs Legislation.

Deposits and prepayments. The receipt of a deposit or prepayment would create a tax point where this forms part of the total payment of a particular supply if it precedes the issuance of a tax invoice.

Other matters concerning deposits and prepayments, for example, for consideration received prior to the implementation date of 1 January 2018 for services supplied after the implementation date, are detailed in Section K (Transitional provisions).

Goods sent on approval for sale or return. *At the time of preparing this chapter, there are no special time of supply rules concerning goods sent on approval for sale or return. As such, the general time of supply rules (as outlined above) apply.*

Leased assets. *At the time of preparing this chapter, there are no special time of supply rules concerning leased assets. It is expected that both operational and finance asset leases are treated as continuous supplies of services (see below subsection), provided that legal title to the goods does not pass to the recipient and there is no express contemplation that title will transfer at some point in the future.*

Goods supplied on terms that expressly contemplate that title will transfer at some point in the future (e.g., under hire-purchase or conditional sale agreements) are treated in the same way as a normal sale of goods where title passes at the outset. Unless a VAT invoice is issued, the time of supply will be linked to the basic tax point (see above). This means that the full amount of VAT will become payable up front, instead of being due as and when installment payments are made.

It is also expected that leases made under Islamic finance arrangements will follow the same VAT treatment as their conventional finance equivalents.

Reverse-charge services. Generally, the reverse-charge VAT is also applicable to the purchase of services from other GCC Member States and non-GCC taxable persons, as well as on intra-GCC acquisitions of goods. Where these types of purchases are made, which would be taxable if supplied in the UAE, the taxable person shall be treated as making a supply to itself. Therefore, the taxable person is responsible for all applicable VAT obligations and accounting for the tax due in respect of these supplies.

The above mechanism applies where the following conditions are satisfied:

- The taxable person is UAE VAT registered at the time of import.
- The taxable person keeps sufficient and appropriate records concerning the supply received.

- In the case of goods, the taxable person has given the federal tax authority its customs registration number.
- The taxable person has cooperated and complied with the federal tax authority in respect of the import.

In terms of the time of supply, the taxable person who has received the goods and/or services must declare and pay the due tax in the VAT return that relates to the tax period at the date of supply for which the purchase took place. Where any relevant VAT amount is expressed in a currency other than AED, the amount must be converted to AED using the daily rate prescribed by the central bank at the date of supply. Supplies within the same legal entity, e.g., branch to branch or head office to branch are, however, disregarded.

Continuous supplies. The date of supply of goods or services for any contract that includes periodic payments or consecutive invoices shall be the earliest of any of the following dates, provided that it does not exceed one (1) year from the date of the provision of such goods and services:

- The date of issuance of any VAT invoice
- The date payment is due as shown on the VAT invoice
- The date of receipt of payment

Deemed supplies. The date of a deemed supply of goods or services, shall be the date of their supply, disposal, change or usage or the date of deregistration, whichever is applicable.

Other supplies.

Vouchers. The date of a supply of a voucher, shall be the date of issuance or supply thereafter.

Vending machines. The date of supply, in cases where payment is made through vending machines, shall be the date on which the funds are collected from the machine.

F. Recovery of VAT by taxable persons

A taxable person may recover input VAT, which is VAT charged on goods and services supplied to it for business purposes. Recovery is by way of deducting input VAT against output VAT, which is the VAT charged on supplies made by the business.

Input VAT includes VAT paid on imports of goods, and VAT self-assessed through the reverse charge mechanism.

Refunds. The amount of VAT reclaimed must be supported by a valid VAT invoice, and (if necessary) the customs documents that prove the taxable person is the importer of the goods in accordance with the Common Customs Law. The recoverable input VAT may be deducted through the VAT return relating to the first tax period in which the taxable person receives and keeps the tax invoice. As a condition for input VAT recovery, the taxable person must also pay the consideration for the supply or for any part thereof. The taxable person shall be treated as having made a payment of consideration for a supply to the extent that the taxable person intends to make the payment before the expiration of six months after the agreed date for the payment of the supply.

If the taxable person entitled to recover the input VAT fails to do so during the tax period, he may include the recoverable VAT in the VAT return for the subsequent tax period.

Where a taxable person's recoverable input VAT exceeds the output tax payable in the same tax period, the taxable person may opt to apply for a refund or carry forward any excess recoverable VAT to the subsequent tax periods and offset such excess against VAT payable or any administrative penalties imposed, until such excess is fully utilized. The refund request must be submitted through the prescribed form. As part of the application process, the taxable person must submit

a letter to verify their banking details and agree to submit additional documentary proof to support the VAT refund application, if requested by the federal tax authority.

Nondeductible input tax. Input tax may not be recovered in respect of certain expenses specifically listed as nondeductible. The list below outlines the goods and services on which input tax cannot be recovered (unless they are used in onward taxable supplies by a taxable person):

- Provision of entertainment services to anyone not employed by a taxable person, including customers, potential customers, officials, or shareholders or other owners or investors
- Where a motor vehicle was purchased, rented or leased for use in the business and is available for personal use by any person
- Where goods or services were purchased to be used by employees for no charge to them and for their personal benefit, including the provision of entertainment services, except in certain specific cases

Noneconomic activities. Input tax may not be recovered on purchases of goods and services that are not used in the course of carrying the taxable person's economic activity.

Partial exemption. Input tax related to goods and services used to provide supplies that are subject to VAT and other supplies that are exempt, may be deducted in accordance with the proportion of costs related to the supplies subject to the VAT.

The standard partial exemption method consists of the following two-stage calculation:

- Attribution of input tax exclusively used in making either taxable or exempt supplies.
- Apportionment of non-attributable input tax using the standard input-based calculation, which will calculate the percentage of recoverable input tax. This percentage is based on the respective values of VAT incurred wholly to make taxable supplies and VAT incurred to make wholly exempt and outside the scope supplies.

The percentage calculated shall be rounded to the nearest whole number.

The percentage calculated shall be multiplied by the amount of total non-attributable input tax incurred to establish the recoverable portion of that input tax.

The calculations referred to above shall be undertaken in respect of each tax period where input tax incurred relates to making exempt supplies or to activities that are not in the course of business.

At the end of each tax year the taxable person shall undertake the calculation outlined above, but in respect of the entire tax year just ended, and include the result in the first tax period of its subsequent tax year. The amount calculated for the tax year shall be compared to the input tax amount actually recovered in all the tax periods making up the tax year, and an adjustment to the recoverable tax shall be made in the tax period.

There may be a difference between the recoverable tax amount calculated and the amount of a calculation which reflects the actual use of the goods and services to which the input tax relates. If that difference exceeds AED250,000, the taxable person shall, in the tax period for the tax year, make an adjustment to the input tax.

If the calculation outlined above, would give a result which the taxable person considers would not reflect the actual extent to which the input tax relates to making taxable supplies, it may apply to the federal tax authority to authorize the use of an alternative basis of calculation based on the list of accepted mechanisms issued by the federal tax authority.

Capital assets. Capital assets are items of capital expenditure that are used in a business over several years. If capital assets are supplied or imported by a taxable person, they shall assess the period of use of the assets and make the necessary adjustments to the input VAT paid, in line with the capital assets scheme.

For purposes of the capital asset scheme, a capital asset is a single item of expenditure of the business amounting to AED5 million or more, excluding VAT, on which VAT is payable and which has an estimated useful life equal to or longer than 10 years in case of a building or a part thereof and 5 years for all capital assets other than buildings or parts thereof.

Items of stock, which are for resale, shall not be treated as capital assets.

Expenditure consisting of smaller sums which collectively amount to AED5 million or more shall be treated as a single item of expenditure of AED5 million or more, where the sums are staged payments for any of the following:
- For the purchase of a building
- For the construction of a building
- In relation to an extension, refurbishment, renewal, fitting out, or other work undertaken to a building, except that where there is a distinct break between any such works being undertaken, they shall be taken to be separate items of expenditure
- For the purchase, construction, assembly, or installation of any goods or immovable property where components are supplied separately for assembly

A taxable person shall keep the records related to capital assets for at least 10 years.

A capital asset eligible for the capital asset scheme shall be monitored and the input tax incurred shall be adjusted, over a period of 5 or 10 years (as outlined above), commencing on the day on which the owner first uses the capital assets for the purposes of its business.

Preregistration costs. A taxable person may recover input VAT incurred before its VAT registration on the VAT return submitted for the first tax period following the VAT registration. It can relate to input VAT paid of the supply of goods and services made to them (and also the import of goods by them) prior to the date of the VAT registration. This is on the basis that these goods and services were used to make supplies that give the right to input VAT recovery upon VAT registration.

Input VAT may not be recovered in any of the following instances:
- The receipt of goods and services for purposes other than making taxable supplies
- Input VAT related to the part of the capital assets that depreciated before the date of the VAT registration
- If the services were received more than five years prior to the date of VAT registration
- Where a taxable person has moved the goods to another GCC Member State prior to the VAT registration in the UAE

Bad debts. A taxable person may reduce the output VAT in a current tax period to adjust the output VAT paid for any previous tax period, if all of the following conditions are met:
- Goods and services have been supplied and the VAT due has been charged and paid
- Consideration for the supply has been written off in full or part as a bad debt in the accounts of the supplier
- More than six months has passed from the date of the supply
- The supplier has notified the customer of the amount of consideration for the supply that has been written off

The customer shall reduce the recoverable input VAT for the current tax period related to a supply received during any previous tax period where the consideration has not been paid and all of the following conditions are met:
- The supplier reduced the output tax by way of an adjustment for bad debts and the customer has received a notification from the supplier of the consideration being written off
- The customer received the goods and services and the relevant input VAT was deducted
- The consideration was not paid in full or in part for the supply for over six months

The reduction shall be equal to the VAT related to the consideration which has been written off.

G. Recovery of VAT by non-established businesses

The federal tax authority may refund VAT paid for any supply received by or import carried out by any of the following:
- A citizen of the UAE in respect of the goods and services related to the construction of a new residence that is not part of the person's business
- A nonresident, who is not a resident of a GCC Member State and conducts a business, and is not a taxable person
- A nonresident, for goods supplied to them in the UAE that will be exported
- Foreign governments, international organizations, diplomatic bodies and missions according to treaties that the UAE is a party to
- Any persons or classes listed in a cabinet decision issued at the suggestion of the minister

Designated persons. The federal tax authority may allow certain persons to apply for a refund of VAT paid by them on supplies of goods or services received in the UAE. These persons include (officials of) foreign governments, international organizations, diplomatic bodies and missions. A claim may be submitted to the federal tax authority requesting a repayment of the VAT incurred.

This mechanism is subject to the following conditions:
- The goods and services are for official use.
- The country in which the person is established excludes the same type of entities from the burden of any VAT in that country, i.e., reciprocity.
- The refund claim is consistent with the terms of any international treaty or other agreement concerning the liability to tax of such persons.
- Officials of the person should not hold UAE nationality nor have a residence visa under the sponsorship of an entity other the person.
- The person should not carry out any business in the UAE.

At the time of preparing this chapter, this mechanism has not been set up by the federal tax authority.

Designated charities. The federal tax authority may allow certain charities to apply for a refund of VAT paid by them on supplies of goods or services received in the UAE, to the extent that the VAT paid does not relate to onward exempt supplies made or those expenses are not blocked from input tax recovery.

Refund of VAT to taxable persons in other GCC Member States. Persons who are registered for VAT in another GCC Member State may submit an application for refund of VAT incurred in the UAE in accordance with the mechanism agreed between the GCC Member States.

At the time of preparing this chapter, the mechanism is not yet available.

Refund of VAT to taxable persons nonresident in the GCC Territory. The federal tax authority has implemented a business VAT refund scheme from 1 January 2019 for foreign businesses to allow the repayment of VAT on expenses incurred in the UAE by a foreign entity which has no place of establishment or fixed establishment in the UAE or in an Implementing GCC Member State and is not taxable in the UAE. The foreign entity must be registered as an establishment with a competent tax authority in the jurisdiction in which it is established.

A foreign entity is not entitled to make a claim under the VAT refunds for foreign businesses scheme in the following cases:
- If it makes supplies that have a place of supply in the UAE or Implementing GCC State, unless the recipient of the goods or services is obliged to account for VAT on those supplies through the reverse-charge mechanism

- If the input tax relates to goods or services for which the VAT is not recoverable
- If the foreign entity is from a country that does not in similar circumstances provide refunds of VAT to entities that belong to the UAE

The claim for any refund shall be made on an electronic form as will be provided for the purpose by the federal tax authority. The period of the claim shall be 12 calendar months. The minimum claim amount of VAT that may be submitted under the VAT refunds for foreign businesses scheme shall be AED 2,000. This may comprise of single or multiple purchases.

For claims in respect of the 2018 calendar year, refund applications can be made from 1 April 2019. The opening date for refund applications in subsequent calendar years will be 1 March (i.e., for the period 1st January 2019 — 31 December 2019, applications will be accepted from 1 March 2020).

Refund of VAT to tourists. The cabinet issued a decision in July 2018 that introduced the tax refunds for tourists scheme. The decision specified the following:
- The goods are purchased from a retailer who is participating in the scheme.
- The purchase of the goods from the retailer is conducted in accordance with requirements as determined in a decision issued by the chairman.
- The export of goods is conducted in accordance with requirements as determined in a decision issued by the chairman.
- The goods are not excluded from the scheme by the authority.

The following conditions shall apply to the tax refunds for tourists' scheme:
- The goods that are subject to the tax refunds for tourists scheme must be supplied to an overseas tourist who is in the UAE during the purchase of the goods from the supplier
- At the date of supply, the overseas tourist intends to depart from the UAE within 90 days from that date, accompanied by the goods
- The relevant goods are exported by the overseas tourist to a place outside the Implementing States in the GCC, within three months from the date of supply, subject to such conditions and verifications as may be imposed by the federal tax authority

The phrase "overseas tourist" means any natural person who is not resident in any of the Implementing States in the GCC and who is not a crew member on a flight or aircraft leaving an Implementing State. The federal tax authority may publish a list of goods that shall not be subject to tax refunds for tourists' scheme. Hence residents of other GCC countries will be treated as "overseas tourists" until their country of residence is recognized by the UAE as an Implementing State. VAT shall not be refunded under the scheme in respect of any claim where the value of tax inclusive purchases is less than AED250 from the same supplier.

The authority may charge an administrative fee amounting to 15% of the amount of VAT to be refunded to the overseas tourist as well as a fixed fee of AED4.8 per refund claim. These fees are deducted from the refundable amount. The cash VAT refund is limited to a maximum of AED10,000 per overseas tourist per 24 hours.

H. Invoicing

VAT invoices. The supplier of taxable goods and services must issue a tax invoice or a similar document either upon partial or full receipt of the goods and services, and also for deemed supplies. This can be in the form of a printed copy or in an electronic format.

The supplier must issue a tax invoice within 14 days as of the date of supply, as per the tax point rules.

Where the VAT chargeable on a supply is calculated to a fraction of a fils, the taxable person is permitted to round the amount to the nearest fils on a mathematical rounding.

A tax invoice must include the following details:
- The words "tax invoice" clearly displayed on the invoice
- The name, address, and VAT registration number of the registrant making the supply
- The name, address, and VAT registration number of the recipient where it is a registrant
- A sequential VAT invoice number or a unique number which enables identification of the VAT invoice and the order of the VAT invoice in any sequence of invoices
- The date of issuing the VAT invoice
- The date of supply if different from the date the VAT invoice was issued
- A description of the goods and services supplied
- For each good or service, the unit price, the quantity or volume supplied, the rate of VAT, VAT amount and VAT exclusive price per line item expressed in AED
- The amount of any discount offered
- The gross amount payable expressed in AED
- The VAT amount payable expressed in AED together with the rate of exchange applied where the currency is converted from a currency other than the UAE dirham
- Where the invoice relates to a supply under which the recipient of goods or services is required to account for VAT, a statement that the recipient is required to account for VAT, and a reference to the relevant provision of the Decree-Law

If there are or will be sufficient records available to establish the particulars of a supply, a taxable person is not required to issue a VAT invoice for the supply, where the supply is a wholly zero-rated supply.

Foreign-currency invoices. Tax invoices must be issued in UAE Dirham (AED). If the supply is made in a currency other than AED, the amount stated on the tax invoice must be converted into AED according to the exchange rate approved by the central bank at the date of the supply.

Credit notes. A VAT credit note may be used to reduce the VAT charged and claimed on a supply, and also for deemed supplies. The VAT credit note must contain the following:
- The words "tax credit note" clearly displayed on the invoice
- The name, address, and VAT registration number of the registrant making the supply
- The name, address, and VAT registration number of the recipient where it is VAT registered
- The date of issuing the VAT credit note
- The value of the supply shown on the VAT invoice, the correct amount of the value of the supply, the difference between those two amounts, and the VAT charged that relates to the difference in AED
- A brief explanation of the circumstances giving rise to the issuing of the VAT credit note
- Information sufficient to identify the supply to which the VAT credit note relates

Self-billing. Where a recipient agreed to raise a VAT invoice on behalf of a VAT registered supplier, in respect of a supply of goods or services, that document shall be treated as if it had been issued by the supplier if the following conditions are met:
- The recipient of the goods or services is VAT registered
- The supplier and the recipient agree in writing that the supplier shall not issue a VAT invoice in respect of any supply between the parties
- The VAT invoice shall contain the full VAT invoicing requirements (as outlined above)
- The words "tax invoice raised by buyer" are clearly displayed on the VAT invoice

Under self-billing, any invoice issued by the supplier shall be deemed to not be a VAT invoice. The same rules above apply for issuing VAT credit notes.

Third party. Where an agent who is VAT registered, makes a supply of goods and services for and on behalf of the principal of that agent, that agent may issue a VAT invoice in relation to that supply as if that agent had made the supply, and provided that the principal shall not issue a VAT invoice. The same rules apply for an agent issuing a VAT credit note.

Summary invoices. A taxable person does not need to issue separate VAT invoices in respect of supplies where it makes more than one supply of goods or services to the same person and those supplies are included on a summary VAT invoice. The summary VAT invoice must be issued to the recipient of the goods or services, in the same calendar month as the date of supply of the goods and services supplied.

Electronic invoicing. A taxable person may issue a VAT invoice and VAT credit note by electronic means provided that:
- The taxable person must be capable of securely storing a copy of the electronic VAT invoice or VAT credit note in compliance with the record keeping requirements.
- The authenticity of origin and integrity of content of the electronic VAT invoice or VAT credit note must be guaranteed.

Electronic invoicing is not mandatory for all taxable persons, however, they may choose to raise electronic invoices if the above conditions are satisfied.

Please see the records subsection for details on archiving these invoices.

B2C. In the UAE, a taxable person is not required to provide a full tax invoice for goods and services where the recipient is not registered. Simplified VAT invoice provisions exist, with the requirements as outlined below in the "Simplified VAT invoices" section.

Simplified VAT invoices. A simplified VAT invoice may be issued in either of the following situations:
- Where the recipient of goods or services is not VAT registered
- Where the recipient of goods or services is VAT registered and the consideration for the supply does not exceed AED10,000

A simplified VAT invoice must include all of the following:
- The words "tax invoice" clearly displayed on the invoice
- The name, address, and VAT registration number of the registrant making the supply
- The date of issuing the VAT invoice
- A description of the goods or services supplied
- The total consideration and the VAT amount charged

Records. The records of all goods and services supplied by a taxable person or on its behalf, showing the goods and services, suppliers and their agents, shall be kept and retained in sufficient detail to enable the federal tax authority to readily identify goods and services, suppliers and agents.

A taxable person who makes a taxable supply of goods or services in the UAE must keep records of the transaction to prove the Emirate in which the fixed establishment related to the supply is located. If the taxable person who makes a taxable supply of goods or services does not have a fixed establishment in the UAE, the taxable person must keep records of the transaction to prove the Emirate in which the supply is received.

A taxable person must keep the following records:
- Records of all supplies and imports of goods and services.
- All tax invoices and alternative documents related to receiving goods or services.
- All tax credit notes and alternative documents received.
- All tax invoices and alternative documents issued.
- All tax credit notes and alternative documents issued.

- Records of goods and services that have been disposed of or used for matters not related to business, showing taxes paid for the same.
- Records of goods and services purchased and for which the input tax was not deducted.
- Records of exported goods and services.
- Records of adjustments or corrections made to accounts or tax invoices.
- Records of any taxable supplies made or received in respect of the reverse charge mechanism, including any declarations provided or received in respect of those taxable supplies.
- A tax record that includes the following information:
  — VAT due on taxable supplies.
  — VAT due on taxable supplies pursuant to the reverse charge mechanism.
  — VAT due after the error correction or adjustment.
  — Recoverable VAT for supplies or imports.
  — Recoverable VAT after the error correction or adjustment.

The taxable person must hold and maintain these records for a period of five years after the end of the tax period to which they relate or the concerned document was created, in the case of non-taxable persons. This period is extended to 15 years for records relating to real estate.

VAT records may be archived electronically in any location, provided that the authenticity, integrity and legibility of the content of source documents (invoice data) is protected and any records can be produced in a readable form (within a reasonable period of time) upon request by the federal tax authority.

Proof of exports and intra-GCC supplies. Where a taxable person makes a supply of goods from the UAE to a person who has a place of residence in an Implementing GCC Member State, and the supply requires the goods to be physically moved to that other GCC Member State, the taxable person shall retain official and commercial evidence of export of those goods to that other GCC Member State.

Where a supply of goods or services is considered as supplied in another Implementing State in the GCC, the taxable person must include the following additional particulars in the document issued:

- The VAT registration number of the recipient of the goods or services issued to them by the competent authority of the Implementing State, in which the supply is treated as taking place
- A statement identifying the supply between the UAE and the Implementing State
- Any other information specified by the federal tax authority

At the time of preparing this chapter, the respective tax authorities of the UAE, Bahrain and KSA are not treating each other as Implementing States.

I. VAT returns and payment

VAT returns. A tax return must be received by the federal tax authority no later than the 28th day following the end of the tax period concerned, or by such other date as directed by the federal tax authority.

A person whose registration has been cancelled must provide a final VAT return for the last tax period for which it was registered.

The following information must be included in the VAT return:

- The name, address, and the VAT registration number of the registrant
- The tax period to which the VAT return relates
- The date of submission
- The value of taxable supplies made by the person in the tax period and the output tax charged, per Emirate

- The value of VAT refunds provided to tourists under the tourists refund scheme and the amount of VAT refunded
- The value of taxable supplies subject to the zero rate made by the person in the tax period
- The value of exempt supplies made by the person in the tax period
- The value of any imported goods or services subject to the reverse charge
- The value of any adjustments to output tax as a result of adjustments to bad debts or sales of commercial property in the UAE
- The value of expenses incurred in respect of which the person seeks to recover input tax and the amount of recoverable VAT
- The value of any adjustments to input tax as a result of adjustments to bad debts, year-end apportionments or under the Capital Asset Scheme
- The total value of due VAT and recoverable VAT for the tax period
- The payable VAT for the tax period

At the time of preparing this chapter, it is expected that the VAT return format will be updated to include reporting for intra-GCC supplies, once each of the GCC states recognize each other as GCC VAT Implementation Member States.

Tax periods. The standard tax period is three calendar months (i.e. quarterly) ending on the date that the federal tax authority determines.

The federal tax authority may assign a taxable person a shorter or longer time period where it considers that a nonstandard tax period length is necessary or beneficial to:
- Reduce the risk of tax evasion
- Enable the federal tax authority to improve the monitoring of compliance or collection of tax revenues
- Reduce the administrative burden on the federal tax authority or the compliance burden on a taxable person

Where a taxable person is assigned the standard tax period, it may request that the tax period ends with the month as requested by them, and the federal tax authority may accept such request at its discretion.

The four staggers of tax periods and tax years are as follows:
- 31 January, where the tax period ends 31 January and quarterly thereafter (stagger group 1)
- Last day of February, where the tax period ends last day of February and quarterly thereafter (stagger group 2)
- 31 March, where the tax period ends 31 March and quarterly thereafter (stagger group 3)
- Last day of the calendar year, where the tax period ends on 31 January and monthly thereafter (stagger group 4)

Electronic filing and archiving. Taxable persons are required to submit their VAT returns online on the federal tax authority's portal and pay any VAT due electronically (see below subsection).

Taxable persons shall keep appropriate accounting records and commercial books for UAE tax purposes, including:
- Records of payments, receipts, purchases, sales, revenue and expenditure
- Balance sheets and profit and loss accounts
- Records of wages and salaries
- Records of fixed assets and inventory

The taxable person must hold and maintain these records for a period of five years after the end of the tax period to which they relate or the concerned document was created, in the case of nontaxable persons. This period is extended to 15 years for records relating to real estate.

VAT records may be archived electronically in any location, provided that the authenticity, integrity and legibility of the content of source documents (invoice data) is protected and any records can be produced in a readable form (within a reasonable period of time) upon request by the federal tax authority.

VAT return data, records and documents can be submitted to the federal tax authority in English, except for where the federal tax authority specifically states that it will accept the information submitted by the taxable person to be in Arabic. This decision is at the discretion of the federal tax authority and, it may request that some or all of the information is translated into Arabic.

Payment. Payment of UAE VAT due by a taxable person in respect of a tax period must be made at the latest by the 28th day of the month following the end of that tax period. The person making the payment must provide details of the tax registration number of the taxable person and the tax period or tax periods to which the period relates.

Payment can be made by several means, including:
- Visa/Mastercard bank transfer: there is a cap of AED50,000 per payment; there may, however, be other associated fees levied by the bank.
- E-dirham: a payment system used to pay VAT, as well as other federal-level services. E-direct is the online service that allows a taxable person to transfer funds to their e-dirham account from their existing bank account.
- Bank transfer: electronic fund payments can also be made to the tax authority using the taxable person's GIBAN, which is a unique IBAN number allocated to every taxable person.

Where any relevant VAT amount is expressed in a currency other than AED, the amount must be converted to AED using the daily rate prescribed by the central bank on the date that the relevant VAT amount becomes due.

At the time of preparing this chapter, these are the payment options and more may become available in the future.

Special schemes. *Profit margin scheme:* A taxable person may calculate VAT on any supply of goods by reference to the profit margin scheme in the following situation:
- Where it has made a supply of the following types of goods, which have been subject to VAT before the supply takes place:
  - — Secondhand goods, meaning tangible movable property that is suitable for further use as it is or after repaid
  - — Antiques, meaning goods that are over 50 years old
  - — Collectors' items, meaning stamps, coins and currency and other pieces of scientific, historical or archaeological interest
- The goods (as outlined above) were purchased from either:
  - — A person who is not VAT registered
  - — A taxable person who calculated the VAT on the supply by reference to the profit margin

The profit margin is the difference between the purchase price of the goods and the selling price of the goods, and the profit margin shall be deemed to be inclusive of VAT.

A taxable person may not elect to calculate VAT on the profit margin in respect of the goods (as outlined above) if a VAT invoice or other document is issued for the supply, mentioning an amount of VAT chargeable on the supply.

Where a taxable person has charged VAT in respect of a supply under the profit margin scheme, the taxable person shall issue a VAT invoice that clearly states that the VAT was charged with reference to the profit margin, in addition to all other information required to be stated in a VAT invoice except the amount of VAT.

The taxable person must keep the following records in respect of supplies made under the profit margin scheme:
- A stock book or similar record showing the details of each good purchased and sold under the profit margin scheme.
- Purchase invoices showing details of the goods purchased under the profit margin scheme. Where the goods are purchased from non-VAT registered persons, the taxable person must issue an invoice showing details of the goods itself, including at least the following information:
  — The name, address and VAT registration number of the taxable person
  — The name and address of the person selling the good
  — The date of the purchase
  — Details of the goods purchased
  — The consideration payable in respect of the goods
  — Signature of the person selling the good or authorised signatory

Annual returns. Not applicable. Annual VAT returns are not required to be filed in the UAE.

J. Penalties

The federal tax authority shall issue an administrative penalty assessment to the taxable person, and notify the taxable person within five business days, as of the date of issuance in any of the following cases:
- Failure by the taxable person to display prices inclusive of VAT (AED15,000)
- Failure by the taxable person to notify the authority of applying VAT based on the profit margin (AED2,500)
- Failure to comply with the conditions and procedures related to keeping goods in a designated zone or moving them to another designated zone (penalty is the higher of AED 50,000 or 50% of the tax chargeable in respect of the goods as a result of the violation)
- Failure by the taxable person to issue a tax invoice or an alternative document when making any supply (AED5,000 for each tax invoice or alternative documents)
- Failure by the taxable person to issue a tax credit note or an alternative document (AED5,000 for each tax credit note or alternative documents)
- Failure by the taxable person to comply with the conditions and procedures regarding the issuance of electronic tax invoices and electronic tax credit notes (AED 5,000 for each incorrect document)
- Failure by the taxable person conducting business to keep required records (AED10,000 for first offense, AED50,000 in case of repetition)
- Failure by the taxable person submit records in Arabic when requested by the federal tax authority (AED20,000)

If it is proven that a person who is not VAT registered acquires goods (crude or refined oil, unprocessed or processed natural gas, or any hydrocarbons, or gold or diamonds), claiming that they are VAT registered for the purposes of the reverse charge, he shall be considered as having committed tax evasion and shall be subject to penalties.

Assessments. The federal tax authority may impose a VAT assessment on a taxable person irrespective of a VAT return filed by the taxable person. The federal tax authority may make a new VAT assessment to amend a previous assessment made by it. The federal tax authority must notify the taxable person of a VAT assessment within five business days.

The federal tax authority may not issue or amend an assessment in respect of any tax period, after a period of five years after the end of the tax period to which the assessment relates.

In cases where any transaction is being carried out with the intention of breaching the provisions of the UAE VAT law and regulations, or in cases where a person is required to register but fails

to do so, the federal tax authority may issue or amend assessments up to a period of 15 years after the end of the tax period to which the assessment relates.

Tax evasion. Tax evasion shall be punishable by a prison sentence and/or a fine not exceeding five times the amount of VAT evaded. By way of example, the following would be classified as tax evasion for UAE VAT purposes:

- A taxable person who deliberately understates the actual value of its business or fails to consolidate its related businesses with the intent of remaining below the required registration threshold
- A person who charges and collects amounts from its clients claiming them to be tax without being registered
- A person who deliberately provides false information and data and incorrect documents to the authority
- A person who prevents or hinders the authority's employees from performing their duties
- A person who deliberately decreases the payable tax through tax evasion or conspiring to evade tax

The imposition of fines shall not prejudice the payment of any tax due and the application of any other penalty stipulated by any other UAE law. In cases where any transaction is being carried out with the intention of breaching the provisions of the UAE VAT law and Regulations, or in cases where a person is required to register but fails to do so, the federal tax authority may issue or amend assessments up to a period of 15 years after the end of the tax period to which the assessment relates.

Failure to register. Any taxable person who has not applied for VAT registration within the set time frame shall be fined AED20,000.

Late filings and errors made on VAT returns. If a taxable person recognizes an error in an already submitted VAT return, it has 20 days to notify the federal tax authority of the error by submitting a correction form. If the error results in a discrepancy of VAT owed under AED10,000, the correction can be made by adjusting the net VAT on the business's next VAT return.

Any taxable person who carries out the following:

- Files an incorrect VAT return to the federal tax authority
- Amends a VAT return after filing, or files any document with the federal tax authority due by them which results in an error and, hence, in an amount that is less than the VAT due, shall be liable for both a:
  - Fixed penalty: AED3,000 for the first time and AED5,000 for subsequent voluntary disclosures
  - Percentage based penalty, based on the amount unpaid due to the error and resulting tax benefit:
    - 50% if the voluntary disclosure is made after the federal tax authority notifies the taxable person of the tax audit, the federal tax authority starting the tax audit or after being asked for information relating to the tax audit, whichever takes place first
    - 30% if the taxable person makes the voluntary disclosure after being notified of the tax audit but before the start of the tax audit
    - 5% if the taxable person makes the voluntary disclosure before being notified of the tax audit by the authority

Late payment of tax due. If a taxable person fails to pay the VAT due within the prescribed timeframe, e.g., within 28 days from the end of the taxable person's tax period, the following late payment penalty is levied:

- 2% of the unpaid tax is immediately levied when the payment is not received by the federal tax authority on the due date.
- 4% of the unpaid tax is levied on the seventh day following the tax due date.

- 1% daily penalty is applied to any unpaid amount that is still outstanding one calendar month following the tax due date. (This penalty is capped at 300%.).

Correction of returns. A taxable person must notify the federal tax authority within 20 days of becoming aware of an error or incorrect amount, by submitting a voluntary disclosure. This notification must be given if the taxable person becomes aware of an error or an incorrect amount in a filed VAT return, or becomes aware of such facts which should have led him to be aware of such error or incorrect amount, which has resulted in the amount of VAT payable to the federal tax authority being understated and that amount of net tax payable is more than AED10,000.

In cases where a taxable person becomes aware of an error or an incorrect amount in a filed VAT return which has resulted in the amount of VAT payable to the federal tax authority being overstated, the taxable person may correct that error at any time, by submitting a voluntary disclosure.

Subject to the above, if the understatement of net VAT by the taxable person is less than AED10,000, the taxable person may correct that error by adjusting the net VAT in its next VAT return. If there is no VAT return through which the error can be corrected, the taxable person must instead make a voluntary disclosure.

No correction to any VAT return relating to an overstatement of VAT in respect of a tax period may be made after a period of five years has passed from the end of the calendar year in which the tax period takes place. In the case of an understated amount of VAT payable or an overstated amount of VAT refundable, two penalties may apply:
- Fixed penalty: AED3,000 for the first time and AED5,000 for subsequent voluntary disclosures
- Percentage based penalty, based on the amount unpaid due to the error and resulting tax benefit:
  - — 50% if the voluntary disclosure is made after the federal tax authority notifies the taxable person of the tax audit, the federal tax authority starting the tax audit or after being asked for information relating to the tax audit, whichever takes place first
  - — 30% if the taxable person makes the voluntary disclosure after being notified of the tax audit but before the start of the tax audit5% if the taxable person makes the voluntary disclosure before being notified of the tax audit by the authority

Invoicing and accounting errors. A taxable person who fails to issue a tax invoice or alternative document, as appropriate, shall be liable for a fine of AED5,000 for each tax invoice or alternative document.

A fine of AED20,000 shall be imposed on any taxable person that:
- Fails to submit data, records and documents related to UAE VAT in Arabic to the tax authority when requested
- Prevents or obstructs the employees of the tax authority or any one working for the tax authority from performing their duties

Where the taxable person has failed to comply with the conditions and procedures regarding the issuance of electronic tax invoices and electronic tax credit notes, they shall be liable for a separate fine of AED5,000 per document.

Appeal process. A taxable person against whom a decision for a penalty was issued, may submit a request for reconsideration to the federal tax authority to reconsider any of its decisions in connection with the taxable person, within 20 business days of being notified of the decision. The federal tax authority has 20 business days in which to review the request for reconsideration and, once a decision is made, has 5 business days to inform the taxable person of its decision.

Either decision may be appealed by the taxable person through the tax disputes resolution committee. This committee has 20 business days from the date of notification in order to review the

dispute and, once a decision is made, has 5 business days to inform the relevant parties of the decision.

The decision of the tax disputes resolution committee may also be appealed through the Competent Court. The court must receive the notification of appeal within 20 business days from the objector being notified of the tax disputes resolution committee's decision.

Rulings. A taxable person may request that the federal tax authority give its opinion or a nonbinding ruling on the interpretation of the VAT law or the regulations, to the taxable person's current or intended economic activity. The request should be made in writing and reference the appropriate legal provisions.

K. Transitional provisions

Time of supply and charging VAT. If the supplier receives consideration or part thereof or issues an invoice for goods or services before the VAT law comes into effect, the date of supply shall be the same as the effective date of the VAT law (only in respect of the amounts of consideration received or specified in the invoice issued before the VAT law came into effect), in the following instances, if they occur after the effective date of the VAT law:

- Transfer of goods under the supervision of the supplier
- Placing the goods at the recipient's disposal
- Completion of assembly or installation of the goods
- Issuance of the customs declaration
- Acceptance by the recipient of goods of the supply
  - — This means the point at which the recipient of goods considers that the supplier has completed its obligations to them

For contracts that have been concluded before the effective date of the VAT law but the supply under the contract is wholly or partly made after the effective date of this VAT law, the following rules apply:

- A supply shall be considered to have taken place in accordance with the general time of supply rules (see above *Section E. Time of supply*) and special time of supply rules for continuous services, payment made through vending machines, deemed supplies and supply of vouchers (again see the above *Section E. Time of supply*). Where the date of supply has been triggered in respect of a supply of good or a service and the part of the supply of such good or service was before the VAT law coming into effect and partly after, the date of supply shall be treated as taking place after the VAT law has come into effect, for that part of the supply actually taking place after that date.
- A payment of consideration before the date the VAT law comes into effect, shall be disregarded in determining whether a supply takes place before that date if, or to the extent that, it appears to the federal tax authority that it would not have been so made but for the VAT.
- Consideration shall be treated as exclusive of VAT and the recipient of goods or services shall be obliged to pay the VAT in addition to the consideration if all of the following conditions are met:
  - — Where the recipient of goods or services is registered for VAT
  - — Where the recipient of goods or services has the right to recover input tax incurred on the supply, either in full or in part

- The above only applies if before the date the VAT law comes into effect, the supplier requests from the recipient of goods or services to confirm the following:
  - — Whether the recipient of goods or services is or expects to be registered for VAT at the time that the VAT law comes into effect
  - — The extent to which the recipient of goods or services expects to be able to recover VAT incurred on the supply

Within 20 business days of receiving an information request under the above rule, the recipient of goods or services shall reply to the supplier in writing with the information requested. The supplier may rely on the information provided from the recipient of goods or services, in determining the tax treatment of the supply. If the customer knowingly provides incorrect information that results in the supplier having to treat the consideration inclusive of VAT, then the customer shall not be entitled to reclaim the input tax on that supply. Where the customer has failed to provide the information as requested by the supplier, then the supplier may treat the consideration in respect of the supply as exclusive of VAT, and request the customer to pay the VAT. The supplier and customer must both retain the records of the request and the information provided.

Where a taxable supply is treated as periodically or successively supplied, VAT shall not be charged on the portion of the consideration that relates to a supply made before the date the VAT law comes into effect.

If a contract has been concluded prior to the enforcement of the VAT law regarding the supply to be wholly or partly made after the effective date of the VAT law, but the contract does not contain any clauses related to VAT, it shall be treated as per the following:
- The consideration shall be considered inclusive of VAT (if chargeable)
- VAT shall be calculated on the supply and remitted regardless of whether it has been taken into account when determining the consideration for the supply

Implementation of VAT in other GCC Member States. A GCC Member State shall be treated as an Implementing State according to the provisions of the Decree-Law if the following conditions are met:
- Where the GCC Member State treats the UAE similarly as an Implementing State in its published legislation
- Full compliance with the provisions of the Common VAT Agreement of the States in the GCC

At the time of preparing this chapter, the respective tax authorities of the UAE, Bahrain and KSA are not treating each other as Implementing States during the transition period.

Electronic services system in all GCC Member States. Prior to the introduction of the electronic services system in all GCC Member States:
- A taxable person who receives goods into the UAE (excluding the designated zones) from another GCC Member State shall be deemed to have imported the goods into the UAE and VAT will be collected in accordance with the provisions for other imports.
- Supplies of goods involving transport of the goods from the UAE to another GCC Member State shall be treated as an export of the goods for VAT purposes.

The date of introduction of the electronic services system will be formally announced by the federal tax authority by way of an order issued by the federal tax authority.

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A. At a glance

Name of the tax	Value-added tax (VAT)
Date introduced	1 April 1973
European Union (EU) Member State	Yes, until 29 March 2019. A transitional period after this date may be agreed. *However, at the time of preparing this chapter, a transitional period has not yet been agreed.*
Administered by	HM Revenue & Customs (https://www.gov.uk/government/organisations/hm-revenue-customs)
VAT rates	
Standard	20%
Reduced	5%
Other	Zero-rated, exempt and exempt with credit
VAT number format	GB 999.9999.99
VAT return periods	
Quarterly	General rule
Monthly	If requested by a business that receives regular repayments
Annual	If requested by a small business (annual turnover less than GBP1.35 million excluding VAT)
Thresholds	
Registration	GBP85,000 (zero for non-established businesses)
Deregistration	GBP83,000
Distance selling	GBP70,000
Intra-Community acquisitions	GBP85,000
Recovery of VAT by non-established businesses	Yes

B. Scope of the tax

VAT applies to the following transactions:
- The supply of goods or services made in the United Kingdom by a taxable person
- The intra-Community acquisition of goods from another EU Member State by a taxable person (see the chapter on the EU)
- Reverse-charge services received by a taxable person in the United Kingdom
- The importation of goods from outside the EU, regardless of the status of the importer

For VAT purposes, the United Kingdom consists of Great Britain, the Isle of Man and Northern Ireland. It does not include the Channel Islands or Gibraltar.

At the time of preparing this chapter, the UK is due to leave the European Union on 29 March 2019. After this date (subject to any transitional period), the UK will no longer be required to harmonize its VAT legislation with the EU VAT system. However, the UK VAT system is expected to continue largely as before and CJEU case law should continue to apply where the UK legisla-

tion remains the same, and in any case will remain persuasive. Importantly, the UK will become a third country in relation to the remaining EU 27 Member States and will therefore no longer have the concepts of acquisitions and dispatches. Subject to any agreements made with the EU, goods leaving and entering the UK will be treated as imports and exports and customs and excise duties and import VAT may apply. Further details are expected to be published over the coming months.

C. Who is liable

A "taxable person" is any entity or person that is required to be registered for VAT. The term includes any entity or individual that makes taxable supplies of goods or services, intra-Community acquisitions or distance sales in the United Kingdom in the course of a business in excess of the relevant turnover thresholds.

Effective from 1 April 2017, the VAT registration threshold is GBP85,000; the threshold will remain at this level until 31 March 2022. This VAT registration threshold only applies to businesses established in the United Kingdom. A nil registration threshold applies to businesses not established in the United Kingdom. As a result, any non-established business that makes a taxable supply (not covered by an existing VAT simplification) in the United Kingdom is required to register for VAT, regardless of the value of the supply. Non-established businesses involved only in distance sales of goods to UK residents who are not taxable persons (see the chapter on the EU) are subject to the distance selling threshold (GBP70,000); this threshold is set by EU law and does not generally increase from year to year. The distance selling rules may be affected by Brexit.

The UK VAT authorities have introduced an enhanced online service for UK VAT registration (and deregistration) applications and for notifying changes to registration details (such as a change of address). This provides an incentive for businesses to use online services by offering quicker and more accurate processing.

Exemption from registration. A taxable person whose turnover is wholly or primarily zero-rated (see Section D) may request exemption from registration.

Voluntary registration. A business may register for VAT voluntarily if its taxable turnover is below the VAT registration threshold. A business may also register for VAT voluntarily in advance of making taxable supplies. In this case, the business needs to demonstrate to the UK VAT authorities it has the firm intention to make taxable supplies.

Group registration. Corporate bodies and certain noncorporate entities (such as partnerships and individuals) that are under "common control" and are estab-lished or have a fixed establishment in the United Kingdom may apply to register as a VAT group.

A VAT group is treated as a single taxable person. The group members share a single VAT number and submit a single VAT return. No VAT is charged on supplies made between group members. Group members are jointly and severally liable for all VAT liabilities.

Non-established businesses. A "non-established business" is a business that does not have a fixed establishment in the United Kingdom. A non-established business must register for VAT if it makes any of the following taxable supplies in the United Kingdom, regardless of the value of the supply:

- Goods located in the United Kingdom at the time of supply
- Services to which the reverse charge (see *Reverse charge*) does not apply
- Supplies of telecommunications, broadcasting and electronic services (digital services) to non-VAT taxable customers in the United Kingdom (see *Digital economy*)

EU businesses not established in the UK must also register for VAT if they make distance sales in the United Kingdom in excess of the distance selling annual threshold.

A non-established business that registers for VAT may normally do so from its place of business outside the United Kingdom. The application form (VAT 1) must be sent to the following address:

Non-Established Taxable Persons Unit
Registration Team
HM Revenue & Customs
Crown House
Birch Street
Wolverhampton WV1 4JX
England
Telephone: +44 3000 521 261
Email: vrs.netpu@hmrc.gsi.gov.uk

Reverse charge. If a non-established business supplies services to a UK taxable person but does not register for VAT, the taxable person may be required to account for the VAT due under reverse-charge accounting. This means that the taxable person charges itself VAT. The self-assessed VAT may be deducted as input tax (that is, VAT on allowable purchases) depending on the taxable person's partial exemption status (see Section F). This measure does not apply in all circumstances. For example, it applies only if the place of supply of the services is in the United Kingdom.

From 1 February 2016, a "domestic reverse charge" was introduced for wholesale supplies of electronic communication services. The reverse charge applies to the services of routing phone calls and associated data (text, images) over landlines, mobile networks and the internet. It does not apply to non-wholesale supplies or to businesses not registered or not liable to be registered for VAT. From 1 October 2019, a "domestic reverse charge" will be introduced in the construction industry. The domestic reverse charge will only affect standard (20%) or reduced rate (5%) supplies where payments are required to be reported through the Construction Industry Scheme (CIS). Therefore, supplies between subcontractors and contractors, as defined by the CIS, will be subject to the reverse charge unless they are supplied to a contractor who is an end user.

Tax representatives. A non-established business may choose to appoint a tax representative or agent to act on its behalf in relation to UK VAT matters.

The UK VAT authorities may require that a non-established person appoint a tax representative. However, this condition may be imposed only if the business is established in a country outside the EU that has not agreed on mutual assistance provisions with the United Kingdom.

Late-registration penalties. A penalty is assessed for late VAT registration. This penalty is calculated as a percentage of the VAT due (output tax less input tax) for the "relevant period." The "relevant period" begins on the date on which the business is required to be registered and ends on the date on which the UK VAT authorities became fully aware of this liability.

If the liability to register for VAT arises before 1 April 2010, the penalty rate that applies depends on the length of the relevant period. If this period is less than nine months, the penalty rate is 5% of the VAT due. If the period is between 9 and 18 months, the penalty rate increases to 10% of the VAT due. For businesses that register more than 18 months late, the penalty rate is 15% of the VAT due. The minimum penalty is GBP50. No penalty arises where there is a "reasonable excuse" for the late registration. Although "reasonable excuse" is not defined, this is generally limited to exceptional or unforeseen circumstances. A penalty can also be reduced where there are mitigating circumstances that fall short of a "reasonable excuse." The extent of any mitigation allowed by HMRC will depend on the specific circumstances.

If the liability to register arises after 1 April 2010, the penalty rate that applies may range from 30% (in most cases) to 100% (with respect to deliberate and concealed acts) of the VAT due. However, measures exist for the reduction of such penalties if the business voluntarily discloses the

failure to register to the UK VAT authorities. The degree of mitigation of the penalties depends on the "quality" of the disclosure. No penalty arises where there is a "reasonable excuse" for the late registration.

Digital economy. Effective 1 January 2015, EU VAT place of supply rules apply to business-to-consumer (B2C) supplies (i.e., supplies to non-VAT-taxable customers) of digital services. From this date, supplies of digital services to EU consumers are subject to VAT in the Member State where the customer belongs. Thus, where the customer belongs in the United Kingdom, UK VAT will be due.

Any taxpayers making B2C supplies of digital services are required to register for VAT in each EU Member State where they have customers or register for the Mini One-Stop Shop (see *Mini One-Stop Shop*).

Vouchers. The EU Voucher Directive has been implemented into UK law and aims to make the rules for the tax treatment of vouchers consistent. The new UK rules will apply to vouchers issued on or after 1 January 2019.

Mini One-Stop Shop. The Mini One-Stop Shop (MOSS) gives taxpayers making B2C supplies of digital services the simplified option of registering in one EU Member State from which they can submit VAT returns and pay the VAT due in all Member States. Otherwise, they will have to register for VAT separately in each EU Member State where they have customers. The MOSS is available to taxable persons which are established in the EU (the Union scheme), as well as taxable persons which are not established within the EU (the non-Union scheme). Businesses established in the UK making B2C supplies of digital services to EU consumers can register in the UK for the Union MOSS scheme. Similarly, businesses established outside the EU making B2C supplies of digital services to EU consumers can choose to register in the UK for the non-Union MOSS scheme. The use of MOSS will likely be impacted by Brexit.

Taxpayers can register online for the MOSS in the UK via the UK VAT authorities' website at https://online.hmrc.gov.uk/registration/organisation/moss/introduction. The UK VAT authorities normally send an email within five working days of receipt of a completed electronic registration request. This will direct taxpayers to a secure communications portal where they can view their VAT identification number and Registration Certificate. VAT identification numbers for the non-Union MOSS scheme have their own unique format beginning with the prefix "EU," followed by a nine-digit number. These are different from UK VAT registration numbers issued under the normal rules. However, if a taxpayer is registered for VAT in the UK, it will use its existing VAT number.

Electronic declarations are due for each calendar quarter (31 March, 30 June, 30 September and 31 December) and should be submitted with full electronic payment of the tax due within 20 days of the end of each quarter. The UK VAT authorities will then send the appropriate information and payment to the VAT authorities of each relevant EU Member State. Late declarations or payments may render taxpayers liable to penalties. For each EU Member State in which a taxpayer has made B2C supplies of digital services, the declaration must state the total value of all supplies in the period (excluding VAT) and the standard or reduced VAT rate which applies in the customer's Member State. The amount of VAT payable in each Member State and the total amount of the declaration will be calculated automatically.

Taxpayers registered for the MOSS in the UK are required to submit declarations and payments in GBP. Conversions from other currencies into GBP must be made using the exchange rates published by the European Central Bank for the last day of the tax period to which the declaration relates or, if no such rate is published for that day, for the next day for which such a rate is published. Taxpayers will receive an online acknowledgment confirming that the UK VAT authorities have received their declaration.

Any adjustments that need to be made to a MOSS declaration must be made by making a correction to the original declaration and not by an amendment to any later declarations.

Taxpayers registered for the MOSS should maintain records of their transactions in sufficient detail to enable the VAT authorities in the customer's EU Member State to determine that the VAT declarations and payments made are correct. Such records must be retained for 10 years.

Taxpayers cannot recover VAT on purchases using the MOSS. However, taxpayers may reclaim any VAT paid on goods and services used for the purpose of their taxable activities falling under the MOSS from the EU Member State where that VAT was paid, under the terms of the EU Refund Directives (see Section G).

Following agreement at the EU level and new UK legislation, two changes to the VAT treatment of business to consumer supplies of digital services and the use of the MOSS scheme will take effect on 1 January 2019:
- The introduction of a EUR10,000 threshold (sterling equivalent of GBP8,818) for total supplies to the EU in a year of sales of digital services. This change means that businesses under this threshold may apply the VAT rules in their home country, rather than in the country where customers are located. Businesses can continue to apply the current rules if they prefer.
- Allow non-EU businesses, which are registered for VAT for other purposes, to use the MOSS scheme to account for VAT on sales of digital services to consumers in EU Member States. This group is currently excluded from using MOSS.

Joint and several liability – online marketplaces. Under these provisions, where an overseas trader who operates through an online marketplace is liable to be registered and account for UK VAT, and they fail to do so, HMRC has powers in place to hold the online marketplace jointly and severally liable for any UK VAT due.

VAT, Fulfillment House Due Diligence Scheme. Where an overseas trader who operates through a fulfillment house/online marketplace is liable to be registered and account for UK VAT, and they fail to do so, HMRC has powers in place to hold the online marketplace jointly and severally liable for any UK VAT due. Linked to this, any fulfillment house/online marketplace that offers goods to UK consumers (which are fulfilled from a UK warehouse) must register with HMRC for the Fulfillment House Due Diligence Scheme.

Deregistration. A taxable person that ceases to be eligible for VAT registration must deregister. A taxable person may also request deregistration if its taxable turnover drops below the deregistration threshold (GBP83,000, effective from 1 April 2017) or if its taxable turnover is wholly or primarily zero-rated (see Section D). However, deregistration is not compulsory in these circumstances.

D. VAT rates

In the United Kingdom, the term "taxable supplies" refers to supplies of goods and services that are liable to a rate of VAT, including the zero rate.

In the United Kingdom, the following are the VAT rates:
- Standard rate: 20%
- Reduced rate: 5%
- Zero rate: (0%)

The standard rate of VAT applies to all supplies of goods or services, unless a specific measure provides for the zero or reduced rate or an exemption.

Examples of goods and services taxable at 0%

- Books, newspapers and periodicals
- Certain foodstuffs

- Children's clothing and footwear
- Drugs and medicines supplied by prescription
- New housing
- Transport services
- Exports of goods and related services
- Certain international services
- Intra-Community supplies of goods

Examples of goods and services taxable at 5%

- Fuel and power supplied to domestic users and charities.
- Services of installing energy-saving materials in residential buildings (services only) or services and goods when supplied to a relevant housing association, qualifying person or where the installation is in a building used for relevant residential purposes. The reduced rate does not apply to the installation of solar panels, wind turbines and water turbines.
- Building materials for certain residential conversions.
- Sanitary protection products.
- Children's car seats.
- Smoking cessation products.
- Grant-funded installation of heating appliances and qualifying security goods.
- Certain larger holiday caravans.
- Small, cable-based passenger transport systems.

The term "exempt supplies" refers to supplies of goods and services that are not liable to tax and that do not give rise to a right of input tax deduction (see Section F). In addition, some supplies are classified as "exempt with credit." Exempt with credit supplies are effectively treated as if they were zero-rated, even though they are not within the scope of VAT. This means that no VAT is chargeable, but the supplier may recover related input tax. Exempt with credit supplies include services supplied to customers outside the EU.

Examples of exempt supplies of goods and services

- Betting and gaming
- Education
- Finance
- Insurance
- Land and buildings (in most cases)
- Postal services (in most cases)
- Human blood products
- Medical services
- Shared service arrangements in circumstances in which two or more organizations (whether businesses or otherwise) with exempt and/or nonbusiness activities join together on a cooperative basis to form a separate, independent entity (a cost-sharing group), to supply themselves with certain services at cost (the VAT cost-sharing exemption applies only in very specific circumstances and does not cover all shared-service arrangements)

Option to tax for exempt supplies. The United Kingdom operates an option to tax in respect of land and buildings. However, certain supplies of land and buildings are not affected by an option to tax (generally buildings intended for residential use or a qualifying charitable use).

E. Time of supply

The time when VAT becomes due is called the "time of supply" or "tax point." The "basic" tax point under UK law is the point when the goods are either removed from the supplier's premises or made available to the customer, or when the services are performed.

The basic tax point may be overridden by the creation of what is termed an "actual" tax point. An "actual" tax point occurs in the following circumstances:

- Before the basic tax point: if the supplier issues a VAT invoice or receives payment with respect to a supply, a tax point is created to the extent covered by the invoice or payment (whichever is earlier).
- After the basic tax point: if an invoice is issued within 14 days after the basic tax point, the date of the invoice becomes the tax point. Taxable persons may request permission to extend this 14-day invoicing tax point up to a maximum of 30 days after the basic tax point.

Deposits and prepayments. The receipt of a deposit or prepayment normally creates an actual tax point if the amount is paid in the expectation that it will form part of the total payment for a particular supply. A tax point is created only to the extent of the payment received.

In the Budget 2018, the government announced that it will amend the unfulfilled supplies prepayment rules with effect from 1 March 2019. The changes are expected to mean that all prepayments for goods and services are brought into the scope of VAT where customers have failed to collect what they have paid for and have not received a refund.

Intra-Community acquisitions. The time of supply for an intra-Community acquisition of goods is the 15th day of the month following the month in which the goods are removed (that is, sent to, or taken away by, the customer). However, if the supplier issues an invoice before this date, the tax point is when the invoice is issued.

Intra-Community supplies of goods. For intra-Community supplies of goods, the time of supply is the earlier of the 15th day of the month following the month in which the goods are removed or the date of issuance of a VAT invoice.

Imported goods. The time of supply for imported goods is the date of importation, or the date on which the goods leave a duty suspension regime.

Goods sent on approval or for sale or return. The tax point for goods sent on approval or sale or return is the earlier of the date on which the goods are accepted by the customer or 12 months after the removal of the goods from the supplier. However, if a VAT invoice is issued before these dates, the invoice creates an actual tax point, up to the amount invoiced.

Continuous supplies of services. If services are supplied continuously and payment is made periodically, a tax point is created each time a payment is made or a VAT invoice is issued, whichever occurs earlier.

Reverse-charge services. The tax point for reverse-charge services is governed primarily by when the service is performed, and a distinction is made between single and continuous supplies. For single supplies, the tax point is the earlier of the date of completion of the service or the date of payment for the service. For continuous supplies, the tax point is the end of each billing or payment period (or the date of payment, if earlier). For continuous supplies that are not subject to billing or payment periods, the tax point is 31 December each year unless a payment has been made before that date, in which case the payment creates a tax point.

Leased assets. Under current UK VAT law, operational and finance asset leases are treated as continuous supplies of services (see above), provided that legal title to the goods does not pass to the recipient and there is no express contemplation that title will transfer at some point in the future. Goods supplied on terms which expressly contemplate that title will transfer at some point in the future (e.g., under hire-purchase or conditional sale agreements) are treated in the same way as a normal sale of goods where title passes at the outset. Unless a VAT invoice is issued, the time of supply will be linked to the basic tax point (see above). This means that the full amount of VAT will become payable up front, instead of being due as and when installment payments are made.

F. Recovery of VAT by taxable persons

A taxable person may recover input tax, which is VAT charged on goods and services supplied to it for business purposes. A taxable person generally recovers input tax by deducting it from output tax, which is VAT charged on supplies made. Where input tax exceeds output tax in any period, the taxable person will receive a refund.

Input tax includes VAT charged on goods and services supplied in the United Kingdom, VAT paid on imports of goods into the United Kingdom and VAT self-assessed on the intra-Community acquisition of goods and reverse-charge services (see the chapter on the EU).

A valid tax invoice or customs document (C79) must generally accompany a claim for input tax.

Special rules apply to the recovery of input tax on expenditure incurred before registration and after deregistration.

Nondeductible input tax. Input tax may be recovered only on purchases of goods and services that are used for business purposes (this excludes, for example, goods acquired for private use by an entrepreneur). However, input tax may not be recovered on some items of business expenditure.

The following lists provide some examples of items of expenditure for which input tax is not deductible and examples of items for which input tax is deductible if the expenditure is related to a taxable business use.

Examples of items for which input tax is nondeductible

- Purchase of a car (unless the car is available exclusively for business use)
- 50% of VAT incurred on the rental or lease of a car used for mixed business and private purposes
- Private expenditure
- Business entertainment and hospitality (except if provided to overseas customers)

Examples of items for which input tax is deductible (if related to a taxable business use)

- Conferences, exhibitions, training and seminars
- Taxi services
- Restaurant expenses for employees
- Accommodation
- Motoring expenses and fuel for business purposes
- Business use of a home telephone

Partial exemption. Input tax directly related to making exempt supplies is generally not recoverable (subject to above comments regarding "exempt with credit" supplies. If a taxable person makes both exempt and taxable supplies, it may not recover its input tax in full. This situation is referred to as "partial exemption."

A UK taxable person that makes both taxable and exempt supplies may calculate the amount of input tax it may recover in several ways. The standard partial exemption calculation method consists of the following two-stage calculation:

- The first stage identifies the input tax that may be directly allocated to taxable and to exempt supplies. Input tax directly allocated to taxable supplies is deductible, while input tax directly related to exempt supplies is not deductible. Supplies that are exempt with credit are treated as taxable supplies for these purposes.
- The second stage identifies the amount of the remaining input tax (for example, input tax on general business overhead) that may be allocated to taxable supplies and recovered. The amount of recoverable VAT is determined by making a pro rata calculation based on the respective values of taxable and exempt supplies made.

If the standard calculation method gives an unfair or distortive result, a special calculation method may be agreed with the UK VAT authorities. In some cases, the UK VAT authorities may impose the use of a special calculation method.

Insurance anti-avoidance measure. Counter tax avoidance arrangements are to be introduced to prevent so-called "offshore looping," whereby insurance groups set up an insurer in a non-EU VAT jurisdiction giving insurers a competitive advantage over UK-based insurers. *At the time of preparing this chapter, the final legislation had not yet been published. However, it is expected that the measure will come into effect on and after 29 March 2019.*

Proposed split-payment method. *At the time of preparing this chapter, the Government is considering implementing a split-payment mechanism that could work to combat online VAT fraud. The consultation response document published on 7 November 2018 confirmed that an industry working group will be set up to explore next steps.*

Capital goods. Capital goods are items of capital expenditure that are used in a business over several years. Input tax is deducted in the VAT year in which the goods are acquired. The amount of input tax deductible depends on the taxable person's partial exemption recovery position in the VAT year of acquisition. However, the amount of input tax recovered for capital goods must then be adjusted over time if the taxable person's partial exemption recovery percentage changes during the adjustment period.

In the United Kingdom, the capital goods adjustment scheme applies to the following assets for the number of years indicated:

- Land and buildings and related property expenditure valued at GBP250,000 or more: adjusted over a period of 10 years
- Computer hardware valued at GBP50,000 or more: adjusted over a period of five years
- Ships and aircraft valued at GBP50,000 or more: adjusted over a period of five years

The adjustment is applied each year following the year of acquisition to a fraction of the total input tax incurred (1/10 for land and buildings and 1/5 for computer hardware, ships and aircraft). The adjustment may result in either an increase or a decrease of deductible input tax, depending on whether the ratio of taxable supplies to total supplies made by the business has increased or decreased compared with the year in which the capital goods were originally acquired.

Refunds. If the amount of VAT recoverable exceeds the amount of VAT payable in a period, a refund may be claimed. This is done automatically by submitting the periodic VAT return. A taxable person that receives regular repayments of VAT may request permission to submit monthly returns to improve cash flow.

Preregistration costs. Where a business buys goods or services before registering for VAT to support its taxable business activities, it can recover the VAT provided that certain conditions are met. In the case of goods, they must remain on hand at the date of registration and must be used in the newly registered business. These goods must also have been bought no more than four years before the date of registering for VAT. Different rules apply to capital goods within the capital goods adjustment scheme (see above). In the case of services, they must have been bought no more than six months before the date of registration.

Write-off of bad debts. Where a business has made supplies to its customers and has not been paid, it can claim relief for the VAT on bad debts provided a number of conditions are met. The main conditions for claiming VAT bad debt relief are that the business must already have accounted for the VAT on the supplies and paid it to the UK VAT authorities, the business must have written off the debt in its VAT accounts, and the debt must have remained unpaid for a period of six months after the date of the supply and the date payment was due, whichever is later.

Noneconomic activities. VAT incurred in the course of non-business activities is generally not recoverable.

G. Recovery of VAT by non-established businesses

The United Kingdom refunds VAT incurred by businesses that are neither established nor registered for VAT in the United Kingdom. Non-established businesses may reclaim VAT to the same extent as UK VAT-registered businesses. VAT incurred in the Isle of Man may also be refunded through this procedure. For the general VAT refund rules, see the chapter on the EU.

EU businesses. An electronic VAT refund procedure applies across the EU. EU businesses must submit their claims for UK VAT through an electronic interface to their local VAT authorities, rather than directly to the UK VAT authorities.

Refund claims are based on calendar years. Claims must be submitted within nine months after the end of the calendar year in which the VAT is incurred (that is, by 30 September). Claims must be accompanied by the appropriate information (see the chapter on the EU). Brexit may impact the use of the scheme. However, in the event that the UK leaves the EU with a transitional period in place, it is likely that any changes will be delayed.

Non-EU businesses. For businesses established outside the EU, VAT refunds are made under the terms of the EU 13th Directive. The United Kingdom does not generally exclude businesses from any country from eligibility.

For businesses established outside the EU, VAT refunds are based on a "prescribed year" running from 1 July to 30 June. Applications for a VAT refund based on the EU 13th Directive must be submitted within six months after the end of the prescribed year in which the VAT was incurred (that is, before 1 January).

Claims must be submitted in English and must be accompanied by the appropriate documentation (see the chapter on the EU). The minimum claim period is three months, while the maximum claim period is one prescribed year. The minimum claim for a period of less than a year is GBP130. Where a claim covers the full 12 months of the prescribed year, the minimum VAT claim is GBP16.

Applications for refunds of UK VAT must be sent to the following address:

HM Revenue & Customs Compliance Centres
VAT Overseas Repayments Unit S1250
Benton Park View
Newcastle Upon Tyne
NE98 1YX

H. Invoicing

VAT invoices and credit notes. A UK taxable person must generally provide a VAT invoice for all taxable supplies made to other taxable persons, including exports and intra-Community supplies (see the chapter on the EU). Invoices are not automatically required for retail transactions, unless requested by the customer.

A VAT invoice is required to support a claim for input tax deduction.

A VAT credit note may be used to reduce the amount of VAT charged on a supply. The credit note must reflect a genuine mistake, an overcharge or an agreed reduction in the value of the original supply. A credit note must be issued within one month after the mistake or overcharge is discovered. The credit note should also refer to the number and date of the original VAT invoice.

B2C. In the UK, a taxable person is not required to provide a VAT invoice for B2C (e.g., retail) supplies of goods and services. In practice, this will normally mean issuing a VAT invoice to any customers who ask for one.

Effective 1 January 2015, new EU VAT place of supply rules apply to B2C supplies of digital services. From this date, supplies of digital services to EU consumers are subject to VAT in the Member State where the customer belongs. Although the vast majority of EU Member States, including the United Kingdom, do not require VAT invoices to be issued for cross-border B2C supplies, UK taxable persons making B2C supplies of digital services to customers in other EU Member States should check the invoicing requirements in the customer's Member State. For further details of the VAT rules on digital services in the EU, please refer to the European Union chapter.

Electronic invoicing. UK VAT law permits electronic invoicing in line with EU Directive 2010/45/EU (see the chapter on the EU).

Proof of exports and intra-Community supplies. UK VAT is generally not chargeable on supplies of exported goods or on intra-Community supplies of goods, except distance sales (see the chapter on the EU). However, to qualify for VAT zero-rating, exports and intra-Community supplies must be supported by evidence proving that the goods have left the United Kingdom.

Acceptable proof includes the following documentation:
- For exports, official customs documentation and commercial documentation, such as consignment notes and airway bills
- For intra-Community supplies, a range of commercial documentation, such as customer orders, sales invoices, transport documentation and packing lists

In all cases, the evidence must clearly identify the supplier, the customer, the goods, the mode of transport and route of movement of the goods, and the destination. The evidence must be obtained within three months after the time of supply and be retained for at least six years.

Foreign-currency invoices. If a VAT invoice is issued in a foreign currency, the pounds sterling equivalent of the VAT amount must also be stated on the invoice. Suppliers may use any of the following acceptable exchange rates:
- The UK market selling rate at the time of the supply (rates published in UK national newspapers are acceptable as evidence of the rates in force at the relevant time)
- The UK VAT authorities' published period rates of exchange
- Any other acceptable rate that is used for commercial purposes (and not covered by the two alternatives above), subject to agreement in writing with the UK VAT authorities

I. VAT returns and payment

VAT returns. VAT returns are generally submitted quarterly. VAT return quarters are staggered into three cycles to ease the UK VAT authorities' administration. The following are the cycles:
- March, June, September and December
- February, May, August and November
- January, April, July and October

Each taxable person is notified at the time of registration of the return cycle it must use. However, the UK VAT authorities will consider a request to use VAT return periods that correspond with a taxable person's financial year. In addition, a taxable person whose accounting dates are not based on calendar months may request permission to adopt nonstandard tax periods.

Taxable persons that receive regular repayments of VAT may request permission to submit monthly returns to improve cash flow.

VAT returns must generally be submitted by the last day of the month following the end of the return period. Payment is also generally due by this date. However, in most cases, taxable persons that submit their VAT returns electronically have an additional seven calendar days after the normal due date in which to file their returns and make payment (businesses that use the annual

accounting scheme or are required to make payments on account do not qualify for this seven-day extension).

VAT returns must be completed in pounds sterling, but return liabilities may be paid in pounds sterling or euros.

Electronic filing and archiving. The vast majority of UK VAT-registered businesses (with some limited exceptions) are required to submit their VAT returns online (using the UK VAT authorities' electronic VAT service) and pay any VAT due electronically.

VAT records may be archived electronically in any location, provided that the authenticity, integrity and legibility of the content of source documents (invoice data) is protected and any records can be produced in a readable form (within a reasonable period of time) upon request by the UK VAT authorities.

Making Tax Digital for VAT and electronic filing. HMRC's Making Tax Digital (MTD) program applies to VAT and other taxes. It will come into effect for VAT from 1 April 2019 for businesses registered for VAT in the UK, with a taxable turnover above the VAT registration threshold limit (currently GBP85,000) unless the business falls into one of the exception categories (see below). The GBP85,000 MTD threshold applies to established, non-established and distance sellers. Businesses that fall into one of the exception categories below will be required to meet the MTD requirements with effect from 1 October 2019:

- Trusts
- "Not for profit" organizations that are not set up as a company
- VAT divisions
- VAT groups
- Those public-sector entities required to provide additional information on their VAT return (government departments, NHS Trusts), local authorities
- Public corporations — HMRC has subsequently confirmed that a public corporation is a body owned/controlled by government/public authorities
- Traders based overseas
- Those required to make payments on account and annual accounting scheme users

Businesses that fall within the MTD rules will have to keep their records digitally (for VAT purposes only), evidence a digital journey from source systems through to submission of the VAT return and submit the VAT return to HMRC using MTD-compatible software.

Payments on account. Taxable persons that have an annual VAT liability of greater than GBP2.3 million must make payments on account, which are interim payments made at the end of the second and third months of each VAT quarter. The VAT return is due at the normal time together with a balancing payment for the period. The level of the payments on account is generally calculated as ¼ of the taxable person's VAT liability for the preceding 12 months. Electronic transfers must be used for all payments on account.

Cash accounting. Businesses with an annual taxable turnover (excluding VAT) of less than GBP1.35 million are eligible to use the cash accounting scheme which allows VAT to be accounted for on the basis of cash or other consideration paid and received. However, if their annual taxable turnover (excluding VAT) subsequently exceeds GBP1.6 million, they must stop using the scheme.

Annual accounting. Businesses with annual taxable turnover (excluding VAT) of less than GBP1.35 million may apply to complete an annual VAT return. Businesses that use annual accounting must make either three quarterly or nine monthly interim VAT payments. Any balancing payment must be made with the annual return. The annual return is due on the last day of the second month following the end of the taxable person's annual VAT accounting period. However, if their

annual taxable turnover (excluding VAT) subsequently exceeds GBP1.6 million, they must stop using the scheme.

Special accounting. A special accounting scheme (known as the Flat Rate Scheme) exists for small businesses with VAT-exclusive annual taxable turnover of up to GBP150,000. Under the scheme, eligible businesses calculate the amount of VAT due based on a fixed percentage of their total (VAT-inclusive) turnover. The percentages range from 4% to 16.5%, depending on the trade sector of the business. However, if their annual taxable turnover (excluding VAT) subsequently exceeds GBP230,000, they must stop using the scheme.

Other special accounting schemes exist for retailers, businesses trading in secondhand goods, tour operators, gold traders and farmers.

Reverse-charge accounting for domestic supplies of mobile phones and computer chips. The UK government has suffered heavy losses of VAT arising from "missing trader" VAT fraud. This fraud arises when small, high-value goods are moved around the EU VAT system and a fraudulent party absconds without paying the VAT due. An anti-avoidance measure requires purchasers of certain designated goods (broadly, mobile phones and computer chips) to account for the VAT due under a domestic reverse-charge accounting procedure, rather than paying the VAT to the supplier. The domestic reverse charge applies for supplies in excess of GBP5,000 (exclusive of VAT). When making a domestic sale to which reverse-charge accounting applies, the supplier must show all the information normally required to be shown on a VAT invoice. The supplier must also annotate the invoice to make it clear that the reverse charge applies and that the customer is required to account for the VAT. Additional notification and reporting requirements also apply to these transactions.

Reverse-charge accounting for domestic supplies of emissions allowances. Purchasers of specified emissions allowances must account for VAT under a domestic reverse-charge accounting procedure, rather than paying VAT to the supplier. When making a domestic sale of emissions allowances to which reverse-charge accounting applies, the supplier must show all the information normally required to be shown on a VAT invoice. The supplier must also annotate the invoice to make it clear that the reverse charge applies and that the customer is required to account for the VAT. No additional notification or reporting requirements apply to these transactions.

Reverse-charge accounting for domestic wholesale supplies of gas and electricity. Purchasers of wholesale supplies of gas and electricity are required to account for VAT under a domestic reverse-charge accounting procedure, rather than paying VAT to the supplier. The domestic reverse charge does not apply to supplies of gas and electricity made under supply license or metered arrangements to residential and business premises (supplies for consumption). VAT-registered businesses that do not resell or trade the gas or electricity are not affected. When making a supply to which domestic reverse-charge accounting applies, the supplier must show all the information normally required to be shown on a VAT invoice. The supplier must also annotate the invoice to make it clear that the domestic reverse charge applies and that the customer is required to account for the VAT. No additional notification or reporting requirements apply to these transactions.

Reverse-charge accounting for domestic wholesale supplies of telecommunication services. Effective 1 February 2016, purchasers of wholesale supplies of telecommunication services are required to account for VAT under a domestic reverse-charge accounting procedure rather than paying VAT to the supplier. The domestic reverse charge does not apply to supplies made to a member of a corporate group for onward supply within that corporate group, and where the corporate group members consume that supply. When making a supply to which the domestic reverse charge applies, the supplier must show all the information normally required to be shown on a VAT invoice. The supplier must also annotate the invoice to make it clear that the domestic reverse charge applies and the customer is required to account for the VAT. No additional notification or reporting requirements apply to these transactions.

Reverse-charge accounting for domestic B2B supplies of construction services. From 1 October 2019, a "domestic reverse charge" will be introduced in the construction industry. The domestic reverse charge will only affect standard (20%) or reduced rate (5%) supplies where payments are required to be reported through the Construction Industry Scheme (CIS). Therefore, supplies between subcontractors and contractors, as defined by the CIS, will be subject to the reverse charge unless they are supplied to a contractor who is an end user.

Use and enjoyment of insurance repair services. Responding to a number of insurers who structured agreements to avoid incurring irrecoverable VAT by undertaking to repair insured goods via offshore insurance entities, effective for transactions carried out after 1 October 2016, a provision has been introduced to ensure that repair services carried out in the UK for UK policyholders are subject to VAT irrespective of where the insurer belongs.

Use and enjoyment rule removed for telecommunication services used outside the EU. The place of supply, for VAT purposes, has been altered for mobile telecommunication services supplied to UK nonbusiness users when they use their mobile phones outside the EU. This change aligns the UK treatment of these services with internationally agreed guidelines. The change means that UK VAT will be charged on roaming services used by UK consumers outside the EU with effect from 1 November 2017.

Special schemes. See *Cash accounting, Annual accounting* and *Special accounting* above.

Annual returns. UK VAT-registered businesses are not required to submit an annual VAT return in addition to their normal periodic (monthly or quarterly) VAT returns.

J. Penalties

Penalties for late payment of VAT. If a VAT return or payment is late, the taxable person is in default and is issued a Surcharge Liability Notice. The notice specifies a period of 12 months from the last day of the VAT period under default, which is known as the "surcharge period." Any further default within this period may trigger a penalty and extend the surcharge period. The penalty is calculated as a percentage of the "outstanding VAT." A business has "outstanding VAT" for a period if some or all of the VAT due for that period remains unpaid as of the normal due date.

The following percentage penalty rates apply:
- For the first default in the surcharge period: a penalty of 2% of the outstanding VAT
- For the second default in the surcharge period: a penalty of 5% of the outstanding VAT
- For the third default in the surcharge period: a penalty of 10% of the outstanding VAT
- For the fourth and any subsequent defaults in the surcharge period: a penalty of 15% of the outstanding VAT (for each further default)

The UK VAT authorities do not impose a penalty at the 2% or 5% rates for an amount of less than GBP400. For the 10% and 15% rates, the minimum penalty is GBP30.

If a nil or repayment VAT return is submitted late or payment is made on time but the return is submitted late, no penalty is imposed. However, a default is recorded and the surcharge period is extended.

There will be no default or liability to a penalty where a business has a "reasonable excuse" for failing to submit a VAT return or make payment of VAT on time.

Penalties for errors made on VAT returns. If a business makes an error on a VAT return despite taking "reasonable care," it should not be liable to a penalty. Otherwise, the penalty rate depends on the behavior giving rise to the error (rather than the size of the error) and may range from 30% (for "careless" errors) to 100% (for "deliberate and concealed" acts) of the VAT due. However, provisions exist for the reduction of such penalties if the business makes an unprompted (volun-

tary) disclosure to the UK VAT authorities. The degree of mitigation also depends on the "quality" of the disclosure.

Penalties, participation in VAT fraud. A new penalty regime was implemented during 2017 for participating in VAT fraud. The penalty will be applied to businesses and company officers who "knew or should have known" that their transactions were connected with VAT fraud. The new penalty will be a fixed rate penalty of 30%.

Disclosure of tax avoidance schemes. From 1 January 2018, provisions came into effect to make scheme promoters primarily responsible for disclosing indirect tax avoidance schemes to HMRC. The scope of the current regime includes all indirect taxes and moves the responsibility for disclosing VAT avoidance schemes to HMRC from scheme users to scheme promoters. The measure took effect from 1 January 2018 and will affect those who promote schemes after this date.

Corporate criminal offense. With effect from 30 September 2017, the UK introduced a corporate criminal offense of failing to prevent the facilitation of tax evasion. The offense concerns when an "associate person," such as an employee, agent, contractor or subsidiary, facilitates the evasion of tax of a third party while acting on behalf of the business. The intention of the legislation is to attribute criminal liability to businesses for the criminal acts of employees, agents or those that provide services for or on their behalf.

If that business (defined as "relevant body") cannot evidence that it had reasonable preventative procedures in place to prevent the facilitation of tax evasion by persons acting on its behalf, then it could be subject to a corporate criminal conviction and an unlimited fine. While this is UK legislation, the impact is far reaching and could result in overseas businesses being prosecuted because the definition of a relevant body is "a body corporate or partnership (wherever incorporated or formed)."

K. EU filings

Intrastat. A UK taxable person that trades in goods with other EU countries must complete statistical reports, known as Intrastat declarations, if the value of its sales or purchases exceeds certain thresholds. Separate reports exist for intra-Community acquisitions (Intrastat Arrivals) and intra-Community supplies (Intrastat Dispatches).

For the 2019 calendar year, the threshold for Intrastat Arrivals is GBP1.5 million and the threshold for Intrastat Dispatches is GBP250,000.

A taxable person whose intra-Community trade in goods exceeds GBP24 million (for either Arrivals or Dispatches) must also provide additional information concerning the terms of delivery.

Intrastat declarations must be submitted electronically on a monthly basis and be completed in pounds sterling. The deadline for the submission of Intrastat declarations is the 21st day of the month following the end of the reference period (normally a calendar month) to which they relate.

Penalties may be imposed if a taxable person's Intrastat declarations are persistently late, missing or inaccurate.

EU Sales Lists. All businesses registered for VAT must complete EU Sales Lists (ESLs) if they make either or both of the following types of supplies:

- Intra-Community supplies of goods to business customers in other EU Member States
- Intra-Community supplies of services to business customers in other EU Member States, if the place of supply of the services is the customer's Member State and if the customer is required to account for the VAT due on the supply under the reverse-charge procedure

The information required to be provided on ESLs includes the country code and VAT registration number of the businesses to which the supplies were made, the total value of those supplies in pounds sterling and an indicator to identify a supply as a supply of services.

The ESL reporting period for intra-Community supplies of goods is a calendar month for supplies over GBP35,000 per quarter. The ESL reporting period for intra-Community supplies of services is a calendar quarter, but businesses may instead choose a reporting period of a calendar month (for example, to align with the ESL reporting period for intra-Community supplies of goods).

The following are the deadlines for submitting ESLs to the UK VAT authorities, for all frequencies of submission with respect to both goods and services:
- For paper ESLs: 14 days from the end of the reporting period
- For electronic ESL submissions: 21 days from the end of the reporting period

Penalties may be assessed for the late submission of ESLs and for material inaccuracies in ESLs.

The UK is due to leave the European Union on 29 March 2019. After this date, EU filings, such as Intrastat and ESLs, will no longer be required. However, if a transitional period is agreed, these EU filings will likely continue to be required until the end of that period. *However, at the time of preparing this chapter, a transitional period has not yet been agreed.*

United States

ey.com/GlobalTaxGuides
ey.com/TaxGuidesApp

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A. General

The United States does not impose a national-level sales or value-added tax. Instead, sales taxes and complementary use taxes are imposed and administered at the state (subnational) and local (substate) levels. Currently, 45 of the 50 US states, the District of Columbia and Puerto Rico impose some form of sales and use tax. (See chapter on Puerto Rico.) Only Alaska, Delaware, Montana, New Hampshire and Oregon do not impose such taxes. Taking into account both the state-level and local-level aspects of sales and use taxes, approximately 10,000 taxing jurisdictions exist in the United States.

The laws, rules and procedures with respect to sales and use taxes are not uniform among these jurisdictions, and issues such as tax-base calculation, taxability of specific items and tax rates vary considerably among the jurisdictions. Sales and use taxes are generally imposed on transactions involving the sale of tangible personal property. However, several states also tax certain specified services and digital property (for example, electronically delivered software).

B. Tax rates

Sales and use tax rates vary among the states. For each state that imposes a sales and use tax, one uniform rate is imposed at the state level. However, several states impose a lower rate on certain items, such as food, clothing, selected services and medicine, instead of exempting such items outright, and also impose higher rates on items such as alcohol. Excluding additional local sales and use taxes, state-level sales and use tax rates range from 2.9% (Colorado) to 7.25% (California).

Local rates, if authorized within a state, may vary significantly. In addition, a single situs within a state may lie within several different local taxing jurisdictions. For example, sales made in one store may be subject to city, county and district taxes, in addition to the state-level tax, while sales made from a different store may be subject only to a county tax, in addition to the state-level tax. As a result, it is possible that two identical transactions within the same state may be taxed at substantially different rates based solely on the local sourcing of the transaction. In certain states,

local rates can exceed 4% and constitute a greater portion of the total sales tax due than the state-level rate.

Not all states authorize the imposition of local sales and use taxes. Others require rate uniformity across the state or minimum local rates, e.g., California.

C. Imposition of tax

Sales taxes are transaction-based taxes imposed on intrastate retail transactions (sales made between a buyer and seller located within the same state) and are calculated as a percentage of the receipts derived from the transaction. The legal incidence of state sales tax laws may be on the buyer ("consumer" taxes) or on the seller ("vendor" or "privilege" taxes). However, regardless of the form of the tax, the consumer generally will bear the actual cost of the tax, while the vendor will bear the compliance cost.

Use taxes, which complement sales taxes, are imposed on the use, storage or consumption in a state of property or taxable services that have not been subjected to a sales tax. Essentially, use taxes are designed to prevent the avoidance of sales taxes on interstate retail transactions (sales made between a buyer and seller located in different states) by taxing goods and service procured in one state but intended for use or enjoyment in another state. To the extent that sales tax is paid in one state on such interstate transactions, a credit is allowed against any use tax that is ultimately owed.

D. Jurisdiction to tax

The key issue with respect to sales and use taxation is jurisdiction to tax, or "nexus." This concept deals with the power of one state to compel a seller to collect and remit the sales or use tax due on a transaction. Prior to the ruling rendered by the U.S. Supreme Court (the Court) on 21 June 2018 in *South Dakota v. Wayfair* ***("Wayfair")***, nexus was deemed to exist only if the seller had some physical presence within the taxing state (either by itself or through an agent or affiliate that had "established and maintained" an in-state market for the seller) and if such presence was more than de minimis.

Direct physical presence, even if unrelated to a seller's sales activity, automatically created (and still creates) a registration and collection obligation. Physical presence may be deemed to exist based on the ownership of real or tangible personal property, the in-state presence of employees, the temporary storage of inventory or any other entry into the state by the seller or its employees (for example, delivery of goods sold in the seller's own vehicles). Physical presence may also be attributed to a seller based on activities conducted by third-parties in the state on the seller's behalf. Essentially, if an agent or affiliate of a seller that does not have nexus with a state enters the state and conducts activities on the seller's behalf that serve to "establish and maintain a market" for the seller's goods (for example, soliciting sales, providing repair or installation services or providing training services), the seller may be deemed to be physically present in the state and be subject to the state's sales and use tax jurisdiction.

Between 1999 and 2018, several states enacted laws that require remote sellers with no in-state physical presence to register for sales and use tax purposes, and to collect and remit tax on sales to in-state customers based on their in-state sales volume. These laws, which many considered unconstitutional under the case law at the time, were challenged in each jurisdiction where enacted. In April 2018, the Court heard an appeal of the challenge to the state of South Dakota's law, which imposed a registration and collection obligation on any remote seller that had annual sales of USD100,000 or that entered into at least 200 transactions with South Dakota customers. On 21 June 2018, the Court issued its ruling in the Wayfair case, concluding that the physical presence standard established under earlier precedent was "incorrect and unsound" and was no longer applicable. The Court further held that states were free to compel remote sellers to collect

and remit tax so long as their mechanism for doing so did not unduly burden or discriminate against interstate commerce. Through October 2018, more than 30 states have enacted new laws similar to the one South Dakota enacted and which was considered by the Court. *At the time of preparing this chapter, the remaining states are expected to enact similar laws by the end of 2019.*

In addition to these economic nexus provisions, at the time of preparing this chapter, more than 30 states have also enacted laws that specifically attribute certain activities of in-state third parties on behalf of remote sellers to such remote sellers, thereby creating a presumption of an in-state physical presence. These laws operate parallel to the new economic nexus standards and present a separate consideration. In many states, certain affiliate relationships with in-state entities also will create a presumption of an attributional physical presence for a remote seller. Finally, since 2010, more than 10 states have adopted a requirement for remote sellers that lack nexus with a state but make sales to in-state customers to provide notice to their customers that use tax is due and is the responsibility of the customer, and to provide the state revenue agency with a list of in-state customers and the value of their annual purchases. Despite the historic ruling in *Wayfair*, which drastically expanded the reach of states to enforce sales or use tax compliance by remote sellers, these provisions remain in effect and apply in the event nexus is not otherwise established (either through direct physical presence, meeting one or more state-specific sales or transactions thresholds, or by way of attributional or affiliate presumptions).

If a seller does establish nexus with a state for sales and use tax purposes through one of these means, the seller is generally required to register in that state for sales and use tax purposes, and the seller is required to collect and remit sales and use taxes due on its taxable transactions with customers in the state. The seller is also required to file monthly, quarterly or annual sales and use tax returns (depending on state law) and remit all taxes collected. Failure to comply with the specific state requirement may result in the seller becoming liable for any tax due on a transaction, plus penalties and interest.

Since 2000, legislation has regularly and routinely been introduced in the U.S. Congress that, if enacted, would establish a uniform national sales and use tax nexus standard for remote sellers (i.e., businesses that sell and ship goods to customers from points outside of the customer's state and that lack physical presence in the customer's state). *At the time of preparing this chapter, several proposals are pending before both houses of Congress that would either codify the physical presence standard as it existed before the Court's ruling in Wayfair or provide guidelines that states must follow in order to compel remote sellers to register and collect tax. However, none of these measures has progressed to a stage where passage seemed likely, and it is not expected that there will be any congressional action on the issue through 2019.*

E. Retail sales

State sales and use taxes apply to receipts from taxable property and services sold and purchased at retail. A "retail sale" generally is defined as the transfer of title and possession of property from the seller to the ultimate consumer in exchange for consideration. Wholesale sales (discussed below), also referred to as "sales for resale," are exempt from sales and use tax in all states that impose a sales and use tax scheme. However, Hawaii imposes a 0.5% wholesale sales tax rate on resale transactions.

Taxation of services that are ancillary to the sale of taxable tangible personal property, such as delivery and installation, varies among the states. Most states have explicit statutory or regulatory provisions dealing with the treatment of such services. In many cases, such treatment is determined based on the state's specific definition of "receipts" for sales and use tax purposes.

Retail sales involving three parties (retailer, buyer and supplier), in which title to the property sold passes from the retailer directly to the buyer, but possession is transferred from a third-party supplier directly to the buyer, are classified as "drop ship" transactions. In a drop ship transaction, the

retailer is generally responsible for sales and use tax collection. However, if the retailer does not have nexus with the buyer's state, a supplier with nexus in the state may be held liable for sales and use tax collection on the transaction. Alternatively, states may attempt to assert nexus over the out-of-state retailer under a "flash title" theory (that is, by asserting that the retailer takes title to the property for an instant while the property is within the state and, accordingly, has physical presence in the taxing state) or assess use tax liability directly against the buyer.

Leases are treated as taxable retail sales in most states. The tax generally applies separately to each lease payment. However, certain states, such as Illinois and New Jersey, require lessors of tangible personal property to pay the sales tax in full on acquisition and before any subsequent lease or rental. In these states, tax is not charged on the subsequent lease.

Lease transactions that are deemed to constitute "financed sales" (arrangements under which total lease payments approximate the sales price, with the lessor having the option to purchase the leased item for a nominal price at the end of the lease term) are generally treated as straight sales in most states. If a lease is reclassified as a financed sale, tax is due in full at the time of inception.

Sales and use taxes are imposed on receipts derived from taxable retail sales transactions. In most states, taxable receipts may be reduced by the value of any goods traded in by the purchaser as part of the transaction and by any coupons, rebates or discounts issued by the vendor.

F. What is taxable

State sales and use taxes generally apply to sales of tangible personal property, which is defined in most states as personal property that can be seen, touched, measured and weighed, or is otherwise perceptible to the senses. In general, services are not broadly subject to sales and use taxes. However, several states tax specifically enumerated services. Such taxation is not uniform across the states.

Real property (e.g., land, buildings and fixtures) is not considered to be tangible personal property, and the sale or lease of real property is not subject to sales and use taxation (except in certain limited circumstances in Arizona, Florida and New York City). State and local jurisdictions may, however, impose transfer taxes on real property that are administered separately and apart from the state or local sales or use taxes.

Intangible personal property, such as securities and intellectual property, are not subject to sales and use taxation. However, certain intangible digital goods may be subject to tax, depending on the specific state's laws. For example, items such as music downloaded from the internet and canned (non-custom) computer software that is delivered electronically may be considered to be tangible personal property in several states and are subject to tax. Similarly, depending upon the jurisdictions involved, cloud-based software (SaaS) may be classified as taxable tangible personal property, nontaxable intangible property or a service.

Many states classify utilities, such as natural gas and electricity, as taxable tangible personal property. In such states, sales of these utilities may be subject to sales and use tax in addition to any applicable utility transmission fees or excise taxes.

G. Situs of sales

Where a sale is deemed to take place is crucial in determining which jurisdiction's tax laws and rates apply. For intrastate sales, the situs of the sale determines which local sales and use taxes (if any) are imposed in addition to the state-level tax and which locality receives the revenue. For interstate transactions, the situs of the sale determines which state's laws control and which state is entitled to the tax revenue.

In general, sales are sourced based on the nature of the transaction. For example, if a sale occurs at a fixed location, such as an over-the-counter sale at a store, the sale is sourced to that location. For intrastate remote sales that involve a buyer and seller (and possibly the goods sold) at separate locations, the transaction may be sourced to where the goods are received by the buyer, where the order is accepted by the seller or from where the goods are shipped.

For interstate remote sales, tax generally is imposed at the destination (that is, where the goods are received by the buyer), regardless of where title passes to the ultimate customer. In such cases, use tax, rather than sales tax, is due, and it must be collected and remitted by the seller if the seller has nexus with the destination state. To the extent that the seller lacks nexus with the destination state, the purchaser must self-assess and pay use tax to the state.

Sourcing for intrastate sales varies among the states. Most states apply local taxes on a destination basis, which means that local sales and use taxes at the customer location will apply. Others apply local taxes on an origin basis, which means that local sales and use taxes at the vendor or shipper location will apply.

H. Tax exemptions

Exemptions from state sales and use taxes are largely driven by policy and may be based on federal or state law. Exemptions based on federal law include taxes imposed on Indian tribes and reservation lands, and sales made to the federal government. State and local level exemptions vary by jurisdiction, but may be grouped into the following four distinct categories:

- Entity-based
- Property-based
- Use-based
- Transaction-based

Like other aspects of state and local taxation, the availability and operation of sales and use tax exemptions and the procedures for claiming the exemptions vary among the states and, in some cases, the local taxing jurisdictions that impose such a tax.

Entity-based exemptions. Sales made to entities that qualify for exemption in a state (for example, religious or charitable organizations and state and federal governmental agencies) are not subject to tax. Issues may arise with respect to contractors performing work for or on behalf of such exempt entities. In general, contractors must pay tax on items purchased in fulfilling a contract with an exempt entity. However, tax is generally not due if the contractor is acting as an agent for the entity in procuring items for the entity's own use. Wide variations in these exemptions exist among the states and, in some cases, certifications of the exemption may be required.

Property-based exemptions. Many states deem certain specific items to be exempt from tax as a matter of policy. For example, several states do not tax food, clothing or medicine, or they provide for a reduced tax rate on such items. Certain states set thresholds for such items. For example, Massachusetts exempts clothing purchases up to USD175 per item.

Use-based exemptions. Items that otherwise are subject to the tax may be exempt based on their actual use by the purchaser. Most notably, items used in manufacturing, research and development and pollution control typically are eligible for exemption. In addition, many states provide specific exemptions for enumerated items purchased and used in designated enterprise and economic development zones in the state.

Transaction-based exemptions. The most common sales and use tax exemptions are based on the type of transaction involved. In the retail context, the "sale for resale" or "wholesale sale" exemption is most often claimed. The "occasional sale" exemption, also referred to as the "casual sale" or "isolated sale" exemption, typically applies in the context of business restructurings and mergers and acquisitions, although, again, the rules vary widely between taxing jurisdictions.

Sales for resale. To avoid multiple taxation and maintain the general objective of only imposing tax on the last transaction involving the ultimate consumer, most states that impose a sales and use tax regime provide an exemption for wholesale sales. To claim this exemption, the purchaser must purchase the taxable items with the intention of reselling or leasing the items at retail. Any subsequent use by the purchaser of the items purchased under a resale exemption (e.g., taking items from inventory and distributing them as samples to customers) results in use tax becoming due. However, the seller is not required to collect such tax unless it knew at the time of sale that the purchaser intended to use the items.

Occasional sales. Sales that are rare or nonrecurring, such as the sale of the operating assets of a business division, qualify for exemption in most states. The theory underlying this exemption is that the sales tax is meant to apply to retail transactions only, and one-time sales are not sufficiently systematic to indicate that the seller is in the business of engaging in such transactions. In states that do not provide specific exemptions for business reorganizations (for example, incorporations, mergers and spin-offs), the occasional sale exemption may apply to limit the application of sales and use taxes to transfers of assets.

Temporary storage. Several states allow an exemption for property that is not used in the state, but is stored temporarily in the state and is intended for ultimate shipment outside of the state. This exemption typically applies to items fabricated or produced in a state and to items purchased and warehoused in a state but intended for ultimate transport outside of the United States.

Claiming exemptions. The process for claiming any of the exemptions described above varies depending on the type of exemption claimed and the state or states involved. In most instances, to claim an exemption, purchasers must provide the seller with a valid exemption certificate or statement in the form prescribed by law. In a number of states, the parties to the transaction must be registered for sales and use tax purposes in order to validly claim the exemption.

If the seller takes an exemption certificate in good faith (that is, the seller does not know of any reason why the exemption does not apply), the seller is relieved of any tax-collection requirement with respect to the transaction. "Good faith" standards are not uniform among the states. If a seller does not accept such certificate and if the seller is otherwise required to collect tax but does not do so, the seller may be personally liable for any tax due on the transaction. In several states, a seller making an exempt sale must be registered for purposes of that state's sales and use tax to be able to accept an exemption certificate from a purchaser in good faith. This requirement may present a challenge for non-US-based sellers making sales for resale, or sales under some other exemption, because registration often requires that the seller first obtain a federal employer identification number. In recent years, several states have dramatically increased their scrutiny of the exemption certification process.

I. Local- (substate) level sales and use taxes

Local sales and use taxes are authorized in 37 states. In most instances, the local sales and use tax base mirrors the state-level sales and use tax base. However, rates may differ significantly among the localities within a particular state. As indicated in Section B, a single address within a state may fall within multiple local taxing jurisdictions.

In most states, local sales and use taxes are administered at the state level. However, in a limited number of states, such as Louisiana, such taxes are administered by the locality imposing the tax, and separate registrations and filings may be required. Sellers that have nexus with a state are generally considered to have nexus with every locality within that state, regardless of whether they maintain any physical presence within a locality, but this position is not universal.

J. Registration, filing and compliance issues

Sellers that have nexus with a state (see Section D) must register with the state taxing agency for sales and use tax purposes. Registered sellers must collect and remit sales and use tax on all taxable transactions and maintain exemption certificates received from their customers. Sales and use tax returns are due on a monthly or quarterly basis, depending on the specific state's laws. Sellers that do not make any taxable sales for a given period may be relieved from filing regular returns, or they may be required to file "zero" returns indicating that no taxable sales occurred.

Most states impose successor liability on the purchasers of substantially all of the assets of a business for any sales or use tax deficiencies of these business. This liability can be avoided if the seller complies with certain bulk sales and notice requirements, the rules for which vary between states.

K. Penalties

All states impose penalties for failure to file returns and pay taxes as required by law. Penalty rates vary among the states. With respect to cases not involving fraud, the penalties range from 5% to 25% of the tax due. In cases involving the failure to file or pay as a result of fraud, penalties can exceed USD50,000 and result in imprisonment for any officers deemed responsible for the willful failure.

Similarly, all states impose interest on tax determined to be due that was not paid. In general, interest is assessed from the due date for any tax determined to be payable until the date of payment. The interest rate charged varies among the states. In general, interest rates vary from 1% to more than 14%. Some states determine their interest rates based on the prime rate, plus some additional percentage. Other states set rates legislatively. Rates set legislatively change less frequently, while those tied to the prime rate generally change quarterly, semiannually or annually, depending on market conditions.

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A. At a glance

Name of the tax	Value-added tax (VAT)
Local name	Impuesto al valor agregado (IVA)
Date introduced	29 December 1972
Trading bloc membership	Mercosur Member
Administered by	Directorate General of Taxes (http://www.dgi.gub.uy)
VAT rates	
Standard	22%
Reduced	10%
Other	Zero-rated (0%) and exempt
VAT number format	Tax identification number (RUT), which contains 12 digits
VAT payments	Monthly
VAT return periods	Monthly (small VAT taxpayers, as determined by the VAT authorities, must file annually)
Thresholds	
Registration	None
Recovery of VAT by non-established businesses	No

B. Scope of the tax

VAT applies to the following transactions:
- The supply of goods or services made in Uruguay by a taxable person
- The importation of goods from outside Uruguay, regardless of the status of the importer

C. Who is liable

A VAT taxpayer is any taxpayer for corporate income tax purposes that makes taxable supplies of goods or services in the course of doing business in Uruguay. Additionally, taxpayers of personal income tax for independent activities are subject to VAT as well as nonresidents rendering services in Uruguay or performing business activities. No registration threshold applies. The

definition of a VAT taxpayer applies to a permanent establishment of a foreign business in Uruguay.

Group registration. VAT grouping is not allowed under the Uruguayan VAT law. Legal entities that are closely connected must register for VAT individually.

Non-established businesses and tax representatives. A "non-established business" is a business that does not have a fixed establishment in Uruguay. To register as a taxpayer, a non-established business must have an address in Uruguay and must appoint a tax representative to undertake its VAT obligations (such as filing returns).

Registration procedures. Two printed copies of Form 0351 should be submitted to the tax office. Additionally, Form 0352 (individuals) or 0353 (legal entities) may have to be submitted in order to register representatives. The registration should be done when operations would take place. Additionally, a notary certification in Spanish would be needed containing information of the company and the representatives. If all documents are duly provided, the registration is finished on the same day the form is submitted. The corresponding representatives of the company submit the registration. The form should be signed by a person authorized by the company, but the submission to the tax office can be done by a third party. It is not possible to register online.

Late-registration penalties. Penalties and interest are assessed for late registration for VAT.

Reverse charge. In Uruguay the importer entity should pay VAT on the taxed goods, no matter if it is a local or foreign entity.

Digital economy. Income derived from mediation and intermediation services related to the supply and demand of services rendered through the internet, technological platforms, computer applications or other similar means are considered to be Uruguayan-sourced income and, therefore, they are subject to VAT when both parties are located in Uruguay. Intermediation services means all services that are automated, require minimum human intervention and are not available outside of an application or similar software.

To determine whether the service provider is local, the provider will have to verify if the main business is located in Uruguay. To determine whether the acquirer is local, the location of the IP address of the device used for contracting the main service will have to be considered. If the provider's address or acquirer's IP address cannot be verified, regulations will treat the acquirer as located in Uruguay whenever the service is paid by electronic means administered from Uruguay. For mediation and intermediation activities, the withholding obligations are suspended. These provisions will be applicable exclusively when such activities are performed by nonresident entities that do not have a permanent establishment in Uruguay.

Additionally, for VAT purposes, audiovisual services provided directly through the internet, technological platforms, computer applications or other similar means are considered entirely Uruguayan-sourced, as long as the acquirer is located in Uruguayan territory. Additionally, the service acquirer is considered as located in Uruguayan territory when the IP address of the device used to contract the service, or the billing address, is located in Uruguay. In the case of continuous services (e.g., subscriptions), the determination of the acquirer's location must be performed at the time the service is contracted. If the IP or billing address cannot be verified, the acquirer will be deemed as located in Uruguay whenever the service is paid for by electronic means that are administered from Uruguay (e.g., electronic currency, credit or debit cards, and bank transfers).

The aforementioned does not apply to income derived from publicity, propaganda and technical services (including distant learning), even if rendered through the internet.

From 1 July 2018, Uruguayan corporate income taxpayers, state and local governments, and others are appointed as withholding agents responsible for collecting VAT on payments or credits for electronic services.

Deregistration. Deregistration is accomplished by submitting Form 0351, establishing that the entity is no longer a VAT payer.

Exemption from registration. The VAT law in Uruguay does not contain any provision for exemption from registration. Registration before the tax authority is always mandatory for residents and nonresidents with permanent establishments in Uruguay. For other nonresidents, registration is not mandatory, as long as the foreign VAT taxpayer is subject to withholding for the obligations.

Voluntary registration. The VAT law in Uruguay does not contain any provision for voluntary VAT registration, as there is no registration threshold.

D. VAT rates

The term "taxable supplies" refers to supplies of goods and services that are liable to VAT, including the zero rate.

The following VAT rates apply:
- Standard rate: 22%
- Reduced rate: 10%
- Zero rate: 0%

The standard rate applies to all supplies of goods or services, unless a specific measure provides for the zero rate, the reduced rate or an exemption.

Examples of goods and services taxable at 10%

- Basic foodstuffs
- Soap
- Medicines
- Services supplied by hotels in "high season" to resident individuals
- Tourist services
- Health services

Examples of goods and services taxable at 0%

- Exports of goods

The term "exempt supplies" refers to supplies of goods and services that are not liable to tax. Exempt supplies do not give rise to a right of input tax deduction (see Section F).

Examples of exempt supplies of goods and services

- Foreign currencies, securities, bonds, stocks and other financial transactions
- Milk
- Books, newspapers, magazines and educational material
- Water
- Services supplied by hotels in "low season" to resident individuals

Option to tax for exempt supplies. Not applicable.

E. Time of supply

The time when VAT becomes due is called the "time of supply" or "tax point." The basic time of supply is either when the goods are transferred or when the services are performed. The invoice for the transaction must be issued at the time of supply.

Imported goods. The time of supply for imported goods is either the date of importation or the date on which the goods leave a duty suspension regime.

Deposits and prepayments. In principle, the taxable event for the supply of goods and services, is deemed to have taken place on the date of the invoice. However, the tax authority is empowered to establish another date whenever there is an omission, anticipation or delay in the billing.

In addition, it is important to note that the tax authority may authorize generally, for all the taxpayer's transactions, that the tax determination should be based on the date of the contracts.

Therefore, deposits and prepayments are not taxed if the taxable event does not ultimately take place (that is, if the services are not rendered or the delivery of goods does not happen) as the payments could not be considered to be the taxable event in themselves.

Goods sent on approval for sale or return. The time of supply rules provide that for VAT purposes, the taxable event occurs whenever goods are delivered and property rights are transferred (i.e., the owner can economically dispose of them at its will).

If goods are sent for "approval" or "for sale or return," the transfer of property on these goods would not happen. Therefore, no VAT is accounted for.

Reverse-charge services. Even though a VAT for reverse-charge regime for supplies of goods and services does not exist in Uruguay, if services are rendered in Uruguayan territory by a nonresident, the service provider is considered to be a VAT taxpayer and, thus, a withholding obligation arises for the payer.

Continuous supplies. For ongoing supplies of services, the taxable event established in the Uruguayan VAT regulations is determined on a monthly basis.

F. Recovery of VAT by taxable persons

A taxable person may recover input tax (or credit VAT), which is VAT charged on goods and services supplied to it for business purposes. A taxable person generally recovers input tax by deducting it from output tax (or debit VAT), which is VAT charged on supplies made.

Input tax includes VAT charged on goods and services supplied in Uruguay and VAT paid on imports of goods.

A valid tax invoice or customs document must generally accompany a claim for input tax credit.

Credit VAT would be recovered only if related, directly or indirectly, to sales subject to VAT or exports.

Nondeductible input tax. Input tax may not be recovered on purchases of goods and services that are not used for making taxable supplies or for other business purposes (for example, goods acquired for private use by an entrepreneur). In addition, input tax may not be recovered for some items of business expenditure.

The following lists provide some examples of items of expenditure for which input tax is not deductible and examples of items for which input tax is deductible if the expenditure is related to a taxable business use.

Examples of items for which input tax is nondeductible

- Purchase of a car, van or truck by professional individuals

Examples of items for which input tax is deductible (if related to a taxable business use)

- Business gifts
- Purchase, lease or hire of cars, vans and trucks, except by professional individuals
- Advertising and sponsorship
- Parking
- Travel expenses
- Attendance at conferences and seminars
- Business use of home telephones and mobile telephones

Refunds. If the amount of input VAT (credit VAT) recoverable in a month exceeds the amount of output VAT (debit VAT) payable, the excess credit may be carried forward to offset output tax in the following tax period. Nevertheless, input VAT related to export sales can be recovered through credit certificates issued by the tax authorities.

Partial exemption. Not applicable.

Preregistration costs. Before registration, some documents may have to be translated or notarized. Therefore, costs may vary depending on the company's situation. The cost of submitting a form, currently approximately UYU170, is updated every six months.

G. Recovery of VAT by non-established businesses

Uruguay does not refund VAT incurred by foreign businesses unless the foreign businesses have a permanent establishment in Uruguay.

H. Invoicing

VAT invoices and credit notes. A VAT taxpayer must generally provide a VAT invoice for all taxable supplies made, including exports. A separate invoice is not required to be issued for an amount of less than UYU130, but all sales made in amounts lower than UYU130 must be recorded together in a general invoice prepared at the end of each business day. A VAT invoice is necessary to support a claim for an input tax credit. A VAT credit note may be used to reduce the VAT charged and reclaimed on a supply of goods and services. A credit note must contain the same information as a VAT invoice.

Exports. Uruguayan VAT is not chargeable on supplies of exported goods. However, to qualify as VAT-free, exports must be supported by customs documents confirming that the goods have left Uruguay.

Foreign-currency invoices. If an invoice is issued in a foreign currency, the amounts may be converted to Uruguayan pesos using the buyer exchange rate bill used between banks on the day before the transaction.

B2C. VAT payers are always required to issue invoices for transactions. Documentation related to sales should also include separately the tax to be paid and the applicable tax rate. However, this last requirement does not exist when invoices are printed in the form of tickets using cash registers or electronic tickets (e-tickets).

Electronic invoicing. Currently, it is mandatory for certain taxpayers to apply to use electronic invoicing, subject to the size and category of the taxpayer. The tax authorities have established a calendar, detailing mandatory reporting deadlines according to the amount of sales made by each taxpayer. Even though the system is not mandatory for all taxpayers, any taxpayer can voluntarily request to be included in the system.

There is no need for an agreement between the issuer of the e-invoice and its customers when a taxpayer becomes an electronic issuer. When a taxpayer becomes an electronic issuer or wants to become an electronic issuer, it should start the reporting process established by tax authorities, which includes complying with a number of mandatory requirements.

An agreement between the electronic issuer and its customers could be necessary in the following scenario: for documents issued by the company to taxpayers who are not included in the electronic invoicing system or to final consumers, for which the issuance of the hard copy of the document involved is required. A hard copy may not be issued if the transaction does not involve the transfer of goods and the recipient expressly authorizes the receipt of the document through other means (e.g., email). This authorization must be obtained separately from the main agreement.

I. VAT returns and payment

VAT returns. VAT returns are generally submitted monthly. "Small VAT taxpayers" must submit returns annually. The tax authorities decide which businesses qualify as "small VAT taxpayers." However, all VAT taxpayers must make VAT payments monthly. Monthly VAT returns and payments are due in the month following the month in which the transactions are reported. The exact date for payment depends on the taxpayer's registration number (RUT).

Small VAT taxpayers must file annual tax returns in the second month following the end of the taxpayer's fiscal year. For example, if a small VAT taxpayer closes its fiscal year in December, its annual VAT return is due in February. The exact date for payment depends on the taxpayer's registration number.

In case of professional individuals, VAT returns must be submitted annually (between June and August of the following year, depending on the calendar issued by the tax authority) although payments would be done bimonthly, e.g., payment of taxes corresponding to months January and February would be due in March.

VAT return liabilities must be paid in Uruguayan pesos.

Digital economy taxpayers may choose to file their tax returns (and execute their tax payment) in USD as long as:
- All transactions are documented in that currency.
- The taxpayer does not carry out other taxed activities in the country, or if they do, they are subject to withholding.

In the case of choosing this option, it shall be maintained for at least three fiscal years, provided the conditions to access the option are met.

Annual returns. Small taxpayers (designated by the tax authority) are only required to submit annual VAT returns. However, large taxpayers are required to submit monthly tax returns.

Special schemes. A VAT taxpayer can submit a provisional annual tax return with the sole purpose of requesting fiscal credits with the tax administration.

VAT for small enterprises. Small taxpayers, that have not exceeded certain revenue thresholds in the previous fiscal year (approximately USD35,000 for 2018), can opt to account for VAT through a special regime called "VAT for small enterprises." Taxpayers using the scheme make reduced and fixed VAT payments on a monthly basis.

Electronic filing. Large taxpayers are required to submit tax returns electronically (with some exceptions, for example, if a tax return is reassessed and it includes a fiscal credit). All other taxpayers are allowed to submit their tax returns electronically through an online platform, if they wish to do so.

J. Penalties

A penalty of 5%, 10% or 20% is imposed for late payment of VAT, and a penalty of UYU450, UYU470 or UYU510 is imposed for late submission of the VAT return. The penalty rate depends on the date of payment. In addition, interest is charged on late payments of tax at a rate that varies.

Penalties for severe cases of nonpayment of VAT, infringement of VAT regulations and fraud include criminal sanctions, such as fines and imprisonment.

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A. At a glance

Name of the tax	Value-added tax (VAT)
Local name	Impuesto al valor agregado (IVA)
Date introduced	1 October 1993
Trading bloc membership	Mercosur Member
Administered by	Ministry of Finance http://www.mppef.gob.ve/ Tax Administration (SENIAT) (http://declaraciones.seniat.gob.ve)
VAT rates	
Standard	16%
Other	Maximum 16.5%, minimum 8%; additional (luxury consump tion tax) maximum 20%, minimum 15%; zero-rated and exempt
VAT number format	Not applicable
VAT return periods	Monthly for VAT ordinary taxpayers/weekly for special taxpayers (high level of income taxpayers)
Thresholds	
Registration	None
Recovery of VAT by non-established businesses	No

B. Scope of the tax

VAT applies to the following transactions:
- The sale of tangible movable goods
- The final importation of goods
- The export of goods and services
- The provision of independent services performed or used in the country, including those coming from abroad

The definition of "services" includes the following activities:
- Any independent activity in which an obligation "to do something" is a principal element
- The provision of water, electricity, telephone and garbage collection services
- Civil works contracts, including personal and real property
- The lease of personal and real property intended to be used for purposes other than residential use
- The assignment of use of rights included in and regulated by the laws on industrial property (patents and marks) and intellectual property (copyrights), for valuable consideration

C. Who is liable

Taxable persons are ordinary taxpayers such as habitual importers of goods, manufacturers, traders, service providers, and, in general, individuals or legal entities that as part of their business activities carry out activities classified as taxable for VAT purposes.

Financial leasing companies and banks are ordinary VAT taxpayers with respect to the portion of the tax payable on the amortization of the price of tangible movable property, excluding interest.

Recipients of imported goods and services purchased from non-domiciled persons or entities are responsible for the tax due. As the "party responsible for the tax," the service recipient must declare and pay the VAT due on the imported goods or services. The tax paid by the recipient is treated as input tax for the responsible party and must be included in the tax return corresponding to the tax period in which the taxable event occurs.

Occasional taxpayers are non-habitual importers of tangible movable property.

Formal taxpayers are persons that exclusively carry out activities or operations that are exempt or exonerated from VAT.

Withholding of VAT. The SENIAT has designated taxpayers qualified as "special taxpayers" as the persons responsible for the payment of VAT in their capacity as withholding agents. Special taxpayers must serve as withholding agents of the VAT generated by the purchase of personal property or the provision of services provided by suppliers who are ordinary taxpayers.

The term "special taxpayers" is a category created by the tax administration referred to specific taxpayers that due to their high level of income or its business sector (i.e., oil and gas) are appointed as such by SENIAT and therefore are subject to additional obligations and formalities (specific calendar of compliance with tax returns/obligations as VAT withholding agent/VAT and income tax advance tax return made on a weekly basis).

The amount to be withheld is calculated by multiplying the price invoiced for the goods or services provided by 75% of the proportional tax rate (currently 16%). As a result, the effective withholding rate is 12%.

The VAT withheld is treated as an advance payment for the supplier and may be deducted from the tax liability in the period in which the withholding is made or in the period in which the withholding receipt was received, whichever is later.

If the tax withheld is higher than the VAT proportional rate in the relevant weekly period, the excess tax paid may be carried forward to the following periods until it has been deducted in full. If three periods expire and the excess has not yet been deducted, the taxpayer may choose to request a refund of the amount from the tax authorities.

If the withholding is made in the period from the 1st to the 15th day of the month, the tax withheld must be submitted by the withholding agent to the national treasury within the following five working days. If the withholding is made from the 16th to the last day of the month, the tax withheld must be paid to the national treasury within the first five working days of the following

month. For taxpayers who have been qualified by the SENIAT as "special taxpayers," a different due date applies in accordance with the calendar issued by the SENIAT.

The VAT withheld must be submitted on a weekly basis, considering the calendar issued by the tax administration.

Group registration. Not available.

Non-established businesses. Businesses that conduct business in Venezuela are required to register and obtain a taxpayer identification number even if they are not domiciled in the country.

Tax representatives. Part of the required process for becoming a VAT-registered entity is to appoint a tax representative.

Reverse charge. As a result of the "reverse-charge mechanism," the obligation to self-assess the VAT is switched to the recipient of the service. The law states the tax is self-assessed by the recipient "responsible" and "on behalf of the provider," but the VAT input belongs to the recipient (the Venezuelan entity).

Registration procedures. Individuals, corporations and entities, domiciled or not domiciled in the country, that conduct business in Venezuela are required to obtain a taxpayer identification number (RIF). Registration can be submitted online. Having a taxpayer identification number (RIF) is not a per se condition for being considered a taxpayer.

Late-registration penalties. The penalty for late registration is closure of the office (when applicable) for five days and a fine of 50 tax units (currently, the value of one tax unit is VES17 [USD0.01] at the FX rate of VES1,010 to USD1).

Digital economy. For business-to-business (B2B) digital transactions, the customer is required to self-assess the corresponding VAT using the reverse-charge mechanism, only when the provider is not domiciled in Venezuela.

For business-to-consumer (B2C) digital transactions, since individual consumers are unlikely to be registered VAT-payers, no VAT is anticipated.

Deregistration. This occurs upon notification to the tax administration.

Exemption from registration. The VAT law in Venezuela does not contain any provision for exemption from registration.

Voluntary registration. The VAT law in Venezuela does not contain any provision for voluntary VAT registration, as there is no registration threshold (i.e., all entities that make taxable supplies are obliged to register for VAT). The only exception would be a non-domiciled entity, which is not subject to registration, but still can file for a voluntary registration.

D. VAT rates

The VAT law indicates that the minimum rate is 8% and the maximum rate is 16.5%. The National Executive also has the authority to determine the respective VAT rate (general rate and luxury consumption rate) within ranges provided in the VAT law. Currently, the general VAT rate is 16%. This rate applies to all supplies of goods and services, unless a specific measure provides for a different rate.

The luxury consumption tax (additional rate) is currently 15% and applies to the following services: 1) membership and maintenance fees of restaurants, nightclubs and bars with restricted access, 2) the rental of ships or aircraft for civilians, among others, for recreational activities or sports, and 3) services provided by third parties through text messaging or other technological means.

Regarding the sale or import of certain goods specified in the VAT law, the additional 15% rate applies to, among others, the sale or import of the following goods:
- Cars imported or manufactured in the country with a value equal to or higher than USD40,000
- Motorcycles imported or manufactured in the country with a value equal to or higher than USD20,000
- Airplanes used for exhibitions, advertisement, recreation or sports purposes
- Ships and vessels for recreation and sports purposes, or for particular use of its owner
- Gaming machines that use coins or cards
- Caviar

Also for the following services, among others:
- Lease of ships for recreation and sports purposes or airplanes used for exhibitions, advertisement, recreation or sports purposes.
- Services rendered on behalf of third parties, through text messages or other technological means.

The VAT law also provides a zero rate (0%) for the export of tangible personal property and tangible movable property, and the export of services.

Exempt goods and services are not liable to tax. The Venezuelan VAT law provides for the exemption and exoneration from VAT. Exemption is the entire or partial exemption of the payment of the tax obligation, granted by the special tax law. Exoneration is the entire or partial exemption of the payment of the VAT obligation, granted by the Executive Power.

Examples of exempt supplies of goods and services
- Food and goods for personal consumption such as bread, rice, salt, sugar, coffee, milk, pasta and margarine
- Books, newspapers and magazines
- Education provided by institutions registered in the Ministry of Education, Culture and Sports and the Ministry of Superior Education
- Public transportation of passengers by land or sea
- Tickets to national parks, museums and cultural centers
- Banking and insurance services
- Imports made by diplomatic agents, in accordance with international treaties subscribed to by Venezuela
- Medical assistance services
- Residential electricity
- Fertilizers

Option to tax for exempt supplies. Not available.

E. Time of supply

VAT generally becomes due when the taxable event occurs.

Tangible property. For sales of tangible personal or tangible movable property the following is the time of supply:
- For sales to public entities: when the payment order is authorized
- For all other sales: when the invoice or the necessary documents are issued, or when the payment is due or made, whichever is earlier

Services. For supplies of services, the following is the time of supply:
- For supplies of electricity, telecommunications, and broadcasting and television services: when the invoice is issued
- For services rendered to public entities: when the payment order is authorized

- For other services: when the invoice or equivalent document is issued, when the payment occurs or when the service is provided, whichever is earlier
- For services received from abroad that are not subject to customs procedures: when the invoice or equivalent documents are issued, when the payment occurs or when the service is provided, whichever is earlier

Imports. The time of supply for imports is when the registration of the customs return is due.

Other supplies. For all other supplies not listed above, the time of supply is when the invoice or equivalent document is issued, when payment is made or when the property is received, whichever is earlier.

Deposits and prepayments. In Venezuela, there are no special time of supply rules for deposits and prepayments. As such, the residual rule will apply (as outlined above) that establishes that for all other supplies not listed in the VAT law, the time of supply is when the invoice or equivalent document is issued, when payment is made or when the property is received, whichever is earlier.

Goods sent on approval for sale or return. In Venezuela, there are no special time of supply rules for supplies of goods sent on approval for sale or return. As such, the residual rule will apply (as outlined above), that establishes that for all other supplies not listed in the VAT law, the time of supply is when the invoice or equivalent document is issued, when payment is made or when the property is received, whichever is earlier.

Reverse-charge services. In Venezuela, there are no special time of supply rules for supplies of reverse-charge services. As such, the residual rule will apply (as outlined above), that establishes that for all other supplies not listed in the VAT law, the time of supply is when the invoice or equivalent document is issued, when payment is made or when the property is received, whichever is earlier.

Continuous supplies. In Venezuela, there are no special time of supply rules for continuous supplies. As such, the residual rule will apply (as outlined above), that establishes that for all other supplies not listed in the VAT law, the time of supply is when the invoice or equivalent document is issued, when payment is made or when the property is received, whichever is earlier.

F. Recovery of VAT by taxable persons

Input tax (tax credit) is tax paid on supplies of goods and services acquired in the course of a taxable business activity. Input tax is deducted from the amount of output tax, which is the tax charged on the taxpayer's operations during the tax period. Input tax credit arises from the tax paid on the purchase and import of personal property or the receipt of services that are related to costs or expenses properly incurred in the habitual economic activity of the taxpayer. Under the VAT law, input tax is considered to be effectively paid by the recipient of the goods or services when the taxable event occurs.

If the input VAT is higher than the output VAT in the relevant monthly/weekly period as the case may be, the difference may be carried forward to the following periods until it has been fully deducted.

Tax credits. If the amount of the deductible input tax is greater than the total tax payable in a tax period, the resulting difference is treated as a tax credit in favor of the taxpayer, which may be carried forward to the next or subsequent tax periods.

The right to offset tax paid (tax credit) against the tax payable on sales (tax debit) is a personal right of each ordinary taxpayer. This right may not be transferred to third parties, except in the following cases:

- Drawback of tax credits related to the purchase and acquisition of goods and services in the normal course of export activities (see *Drawback of tax credits for exporters*).
- Merger or absorption of companies. In a merger, the resulting company enjoys the remaining balance of the tax credit that corresponded to the merged companies.

Drawback of tax credits for exporters. Ordinary taxpayers that export domestic goods or services are entitled to a drawback of the tax credits paid for the acquisition and receipt of goods and services with respect to their export activities.

Application for drawback. To obtain the drawback of credits, the exporter must file an application with the SENIAT, stating the amount of the tax credit claimed. The SENIAT must give its opinion on the admissibility of the application within 30 business days. If the SENIAT does not express its opinion with respect to the application in the period of 30 business days, the taxpayer may choose to wait for the decision or consider the expiration of the period to be equivalent to the rejection of the application. In the latter case, the taxpayer may take the appropriate judicial action.

The drawback becomes effective on the issuance of special tax drawback certificates (Certificados Especiales de Reintegro Tributario, or CERT), with a face value equal to the amount approved by the SENIAT with respect to the claim. The exporter may use this amount to offset its own tax payments due to the National Treasury or it may transfer the credit to third parties.

Suspension of tax credits. A taxpayer that is involved with the development of an industrial project that takes more than six tax periods to be developed may suspend the use of the tax credits generated during the preoperational stage of the project. The taxpayer may use domestic and imported capital goods and purchase services that add value to the goods or that are necessary for the goods to perform the function for which they are designed, until the tax period in which they begin to generate taxable income. The tax credits are adjusted taking into account the consumer price index for the Caracas metropolitan area published by the Central Bank of Venezuela, from the period when the tax credits arose until the tax period in which the first tax payment is generated.

With the approval of the SENIAT, taxpayers that are involved in industrial projects aimed essentially towards exporting or generating foreign currency may choose to be refunded the tax paid during the preoperational stage.

Recovery of tax credits for special taxpayer. In the case where the withheld tax is higher than the tax quota of the respective tax period, the surplus that has not been discounted can be carried forward to the next tax period or the following ones, until its total discount. If after three tax periods there is a surplus that has not been discounted, the taxpayer can request the full or partial recovery of the accrued amount.

Recovery of tax credits for exporters. Taxpayers that carry out export activities related to goods or services of national production are entitled to recover the tax credits supported by the acquisition and reception of goods and services for their export activities.

Recovery of tax credits for oil industry. Mixed companies (*empresas mixtas*) that carry out activities related to oil and gas. Such companies are entitled to the recovery of tax credits related to the sale of natural hydrocarbons created in the country to Petroleos de Venezuela, S.A. or its subidiaries.

Nondeductible input tax. Input tax may not be recovered on purchases of goods and services that are not used for making taxable supplies or for other business purposes (for example, goods acquired for private use by an entrepreneur) or that are related to services of catering, alcoholic beverages or entertainment. In addition, input tax may not be recovered if no documentation supports the transaction or if one or more formal invoice requirements are not fulfilled.

Partial exemption. There are no partial exemptions. Exonerations are temporary and can last up to five years.

Refunds. Not applicable.

Preregistration costs. Not applicable.

G. Recovery of VAT by non-established businesses

There is no procedure for the recovery of the VAT for non-established businesses.

H. Invoicing

VAT invoices. Taxpayers must provide VAT invoices for all sales of goods and supplies of services. Invoices may be replaced by other documents authorized by the SENIAT after such authorization is granted.

Foreign-currency invoices. Under Venezuelan law, if a VAT invoice is issued in foreign currency, it must also indicate the value of the supply in bolivars (VES), using the exchange rate published by the Venezuelan Central Bank on its website for the date of the transaction.

Administrative Order 00071, which contains general guidelines for issuing invoices and similar documents for VAT, was issued by the SENIAT and published in *Official Gazette* No. 39,795, dated 8 November 2011.

B2C. There are no special rules that apply for VAT invoices issued for supplies made by taxable persons to private consumers.

Electronic invoicing. In Venezuela, electronic invoicing is only permitted for taxpayers that are large services providers (usually utilities) and can be private or public legal entities, as per the following operations:

- Electricity
- Drinking water
- Domestic gas
- Urban cleaning
- Basic telephone services
- Mobile telephone services
- Dissemination by subscription
- Internet

Credit notes. The VAT ruling establishes that the exchange or return to the seller of goods, merchandise or products purchased, made because they are in poor condition, expired, damaged, for not matching quality or characteristics to those actually acquired, or other causes, will not constitute a new sale, but will give rise to the issuance of credit notes or the issuance of new substitute invoices of the previously issued ones, which will be annulled.

If the merchandise is returned only in part, the tax credit will be limited to the part of the price corresponding to such part. The credit notes must be registered with a negative sign in the invoice column of the sales book. When substitute invoices are issued, it must be recorded in the sales book, in the same column where the amount of the voided invoice was recorded.

Proof of export. The document (e.g., commercial invoice, bill of lading, custom/export return) filed before the customs authority would be sufficient proof of export for VAT purposes. The sale made to a qualifying exporter would be subject to VAT. There is no legislation in respect of any special wording or legislative references required on a VAT invoice relating to an export sale.

I. VAT returns and payment

VAT return. The tax is assessed for monthly tax periods. The tax return and payment of any tax due must be submitted within the first 15 days following the tax period. It should be filed online.

In the case of special taxpayers, the VAT return shall be filed on a weekly basis on the week after the taxable events occur. The due date is established by the tax administration on a special calendar.

Special schemes. The taxpayers qualified as "special" as withholding agents of VAT will act as withholding agents for the VAT invoiced by their suppliers of goods or services.

Electronic filing and archiving. Electronic filing applies in all cases.

Annual returns. No annual returns are required.

J. Penalties

Penalties apply to a range of VAT offenses. The master tax code provides that the following offenses, among others, are formal breaches of the VAT law:
- Failure to file the VAT declaration
- Incomplete filing of the VAT declaration
- Filing of the declaration in a form not authorized by the SENIAT
- Failure to exhibit accounting books when ordered to by the SENIAT
- Providing the SENIAT with false information
- Breaching the SENIAT's requirements for purchases and sales books
- Failure to issue invoices or required documents
- Issuing invoices that do not comply with tax requirements

The master tax code provides that the following offenses, among others, are "material breaches" of the VAT law:
- Late payment or nonpayment of VAT due
- Failure to withhold VAT

These breaches are penalized through fines and closure of the establishment.

The penalty for tax fraud is a term of imprisonment, ranging from six months to seven years.

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A. At a glance

Name of the tax	Value-added tax (VAT)
Date introduced	1 January 1999
Trading bloc membership	Association of Southeast Asian Nations (ASEAN)
Administered by	Ministry of Finance (http://www.mof.gov.vn)
VAT rates	
Standard	10%
Reduced	5%
Other	Zero-rated and exempt
VAT number format	9999999 (7 digits)
VAT return periods	Monthly or quarterly
Thresholds	
Registration	None (see Section C)
Recovery of VAT by non-established businesses	No (except under certain circumstances)

B. Scope of the tax

VAT applies to goods and services used for production, business and consumption in Vietnam, including goods and services purchased from foreign suppliers, except for those specifically identified as not subject to VAT.

VAT on imported goods is payable by the importer within the same time limit for declaring and paying import duty.

C. Who is liable

Organizations and individuals that produce and trade in taxable goods and services in Vietnam or who import taxable goods and services from overseas (referred to in this chapter as "businesses") are liable to pay VAT. Businesses for these purposes include the following:

- Business organizations with business registrations issued under Vietnamese laws.
- Economic organizations of political, social, and professional organizations and units of the people's armed forces.
- Enterprises with foreign-owned capital incorporated under Vietnamese laws and foreign corporations and individuals conducting business in Vietnam that have not established a legal entity in Vietnam.
- Individuals, family households, partnerships and other forms of businesses conducting production, trading or import activities in Vietnam.
- Organizations and individuals conducting production and business in Vietnam and purchasing services (including services attached to goods) from foreign organizations without a permanent establishment in Vietnam or foreign individuals who are nonresidents of Vietnam.
- An Export Processing Enterprise (EPE) and its branches (if any) that are established to trade in goods and do the tasks related to goods trading in Vietnam in accordance with the laws of Vietnam.
  - — An EPE imports goods for manufacturing and then re-exports the goods. An EPE is generally not subject to the requirement of VAT filing in Vietnam. However, under current regulations an EPE is also allowed to do some trading activities that are indicated in an EPE's business license. To perform trading activities, an EPE is required to separately account and declare relevant expenses/revenues from its manufacturing operations. Accordingly, an EPE is liable to register, declare and make payment of VAT for its trading activities. This means that trading activities conducted by an EPE and its branches (if any) shall be treated similarly to transactions of local entities.

Group registration. Not applicable.

Non-established businesses (foreign contractors). Foreign contractors that have a permanent establishment in Vietnam, that conduct business in Vietnam for more than 183 days and that adopt the Vietnamese Accounting Standards/Hybrid Method (VAS/Hybrid Method) pay VAT in accordance with the tax credit method and pay their tax liabilities directly to the tax office. Otherwise, they must pay VAT on a withholding basis.

If services are supplied by nonresidents, VAT is payable only through the withholding mechanism.

The tax authority will issue a tax number for each foreign contractor (FC) when they register directly with the tax authority. Otherwise, the Vietnamese contracting party will be responsible for registering and declaring the tax liability for the FCs on their behalf.

Tax representatives. Not applicable.

Reverse charge. Not applicable.

Digital economy. For business-to-business (B2B) transactions, the supply of a lease/rent/license for the right to use intellectual property (IP) may be subject to VAT, since it is not considered as a transfer of ownership right in accordance with the Vietnam law on intellectual ownership rights. If the supplier is a nonresident business, the customer should withhold, declare and pay VAT via the withholding tax regime. The applicable VAT rate for the payment of such activities is 5%.

For business-to-consumer (B2C) transactions, the individual customer makes payment directly to the nonresident business (e.g., by way of credit card). By regulations, there should be a WHT of 5% VAT on the payment, but in practice, there is no mechanism to enforce the withholding and payment of tax by the individual.

Registration procedures. For newly established businesses that have completed incorporation procedures and received an incorporation license, the incorporation number shown on the license serves as the tax registration number. No separate registration procedures are required. The local business registration office/authority shall — internally — inform the local tax office where a newly established business is located.

When a newly established business has an office, factory, branch or outlet engaging in direct sales in another province, different from the locality of the headquarter, such office, factory, branch or outlet must separately pay VAT to the local tax office where it is located, except for certain cases in which the head office can declare and pay VAT. However, there is no need to register with the local tax office of such office, factory, branch or outlet. When the headquarter sets up an office, factory, branch or outlet in another province, it shall need to update its tax registration information with a local business registration office/authority in the locality where its office, factory, branch or outlet is located. This registration office/authority shall internally inform the local tax office the number of this newly licensed office, factory, branch or outlet, which is also the tax number.

Other businesses (e.g., foreign contractors having a permanent establishment in Vietnam) must register for tax purposes within 10 working days from the date on which contract award agreements are signed. This registration requires the regulated form (i.e., Form 04-DK-TCT), a copy of contractor license (or the equivalent issued by competent authority) and a copy of the acknowledgment/confirmation of the registration of the project office establishment (or the equivalent issued by the competent authority). Within three working days of receiving the sufficient dossier, the tax authority will issue the tax code for the taxpayer.

Currently, there is no process for registering for a tax code online.

No VAT registration threshold applies, and no exemption from registration is provided.

Late-registration penalties. Failure to comply with registration requirements (if applicable) may result in a fine. The penalty for late registration ranges from VND400,000 to VND2 million, depending on the length of the delay.

Deregistration. When the organization/individuals end their business in Vietnam, they need to proceed with the closure of the tax code after clearance of current tax liabilities (Article 16, Section 3, Circular 95/2016/TT-BTC).

Exemption from registration. The VAT Act in Vietnam does not contain any provision for exemption from registration. Notwithstanding, EPEs and suppliers of non-VAT-able supplies are exempted from VAT filings (see detail above in respect of EPEs).

Voluntary registration

- Ongoing enterprises and business cooperatives that (1) adopt full Vietnamese Accounting Standards as well as accounting books (together with invoices) under Vietnamese regulations

and (2) generate revenue less than VND1 billion per year from the supply of goods and services subject to VAT, may apply to register voluntarily to deduct VAT.
- A foreign individual or corporation doing business in Vietnam may also register if it satisfies the following conditions:
  (i) It has a contract with a Vietnamese entity for more than 183 days.
  (ii) It has a permanent establishment in Vietnam.
  (iii) It adopts full Vietnamese Accounting Standards or keeps accounting books in accordance with Vietnamese accounting laws.

D. VAT rates

The following are the VAT rates in Vietnam:
- Standard rate: 10%
- Reduced rate: 5%
- Zero rate (0%)

The standard rate of 10% applies to goods and services that are not specifically included in the list of goods and services subject to the 0% or 5% rates or the list of goods exempt from VAT.

The 5% rate applies to the supply of essential goods and services.

Examples of items taxable at 5% rate

- Water (except for bottled water)
- Medicine and medical equipment (except for medicine included in medical service package)
- Teaching tools
- Agricultural products
- Residential housing for sale or lease

The zero rate applies to exported goods and services; construction, and installation carried out overseas or within export processing zones; as well as international transportation. Exported goods and services include goods and services sold to overseas organizations or individuals and consumed outside Vietnam, as well as goods and services supplied to organizations or individuals in non-tariff areas.

In certain cases, tax declaration and payment are not required.

Examples of cases where tax declaration and payment are not required

- Organizations and individuals that receive revenues from compensation (including compensation for land and land-attached assets upon land recovery under decisions of competent state agencies), bonus, support, transfer of emission rights, and other financial revenues (except for compensation/cash supports received for the purpose of performing service of repair, warranty, sales promotion or advertising to supporters, in which case VAT declaration and payment are required)
- Services provided by foreign organizations that do not have a permanent establishment in Vietnam, limited to the following: repair of vehicles, machinery and equipment (including supplies and spare parts); advertising and marketing; investment and trade promotion; goods sale and service provision brokerage; training; and sharing of charges for international post or telecommunications services provided outside Vietnam between Vietnamese and foreign partners, and lease of communication and transmission lines and foreign satellite frequency bands in accordance with law
- Assets sold by nonbusiness individuals or organizations (which do not have to pay VAT when selling their assets)
- Organizations and individuals that transfer investment projects on production or trading of goods or services liable to VAT to enterprises and cooperatives
- Assets used for capital contributions

Some goods and services are exempt from VAT, which generally means the supplier has no right to fully deduct input tax.

Examples of exempt supplies of goods and services

- Raw agricultural products
- Livestock
- Aircraft, oil rigs and ships that are not yet locally produced and that are leased from overseas
- Land-use rights
- Credit activities, credit guarantees, financial leases and financial derivative services
- Capital transfers
- Securities transfers
- Life insurance services
- Health services, veterinary medicine services, including medical examination and treatment services for humans and animals
- Care services for elderly people and disabled people
- Education and vocational training
- Publication of newspapers, magazines and certain kinds of books
- Public transportation by bus and electric car
- Reinsurance services
- Technology transfers
- Public sewage services
- Foreign-currency trading
- Debt transfers
- Credit card issuance
- Factoring
- Exported natural resources that are not processed or cover 51% into other products inclusive of energy cost

Option to tax for exempt supplies. Not applicable.

Foreign contractors. Foreign contractors that supply goods and services to Vietnam are subject to the following deemed VAT rates:

- Trading goods (separate value from service in the contract): exempt
- Services: 5%
- Construction and installation with supply of materials and equipment: 3%
- Construction and installation without supply of materials and equipment, or if supply of materials and equipment is subcontracted: 5%
- Supply of machinery and equipment with installation, training, operation and trial operation services, if the value of each activity is not calculated separately in the contract: 3%
- Transport and production: 3%
- Other business: 2%

VAT is withheld at source by the Vietnamese party to the contract, unless the foreign contractor has registered for tax.

E. Time of supply

For goods, the time of supply for VAT purposes (the tax point) is when the ownership or use rights of the goods are transferred, regardless of whether the payment is made. For services, the tax point is when the service is completely performed or when the invoice for the service is issued, regardless in both cases of whether the purchaser makes payment.

Installment sales. For installment sales, VAT becomes due when the purchaser possesses the right to use the goods.

Imported goods. For imported goods, VAT becomes due at the time of registration of the customs declarations.

Deposits and prepayments. For services, the tax point is when the prepayment is made, requiring an invoice to be issued.

Goods sent on approval for sale or return. If goods are returned to the seller because the buyer finds that the goods are not in line with a previous agreement between the parties in respect of their quality, quantity and characteristics, etc., the following applies. If the invoice has already been issued, an adjustment invoice should be issued by the buyer that clearly states the reason for the return and the amount of VAT. If the buyer is not eligible to issue the invoice, an adjustment minute should be prepared between the two parties as the evidence to make a VAT adjustment declaration.

Reverse-charge services. Reverse-charge services relate to foreign contractors who apply the Foreign Contractor Tax (FCT) declaration under the deemed method. Upon making the payment, the Vietnamese purchasers must self-assess and withhold the FCT amount (including VAT and corporate income tax).

Continuous supplies. Vietnam does not have a time of supply rule for continuous supplies of services.

F. Recovery of VAT by registered persons

Businesses may claim input VAT paid on goods or services used for the production or trading of goods or services that are subject to VAT. Businesses recover input tax by offsetting it against output tax (VAT on sales).

To be entitled to VAT credit, a document evidencing payment made through a bank is required except for the case where the purchase value is less than VND20 million. Bank payments must be made from the bank account of the buyer(s) to the bank account of the supplier(s).

In general, a valid tax invoice must be retained to support claims for input tax credits. The tax invoice must state the pretax price, the VAT and the total amount payable.

The basis for determining the amount of deductible input VAT is the amount of VAT stated on the following:
- Valid tax invoice for the goods or services
- Documentation evidencing VAT payment at the stage of importation
- Documentation evidencing VAT payment on behalf of a foreign party

If a business establishment discovers that it has not deducted an amount of VAT in its declaration because the tax invoice or receipt of the tax payment was omitted, it may make an additional declaration requesting the credit. However, any additional VAT credit declaration must be made before the tax authority issues a decision about any tax inspections carried out at the premises.

Nondeductible input tax. Businesses may not claim input VAT paid on goods or services used for producing or trading nontaxable goods or services. They also cannot claim the input VAT of the unrelated expenses or incorrect payment method as regulations.

Examples of items for which input tax is nondeductible

- Food and beverage expenses for employees (snack, soft drink, moon cake).
- House rental fees for employees who have signed labor contracts with the company. In cases in which these expatriates are assigned to work in Vietnam by the foreign parent company but remain employees of the foreign parent company during their secondment period in Vietnam (i.e., they receive salaries and other benefits from the foreign parent company), and the Vietnamese entity and the foreign parent company enter into a written agreement that states that the

Vietnamese entity shall bear all accommodation fees for these expatriates during their secondment period in Vietnam, input VAT of these accommodation fees is creditable.
- Expenses paid in cash with the value of more than VND20 million.

Examples of items for which input tax is deductible (if related to a taxable business use)

- Expenses paid for raw materials, offices supplies, transportation, etc.

Partial exemption. Businesses that produce or trade taxable and nontaxable goods or services must maintain separate accounts for input tax paid on goods or services used for taxable and nontaxable goods or services. If no separate accounts are maintained, the deductible input VAT is calculated using a ratio based on the proportion of taxable turnover compared with total turnover.

Refunds. Businesses that pay VAT using the tax credit method are eligible for a refund of VAT in the following circumstances:
- The business exports goods and services (including goods imported) to export) during a month or quarter and has a credit balance of input VAT of at least VND300 million at the end of that month. The refund is granted monthly or quarterly.
- An incorporated establishment is entitled to a refund if it is in the investment stage of a new project (except investment projects that construct houses for sale or rent but without constituting any fixed assets) and if it has accumulated input VAT of at least VND300 million that has not been credited against output VAT of its operating businesses. In the following events, a business shall not be eligible for a refund but can carry forward remaining deductible VAT on its investment project to the subsequent period:
  - The charter capital of the investment project of the business has not been fully contributed as registered as per the laws
  - An investment project is carried out by a business that undertakes conditional trade(s) but is not satisfying business conditions as per the Investment Law; in other words, such investment project is run by a business that engages conditional trade(s) but is not licensed thereto; by a business that engages in conditional trade(s) but is not qualified for this; by a business that engages in conditional trade(s) but is not permitted to perform this trade; or by a business that engages in but does not meet conditions to perform conditional trade(s) though not required by the laws on investment to be permitted or certified in writing.
  - An investment project is carried out by a business that undertakes conditional trade(s) but fails to sustain business conditions during its operations; in other words, such investment projects are run by a business that engages in conditional trade(s) but has its relevant license(s) revoked during its operations; by a business whose certificate(s) of eligibility for conditional trade(s) is (are) revoked; by a business that has the written permission revoked by a competent authority for conditional trade(s); or by a business that fails conditions to undertake conditional trade(s) as per the laws on investment. In this event, the business shall be ineligible for the refund of VAT upon the revocation of one of the said documents or upon being exposed by competent government authorities as having failed to meet the conditions for conditional trades.
  - The value of natural resources and/or minerals plus the energy cost of an investment project for extraction of natural resources and minerals that has been licensed since 1 July 2016 or an investment project for production of goods makes up 51% of its prime cost or above.
- The business establishment that uses the deduction method shall receive a refund of the surplus VAT or the VAT that is not completely deducted when there is a change of ownership, or when the enterprise is converted, merged, amalgamated, divided, dissolved, and bankrupt or shut down.

- Foreigners and Vietnamese people residing abroad who have passports or entry papers issued by foreign competent authorities shall receive refunds of VAT paid on goods purchased in Vietnam and taken abroad.
- VAT will be refunded when paid by programs/projects using nonrefundable ODA, nonrefundable aid or humanitarian aid.
- A taxpayer eligible for diplomatic immunity who purchases goods and services in Vietnam shall receive a refund of the VAT stated on the VAT invoice or the receipt that indicates the VAT-inclusive price.
- Refunds will be paid when a business establishment receives a decision on VAT refunds from the competent authorities and when VAT refunds are due according to international agreements to which the Socialist Republic of Vietnam is a signatory.

An application for a refund must be submitted to the tax authority (that is, to the tax department or to the general tax department in some special cases). Taxpayers may file an electronic claim online or file a physical claim directly or by post to the supervisory tax authority.

The notice detailing the outcome of the tax refund application shall be sent to the applicant within 6 working days (in the case of refund before examination) or within 40 days (in the case of examination before refund).

Preregistration costs. Not applicable.

G. Recovery of VAT by non-established businesses

A VAT refund is allowed only for businesses using the tax credit method. A foreign contractor that has no legal presence in Vietnam but conducts business or derives income from activities in Vietnam may recover VAT if it adopts the VAS/Hybrid Method and it satisfies certain bookkeeping and tax registration requirements. To be eligible for VAT recovery, a foreign contractor must meet all of the following conditions:

- It has a permanent establishment in Vietnam or is a resident of Vietnam
- It conducts business in Vietnam under the contractor's or subcontractor's contract for 183 days or more beginning on the date on which the contract takes effect
- It adopts the VAS/Hybrid Method

Foreign contractors that do not apply the VAS/Hybrid Method may not recover input VAT unless a specific international agreement entered into by Vietnam provides otherwise.

H. Invoicing

Invoices and credit notes. A taxable person must provide an invoice for all taxable supplies made, including exports. There are four categories of invoices:

- Invoices of exports for exporting transactions (i.e., the commercial invoice is required instead of VAT invoice)
- VAT invoices for domestic transactions of taxpayers applying the tax credit method
- Sales invoices for domestic transactions of taxpayers applying the direct method
- Others, including receipts, tickets and other vouchers

The invoices can be presented in the following three forms:

- Self-printed invoice: wholly printed by the taxpayer's printers
- Invoice printed by order: produced by a printing house by order of taxpayer or tax authorities for provision or sale to taxpayer
- Electronic invoice: must be created, issued and processed on computers of issuer under the law on e-transactions

From 1 November 2020, the use of electronic invoices shall be compulsory for all taxpayers. During the period from 1 January 2018 to 31 October 2020, all taxpayers must well prepare to meet the information technology infrastructure requirements for electronic invoicing.

Business entities can use different forms of invoices. However, the use of electronic invoices is encouraged.

The tax authorities may sell only blank invoices to a few specified persons such as non-business organizations, individuals and households that generate sale revenue.

A valid invoice is necessary to support a claim for input tax deduction.

Export documentation. Exports of goods and services are zero-rated. Proof of export is required. The required documents to claim a refund of input VAT include contracts for the sale of goods, legitimate invoices, customs declarations and proof of payment through a bank by foreign parties.

Foreign-currency invoices. If an invoice is issued in a foreign currency, all values that are required on the invoice must be converted into Vietnamese dong, using an acceptable exchange rate.

Electronic invoices. An electronic invoice is legally valid when it satisfies the following conditions:
- Includes all the compulsory information as prescribed and includes the date of issuance
- Data included on the invoice is under the format prescribed by the Ministry of Finance
- The information contained on an electronic invoice can be accessed and used in complete form when necessary

The electronic invoices can be presented in the following two forms:
- Electronic invoice with a certified code from the tax authority: an electronic invoice that is assigned an identification code by the tax authority before an organization or individual selling goods or providing services sends it to buyer
- Electronic invoice without a certified code from the tax authority: an electronic invoice that an organization selling goods or providing services sends to the buyer in the absence of a tax authority's identification code. Subject to the approval of local tax authority, business entity shall register to use such kind of electronic invoice via the portal of General Department of Vietnam Taxation

From 1 November 2020, the use of electronic invoices shall be compulsory for all taxpayers. During the period from 1 January 2018 to 31 October 2020, all taxpayers must well prepare to meet the information technology infrastructure requirements for electronic invoicing.

B2C. For the payment of purchases of goods and services valued at less than VND200, the supplier is not required to issue a VAT invoice unless the purchasers requires one; however, at the end of the day, the supplier has to issue VAT invoice for the total of those such purchases.

I. VAT returns and payment

Returns and payment. Businesses are generally required to file a monthly tax return and remit the monthly VAT payable to the tax office by the 20th day of the following month. Exceptions are taxpayers that make quarterly declarations (permitted for businesses whose revenue in the previous year is VND50 billion or lower). Newly established entities must file VAT on a quarterly basis. After 12 months of operation as of the following calendar year, if eligible for quarterly VAT declarations for satisfaction of the condition on revenue of goods/services of the prior full calendar year, the entity can request permission of the local tax authority to continue declaring VAT quarterly. If the entity is eligible for paying VAT on a quarterly basis but would like to change to the monthly VAT declaration, it is required to notify the local tax office under statu-

tory Form No. 07/GTGT within the deadline of the first month of the year it commences the monthly VAT declarations at the latest. The method of VAT declaration must be fixed for three years.

Any excess input VAT paid may be credited in the following period or refunded if the business is eligible for a refund (see Section F).

A business that imports goods subject to VAT must file a customs declaration and remit VAT payable on each occasion when goods are imported. The time limit for notices and payments of VAT with respect to imported goods is the same as the time limit applicable to notices and payments of import duties.

VAT liabilities must be paid in Vietnamese dong.

Special schemes. Not applicable.

Electronic filing and archiving. A taxpayer doing business in a locality with online access shall make declaration, pay tax and make transactions with the tax authority as prescribed by the laws on electronic transactions. Different online systems (i.e., both online and offline software such as Tax Online, iHTKK) have been deployed across Vietnam to facilitate electronic filing.

Annual returns. Not applicable.

J. Penalties

Interest is imposed for late payment of VAT at the progressive rate of 0.03% per day from 1 July 2016.

Penalties may also apply to a range of other offenses, including late tax registration and filing, making false statements and obstructing a VAT officer. In some cases, penalties may include imprisonment for offenses committed knowingly or recklessly.

Zambia

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At the time of preparing this chapter, the Government has announced plans to abolish VAT and re-introduce sales tax with effect from 1 April 2019. This is a significant change in tax policy and the Government has proposed this effectives on 1 April 2019. The change has been motivated by the Government's desire to control spending on refunds, given Zambia is predominately a net importer with exports zero-rated. As such, the detail below on the current VAT regime for 2019 may only be applicable up to 31 March 2019. No details have yet been announced on the proposed sales tax regime and no draft legislation has been released. As such, detail on the impact of the change cannot be provided in this chapter until the legislation is released.

A. At a glance

Name of the tax	Value-added tax (VAT)
Date introduced	July 1995
Trading bloc membership	Common Market for Eastern and Southern Africa Member, Southern African Development Community Member
Member of the Southern African Customs Union	No
Administered by	Zambia Revenue Authority (www.zra.org.zm)
VAT rates	
Standard	16%
Other	Zero-rated (0%) and exempt
VAT number format	Tax payer identification number (TPIN)
VAT return periods	Monthly
Thresholds	
Registration	ZMW800,000 in any 12 consecutive months ZMW200,000 in any three consecutive months
Recovery of VAT by non-established businesses	Yes (limited to exports)

B. Scope of the tax

VAT applies to the following transactions:
- Supply of goods and services in Zambia by a taxable person
- Reverse charge on services provided by a nonresident to a taxable person in Zambia
- Importation of goods from outside Zambia, regardless of the status of the importer

C. Who is liable

Any person who makes supplies of taxable goods and services in Zambia in the course of a business is liable to register for VAT if the person's turnover exceeds either of the following thresholds:
- Turnover of ZMW800,000 in any 12 consecutive months
- Turnover of ZMW200,000 in any three consecutive months

Turnover tax (tax charged on gross sales) rather than VAT applies to certain businesses, including those with a turnover of less than ZMW800,000.

Group registration. Group VAT registration is not possible in Zambia.

Non-established businesses. A "non-established business" is a business that does not have a fixed establishment in Zambia. A foreign company may not register for Zambian VAT unless it has a place of business in the country. It must also make taxable supplies of goods or services.

A foreign business that makes supplies in Zambia must appoint a representative who is responsible for registration for and payment of VAT. If an agent is not appointed, the non-established business may not deduct input tax (see Section F).

Reverse-charge services. A reverse charge may apply for services received by a taxable person in Zambia from a non-established service provider. The Zambian VAT law requires that a taxable person must act on behalf of a non-established supplier of services with respect to matters relating to tax, in the following circumstances:
- The supplier is a company that does not have a business establishment in Zambia.
- The supplier is an individual or partner in a partnership that does not have a usual place of residence in Zambia from which to appoint a person resident in Zambia as a tax agent.

If a tax agent is appointed, the agent invoices the recipient of the services for the VAT payable, collects the tax and accounts for it to the tax authorities. The recipient of the services may claim input tax relief on the basis of the invoice issued by the tax agent (see Section F).

If no tax agent is appointed, the recipient of the service must self-assess for the VAT due and declare the output tax as if it were the supplier. However, in this case, no input tax relief may be claimed.

Tax representatives. The client is responsible to provide invoices for a particular tax period for the return. The representative calculates the tax due for the tax period and submits to the client for approval before filing electronically.

Registration procedures. Businesses are required to apply for VAT registration if they deal in taxable goods and services, and their turnover exceeds registration threshold of ZMW800,000 per annum.

Businesses apply by filing a prescribed ZRA application form. The following documents must be attached:
- Sketch of map of location
- Bank statements covering a period of three months
- Business plan
- Certificate of registration or incorporation

- Evidence records like cash book, purchase daybook, sales daybook, invoice books, a set of accounts and confirmed orders/signed contracts for existing business
- Tax clearance certificate
- VAT knowledge form

Businesses whose turnover does not meet the statutory threshold may register for VAT voluntarily.

Late-registration penalties. Late registration by traders who are subject to the turnover threshold is liable to a penalty.

Digital economy. No specific rules apply. In theory, VAT applies based on the place of supply rules (but there is no mechanism to monitor supplies made to nonresidents).

Deregistration. A taxable person whose turnover falls below the registration threshold for VAT is allowed to deregister after the end of the relevant accounting year. The taxable person is required to notify the Commissioner-General in writing through form VAT 99. To complete any deregistration, the taxable person is required to ensure that there are no tax obligations on that particular account.

Exemption from registration. The VAT law in Zambia does not contain any provision for exemption from registration where an entity qualifies as a taxable person. However, where the Commissioner-General is satisfied that all supplies of a business are zero-rated, he or she may by notice waive the requirement of the business to register. However, the Commissioner-General reserves the right to rescind the decision any time he deems necessary.

Voluntary registration. A taxable person with an annual turnover of less than the statutory registration threshold has the option to register under a voluntary registration if it satisfies the prescribed conditions.

A Business registered under voluntary registration is required to:
a) Renew the registration every 12 months.
b) Notify the Commissioner-General in writing 30 days before the expiry of the 12-month period of its intention to renew the registration.

D. VAT rates

The term "taxable supplies" refers to supplies of goods and services that are liable to a rate of VAT, including the zero rate.

In Zambia, the VAT rates are the standard rate at 16% and the zero rate (0%). The standard rate of VAT applies to all supplies of goods or services, unless a specific measure provides for the zero rate or an exemption.

Examples of goods and services taxable at 0%

- Exports of goods
- Books and newspapers
- Foreign aid donations
- Medical supplies and drugs
- Bread and wheat

The term "exempt supplies" refers to supplies of goods and services that are not liable to tax. Persons that make exempt supplies are not entitled to input tax deduction (see Section F).

Examples of exempt supplies of goods and services

- Health and educational services
- Supply of water and sewerage services
- Most public transport services

- Real estate transactions
- Financial services (effective from 1 January 2011, fee-based banking services are subject to VAT at the standard rate)
- Insurance services (effective from 1 January 2011, property insurance and casualty insurance are subject to VAT at the standard rate)
- Basic foods
- Agricultural supplies

Option to tax for exempt supplies. Not applicable.

E. Time of supply

The time when VAT becomes due is called the "time of supply" or "tax point." In Zambia, the tax point is when the earliest of the following events occurs:
Goods:
- The time when they are removed from the seller or supplier's premises
- The time when made available to the person to whom they are supplied
- Then a payment is received
- The time when a tax invoice is issued

Services:
- The time when a payment is received
- The time when a tax invoice is issued
- The time when they are actually rendered or performed

Imports. The time of the supply for imported goods is either the date of importation or the date on which the goods leave a duty suspension regime.

Deposits and prepayments. Most deposits serve primarily as advance payments and they therefore create tax points when received. However, certain deposits are not consideration for a supply and their receipt does not create a tax point. This latter treatment includes deposits taken as security to ensure the safe return of goods hired out, provided that the deposit is refunded when the goods are returned safely.

Goods sent on approval for sale or return. When a business supplies goods on "sale or return" terms, the goods have not been sold and the supplier still owns them until such time as the customer adopts them. Adoption means the customer pays for them or otherwise indicates willingness to keep them. Until the goods are adopted, the customer has an unqualified right to return them at any time, unless there is an agreed time limit. The tax point for these consignments is the earliest of the date of adoption, payment or invoicing.

Leased assets. The time when leasing services are supplied for VAT purposes is whichever is the earliest of the following times:
(a) The time when payment of the lease rental is received from the lessee
(b) The time when the lessor issues a tax invoice
(c) The time when the leasing services are rendered and this condition will only be satisfied at the expiry of the lease period
In practice, a lease rental will generally be received by the lessor before conditions (b) and (c) can occur and this is taken to be the tax point.

Reverse-charge services. The tax point is the time when tax is due and payable. It is the earliest of the following:
(a) The time when a payment is received
(b) The time when a tax invoice is issued
(c) The time when the services are actually rendered or performed

Continuous supplies. If a supplier provides services on a continuous basis and receives payments regularly or from time to time, the tax point is the earliest of the conditions as stated above being met. Examples include supplies of water, gas or any form of power, heat, refrigeration or ventilation, etc.

F. Recovery of VAT by taxable persons

A taxable person may recover input tax, which is VAT charged on goods and services supplied to it for business purposes. Input tax is claimed by deducting it from output tax, which is VAT charged on supplies made.

Input tax includes VAT charged on goods and services purchased in Zambia and VAT paid on imports of goods and services.

Nondeductible input tax. VAT may not be recovered on purchases of goods and services that are not used for business purposes (for example, goods acquired for private use by an entrepreneur). In addition, input tax may not be recovered on certain business expenses, including the provision of food, beverage, entertainment, amusement, recreation or hospitality of any kind and any incidental transportation provided to any person by a taxable supplier whether directly or indirectly, in connection with a business carried on by a taxable supplier.

The following lists provide some examples of items of expenditure for which input tax is not deductible and examples of items for which input tax is deductible if the expenditure is for purposes of making a taxable supply.

Examples of items for which input tax is nondeductible

- Purchase and hire of passenger cars
- Business gifts valued at more than ZMW100
- Office, home and mobile telephone service
- Domestic refrigeration equipment, air conditioners, mobile phones, motor vehicle parts, digital satellites, television sets, decoders, video players, curtains and construction of dwelling houses for staff
- Business entertainment
- Fuel for passenger vehicles
- Petrol
- Diesel (recovery restricted to 90%)

Examples of items for which input tax is deductible (if related to a taxable business use)

- Purchase, hire and maintenance of commercial motor vehicles
- Business gifts valued at less than ZMW100
- Mobile telephone handsets
- Hotel accommodations
- Utilities
- Educational material

Partial exemption. Where a taxable person incurs input tax that relates to both taxable and exempt supplies, the input tax that is wholly attributable to the taxable supplies can be recovered in full (subject to the partial exemption rules). Input tax that is fully attributable to exempt supplies cannot be recovered. This situation is referred to as "partial exemption." In Zambia, if a taxable person supplies both taxable and exempt goods and services, the amount of input tax recoverable is calculated using a simple pro rata method based on the value of taxable and exempt supplies made.

Refunds. If the amount of input tax in a period exceeds the amount of output tax due, a taxable person may request a VAT refund. VAT refunds are generally paid within three months, subject to

the audit of the respective period and approval of the refund by the tax authorities. However, no interest is payable if the refund is paid late.

Preregistration costs. Businesses registered within one month after becoming liable to register are eligible to claim input tax incurred three months prior to registration.

G. Recovery of VAT by non-established businesses

Zambia does not generally refund VAT incurred by a foreign business unless it is registered for VAT there. However, a refund scheme allows a VAT refund to be paid to a non-established business that purchases goods from a Zambian VAT-registered supplier for onward export.

The refund scheme applies to foreign passport holders that are on a business visit to Zambia. The scheme applies only to commercial export consignments that do not otherwise qualify for VAT zero rating. The refund is restricted to VAT paid on goods supplied by a participating supplier. VAT incurred on other expenditure in Zambia is not recoverable using this scheme.

Refund application. The foreign exporter pays the full VAT amount on the export consignment to a participating supplier at the time of purchase. The first time that the scheme is used, the participating supplier must issue a commercial export tax invoice (Form VAT 283) and a commercial export authorization (Form VAT 284). For subsequent exports, the supplier need only issue Form VAT 283. The exporter must declare the goods to Customs at the port of exit from Zambia, and, at the same time, submit Forms VAT 283 and VAT 284 for verification and certification.

Customs officials at the port of exit retain copies of Forms VAT 283 and VAT 284 for first exports and subsequently dispatch them to the Zambia Revenue Authority for processing. The exporter may retain a certified copy of the forms for its records.

After the refund has been processed, the amount is sent to the exporter's destination address or an authorized representative may collect the refund in Lusaka. The exporter must indicate an authorized representative on Form VAT 284.

To qualify for this scheme, the export should be sent through the following designated exit points from Zambia:

- Lusaka International Airport
- Mpulungu Border Post
- Kasumbalesa Border Post
- Mwami Border Post
- Nakonde Border Post
- Chirundu Border Post
- Kazungula Border Post
- Victoria Falls Border Post

To participate in the scheme, a foreign business must apply in writing to the Commissioner of Value Added Tax. An application form (Form VAT 282) may be obtained by writing to the following address:

The Assistant Commissioner — VAT Credibility
Zambia Revenue Authority
1st Floor, Eastern Wing
Revenue House
Private Bag W136
Lusaka
Zambia

H. Invoicing

VAT invoices and credit notes. A supplier of taxable goods and services must issue a tax invoice to the purchaser. A valid tax invoice is required to accompany all claims for input tax deduction. Effective 1 January 2013, the period for which tax invoices can be used to support input tax recovery has been reduced to six months (from 1 January 2017, the period has been reduced to three months). A credit note may be used to reduce the VAT charged on a supply of goods or services. Credit notes should show the same information as tax invoices.

Proof of exports. Goods exported from Zambia are zero-rated. However, to qualify for a zero rating, exports must be supported by customs evidence that proves the goods have left the country.

Foreign-currency invoices. Invoices issued using a foreign currency must indicate the equivalent in Zambian kwacha using the exchange rate for the date of the transaction.

B2C. There are no special VAT rules for supplies made to private consumers. A tax invoice must be issued for all supplies.

Electronic invoicing. Electronic invoicing is not mandatory in Zambia, but it is being encouraged. Suppliers with computerized accounting packages (in-house or off-the-shelf) that have not already been approved by the Commissioner-General are required to apply for approval.

Eligible accounting packages must have the capacity to:
(a) Print tax invoices, credit notes and debit notes bearing all the mandatory features of a tax invoice
(b) Generate automatic and consecutive document numbering with inbuilt safeguards against reallocation or resetting of the numbers in any circumstance; transactions, once posted and a tax invoice has been printed, must become read-only to all users
(c) Or, where editing is possible, a read-only audit trail showing the original details is built into the program
(d) Produce periodic transaction reports showing the invoice number, invoice date, customer's name, description of goods or services supplied, value before VAT and VAT amount

I. VAT returns and payment

VAT returns. The tax period for VAT is one month. Returns must be filed by the 16th for withholding VAT and the 18th day for normal VAT after the end of the tax period. Electronic filing of VAT returns is mandatory if there are 10 or more transactions. Payment is due in full by the same date.

Withholding VAT is a mechanism where the responsibility to account for and pay the VAT due on the supply of goods or services is shifted to the person making the payment, i.e., the customer. Withholding VAT works very much in the same way as normal VAT. The revenue authority through the Commissioner-General appoints agents for purposes of withholding VAT on payments made to VAT-registered suppliers. Normally, large companies with a lot of suppliers are appointed as withholding VAT agents, e.g., mining and manufacturing companies. Once the agent is appointed, the legal obligation of the VAT due on all supplies shifts to the agent from the supplier. Therefore, ultimately, the responsibility to ensure that all the VAT that is due on the agents' purchases is properly accounted for and is remitted to the revenue authority by the due date shifts to the agent.

Annual returns. There are no annual returns required to be submitted for VAT in Zambia.

Special schemes. All VAT registered businesses are required by law to account for tax based on the invoices issued, except where the law has given relief for cash accounting. The businesses, which are permitted to use the payment or cash accounting basis, are required to account for VAT

to the extent that payment has been made or received. Therefore, output tax is accounted for on payments received and input tax is recovered only on those invoices where payment has been made for taxable supplies received.

The cash accounting concession is restricted to businesses that carry on mining activities and are licensed under the Mines and Mineral Development Act and to members of the Association of Building and Civil Engineering Contractors (ABCEC).

Electronic filing. Electronic filing of VAT returns is mandatory for all VAT taxpayers, however, the law provides for submission of manual returns for taxable businesses with less than 10 transactions in a tax period.

J. Penalties

Late return penalty. K300 (1,000 penalty units) per day or 0.5% of the tax due, whichever is the greater, for each day the return is late.

Late payment penalty. 0.5% of the tax payable in respect of the period covered by the return for each day the payment is late. Interest is charged at the Bank of Zambia Discounted Rate plus 2%.

Late registration penalty. K3,000 (10,000 penalty units) for each tax period that the taxpayer is eligible to register but remains unregistered. The taxpayer is also liable to an assessment on the sales made in the same period; input tax deduction is not allowed.

Failure to issue a tax invoice from an approved computer package, preprinted tax invoice book or a Fiscalized Cash Register. K90,000 (300,000 penalty units).

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A. At a glance

Name of the tax	Value-added tax (VAT)
Date introduced	1 January 2004
Trading bloc membership	Market for Eastern and Southern Africa, Southern African Development Community
Administered by	Commissioner General, Zimbabwe Revenue Authority (ZIMRA) (http://www.zimra.co.zw)
VAT rates	
Standard	15%
Other	Zero-rated and exempt
VAT withholding tax	1/3 of VAT charged on an invoice
VAT number format	10001111
VAT return periods	Monthly: Annual taxable supplies of USD240,000 or more Bimonthly: Annual taxable supplies of less than USD240,000
Thresholds	Compulsory registration: USD60,000 Voluntary registration: At ZIMRA's discretion
Recovery of VAT by non-established businesses	Yes, if VAT registered

B. Scope of the tax

VAT applies to the following transactions:

- The supply of goods and services in Zimbabwe by a "registered operator" (see Section C)
- The importation of goods into Zimbabwe by a person
- The supply of imported services by a person
- The supply of goods and services through an auctioneer by a person who is not a registered operator

C. Who is liable

A "registered operator" is required to account for output tax on all goods and services supplied unless the supply is specifically exempt or zero-rated.

A "registered operator" is a person who is or is required to be registered under the VAT act. It includes a person who makes supplies of taxable goods and/or services in Zimbabwe in the course of a business in excess of the registration threshold. A person includes a public authority, local authority, company or body of persons, whether corporate or unincorporated, the estate of a deceased or insolvent person and a trust fund.

The VAT registration threshold since 2012 is taxable supplies in excess of USD60,000. A taxable person must notify ZIMRA of its obligation to register for VAT within 30 days of becoming obligated to register.

An importer of goods is required to pay VAT.

The recipient of "imported services" is required to pay VAT on these services. "Imported services" refer to a supply of services that is made by a supplier who is resident or carries on business outside Zimbabwe to a recipient who is a resident of Zimbabwe to the extent that such services are used or consumed in Zimbabwe for a purpose other than making taxable supplies. VAT on imported services applies if a local customer does not produce taxable supplies, such as a bank, insurance company or an individual who is not a trader.

The auctioneer through whom a non-registrant supplies goods and services is responsible for the VAT on the supply of such goods and services.

Registration procedures. Every person who carries on trade is liable to register within thirty days if:

- Taxable supplies exceed USD60,000 for a period of 12 months at the end of the month
- At the commencement of any month where there are reasonable grounds of believing that the total value of taxable supplies will exceed USD60,000 from the month of intended registration
- Temporary increase in turnover such as sale of capital assets, cessation or substantial reduction in scale of trade and abnormal circumstances are not considered

Application for registration is made on form REV 1. The following documents should be attached to the REV 1.

- VAT 1
- Company registration documents or national identity document
- Bank statements for a period of at least three months prior to the date of registration
- Invoices issued in the last three months prior to registration

Non-established businesses. A "non-established business" is a business that does not have a fixed establishment in Zimbabwe. A non-established business that makes supplies of goods or services in Zimbabwe must appoint a representative to register for VAT. The representative must be resident in Zimbabwe.

Group registration. Each entity in a group has to be registered separately if it transacts in taxable supplies and meets the threshold for value-added tax registration of USD60,000 per annum.

Tax representatives. Foreign companies or persons who do business in Zimbabwe but do not reside in Zimbabwe can appoint resident Zimbabweans to act as their representatives. The representatives can be held responsible for tax purposes on behalf of their principals in their representative capacities only.

Reverse charge. Not applicable. Zimbabwe taxes "imported services" as defined.

Late-registration penalties. A person becomes liable to pay tax from the time that person first becomes liable to be registered. A penalty of up to 100% of the amount of VAT and 10% interest thereon is assessed for the interval when the person first became liable to be registered and the late-registration date.

Digital economy. There are no specific rules on registration of businesses that sell goods via the internet to customers who are in Zimbabwe. Registration is based on trade in Zimbabwe, which for VAT purposes does not constitute the supply of goods and services over the internet to customers. Internet-based traders are therefore not required to apply for VAT registration. There are no special rules on B2B and B2C transactions.

Instead, VAT is accounted for by the customer where it imports services into the country. This requirement only applies where the local customer does not produce taxable supplies, such as a bank, insurance company or an individual who is not a trader (reverse-charge principle).

Deregistration. A registered operator may apply to be deregistered if the taxable turnover of goods or services in a period of 12 months does not exceed USD60,000 or is not expected to exceed USD60,000 in the period of 12 months commencing at the beginning of any tax period.

Exemption from registration. The VAT Act in Zimbabwe does not contain any provision for exemption from registration.

Voluntary registration. The law requires a trader to satisfy the Commissioner General that he is eligible to register for VAT. ZIMRA generally rejects an application for registration if the applicant's annual turnover is less than USD60,000 per annum. A company cannot apply for VAT registration for purposes of recovering input tax.

D. VAT rates

"Taxable supplies" refers to supplies of goods and services that are liable to tax at the standard rate (15%), or zero rate (0%). The supplier must account for VAT on all supplies of goods and services at the standard rate, unless the supply is specifically exempt or zero-rated under the VAT Act.

The effective date for collection of tax on the exportation of unbeneficiated platinum is 1 January 2022. In addition, exported un-beneficiated hides are subject to tax at the higher of USD0.75 or 15% of the gross value.

Value-added withholding tax on taxable supplies is at the rate of one-third of the VAT payable on an invoice.

Examples of goods and services taxable at 0%

- Exports of goods (other than unbeneficiated hides and unbeneficiated platinum) and services that would otherwise be standard rated. This includes exports of financial services other than short-term insurance.
- Certain supplies of goods that are used exclusively in an export country
- International transport of goods and services
- Sales of businesses as going concerns to registered persons
- Gold sales to the central bank, Fidelity Printers and Refiners, and commercial banks
- Services supplied outside Zimbabwe to foreign head offices by Zimbabwean branches or to nonresident persons that are outside Zimbabwe when they are rendered
- Tourism-related services (other than accommodation) rendered by designated tourist facilities, such as hotels, tour operators and car-hire companies
- Intellectual property rights for use outside Zimbabwe
- Certain foodstuffs except rice, margarine, cereals, mahewu, pork, beef, fish, chicken and potatoes, which are now exempt

- Supply of domestic electricity
- Certain goods used for agricultural purposes, such as animal feed, fertilizers, seed, animal remedies, pesticides, plants, tractors and, when exported, specified agricultural implements
- Prescription medicines
- Building bricks
- Goods used by disabled persons
- Fixed charges on commercial and domestic electricity
- Supply of pipeline transportation services
- Livestock

"Exempt supplies" refers to supplies of goods and services that are not liable to tax. Suppliers of exempt supplies are not entitled to input tax deduction with respect to VAT paid on expenses incurred to make the supplies (see Section F).

Examples of exempt supplies of goods and services

- Local supplies of financial services (as defined) including services supplied by banks, building societies and insurance companies, but excluding the supply of short-term insurance by insurance agents or brokers
- Medical services
- Educational services by institutions registered under the ministry of education or higher education
- Transport of fare-paying passengers by railway or road
- Supplies of donated goods or services by nonprofit (charitable) bodies
- Supplies of immovable property located outside Zimbabwe
- Rental of residential accommodation
- Staff accommodation
- Water supplied through a pipe for domestic use
- Owners' rates charged by a local authority (a levy charged by a local authority based on the value of property)
- Commission charges on tobacco sales on auction floors
- Tobacco supplied on auction floors
- Sale and import of leaf tobacco
- Most fuel and fuel products
- Revenue arising from the operation of a temporary casino license in accordance with the terms of the lotteries and gaming act
- Protective farming clothing, including gumboots, raincoats and gloves used for agricultural purposes
- Eggs, vegetables, fruits, rice, margarine, lactose and mahewu (including cereals, pork, beef, fish, chicken and potatoes, as explained above)

Option to tax for exempt supplies. Not applicable.

E. Time of supply

The time when VAT becomes due is called the "time of supply." In Zimbabwe, the basic time of supply is the earlier of the following:

- The issuance of an invoice by the supplier or the recipient with respect to the supply
- The receipt of a payment of the consideration by the supplier with respect to the supply
- The removal of goods from the place of sale or the performance of the service (effective from 1 January 2019)

Other time-of-supply rules apply to various situations, such as change of use, repossessions, betting transactions and lay-by sale agreements (the purchaser makes partial payments over time, and when a predetermined amount has been reached, the goods are released to the purchaser).

Supplies between related persons. The following are the times of supply for supplies of goods and services between related persons:
- Supply of goods: when they are removed or made available to the purchaser or recipient of the goods
- Supply of services: when the services are performed

Rental agreements. The time of supply for rental agreements is the earlier of the date on which the payment is due or the date on which payment is received.

Periodic supplies. The time of supply for periodic supplies is the earlier of the date on which the payment is due, the date on which payment is received or the date on which an invoice relating only to that payment is received.

Installment credit agreements. For installment credit agreements, the supply is deemed to take place at the earlier of when the goods are delivered or when a payment of the consideration is received.

Immovable property. The time of supply for the supply of immovable property is the earlier of the date on which the change of ownership is registered in the deeds office or the date of receipt of a payment of the consideration. Otherwise, it is deemed to be the date of signing of the sale agreement. If the sale is made by deed of sale, VAT is payable on the installments as and when they are paid.

Imports. The following are the time-of-supply rules for imports:
- Imported goods that require direct clearance for home consumption under the customs and excise act: when the goods are cleared
- Goods that are imported and entered into a licensed customs and excise bonded warehouse: when the goods are cleared from the warehouse for home consumption
- Imported services: the earlier of the date on which an invoice is issued and the date on which a payment is made by the recipient with respect to the supply

VAT deferment. Deferment of VAT payment for a period of up to 90, 120 or 180 days from the date of importation is available with respect to plant, equipment and machinery (other than road motor vehicles in most cases) that is imported and used exclusively for mining, manufacturing, industrial, agricultural, aviation or health purposes.

To qualify for this deferment, the value of such imported plant, equipment and machinery must be USD100,000–USD1 million (90 days), USD1-10 million (120 days), or more than USD10 million (180 days).

Deposits and prepayments. The time of supply for prepayments is the date when payment is received. If deposits form part of the consideration, the time of supply is when the deposit is paid or received. The time of supply for a deposit may be delayed if the supply of goods or service is conditional.

Goods sent on approval for sale or return. The time of supply is dependent on the "cooling off period" under the agreement of sale. If goods are returned during a cooling off period, there is no supply. The date of decision to buy during the cooling off period is the time of supply. If goods are not returned, the time of supply is on the day the cooling off period expires.

Reverse-charge services. Reverse-charge services are not provided for in the VAT law.

F. Recovery of VAT by Zimbabwe-registered operators

A registered operator may claim input tax (that is, VAT charged on goods and services supplied to it for business purposes) by deducting it from output tax, which is VAT charged on supplies made. Input tax may be deducted if all of the following conditions are satisfied:

- The expenses are incurred in the making of taxable supplies
- The claimant has a valid tax invoice or bill of entry (imports)
- The claiming of input tax deduction is not specifically prohibited by the VAT act

Input tax includes VAT charged on goods and services purchased in Zimbabwe and VAT paid on imports of goods and services.

In addition, a registered operator claims a deduction of the 1/3% VAT withheld by designated value-added withholding tax agents upon payment by the agents to the registered operator for supplies of goods and services.

Non-deductible input tax. Input tax may not be deducted with respect to purchases of goods and services that are not used for taxable purposes (for example, goods or services acquired for private use by an entrepreneur or for the purposes of making exempt supplies). In addition, input tax recovery may be prohibited for certain specified business expenses.

Examples of items for which input tax is non-deductible

- Initial purchase of passenger motor vehicles as defined in the income tax act
- Fees or subscriptions paid by registered operators with respect to memberships in clubs, associations or societies of a sporting, social or recreational nature
- Amounts with respect to goods or services acquired for the purposes of business or staff entertainment (subject to certain exceptions)
- VAT payable on exports of unbeneficiated hides and unbeneficiated platinum

Examples of items for which input tax is deductible (if related to a taxable business use)

- Maintenance costs of passenger motor vehicles
- Purchase, hire and maintenance costs of non-passenger motor vehicles, such as vans and trucks
- Expenses incurred by registered operators in the making or importation of taxable supplies, such as trading stock, raw materials, administration expenses and marketing costs

Partial exemption (mixed supplies). VAT directly related to purchases with respect to the making of exempt supplies is not recoverable as input tax. A registered operator that makes both exempt and taxable supplies (mixed supplies) cannot recover input tax in full.

In Zimbabwe, if VAT relates to the making of both exempt and taxable supplies, deductible input tax is determined using a two-stage calculation, which is described below.

Direct attribution. For direct expenses, the first stage is to identify expenses incurred in making taxable supplies and those incurred in making exempt supplies. VAT paid on expenses incurred in making taxable supplies is deductible as input tax while VAT paid on expenses incurred in making exempt supplies is not deductible.

Apportionment. For overheads, the turnover method or another apportionment method acceptable to the ZIMRA must be used to allocate the VAT between taxable supplies and exempt supplies. Input tax related to taxable supplies is deducted, while input tax related to exempt supplies is not deducted. If taxable supplies exceed 90% of the total supplies made by a registered operator, all of the VAT incurred by the registered operator is deductible as input tax.

Refunds. If the amount of input tax recoverable in a tax period exceeds the amount of output tax payable in that period, a refund of the excess may be claimed. ZIMRA must pay interest at the prescribed rate if it does not process and pay the refunds within 30 days after the date on which the relevant return is submitted.

Before a refund is paid, the refund amount is applied against any tax, levy, interest, or penalty payable by the registered person under the VAT act, the customs and excise act, the income tax act and the capital gains tax act.

Preregistration costs. VAT incurred on goods and services prior to VAT registration is claimed as input tax deduction in the month of VAT registration if such goods and services are still on hand and used for making taxable supplies. In the case of stocks and consumables, input tax deductions can be made only if they were purchased not more than six months prior to date of registration of the operator. Furthermore, costs incurred six months prior to incorporation of a company or in connection with the incorporation of a company qualify for input deduction provided the goods and services were acquired solely for the purpose of a trade to be carried on by the company, and the purchaser is reimbursed by the company for the whole amount of the consideration for the goods and services.

G. Recovery of VAT by non-established businesses

Non-established businesses can recover VAT through their agents in Zimbabwe.

H. Invoicing

Tax invoices and credit notes. A registered operator must provide a tax invoice to the recipient for all taxable supplies made within 30 days after the date of supply. In certain circumstances, subject to ZIMRA approval, the recipient of goods and services issues the tax invoice to the supplier.

A tax invoice must contain the following particulars:
- The words "tax invoice" or "fiscal tax invoice" in a prominent place
- The name, address and registration number of the supplier
- The name and address of the recipient and, if the recipient is a registered operator, the registration number of the recipient
- An individual serialized number and the date on which the tax invoice is issued
- A description of the goods or services supplied
- The quantity or volume of the goods or services supplied
- The value of the supply, the amount of tax charged and the consideration for the supply, or if the amount of tax charged is calculated by applying the tax fraction (15/115) to the consideration, the consideration for the supply and either the amount of the tax charged or a statement that the consideration includes a charge with respect to the tax, and the rate at which the tax is charged

A credit note may be used if the output tax accounted for exceeds the output tax properly chargeable with respect to a particular supply. A debit note may be used if the output tax properly chargeable with respect to a supply exceeds the output tax accounted for.

A credit note and debit note must satisfy all of following requirements:
- It must be clearly marked "credit note" or "debit note"
- It must refer to the original tax invoice
- It must indicate the reason why it has been issued
- It must contain sufficient information to identify the transaction to which it relates

Proof of exports. Exports can be classified as direct or indirect exports.

Direct exports arise if the registered operator is responsible for consigning or delivering the goods to an address in an export country. These exports can be zero-rated if the documentary requirements are met.

Indirect exports arise if the registered operator does not consign the goods to an address in an export country but instead delivers them to the purchaser that is responsible for taking them out of the country. The registered operator must satisfy ZIMRA that it will comply with all exchange-control regulations relating to the export of goods. If ZIMRA is satisfied that the goods were not taken out of Zimbabwe, the seller of such goods is liable to VAT at a rate of 15%.

If requested by ZIMRA, to prove that the supplies are entitled to the zero rate, the registered operator must furnish ZIMRA with all documents that evidence that the goods were exported. Emphasis is now on actual evidence that the goods were exported. The required documents are as follows:
- Tax invoice
- Debit and credit notes
- Sales agreement
- Lease agreement
- Contract document
- Export documents bearing a ZIMRA stamp at the point of exit
- Other receipts if applicable
- Other documents acceptable to ZIMRA

Foreign-currency invoices. Zimbabwe's functional currency is the United States dollar.

Electronic invoices. Not applicable.

B2C. No VAT invoice is required for B2C supplies unless requested by the purchaser. However, all VAT-registered taxpayers are required to install fiscal devices at all points of sale.

I. VAT returns and payment

VAT returns. All registered operators with annual taxable supplies in excess of USD240,000 have a monthly tax period.

All VAT-registered taxpayers are required to install, before a specified date, electronic registers or electronic signature devices with prescribed specifications to record taxable transactions. Fifty percent of the cost of acquiring these prescribed, "fiscalized" electronic registers is deductible from VAT payable. The law requires transmission of sales data online to ZIMRA through a server-to-server connection.

VAT returns must be filed by the 25th day of the month following the tax period. Payment is due in full by the same date. If the due date falls on a Saturday, Sunday or public holiday, the due date is the last business day before the 25th. With effect from 1 November 2016, designated VAT agents are to submit value-added withholding tax returns by the 15th day of every month.

Zimbabwe uses multiple currencies. With effect from 1 January 2019, VAT is paid using the currency received from the customer. Failure to pay in the prescribed currency will result in a penalty double the amount payable. Failure to pay the penalty will result in a civil penalty of USD30 per day that the penalty remains unpaid up to 181 days.

Special schemes. Not applicable.

Electronic filing and archiving. VAT returns are submitted online.

Annual returns. Not applicable.

J. Penalties

A penalty is imposed for late payment of VAT at a rate of up to 100% of the outstanding tax for each month. Additional tax equal to 100% of the relevant tax may be levied in cases of fraud.

With effect from 1 January 2019, the VAT Act is amended to allow payment of the principal amount first before payment of penalty and interest.

Interest is charged on outstanding tax at a rate of 10% per year.

A civil penalty of up to USD25 per point of sale per day is charged for failure to use prescribed "fiscalized" electronic registers. A similar penalty is imposed on approved suppliers of elec-

tronic signature devices and fiscalized or non-fiscalized electronic registers who fail to supply them within six weeks of an order with payment in full.

Fines, imprisonment or both may also apply to various other offenses, including making false statements and obstructing a revenue officer.

For late submission of VAT returns, a civil penalty of USD30 per day per tax return is imposed. Those daily penalties continue during the first 181 days that each return is in default. If the person continues to be in default after the 181 days, he or she shall be guilty of an offense and liable, on conviction, to a fine not exceeding level 14 (USD5,000) or imprisonment for a period not exceeding five years or to both the fine and imprisonment.

Table of VAT, GST and sales tax rates

Jurisdiction	Standard rate*	Other rates**
Albania	20%	6%, 0%
Algeria	19%	9%
Angola	14%	N/A
Argentina	VAT: 21% IIBB: 1%-4% (industrial), 3.5%-5% (commerce and services) and 4.9%-8% (commission and intermediation)	VAT: 27%, 10.5%, 0%
Armenia	20%	0%
Aruba	RT: 3% HT: 3%	N/A
Australia	10%	0%
Austria	19%, 20%	13%, 10%
Azerbaijan	18%	0%
Bahamas	7.5%	0%
Bahrain	5%	0%
Barbados	17.5%	22%, 7.5%, 0%
Belarus	20%	25%, 10%, 0%
Belgium	21%	12%, 6%, 0%
Bolivia	Nominal: 13% Effective: 14.94%	0%
Bonaire, Sint Eustatius and Saba (BES Islands)	Goods: 6%–8% Services: 4%–6%	30%, 25%, 22%, 18%, 10%, 7%, 5%, 0%
Botswana	12%	0%
Brazil	IPI: 0%–300% ICMS: 0%–35% ISS: 0%–5% PIS-PASEP: 0.65%, 1.65% COFINS: 3%, 7.6%	N/A
Bulgaria	20%	9%, 0%
Canada	GST: 5% HST: 13%–15% QST: 9.975%	0%
Chile	19%	15%–50%
China (mainland)	6%, 10%, 16%	16%, 10%, 6%, 5%, 3%
Colombia	19%	5%, 0%
Costa Rica	13%	11%, 4%, 2%, 0%
Croatia	25%	13%, 5%
Curaçao	6%	9%, 7%

Jurisdiction	Standard rate*	Other rates**
Cyprus	19%	9%, 5%, 0%
Czech Republic	21%	15%, 10%, 0%
Denmark	25%	0%
Dominican Republic	18%	16%, 0%
Ecuador	12%	0%
Egypt	14%	5%, 0%
El Salvador	13%	0%
Estonia	20%	9%, 0%
Finland	24%	14%, 10%, 0%
France	20%	10%, 5.5%, 2.1%
Georgia	18%	0.54%, 0%
Germany	19%	7%, 0%
Ghana	12.5%	17.5%, 3%, 2.5%, 0%
Greece	24%	13%, 6%
Guatemala	12%	5%, 0%
Honduras	15%	18%
Hungary	27%	18%, 5%
Iceland	24%	11%, 0%
India	5%, 12%, 18%, 28%	3%, 0.25%
Indonesia	10%	0%
Ireland, Republic of	23%	13.5%, 9%, 0%
Isle of Man	20%	5%, 0%
Israel	17%	0%
Italy	22%	10%, 5%, 4%
Japan	8%	0%
Jersey, Channel Islands	5%	0%
Jordan	16%	10%, 5%, 4%, 0%
Kazakhstan	12%	0%
Kenya	16%	8%, 0%
Korea	10%	0%
Kosovo	18%	8%, 0%
Kuwait	5%***	0%***
Latvia	21%	12%, 5%, 0%
Lebanon	11%	0%
Liechtenstein, Principality of	7.7%	3.7%, 2.5%, 0%
Lithuania	21%	9%, 5%, 0%
Luxembourg	17%	14%, 8%, 3%, 0%
Macedonia, Former Yugoslav Republic of	18%	5%, 0%
Madagascar	20%	0%
Malaysia	Sales Tax: 10% Service Tax: 6%	5%

Jurisdiction	Standard rate*	Other rates**
Maldives	GST: 6% TGST: 12%	0%
Malta	18%	7%, 5%, 0%
Mauritius	15%	0%
Mexico	16%	0%
Moldova	20%	10%, 8%, 0%
Mongolia	10%	0%
Morocco	20%	14%, 10%, 7%
Myanmar	5%	8%, 3%, 1%
Namibia	15%	0%
Netherlands	21%	9%, 0%
New Zealand	15%	0%
Nicaragua	15%	0%
Nigeria	5%	0%
Norway	25%	15%, 12%, 0%
Oman	5%***	0%***
Pakistan	Goods: 17% Services: 13%–16%	19.5%, 12%, 10%, 9%, 8%, 7%, 6%, 5%, 4%, 3%, 2%, 1%, 0%
Panama	7%	15%, 10%
Papua New Guinea	10%	0%
Paraguay	10%	5%
Peru	18%	0%
Philippines	12%	0%
Poland	23%	8%, 5%, 0%
Portugal	Mainland: 23% Madeira: 22% Azores: 18%	Mainland: 13%, 6%, 0% Madeira: 12%, 5% Azores: 9%, 4%
Puerto Rico	10.5%	4%, 1%
Qatar	5%***	0%***
Romania	19%	9%, 5%, 0%
Russian Federation	20%	16.67%, 10%, 0%
Rwanda	18%	0%
Saint Lucia	12.5%	10%, 0%
Saudi Arabia	5%	0%
Serbia	20%	10%, 0%
Singapore	7%	0%
Sint Maarten	5%	N/A
Slovak Republic	20%	10%, 0%
Slovenia	22%	9.5%, 0%
South Africa	15%	0%
Spain	21%	10%, 4%, 0%

Jurisdiction	Standard rate*	Other rates**
Suriname	Goods: 10% Services: 8%	25%, 0%
Sweden	25%	12%, 6%, 0%
Switzerland	7.7%	3.7%, 2.5%, 0%
Taiwan	VAT: 5% GBRT: 0.1%–25%	0%
Tanzania	18%	0%
Thailand	7%	0%
Trinidad and Tobago	12.5%	0%
Tunisia	19%	13%, 7%
Turkey	18%	8%, 1%
Uganda	18%	0%
Ukraine	20%	7%, 0%
United Arab Emirates	5%	0%
United Kingdom	20%	5%, 0%
United States	2.9%–7.25%	N/A
Uruguay	22%	10%, 0%
Venezuela	16%	8%–20%, 0%
Vietnam	10%	5%, 0%
Zambia	16%	0%
Zimbabwe	15%	0%

* Rate shown here is most common standard rate; for regional variations, see each chapter.

** Rates for small businesses and special schemes explained in each chapter.

*** Final legislation has not yet been published at the time of printing, so these are the expected, not confirmed, rates.

Table of currencies

The following list sets forth the names and codes for the currencies of jurisdictions included in this book.

Jurisdiction	Currency	Code
Albania	Lek	ALL
Algeria	Algerian Dollar	DZD
Angola	Kwanza	AOA
Argentina	Argentine Peso	ARS
Armenia	Armenian Dram	AMD
Aruba	Aruban Florin	AWG
Australia	Australian Dollar	AUD
Austria	Euro	EUR
Azerbaijan	Azerbaijanian Manat	AZN
Bahamas	Bahamian Dollar	BSD
Bahrain	Bahraini Dinar	BHD
Barbados	Barbados Dollar	BBD
Belarus	Belarussian Ruble	BYR
Belgium	Euro	EUR
Bolivia	Boliviano	BOB
Bonaire, Sint Eustatius and Saba (BES Islands)	US Dollar	USD
Botswana	Pula	BWP
Brazil	Brazilian Real	BRL
Bulgaria	Bulgarian Lev	BGN
Canada	Canadian Dollar	CAD
Chile	Chilean Peso	CLP
China (mainland)	Yuan Renminbi	CNY
Colombia	Colombian Peso	COP
Costa Rica	Costa Rican Colon	CRC
Croatia	Croatian Kuna	HRK
Curaçao	Antillean Guilder	ANG
Cyprus	Euro	EUR
Czech Republic	Czech Koruna	CZK
Denmark	Danish Krone	DKK
Dominican Republic	Dominican Peso	DOP

Jurisdiction	Currency	Code
Ecuador	US Dollar	USD
Egypt	Egyptian Pound	EGP
El Salvador	El Salvador Colon	SVC
Estonia	Euro	EUR
Finland	Euro	EUR
France	Euro	EUR
Georgia	Lari	GEL
Germany	Euro	EUR
Ghana	Ghana Cedi	GHS
Greece	Euro	EUR
Guatemala	Quetzal	GTQ
Honduras	Lempira	HNL
Hungary	Forint	HUF
Iceland	Iceland Krona	ISK
India	Indian Rupee	INR
Indonesia	Rupiah	IDR
Ireland, Republic of	Euro	EUR
Isle of Man	Pound Sterling	GBP
Israel	New Israeli Sheqel	ILS
Italy	Euro	EUR
Japan	Yen	JPY
Jersey, Channel Islands	Pound Sterling	JEP
Jordan	Jordanian Dinar	JOD
Kazakhstan	Tenge	KZT
Kenya	Kenyan Shilling	KES
Korea	Won	KRW
Kosovo	Euro	EUR
Kuwait	Kuwaiti Dinar	KWD
Latvia	Euro	EUR
Lebanon	Lebanese Pound	LBP
Liechtenstein, Principality of	Swiss Franc	CHF
Lithuania	Euro	EUR
Luxembourg	Euro	EUR
Macedonia, Former Yugoslav Republic of	Denar	MKD
Madagascar	Malagasy Ariary	MGA
Malaysia	Malaysian Ringgit	MYR

Jurisdiction	Currency	Code
Maldives	Rufiyaa	MVR
Malta	Euro	EUR
Mauritius	Mauritius Rupee	MUR
Mexico	Mexican Peso	MXN
Moldova	Moldovan Leu	MDL
Mongolia	Tugrik	MNT
Morocco	Moroccan Dirham	MAD
Namibia	Namibia Dollar	NAD
Netherlands	Euro	EUR
New Zealand	New Zealand Dollar	NZD
Nicaragua	Córdoba Oro	NIO
Nigeria	Naira	NGN
Norway	Norwegian Krone	NOK
Oman	Rial Omani	OMR
Pakistan	Pakistan Rupee	PKR
Panama	Balboa	PAB
Papua New Guinea	Kina	PGK
Paraguay	Guaraní	PYG
Peru	Nuevo Sol	PEN
Philippines	Philippine Peso	PHP
Poland	Zloty	PLN
Portugal	Euro	EUR
Puerto Rico	US Dollar	USD
Qatar	Qatari Rial	QAR
Romania	Romanian Leu	RON
Russian Federation	Russian Ruble	RUB
Rwanda	Rwanda Franc	RWF
Saint Lucia	East Caribbean Dollar	XCD
Saudi Arabia	Saudi Riyal	SAR
Serbia	Serbian Dinar	RSD
Singapore	Singapore Dollar	SGD
Sint Maarten	Antillean Guilder	ANG
Slovak Republic	Euro	EUR
Slovenia	Euro	EUR
South Africa	Rand	ZAR
Spain	Euro	EUR
Sweden	Swedish Krona	SEK

Jurisdiction	Currency	Code
Switzerland	Swiss Franc	CHF
Taiwan	New Taiwan Dollar	TWD
Tanzania	Tanzanian Shilling	TZS
Thailand	Baht	THB
Trinidad and Tobago	Trinidad and Tobago Dollar	TTD
Tunisia	Tunisian Dinar	TND
Turkey	Turkish Lira	TRY
Uganda	Uganda Shilling	UGX
Ukraine	Hryvnia	UAH
United Arab Emirates	UAE Dirham	AED
United Kingdom	Pound Sterling	GBP
United States	US Dollar	USD
Uruguay	Uruguay Peso	UYU
Venezuela	Bolívar	VEF
Vietnam	Dong	VND
Zambia	Zambian Kwacha	ZMW
Zimbabwe	US Dollar	USD

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