Worldwide VAT, GST and Sales Tax Guide

2020

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 134 jurisdictions. All of the content is current on 1 January 2020 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 which they have 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* and, articles. Find them at ey.com.

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EY
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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 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
Thresholds	
Registration for resident taxable persons	Annual turnover of ALL2 million
Registration for 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 of which the 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

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

C. Who is liable

Any person (entity or individual) that 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 from that on a continuing basis."

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

Voluntary registration and small businesses. A taxable person established in Albania is obliged to register for VAT purposes and charge VAT if the annual turnover in the previous 12 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.

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.

For agricultural producers, for which the compensation scheme for farmers applies (see further details under *Section I. Returns and payments*) and which operate as individual farmers, the minimum registration limit for VAT purposes is a 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. Group VAT registration is not allowed in Albania.

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

Tax 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.

Domestic reverse charge. A domestic reverse charge rule is applicable in the case of self-supply of goods or services by a taxpayer for its economic taxable activity.

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. As a consequence, 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 VAT liability.

Online marketplaces and platforms. The above rules for the digital economy also apply to online marketplaces and platforms, i.e., the place of supply for services supplied by electronic means to nontaxable persons is the place where the that person is established or where he has his permanent address or usually reside.

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

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.

D. 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: 20%
- Reduced rate: 6%
- Zero-rate: 0%

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

Certain supplies are referred to as "exempt-with-credit" (i.e., zero-rated), which means that no VAT is chargeable, but the supplier may recover the input tax (effectively zero-rated).

Examples of goods and services taxable at 0%
- 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

Examples of goods and services taxable at 6%
- Supplies of accommodation services by the accommodation facilities
- Supplies made within five-star 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 equipped with electric motors, 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

The term "exempt supplies" refers to supplies of goods and services that are not liable to VAT and that do not qualify for input tax deduction.

Examples of exempt supplies of goods and services

- 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
- New vehicles with electric motor, zero km, that have not been previously registered for circulation in any other country
- Supply related to the construction/reconstruction process in the case of natural disasters upon receipt of the authorization by the General Tax Director
- Supply of services and goods directly to the constructor engaged with the building process in the case of natural disasters, when authorized by the General Tax Director

Option to tax for exempt supplies. The Minister of Finance may grant through a 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 that the supply of goods or services takes place. If the payment is made before the 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.

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 that the deposit guarantee is executed.

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.

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).

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.

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.

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.

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.

Nondeductible input tax. Not all input tax is deductible. Generally, input tax may not be recovered on purchases of goods or services that are not used for business purposes.

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

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

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:

$$\text{Amount of relevant input tax} \quad x \quad \frac{\text{VAT creditable turnover}}{\text{Total annual turnover}}$$

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 for 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.

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, as 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.

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

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.

Noneconomic activities. To the extent that 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 tax.

H. Invoicing

VAT invoices. 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.

Credit notes. 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 an advanced electronic signature or by means of electronic data interchange (EDI).

Simplified VAT invoices. The taxpayers subject to the regime of small businesses (i.e., annual turnover less than ALL2 million), may issue simplified VAT invoices, but only of goods or services paid in cash.

Self-billing. Self-billing is allowed in Albania, i.e., the buyer can bill themselves on behalf of the supplier. Self-billing is only allowed under the following conditions:
- Both the supplier and the customer should be taxable persons registered for VAT.
- The supply should be taxable, not exempt.
- A written agreement should be in place between the supplier and the buyer, in which is provided for a procedure for the acceptance by the supplier of the invoices issued by the buyer.
- Any invoice issued by the buyer in the name and on behalf of the supplier must be approved by the latter.
- The buyer should notify the tax authority in advance.
- The buyer should undertake the obligation to declare and pay VAT in the name and on behalf of the supplier.
- The invoice issued by the buyer should identify the data (name, VAT ID, address, etc.) of the supplier and should indicate "Self-Billing."

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

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.

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

Records. A taxable person is required to keep records, including records of all supplies made by them, all supplies made to them and all imports and exports of goods carried out by them as part of their economic activity, in compliance with the law "On accounting and financial statements." They are required to keep records of all invoices and any supporting documents issued by/to the taxable person, in respect of supplies made or received.

Record retention period. The period during which the taxable person must ensure that the invoices and supporting documents are retained, is five calendar years, starting from the next year following the invoice/document issuance. They shall be retained in the original form in which they were sent or made available, whether in paper or electronic form. In addition, in case of invoices stored by electronic means, the data that guarantee the authenticity of the origin of the invoices and the integrity of their contents, must also be stored by electronic means.

Electronic archiving. The taxable person shall have the right to designate the place of storage of the invoices or of the information retained, provided that they make them available to the competent authorities immediately upon request. If records are kept on a computer or as electronic data, the taxpayer should provide tax authorities access to the place where records are held and access to computers or other devices to inspect the records that are held as electronic data.

I. Returns and payments

Periodic returns. The tax period is a calendar month. Purchase and sales ledgers must be submitted monthly by the 10th day of the following month. Following the recent fiscalization reform (introduced January 2020), the VAT return must be automatically generated by the tax authorities based on the information provided in the sale and purchase ledgers. However, taxpayers have the right to review and amend the VAT return accordingly. The deadline for VAT payment is the 14th day of the month following the tax period. For imports, VAT is payable upon importation.

Please note that the law introducing the fiscalization reform will enter into force 1 September 2020 for taxpayers with an annual turnover over ALL8 million. For all other taxpayers the fiscalization reform will enter into force from 1 January 2021.

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 tax allowed as a deduction.

Periodic payments. 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 tax allowed as a deduction.

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

Payments on account. Payments on account are not required in Albania.

Special schemes.

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 tax incurred by travel agents may not be deducted.

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

Secondhand goods, works of art, collector's items and antiques. Taxpayers must electronically submit the purchase and sales ledgers and VAT returns.

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 tax 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.

Investment gold. A special VAT scheme applies to investment gold. The taxable value of processed gold, imported gold and processed gold supplied domestically, does not include the value of gold used as raw material. At the same time, the taxable value of an import or supply within the country includes material components such as: silver, precious stones, plastics, labor, processing wastage, etc.

- Taxable value of imported processed gold:
  - The taxable value of imported processed gold, shall be determined in accordance with customs and tax legislation. The supporting document is the foreign supplier's invoice issued to the domestic buyer, indicating the value of gold converted into pure gold, out of the total value of imported gold. In absence of such a breakdown, the importer cannot exclude from the taxable value of the import the value of gold used as raw material.
- Taxable value of processed gold supplied domestically:
  - The value of a supply within the country is the full payment for that supply. The taxable value of processed gold supplied domestically is calculated by deducting from the full supply charge the value of gold used as raw material. The supporting document is the invoice of the supplier indicating separately the value of the gold used as the raw material. In absence of such a breakdown, the supplier cannot exclude from the taxable basis the value of gold used as raw material. Irrespective of the supply nature, wholesale or retail, and irrespective of the supply value, the taxable person shall issue a tax invoice as provided in VAT law.

Annual returns. Annual returns are not required in Albania.

Supplementary filings. No supplementary filings are required in Albania. In the case of underpaid VAT for a certain tax period and if no tax audit has been undertaken by the tax authorities, the taxpayer can voluntarily amend the VAT return to adjust the situation. No penalties for late payment of VAT will be applicable.

Digital reporting. The fiscalization reform aims to provide the tax authorities with a better control system and more efficient tax inspection. The proposed fiscalization system is a set of measures used to reduce tax evasion in cash and noncash transactions. In the process of fiscalization, all transactions (invoices) are reported in real time to the tax authorities. For the purpose of identifying and tracking each transaction, each invoice will be given a unique invoice number.

From 1 September 2020, all business-to-customer (B2C) transactions will be reported to the tax authorities in real time based on the new fiscalization system. And from 1 January 2021, all business-to-business transactions (B2B) and business and government transaction (B2G) will be made using electronic invoicing.

J. Penalties

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

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

Penalties for late payment and filings. 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.

Penalties for errors. 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.

Penalties for fraud. 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)
Local name	Taxe sur la Valeur Ajoutée (TVA)
Date introduced	April 1992
Trading bloc membership	Member of the Greater Arab Free Trade Area
Administered by	Ministry of Finance
VAT rates	
Standard	19%
Reduced	9%
Other	Zero-rated (0%) and exempt
VAT number format	XXXXXXXXXXXXXXX (15 Digits) XXXXXX (+ 5 Digits for branches)
VAT return periods	Monthly
Thresholds	
Registration	None
Deregistration	None
Recovery of VAT by non-established businesses	No

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 an 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

For 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.

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

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.

Voluntary registration and small businesses. 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.

Domestic reverse charge. There are no domestic reverse charges in Algeria.

Digital economy. Internet access royalties are exempted from VAT. In addition, from 30 December 2019, sales operations carried out by electronic means (i.e., via the internet) are subject to VAT at the reduced rate of 9%.

Online market places and platforms. Aside from the reduced rate applying to supplies carried out by electronic means, no further special rules exist for online marketplaces and platforms in Algeria.

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.

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

D. 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: 19%
- Reduced rate: 9%
- Zero-rate: 0%

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

From 30 December 2019, the Algerian Government enacted the Finance Act for 2020, which included the introduction of a new VAT rate set at 0% for acquisition of goods and services benefiting from VAT exemption or VAT free purchase regime realized by taxpayers registered with the

Direction of Large Companies (DGE). Initially this change will impact taxpayers registered with the DGE. For such businesses, it takes effect from 1 April 2020. For all other taxpayers it will take effect from 1 January 2021.

Examples of goods and services taxable at 0%

- Acquisition of products, goods and services already benefiting from a VAT exemption or VAT franchise regime. Article 9 of the VAT Code provides a limited list of the goods and services exempted from VAT.

Examples of goods and services taxable at 9%

- 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)
- Sales operations carried out by electronic means (via the internet)

The term "exempt supplies" refers to supplies of goods and services that are not liable to VAT and that do not qualify for input tax deduction.

Examples of exempt 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 hyrocarbon company SONATRACH
- Exportations of goods and services

Please note that from 30 December 2019, taxpayers eligible to the "lump sum tax regime" are physical persons performing industrial, commercial, and artisanal activities whose annual turnover does not exceed DZD15 million, excluding some activities listed by Article 282 of the VAT Code.

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

E. Time of supply

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

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.

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

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

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, 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.

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

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. In that case, the taxable event is the approval of the client.

Reverse-charge services. 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.

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

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

Deemed supplies. There is no special 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 tax charged on goods and services supplied to it, for business purposes. A taxable person generally recovers input tax by offsetting it against output tax 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.

Nondeductible 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 means of the company
- Restaurant meals and entertainment for employees and clients
- Hotel accommodation for clients
- Reception costs

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

- Service costs related to the business such as consulting reports, studies
- Lease payments related to the company's office
- Acquisition of goods to be resold to the company's customers

Partial exemption. Input tax directly related to exempt supplies is generally not 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 services 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. As such, the general input tax recovery rules apply.

Where a capital good is acquired for less than five years and then it is transferred, the VAT deducted upon the asset's acquisition should be reversed according to a pro rata for the remaining years.

Where a taxpayer carries out both activities that are "taxable and exempt" (i.e., partial exemption), the deduction of the VAT should be made under the prorate rule. See the subsection above for more details.

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

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 reporting of the estimated deductible VAT amount on the monthly declarations 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

Pre-registration costs. Input tax incurred in relation to pre-registration costs is not recoverable in Algeria.

Write-off of bad debts. A taxable person is entitled to recover any VAT already accounted for 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. Input tax incurred in relation to noneconomic activities is not recoverable in Algeria.

G. Recovery of VAT by non-established businesses

Non-established businesses have no tax registration in Algeria, and therefore do not fulfill 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

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

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 a 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.

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. 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.

Self-billing. Self-billing is not allowed in Algeria.

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 30 April 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.

Supplies to nontaxable persons. No special rules apply for supplies to non-VAT taxable customers. Full VAT invoice rules apply.

Records. Records must be kept for a minimum of four years, in line with the tax audit prescription. However, for Algerian trade legislation the prescription is fixed at 10 fiscal years.

Record retention period. Records of invoices must be kept for a period of 10 years, in line with the Algerian trade legislation.

Electronic archiving. Documents can be archived electronically and physically. However, in case of a tax audit, the physical document should be made available for the tax authorities.

I. Returns and payments

Periodic 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.

Periodic payments. 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.

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.

Electronic filing. 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 “JIBA-YA’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.

Payments on account. Payments on account are not required in Algeria.

Special schemes.

Cash accounting. From 30 December 2019, taxpayers eligible to the “lump sum tax regime” are physical persons performing industrial, commercial, artisanal activities whose annual turnover does not exceed DZD15 million excluding some activities listed by Article 282 of the VAT Code.

Annual returns. Annual returns are not required in Algeria.

Supplementary filings. In the case of a taxpayer carrying out wholesale activity, a dedicated template, including the information related to the clients, must be filed. This template should be submitted on an annual basis.

Digital reporting. No digital reporting requirements apply in Algeria. For taxpayers registered at the “Direction of Large Companies” (DGE), the monthly tax return should be submitted on DGE’s online platform called “JIBAYA’TIC.”

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.

Penalties for late registration. Taxpayers who fail to subscribe their declaration of existence within the required time, are liable to a fiscal fine amounting at DZD30,000.

Penalties for late payment and filings. 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. Tax authorities can proceed with internal assessments based on the information provided by the taxpayers, its clients and its suppliers.

Penalties for 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 (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. In addition, the tax authorities could instruct to apply the below correctional sanctions (“Penalties for fraud”) in case the evaded amount exceeds 10% of the amount due.

Rulings. Taxpayers registered with the DGE can submit a ruling request 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.

Penalties for fraud. The penalties for those who knowingly decreased or tried to decrease the total or a part of the taxable basis or the applicable tax are:

- A criminal fine of DZD50,000 to DZD100,000, where the amount of the duties evaded does not exceed DZD100,000
- Imprisonment from two months to six months and a fine of DZD100,000 to DZD500,000, or only one of these two penalties when the amount of duties evaded is greater than DZD100,000 and does not exceed DZD1 million
- Imprisonment from six months to two years and a fine of DZD500,000 to DZD2 million, or only one of these two penalties when the amount of duties evaded is greater than DZD1 million and does not exceed DZD5 million
- Imprisonment from two years to five years and a fine of DZD2 million to DZD5 million, or only one of these two penalties when the amount of duties evaded is greater than DZD5 million and does not exceed DZD10 million
- Imprisonment from 5 to 10 years and a fine of DZD5 million to DZD10 million, or only one of these two penalties when the amount of duties evaded is greater than DZD10 million

Angola

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Value-added tax (VAT) entered into force in Angola on 1 October 2019 (and not on 1 July 2019, as previously expected), revoking the existing excise tax (Imposto de Consumo). As the new VAT regime has recently come into force, a transitory regime for non-large taxpayers with an annual turnover in 2018 is equal to or higher than USD250,000 applies.

A. At a glance

Name of the tax	Value-added tax (VAT)
Local name	Imposto sobre o valor acrescentado (IVA)
Date introduced	1 October 2019
Trading bloc	Southern Africa Development Community
Administered by	Administração Geral Tributária (AGT)
VAT rates	
Standard	14%
Reduced	3% (transitory regime)
Other	Zero-rated (0%) and exempt
VAT number format	5 4 2 3 4 5 6 7 8 9
VAT return periods	Monthly Quarterly (transitory regime)
Thresholds	
Registration	USD250,000 (AOA equivalent)
Deregistration	Less than USD250,000 (AOA equivalent)
Recovery of VAT by non-established businesses	*At the time of preparing this chapter, the rules on the recovery of VAT by non-established businesses, is still pending further clarification.*

B. Scope of the tax

VAT applies to the following transactions:
- The supply of goods or services made, used or exploited 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 territo-

rial or international areas where law or international agreements recognize Angola's tax jurisdiction, such as the concessions map.

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 file the declaration of beginning of activity at the tax authorities regarding such matter.

Since 1 October 2019, "large taxpayers" and taxpayers that meet some requirements and have opted for the VAT general regime, are subject to the VAT general regime. For entities not treated as large taxpayers, there are two different tax regimes depending on the business revenue:
- The "transitory regime" is mandatory for entities that exceed the abovementioned threshold. Specific rules apply to this regime. From 1 January 2021, the VAT general regime will be applicable to these taxpayers.
- The "not-subject regime" is for entities that do not meet the abovementioned threshold.

As a general rule, imports of goods are subject to VAT. The VAT taxable base is the customs value of the goods, obtained according to the customs legislation in force.

Exemption from registration. If the taxable person only incurs a one-off single taxable transaction, it will not be required to file the declaration of beginning of activity at the tax authorities regarding such matter.

Voluntary registration and small businesses. There is the possibility of voluntary registration to the VAT general regime if the following cumulative requirements are met:
- Have organized bookkeeping and updated registration with the Angolan tax authorities
- No tax or customs debts
- Have ERP systems prepared to issue invoices according the current rules in force
- Be prepared to submit by electronic means the VAT returns and accounting and invoicing information (SAF-T file)

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

Non-established businesses. A "non-established business" is a business that is not registered nor has permanent establishment in the territory of Angola. Non-established businesses that perform taxable operations in Angola should 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 should be self-assessed and paid by the purchaser (if the purchaser is a taxable person for VAT purposes).

Tax representatives. 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 whenever a non-established entity does not nominate a VAT representative and the services are deemed located in Angola, notably:
- Provision of services related with real estate properties located in Angola
- Accommodation and catering services supplied 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 they are put at the disposal of the recipient in Angola
- Provision of services related with the transport of passengers in Angola
- Other services used or which exploitation occurs in Angola

Domestic reverse charge. There are no domestic reverse charges in Angola.

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

Online market places and platforms. No special rules exist for online market places and platforms in Angola.

Registration procedures. For VAT purposes, a declaration of beginning of activity (Modelo 06) must be filed 15 days prior to starting to perform the activity.

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

The activity is deemed ceased when one of the following conditions is verified:
- The company is no longer trading 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 cease of activity, if considering that there are grounds to sustain that the company's activity is being used for fraudulent purposes

D. 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: 14%
- Reduced rate: 3% (transitory regime)
- Zero-rate: 0%

The standard rate of VAT applies to all supplies of goods or services, unless a specific measure provided for a reduced rate, the zero rate or an exemption.

There is also a special VAT regime applicable to the province of Cabinda (1% and 2% rates are applicable to specific operations).

Examples of goods and services taxable at 0%

- Exports:
  — Dispatched to a foreign country by the seller or someone acting on their behalf
  — 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
  — 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 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
  - Transport of passengers, cargo or mail proceeding from abroad
- Domestic exemptions:
  - "Basic basket" of goods identified in Annex I to the VAT Code

The term "exempt supplies" refers to supplies of goods and services that are not liable to VAT and that do not qualify for input tax deduction.

Examples of exempt supplies of goods and services

- Medication and other related products for therapeutic and prophylactic ends
- Wheelchair and similar vehicles destined for people with disabilities as well as braille machines and other gadgets used to correct learning disabilities
- Books
- Leasing and letting of immovable property for housing purposes (excluding the accommodation services provided by hotels and entities with similar activity)
- 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
- Insurance activities
- Supply of fuels according to Annex II of the VAT Code

Option to tax for exempt supplies. It is possible to waive 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 the VAT exemption must file a declaration, by electronic means, to the General Tax Authorities and meet certain requirements.

If AGT does not reply within 30 days, the request is tacitly accepted. Once accepted, this waive is valid from 1 January of the following civil year (unless the taxpayer starts its activity during the year, in which case the taxpayer can request to waive the exemption from the begging of its activity).

E. Time of supply

The time when VAT becomes due is called the "time of supply" or "tax point." Under the general rule, an invoice should be issued by the fifth business day following the date of the supply. The actual tax point becomes the date on which the invoice is issued. However, if no invoice was 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 partially, the corresponding VAT is due at the same time of the payment. The same is applicable in case payment occurs or invoices are issued before the finalization of the taxable operations.

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).

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

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

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.

Continuous supplies of services. With regard to continuous supplies of services, 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.

Goods sent on approval for sale or return. As a general rule, when goods are made available before the sale takes 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.

Reverse-charge services. The rules stated above also apply to reverse-charge services.

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

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

Personal use. 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 tax incurred with the acquisition of goods and services deemed indispensable for the maintenance of the business. A taxable person generally recovers input tax 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.

Nondeductible input tax. There are some type of costs that, by their nature, that may easily be used for personal purposes. As such, the legislator has opted to deny the right to input tax on these expenses — except when the same constitute the core of the entity's activity.

Examples of items for which input tax is nondeductible

Input tax is not deductible on the following operations:

- Expenses (acquisition, manufacturing or import, leasing (including financial lease), transformation and repair of vehicles, leisure boats, helicopters, airplanes, motorbikes and motorcycles
- Expenses relating to housing, food, beverages and hospitality expenses
- Expenses relating to acquisition or import of tobacco

Specific rules apply to oil companies.

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

- All except the abovementioned ones and resulting from simulated operations.

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 provides for two methods to recover VAT when a company makes both exempt and taxable supplies. The first that should be applicable by rule, 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 vs. the exempt operations that don't give rise to deductibility.

There is also 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. The Angolan VAT authorities may impose the use of the direct allocation method to prevent distortions of competition.

Capital goods. VAT Code is silent on a specific rule for capital goods. This said, taxpayers are obliged to record any purchases to allow the monitoring of the input tax deductions made.

The records, to be filed together with the VAT tax return, should contain, for all goods, the following elements (requirements):
- Data of the acquisition
- Value of the input tax
- Value of the input deducted

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 higher than AOA300,000, it could apply for a VAT refund.

A refund may also be requested (regardless the previous requirements) if any of the following circumstances verifies:
- The taxable person ceases operations.
- The tax credit situation results from zero-rated VAT transactions.
- 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.

Pre-registration costs. Input tax incurred on pre-registration costs is non-recoverable in Angola.

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 execution and insolvency proceedings. A bad debt is considered to exist in case of debts where nonpayment risk is duly justified — when 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 do not fulfill the VAT refund conditions planned by law. Accordingly, no recovery is currently possible in Angola for non-established businesses. The same applies for VAT incurred by tourists.

Where the non-established business supplies services to a taxable person, the reverse-charge mechanism should be applicable, and in principle there is no right to recover VAT. Nevertheless, where the services are supplied to entities that withhold VAT (*imposto cativo*), there may be the possibility of the non-established entities being in a credit position. This particular matter still requires further clarification.

H. Invoicing

VAT invoices. Taxable persons should, by rule, issue invoices per operation (for all taxable supplies — 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 number and its head office or domicile address both for the supplier and the acquirer, when the last is a taxable entity
(b) Sequential and chronological number per each type of document and economic years. One or more series, duly identified, may be used
(c) Description of goods and services, with the quantities or reference units duly identified
(d) Unit and total price in national currency (except for imports and exports)
(e) VAT rate applied and VAT amount payable, if applicable
(f) Mention of the reason for not assessing VAT (with reference to the applicable legal provision)
(g) Date and place where the goods are delivered, or the services rendered, as well as the date of any down payments
(h) Be written in Portuguese language
(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

Credit notes. A VAT credit note can 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.

Electronic invoicing. Taxpayers with an annual turnover equal or higher in AOA equivalent to USD250,000 must issue invoices by electronic means. For this purpose, it is mandatory to have a billing software previously certified by the AGT.

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 VAT-able 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 raise an invoice for this type of operations if the client requires it.

Self-billing. Under the Angolan Legal Regime for Invoices and Equivalent Documents, self-billing corresponds to the issuance of invoices/receipts by the service acquirers on behalf of their suppliers. This is only possible for the acquisition of products of agricultural, forestry, aquaculture, apiculture, poultry, fishing and livestock sectors. Additionally, the self-billing volume cannot exceed 10% of the total cost of sold goods and materials consumed by the issuer. Specific rules apply to the hotel business sector.

There are no special provisions demanding for a written agreement. The invoice/receipt should be raised when the payment is received.

Proof of exports. VAT is not chargeable on exported goods. However, an invoice should be raised per supply of goods or services and in order to qualify as VAT-free, exports must be supported by evidence that confirms the goods have left Angola.

Foreign currency invoices. Invoices must be issued in AOA, except when 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.

Supplies to nontaxable persons. Similar to the invoices issued to a taxpayer with the exception described in "Simplified invoices."

Records. Taxpayers are obliged to archive and conserve on national territory all invoices and equivalent documents, as well as records concerning the analysis, programming and implementation of computer systems used.

Record retention period. All invoices and equivalent documents must be kept, according to the legislation in place, by the taxable person for five years.

Electronic archiving. Backup copies of the invoices and equivalent documents must be archived in digital format and be available for immediate consultation of the AGT (if needed).

I. Returns and payments

Periodic returns. VAT returns and their annexes must be submitted on a monthly basis, by electronic means, in the taxpayer portal. Monthly VAT returns must be submitted by the last day of the month following the one when the operations took place.

Special rules apply to the transitory regime, which allow quarterly VAT return filings.

Periodic payments. After the submission of the periodic return, and in case VAT is due, the billing document should be issued automatically. VAT amounts due should be paid in AOA, by the last day of the month following the one when the operations took place.

Electronic filing. Electronic filing is mandatory in Angola. VAT returns must be filed online via the taxpayer portal.

Payments on account. Payments on account are not required in Angola.

Special schemes. Taxpayers with an annual turnover higher than USD250,000, can register under the transitory regime from 31 December 2020.

Apart from that, the Angolan VAT Code foresees two special schemes, the non-subject VAT regime and the VAT cash regime.

Non-subject VAT scheme. The non-subject VAT regime is applicable for the entities with a turnover in AOA lower than the 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 cease of the activity. Under this regime, taxpayers have to file on a monthly basis and by electronic means, a report containing the information of the suppliers (*mapa de fornecedores*) stating the acquired goods and services from suppliers under the VAT general regime. Additionally, taxpayers are also obliged to issue invoices that state: "IVA — Regime de não sujeição," and store the documents related to the sales performed and the goods or services acquired.

Cash accounting. The VAT cash scheme is applicable to entities with a turnover equal or lower to USD250,000 and do not carry out any domestic exempt operations. This regime 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 the invoices should state "IVA- Regime de Caixa."

Additionally, certain taxable persons should be required to withhold (IVA Cativo) 100% of the VAT of their acquisitions (oil companies, the Angolan State — except public companies) and others should be required to withhold 50% of the VAT of their acquisitions (the National Bank of Angola and the commercial banks, insurance and reinsurance companies, and telecommunication operators). In this case, the taxpayer should charge VAT on the invoice and the acquirer will withhold the VAT — at the moment the invoice is received — and will be responsible for the payment of the VAT to AGT.

There is also a special VAT regime applicable to the province of Cabinda.

Annual returns. Annual returns are not required in Angola.

Supplementary filings. Taxpayers with an annual turnover of business, or imports with a value greater than AOA50 million must file to the AGT an "invoicing," "acquisition of goods and services" document with the relevant information regarding the previous month. These documents must be filed by the last day of the following month.

Digital reporting. The above mentioned tax returns, as well as the declarations of beginning, alteration and cease of activity must be filed by electronic means.

Additionally, taxpayers with an annual turnover in AOA equal or higher than USD250,000 must issue invoices by electronic means. For these purposes, taxpayers have to work with a certified program that will the generate the SAF-T (AO) file.

J. Penalties

Penalties for late registration. If the taxable person files declaration of beginning of activity after the deadline (15 days prior to starting the activity) the penalty is equal to 5.862 UCF (currently 1UCF= AOA88), for cases of negligence. If the situation is legalized with 30 days from the deadline, the penalty is reduced to half.

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 in-fraction will be due. At this point, if the situation is rectified in 30 days' time, the value of the fine is reduced by half.

Penalties for late payment and filings. 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. The applicable penalty for not or late filing the VAT return is the same as mentioned for the declaration of beginning of activity.

With regard to outstanding VAT (the under-assessment of VAT is equal to the failure to deliver VAT), the applicable penalty is 35% of the outstanding VAT amount, with a minimum of AOA5,000.

When the outstanding VAT results from reverse-charge operations, the applicable penalty is twice the outstanding amount, with a minimum of 569 UCF.

If the taxable person fails to pay the VAT assessed by the AGT within the established deadline, proceedings aiming at the coercive collection of the tax due, plus legal costs, will ensue.

Penalties for errors. For the invoicing and accounting errors, the penalties are the following:
- 5% of the invoice's value if any of the mandatory invoicing elements is missing or incorrectly identified. The penalty is per invoice
- 1% of the invoice's value when the missing or incorrect element is not mandatory (per invoice)

- In case there was a supply of services or goods but an invoice was not raised, the applicable penalty is 7% of the operation's amount, or 15% of such amount, in cases invoices where not raised for more than four times

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.

Penalties for fraud. When the taxable person participates in tax fraud or tax avoidance, the right to input tax deduction is denied.

The taxpayer is presumed to participate in tax fraud or tax evasion when the price paid by the services and goods acquirer is lower than the market prices. This presumption may be refutable.

K. Transitional provisions

Taxpayers with an annual turnover higher than USD250,000 were automatically included in the transitory regime. Such taxpayers can, if some requirements are met, choose to apply for the general VAT regime. If they do not request the change to the VAT general regime, the transitory regime is applicable until 31 December 2020.

Under the transitory regime, taxpayers assess a 3% VAT over the previous three months turnover. The taxpayer can deduct up to 4% of the VAT on the acquisition of goods and services.

The VAT payment is made on a quarterly basis, in the months of April, July, October and January.

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A. At a glance

Names of the taxes	Value-added tax (VAT) Turnover tax (IIBB)
Local names	Impuesto al valor agregado (IVA) Impuesto sobre los ingresos brutos (IIBB)
Date introduced	January 1975 (VAT) January1977 (IIBB)
Trading bloc membership	Mercosur
Administered by	
VAT	Federal Administration for Public Revenues (http://www.afip.gov.ar)
IIBB	Revenue service of each province (Dirección General de Rentas)
VAT rates	
Standard	21%
Reduced	10.5%
Other	27%, zero-rated (0%) and exempt
IIBB rates (average)	
Industrial	1% to 4%
Commerce and services	2.5% to 5%
Commission and intermediation	4.9% to 8%
VAT and 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: ARS2,609,240.69 for goods ARS1,739,493.79 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, and recently in some provinces to the provision of certain services from foreign suppliers to Argentine users located in certain provinces.

VAT is a national tax, whereas IIBB is a provincial tax and applies to every stage of the supply chain, i.e., a turnover tax, and is the reason why the rate is lower. IIBB is included in the sales price and cannot be added at the end, whereas VAT is added to the sales price at the end. For example, if the price for a supply is ARS100, IIBB is included in the 100, then VAT is charged on the 100.

C. Who is liable

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 ARS2,609,240.69 and annual taxable turnover from supplies of services exceeds ARS1,739,493.79

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.

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

Voluntary registration and small businesses. 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).

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. Non-established businesses 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 meets the requirements to register a local entity, for example, permanent establishment, in Argentina, it must account for the tax on supplies made in Argentina.

If a non-established business carries out taxable activities in the Argentine territory and is not required to register a local entity, 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 tax to offset their own output tax. When it is not

possible to withhold the VAT, the law states that the substitute taxpayer will be responsible for paying the VAT. A similar scheme has been implemented in certain provinces for turnover tax purposes for services rendered by nonresidents.

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.

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.

Domestic reverse charge. There are no generalized reverse-charge provisions for domestic transactions when the supplier is an Argentine party. Only some specific regimes may involve the buyer assessing the VAT (for instance, for those carrying out habitual purchases of goods to end-users).

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.

The system does not require the non-established business to register for VAT, only the credit card company would. The tax authorities provide a list of companies who are non-established and providing digital services to private consumers in Argentina. Then the credit card companies check this list and apply VAT to supplies made by the companies on the list. The list is updated once per year. The credit card companies charge the VAT onto the private consumer and don't take it out of the selling price from the non-established business.

Online marketplaces and platforms. No specific rules apply for foreign marketplaces and platforms, other than the digital services provision (see above). For local marketplaces, specific rules apply that are aimed at applying certain controls and domestic withholdings to sellers in such marketplaces in order to ensure appropriate tax collection by the tax authorities of transactions routed by such platforms.

Registration procedures. 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.

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.

If a taxpayer is operating in more than one jurisdiction, the jurisdictions between them they have multilateral agreements in place. They provide guidance on how to account for the VAT and how it is allocated across the jurisdictions. Each jurisdiction has different procedures, e.g., different forms, time frames and regimes.

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.

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.

D. Rates

For VAT, 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): 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 and services taxable at 0%

- Exported goods
- Exported services

Examples of goods and services taxable 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 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 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. The option to tax exempt supplies is not available in Argentina.

For 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 2.5% 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 at 0%

- Exported goods
- Exports of services in some jurisdictions

Examples of goods and services taxable at between 1% and 4%

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

Examples of goods and services taxable at between 2.5% 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 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 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

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.

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.

Continuous supplies of services. 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.

Goods sent on approval for sale or return. Argentina does not have specific rules for these circumstances. As such, normal tax point rules apply.

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 tax (see Section F) in the tax period immediately following the tax period when the tax point arose.

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

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.

F. Recovery of VAT by taxable persons

Please note that only VAT is recoverable, as it is based on a credit and debit system. IIBB is not recoverable, as it is cumulative, and there is no credit system. As such, all references in this section to “input tax” is in respective of VAT, and not IIBB.

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 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 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
- Restaurants

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

Partial exemption. When purchases of goods, final imports, leases and performance of services are used for both taxable and exempt activities, the VAT paid on purchases can only be credited if directly related to taxable activities (including exports). If purchases are used for both taxable and exempt activities, an annual pro rata calculation must be carried out by which the percentage of taxable revenues is compared to total revenues. This percentage is then applied on the input tax on purchases. The result is the amount of creditable input tax, being the remaining portion not creditable. Businesses will have to make provisional estimations of such pro rata during the monthly calendar, and an annual final adjustment is carried out in the last month of the tax year.

Capital goods. VAT related to the purchase of capital goods can be credited in the month in which the purchase takes place, by applying the same rules that would apply for the purchase of any other goods (special refund mechanism is explained below). If capital goods are used for both taxable and exempt activities, the partial exemption rules (see above) will apply. Therefore if the capital goods are used for both taxable and exempt activities the portion of the taxable activities over total revenues determines the computable portion (this calculation only impacts the year of acquisition).

Refunds. The VAT payer pays monthly on the total amount invoiced, offset by the amount of input tax 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 monthly rate

published by the tax authorities which is updated on a quarterly basis (approximately 3.14% monthly for the first quarter of 2020).

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

Pre-registration costs. Input tax incurred on pre-registration costs in Argentina, is not recoverable.

Write-off of bad debts. Output tax accounted for on supplies that do not get paid by the recipient (i.e., bad debts) cannot be recovered in Argentina.

Noneconomic activities. Input tax incurred upon purchases that are used for noneconomic activities (e.g., supplies not related to the business, donations, etc.) must be reimbursed through their inclusion as higher output tax.

G. Recovery of VAT by non-established businesses

Argentina does not refund VAT or IIBB incurred by businesses that are neither established in Argentina nor registered for VAT there. However, a refund system does apply for VAT incurred on purchases made by foreign tourists. IIBB is not recoverable on such purchases.

H. Invoicing

VAT invoices. 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.

The invoicing rules are set at national level, so typically applied to VAT. IIBB is not separately broken down, and the invoice is a self-assessment on the same price. As such, the VAT sales invoice format is used for all supplies, and the tax authorities accept the VAT sales invoice, set at national rules, not local.

Credit notes. 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 and thus electronic invoicing is now mandatory in Argentina. There are different systems to interact with the tax authorities for the purposes of issuing the invoices and special regimes for particular activities.

Simplified invoices. Sale of goods and provisions of services (among other transactions) must follow strict invoicing requirements. Certain activities expressly stated in the regulations are relieved from complying with such requirements and may issue invoicing according to their particular practices (for example, banks, passenger transportation activities, sale of tickets for certain entertainment activities, director's fees, judicial fees).

Self-billing. Self-billing is not allowed in Argentina.

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

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 tax 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.

Supplies to nontaxable persons. 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).

Records. There are some records (accounting books, such as the journal, inventories and balances, etc.) are required to be archived by commercial regulations. In addition, tax regulations require an archive with all invoices issued and received, including a special record for monthly purchases and sales.

Record retention period. In general cases, records and documents should be maintained for a period of 10 years, considering tax rules in force and also general civil/commercial law rules.

Electronic archiving. Records required by corporate law (i.e., accounting books) can be archived physically (i.e., paper) or also electronically, subject to a special authorization granted by corporate authorities, which may also include the "purchases" and "sales" books. Tax rules allow electronic archiving of electronic invoices issued and received, as well as monthly detail of purchases and sales, which are submitted to the tax authorities on a monthly basis.

I. Returns and payment

Periodic 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 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.

Periodic payments. Payment in full is due between the 12th to the 22nd day of the month following the end of the return period. 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.

Electronic filing. 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 recomended that taxpayers keep their own copies in secure storage.

Payments on account. Different rules established both by national and provincial tax authorities establish different situations in which the taxpayers are withheld a portion of the taxes (upon collections) and charged additional taxes (when making purchases), being those amounts withheld or charged considered as payments on account of the final tax liability. For instance, withholding regimes on sales (applicable by certain customers) and additional charges upon purchases (applicable by certain suppliers) may be applicable both for VAT and turnover tax

purposes. Importation of goods is also subject to VAT and turnover tax additional charges. Furthermore, credits in bank accounts may be subject to a turnover tax withholding system.

All withholdings and additional charges suffered become a payment on account in the related tax returns. In case of an excess, it may be carried forward for future monthly periods or in some cases be used to pay other taxes (belonging to the same jurisdiction) or even reimbursed. Different mechanisms also exist to mitigate the effects of these regimes, by requesting exclusion certificates or a reduction in the local withholding rates.

Taxpayers should also be aware, based on its size, location, amount of revenues, appointment, among others, of the obligation to act as withholding agent in payments to suppliers or invoices to clients, in which case they will have to implement such regimes and submit the withheld amounts to the tax authorities in separate tax returns.

Special schemes. Individual taxpayers whose annual taxable turnover from supplies of goods does not exceed ARS2,609,240.69 and annual taxable turnover from supplies of services does not exceed ARS1,739,493.79 can opt for a simplified regime ("Monotributo") by which through a monthly fixed payments (determined based on several categories) they replace the payment of VAT and income tax, among other simplified characteristics.

Annual returns. Annual returns for VAT are not required in Argentina. 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.

Supplementary filings. The national tax authorities require the monthly filing of a complete detail of all purchases and sales, containing the client/suppliers information, information of the amounts on each invoice, VAT and other taxes withheld or collected, etc. These filings are done electronically on a monthly basis.

Digital reporting. Through the issuance of electronic invoices, taxpayers interact with the tax authorities on an online basis, through the validation by the tax authorities of each invoice issued, granting a special "electronic authorization code," which appears in the invoice and is a requirement for its validity. In addition, monthly returns and the monthly informative returns must be filed electronically.

J. Penalties

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

Penalties for late registration. 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.

Penalties for late payment and filings

For 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.

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

Penalties for errors. Omission penalties may be up to 100% of the omitted tax (or 200% if it corresponds to transactions with foreign parties). If errors are detected and duly amended, the penalties may be reduced by different percentages, depending on the moment of recognition (for instance, no penalty may apply if the error is corrected before any audit by the authorities).

Penalties for fraud. In the case of fraud, penalties are increased to a range between two and six times the amount of the omitted tax. In addition, depending on the amounts, the tax criminal law may apply.

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	Eurasian Economic Union
Administered by	Ministry of Finance (http://www.minfin.am) State Revenue Committee (http://www.petekamutner.am)
VAT rates	
Standard	20%
Other	Zero-rated (0%) and exempt
VAT number format	Tax identification number
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 Eurasian Economic Union (EEU) product to the territory of the RA from EEU 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.

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

Voluntary registration and small businesses. 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.

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. A "non-established" business is a foreign business that does not have a fixed establishment in Armenia.

Tax representatives. The Armenian tax code does not provide rules for tax representatives.

Reverse charge. Reverse-charge VAT generally applies to supplies of goods and services and imports made by non-established businesses 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.

Domestic reverse charge. There are no domestic reverse charges in Armenia.

Digital economy. Business-to-business (B2B) 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 tax credits and the customer has performed all necessary steps defined by the law necessary for VAT credit.

Business-to-consumer (B2C) 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.

Online marketplaces and platforms. No special rules exist for online marketplaces and platforms in Armenia.

Registration procedures. VAT registration is automatic if the conditions for being considered a VAT payer are met. Generally, taxpayers are given the following options in Armenia. They can either (i) act as a turnover taxpayer, (ii) operate under the micro-entrepreneurship system or (iii) act as a VAT payer. Therefore, if the taxpayer meets the conditions prescribed by the tax code for being considered a turnover taxpayer or an entity operating under the micro-entrepreneurship system, then the taxpayer can submit a statement in the online tax service system on operating under either of the selected tax systems. If this application is not submitted within the deadlines set forth by the tax code, then the taxpayer is automatically considered a VAT payer.

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

D. 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: 20%
- 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%

- 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 supplies of goods or services that are not liable to VAT and that do not qualify for input tax deduction.

Examples of exempt supplies of goods and services

- 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 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
- 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. The option to tax exempt supplies is not available in Armenia.

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.

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.

Continuous supplies of services. 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.

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.

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.

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

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

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 tax over output tax in the reporting period may be carried forward and offset against output tax in subsequent reporting periods.

Nondeductible input tax. Input tax 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, not subject to VAT or referring to special tax systems.
- The tax invoice was issued without actual supply of 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
- Taxpayer conducts an exempt activity. 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.
- 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)

- 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.

Partial exemption. If a taxable person makes both taxable and nontaxable (exempt or not subject to VAT) transactions, it may not deduct input tax in full from output tax. It may deduct only the amount of input tax 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 tax 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. A capital goods adjustment applies for input tax related to the purchase, construction or importation of fixed assets.

An input tax adjustment is required if input tax 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-VAT-able 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 quarter, 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 for any month based on the application of the taxpayer and after appropriate tax review made by tax authorities.

Pre-registration costs. Input tax incurred on pre-registration costs in Armenia is not recoverable.

Write-off of bad debts. Output tax accounted for on supplies that do not get paid by the recipient (i.e., a bad debt) cannot be recovered in Armenia.

Noneconomic activities. Input tax incurred in relation to noneconomic activities is not recoverable in Armenia.

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. 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 VAT 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.

Credit notes. 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 adjusting invoices.

Electronic invoicing. Electronic invoicing is mandatory for all VAT taxpayers. After state registering in Armenia and receiving a tax identification number, the entity applies to the corresponding tax service unit and receives the login information to sign in the e-invoicing system. Then the taxpayers get access to issuing and accepting invoices by signing them digitally.

Simplified VAT invoices. Simplified VAT invoicing is not allowed in Armenia. As such, full VAT invoices are required.

Self-billing. Taxpayers can only issue self-invoices on behalf of nonresident entities to declare the reverse charge VAT.

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.

Foreign currency invoices. 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.

Supplies to nontaxable persons. For the provision of works and/or services made within the retail industry a supplier who is operating a cash machine (i.e., an automated teller machine (ATM)) does not need to issue a tax invoice unless requested by the purchaser.

Record. The taxpayer is obliged to retain the documents necessary for the calculation of the tax base and filing of tax calculation reports, as well as documents substantiating the amount of income received/expenses incurred and taxes paid (withheld).

Record retention period. The retention period should be not less than five years starting from the reporting period the documents refer to.

Record retention period. The retention period should be not less than five years starting from the reporting period the documents refer to.

Electronic archiving. 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 730 days). There are no special rules defined by the tax code for electronic archiving. Electronic documents are stored in the server of the tax authority and do not have time limits when it comes to archiving.

I. Returns and payment

Periodic returns. VAT payers must file their VAT and excise tax unified returns monthly by the 20th day of the month following the reporting month.

Periodic payments. VAT due is payable to the state budget by the 20th day of the month following the reporting month.

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

For goods imported into Armenia from EEU 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 within the framework of investment projects prescribed by the government decree.

Electronic filing. All VAT payers must file all returns electronically through their accounts online (https://file-online.taxservice.am). All tax returns are kept electronically in the taxpayers' accounts online (https://file-online.taxservice.am).

Payments on account. Payments on account are not required in Armenia.

Special schemes. No special schemes are available in Armenia.

Annual returns. Annual returns are not required in Armenia.

Supplementary filings. To support the set off of VAT amounts paid for imports made from EEU Member States to Armenia, taxpayers must submit the import tax declarations to the tax authority.

Digital reporting. All invoices are issued, and VAT reports are filed digitally.

J. Penalties

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

Penalties for late payment and filings. 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.

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

Penalties for fraud. Inserting apparently false information in the reports, calculations, declaration set forth by the law or other documents imposing a tax, duty or other compulsory payment obligation forming a tax base or failure to file the report, calculation, declaration or other mandatory document prescribed by the law on imposing a tax, duty or other compulsory payment obligation within the procedure and time limits set forth by the law for the purpose of avoiding the payment of large amounts of tax, duty or other compulsory payment to the state budget, is punished by a penalty in the amount of AMD2 million to AMD3 million, or imprisonment for a term of two to five years. The same action that has been committed in significantly large sums is punished with imprisonment for a term of 5 to 10 years, with confiscation of property.

For the purposes of this sanction, a sum not exceeding AMD4 million and AMD15 million shall be deemed to be a large sum, and a sum in excess of AMD15 million shall be considered a significantly large sum.

These punishments apply to and are imposed on the directors and chief accountants of the taxpayer company.

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 730 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
Administered by	Departamento di Impuesto
Trading bloc membership	None
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.

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

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

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.

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

However, 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.

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.

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.

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.

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, as the Ministerial Decree has not yet been published. Therefore, the reverse-charge mechanism will enter into effect only after the Ministerial Decree in which the services are designated is published. 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.*

Domestic reverse charge. There are no domestic reverse charges in Aruba.

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.

Online marketplaces and platforms. No special rules exist for online marketplaces and platforms in Aruba.

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.

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

D. Rates

The term "taxable supplies" refers to supplies of goods or services that are subject to a rate of RT and HT.

In Aruba, 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 RT standard rate is 3%. The standard rate of RT 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% applies to revenue realized from performing taxable activities in Aruba, unless a specific measure provides for an exemption.

The term "exempt supplies" refers to supplies of goods and services that are not liable to RT.

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
- 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. However, currently no additional regulations have been adopted.

Option to tax for exempt supplies. The option to tax exempt supplies is not available in Aruba.

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.

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

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, as the Ministerial Decree has not yet been published. Therefore, the reverse-charge mechanism will enter into effect only after the Ministerial Decree in which the services are designated is published. 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.*

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

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 HT is due on the goods upon importation.

F. Recovery of RT and HT by taxable persons

Established businesses cannot recover RT or HT in Aruba.

G. Recovery of RT and HT by non-established businesses

Non-established businesses cannot recover RT or HT in Aruba.

H. Invoicing

RT and HT invoices. An entrepreneur must provide an invoice for all taxable supplies made, including exports.

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 had until 30 September 2019 to implement this new invoice requirement.

Please note that the Government is contemplating as part of a tax reform to replace the RT and HT with one single indirect or turnover tax, in due course. *At the time of preparing this chapter, no further details have been published by the Government on this.*

As of 1 October 2019, entrepreneurs can opt to reflect the RT and HT on their invoices/receipts. There are two permissible ways to do so. The entrepreneur may:
- Separately state on the invoice/receipt that the price includes BBO/BAZV/BAVP
- Reflect on the invoice/receipt which part of the total price will be remitted as BBO/BAZV/BAVP

The RT and HT percentage to be indicated on the invoice must be 6%.

Credit notes. 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.

Electronic invoicing. The issuance of electronic invoices is not allowed in Aruba. Invoices must be issued on paper.

Simplified RT and HT invoices. Simplified RT and HT invoicing is not allowed in Aruba. As such, full RT and HT invoices are required.

Self-billing. Self-billing is not allowed in Aruba.

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.

Foreign currency invoices. Invoices can be provided in any currency.

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

Record.

Record retention period. Entrepreneurs must retain copies of invoices for 10 years.

Electronic archiving. There are no specific rules on how the invoices should be administrated other than that upon request by the Aruba Tax Inspector, these should be provided, and the information should be clear and definite.

I. Returns and payment

Periodic 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. The filing of the return of the RT and HT amount can be done separately.

Periodic payments. The RT and HT due must be paid within the same time period as the return, which is within 15 days after the end of the month.

Electronic filing. Electronic filing is not allowed in Aruba. RT and HT returns must be filed by paper. However, as of 1 January 2019, the Aruban tax authorities have started a pilot program toward digitalization. In this program some taxpayers are selected to commence with the electronic filing of the RT and HT return for a particular month. The goal of the Aruban tax authorities is to eliminate hardcopy filing and to introduce solely the electronic filing of these returns. This is depending on the results of the pilot program.

Payments on account. Payments on account are not required in Aruba.

Special schemes. No special schemes are available in Aruba.

Annual returns. Annual returns are not required in Aruba.

Supplementary filings. No supplementary filings are required in Aruba.

Digital reporting. No digital reporting requirements apply in Aruba.

J. Penalties

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

Penalties for late registration. 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.

Penalties for late payment and filings. 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.

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 in the calculation of the final price: 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.

Penalties for errors. The penalties for errors are the same as those for late filing and late payment (as outlined above).

Penalties for fraud. Criminal penalties may also apply in certain circumstances, such as in cases of fraudulent conduct. If the invoicing requirements are not met and a proper administration is not in place, criminal penalties consisting of a fine of AWG25,000 or a jail sentence for the maximum duration of six months may be imposed.

Should gross negligence or intent be constituted, the amount of the fine will be AWG100,000 and the jail sentence up to six years.

There are, in principle, no consequences for the tax advisor, provided that the tax advisor did not contribute to fraud.

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A. At a glance

Name of the tax	Goods and services tax (GST)
Local name	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)
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.

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

Voluntary registration and small businesses. 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.

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.

Non-established businesses. 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.

Certain business-to-business (B2B) 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.

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.

Tax representatives. Tax representatives are not required in Australia.

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.

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.

Domestic reverse charge. From 1 April 2017, there is a mandatory reverse charge to taxable supplies of valuable metals (goods consisting wholly or partly of gold, silver, platinum or any other substance specified in the regulations for the purposes of the definition of a "precious metal").

Subject to certain exceptions, the mandatory reverse charge occurs where:
• The market value of the goods does not exceed the valuable metal threshold.
• The recipient is registered or required to be registered.

If the mandatory reverse charge does not apply, suppliers and recipients may also agree in writing to voluntarily reverse charge taxable supplies containing valuable metal.

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).

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 re-deliverers to consumers in Australia are liable to remit that GST to the Commissioner of Taxation.

Online marketplaces and platforms. 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.

Registration procedures. An entity needs to firstly apply for an Australian Business Number (ABN). Once it has an ABN, it can register for GST. An entity can register for GST via the Business Portal, by phone to the ATO or through its registered tax agent or BAS agent.

Nonresidents may also register for GST. The types of GST registration available to nonresidents are:
- Simplified GST registration, which is a two-step process where you firstly get an AUS ID and then register for Simplified GST.
- Standard GST registration with an ABN where you apply for an ABN and GST.
- Standard claim only (GST-only), which can be applied for online. Documents showing that the business is registered with an equivalent corporate, market and/or financial regulator in the entity's country of origin and a letter issued by a revenue authority of a comparable taxing regime stating that the entity exists in their records and carry on an enterprise are also required.

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.

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. 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.

The GST rates are:
- Standard rate: 10%
- Zero-rate: 0% (i.e., “GST-free supplies”)

The standard rate of GST applies to all supplies of goods and services unless a specific measure provides for the zero rate or an exemption.

“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 goods and services taxable at 0% (i.e., GST-free)

- 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

The term “input-taxed supplies” refers to supplies not liable for GST (i.e., exempt) that do not give rise to a right to claim input tax credits for GST included in acquisitions related to the supply.

Examples of exempt supplies of goods and services (i.e., input-taxed)

- 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). The option to tax exempt supplies is not available in Australia.

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.

Deposits and 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 of services. 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.

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.

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.

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

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).

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.

Nondeductible input tax. Nondeductible purchases are also known as "Non-creditable acquisitions" in Australia. 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 deductions are not available (non-creditable acquisitions) and examples of items for which input tax deductions are available if the expenditure is related to the entity's taxable business use (creditable acquisitions).

Examples of items for which input tax is nondeductible

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

- 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)

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.

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.

Capital goods. The GST Act does not define the term "capital goods." Generally, capital goods refer to those goods that make up the profit yielding subject of an enterprise. Where acquisitions of capital goods are made partly for a "creditable purpose," an input tax credit is able to be claimed to the extent to which the acquisition is made for a creditable purpose.

Generally, the time limit for claiming input tax credits is four years.

The calculation for claiming input tax credits on acquisitions is:
- (Full input tax credit) x (Extent of creditable purpose) x (Extent of consideration)

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.

Pre-registration costs. Input tax incurred on pre-registration costs in Australia is not recoverable.

Write-off of bad debts. An entity can recover the GST it has remitted in respect of unpaid invoices if either:
- The debt is written off as bad.
- The debt has been overdue for 12 months or more.

If an entity makes a bona fide commercial decision that the debt is unlikely to be recovered, the Commissioner of Taxation will accept that the debt is bad for the purposes of GST. There must be some written record that evidences the decision to write off the debt.

Noneconomic activities. Input tax incurred in relation to noneconomic activities is not recoverable in Australia.

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

GST invoices. 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.

Credit notes. 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.

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.

Simplified VAT invoices. There are no simplified GST invoices in Australia. However, for supplies of AUD1,000 or more, the tax invoice also needs to show the buyer's identity or ABN.

Self-billing. There are three classes of invoices that may be issued by a recipient of a taxable supply, rather than the supplier. These invoices are known as Recipient Created Tax Invoices (RCTI). The three broad classes are:
- Tax invoices for taxable supplies of agricultural products made to registered recipients
- Tax invoices for taxable supplies made to registered government-related entities
- Tax invoices for taxable supplies made to registered recipients that have a GST turnover (including input taxed supplies) of at least AUD20 million annually or are members of a group of companies, partnerships or trusts, or a joint venture operator, in which one or more members of that group or participants in that joint venture have such a GST turnover.

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.

Supplies to nontaxable persons. There are no special invoicing rules for supplies to nontaxable persons in Australia. As such, full GST invoices are required.

Records. An entity is required to keep records that explain all GST transactions, including any supply, acquisition or entitlement. The records must be in English or readily accessible and convertible into English and enable a business's liabilities and entitlements to GST and input tax credits to be readily ascertained.

Record retention period. Records of indirect tax transactions need to be retained for five years after the completion of the GST transaction to which they relate.

Electronic archiving. Records relating to your GST transactions can be stored electronically. Electronic records are subject to the same record-keeping requirements as paper records.

I. Returns and payment

Periodic returns. 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. Monthly returns 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 in quarterly installments.

Persons whose turnover for GST purposes does not exceed AUD75,000 and who have elected to report GST and pay (or claim a refund) annually or who elect to pay GST by installments may apply to file BASs annually. The annual GST return and payment will be due at the same time as the entity's income tax return. Where an entity is not required to lodge an income tax return, it must lodge its annual GST return with payment by 28 February. An entity must assess its eligibility to report and pay GST annually at 31 July each financial year. Where an entity is no longer eligible to report and pay GST annually, it must advise the ATO who will change the entity's GST reporting cycle to monthly or quarterly with effect from 1 July of that same financial year.

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.

Periodic payments. Registered persons whose annual turnover equals or exceeds AUD20 million must pay any net GST liability. Payments are due by the 21st day of the month following the end of the period.

Registered persons whose turnover for GST purposes does not exceed AUD2 million may opt to 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 pay GST annually.

GST liabilities must be paid in Australian dollars.

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

Payments on account. As noted in *Periodic returns* above, generally an entity will be required to report and pay GST on a monthly or quarterly basis.

However, if an entity meets certain eligibility requirements that allow it to elect to pay GST by installments, it will pay a quarterly amount calculated by the ATO and report its actual GST information on an annual GST return.

The ATO will calculate the installment amount based on the net GST amounts the entity most recently reported, generally for the prior year, depending on how long it has been registered for GST.

Special schemes.

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.

Small business concessions. A small business may be eligible for GST and excise concessions. The turnover threshold for these concessions is AUD10 million. These include:
- Accounting for GST on a cash basis (explained above)
- Paying GST by installments, which are calculated by the ATO and may be varied by the small business each quarter if it chooses. A small business must contact the ATO to access this concession
- Annual apportionment of GST input tax credits, whereby if an item is purchased that is used partly for private purposes, the small business can choose to claim the full GST credits for these items on its BAS and make a single adjustment to account for the private use percentage after the end of its income year
- Excise concessions, where an eligible small business can apply to defer settlement of its excise duty and excise equivalent customs duty from a weekly to a monthly reporting cycle. To access this concession, an application must be made to the ATO in writing

Not-for-profit Organization Concessions. GST concessions are available to not-for-profit organizations. Additional GST concessions are available to:
- Australian Charity and not-for-profits Commission (ACNC) registered charities that are endorsed to access GST charity concessions
- Gift deductible entities
- Government schools

Food retailers. Simplified accounting methods (SAMs) are available for food retailers that buy and sell a mixture of products, where some are taxable and some are GST-free, and whose relevant turnover is not more than AUD2 million.

Secondhand goods. An entity can claim GST credits for its purchase of secondhand goods even if the price it paid did not include GST. That is, this can be done for secondhand goods that an entity purchases for resale from sellers who do not charge GST in the price of the goods. An entity can calculate its GST credits using either a direct approach or a global accounting method, depending on whether it sells the secondhand goods as a single item or divides them into separate parts.

Annual returns. Annual returns are not required in Australia.

Supplementary filings. No supplementary filings are required in Australia. However, entities can revise previously lodged Business Activity Statements to correct errors or omissions.

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

J. Penalties

Penalties for late registration. Penalties may be imposed if an entity fails to apply to register for GST when required by the GST Act, or if it is registered, to apply to cancel a GST registration as required.

Failure to comply with its registration obligations results in an entity being liable to an administrative penalty of 20 penalty units, with the current value of a penalty unit being AUD210. The ATO will give written notice to the entity of the entity's liability to pay the penalty and of the reasons why the entity is liable to pay the penalty.

These penalties may be remitted in specific circumstances. The particular facts of each case will determine whether or not the ATO exercises the discretion to remit.

Penalties for late payment and filings. 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 5 penalty units. However, this may be increased depending on the size of the entity's business:
- For a medium entity the penalty is multiplied by two. A "medium entity" is a medium withholder for PAYG withholding purposes or has assessable income or current GST turnover of more than AUD1 million and less than AUD20 million.
- For a large entity the penalty is multiplied by five. A "large entity" is a large withholder for PAYG withholding purposes or has assessable income or current GST turnover of AUD20 million or more.
- 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).

Where an entity receives a penalty notice for failing to lodge a return or statement on time, it can apply to the ATO to have the penalty remitted in full or in part if there are extenuating circumstances. Registered tax agents can also request remission on behalf of their clients.

General interest charges (GIC) may also 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 effect.*

Penalties for errors. A GST error is a mistake made in working out the GST net amount on the activity statement that would result in reporting or paying too much GST (credit error) or reporting or paying too little GST (debit error).

If an entity makes a GST error when reporting GST on an activity statement, it can correct that error on a later activity statement if it meets certain conditions, including:
- For credit errors, a "credit error time limit"
- For debit errors, a "debit error time limit" and a "debit error value limit"

If an entity corrects a GST error on a later activity statement, it should keep a note to record the reporting period when the error was made and the activity statement it was corrected on. It must also keep records and other relevant information to explain the correction.

Penalties for false or misleading statements. An entity will be liable for a penalty if it makes a false or misleading statement that results in it having a shortfall amount. The shortfall amount is the difference between the correct tax liability or credit entitlement, and the liability or entitlement worked out using the information it provided.

The base penalty is a percentage of the shortfall amount. The percentage used is determined by the behavior that led to the shortfall amount:
- Failure to take reasonable care: The base penalty is 25% of the shortfall amount. Generally, an entity will fail to take reasonable care if it has not done what a reasonable person in the same circumstances would have done.
- Recklessness: The base penalty is 50% of the shortfall amount. An entity is reckless if a reasonable person in its circumstances would have been aware that there was a real risk of a shortfall amount arising and it disregarded, or showed indifference to, that risk.
- Intentional disregard: The base penalty is 75% of the shortfall amount. An entity intentionally disregards the law if it is fully aware of a clear tax obligation and it disregards the obligation with the intention of bringing about certain results (underpaying tax or overclaiming an entitlement).

The penalty percentages are doubled for this penalty if an entity is a Significant Global Entity (SGE).

The base penalty amount can be increased or reduced if there are aggravating or mitigating circumstances or remitted where it is fair and reasonable to do so.

The penalty will not be imposed if either of the following apply:
- The entity took reasonable care in making the statement (it may still be subject to another penalty provision, such as taking a position that is not reasonably arguable).
- The entity's statement accords with ATO advice, published statements or general administrative practices in relation to a tax law.

Under the safe harbor provisions, an entity may not be penalized if the incorrect statement was made by an entity's agent when it provided them with the relevant, correct information.

An entity is liable for a penalty if it makes a false or misleading statement (for example, in an objection, private ruling request or during an audit) that does not result in it having a shortfall amount.

The base penalty is calculated as a multiple of a penalty unit. The multiple used is determined by the behavior that led to the false or misleading statement:
- Failure to take reasonable care — the base penalty is 20 penalty units.
- Recklessness — the base penalty is 40 penalty units.
- Intentional disregard — the base penalty is 60 penalty units. A penalty multiplier will apply to double this penalty if an entity is an SGE.

The base penalty amount can be increased or reduced if there are aggravating or mitigating circumstances or remitted where it is fair and reasonable to do so.

The penalty will not be applied if:
- The entity took reasonable care in making the statement.
- The entity's statement accords with ATO advice, published statements or general administrative practices in relation to a tax law.

Penalties for fraud. Those who disregard the law, make fraudulent claims and deliberately avoid their GST obligations will face serious consequences, including interest, penalties and, where appropriate, prosecution or referral to the Commonwealth Director of Public Prosecutions. This includes taxpayers who:
- Deliberately do not register for GST when they are required to
- Intentionally fail to report, or consistently under-report, their tax obligations
- Collude with others to evade or avoid tax obligations
- Intentionally fail to meet their tax obligations
- Try to obtain a refund that they are not entitled to persistently and repeatedly exploit bankruptcy

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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	Federal Ministry of Finance (http://www.bmf.gv.at)
VAT rates	
Standard	19%, 20%
Reduced	10%, 13%
Other	Zero-rated (0%) and exempt
VAT number format	ATU 1 2 3 4 5 6 7 8
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	
Established	EUR35,000 (from 1 January 2020)
Non-established	None
Distance selling	EUR35,000 (EUR10,000 accumulated turnover of intra-Community distance sales and electronically supplied services, starting 1 January 2021)
Intra-Community acquisitions	EUR11,000 (acquirers that do not deduct input tax)
Electronically supplied services (MOSS)	EUR10,000 for services only (accumulated turnover of distance sales and electronically supplied services, from 1 January 2021)
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 EUR35,000 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.

Voluntary registration and small businesses. If a business that is established in Austria has an annual turnover of EUR35,000 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 EUR35,000 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.

If an Austrian taxable person's annual turnover is not more than EUR35,000, 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 EUR35,000 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) (EUR10,000 as of 1 January 2021)
- 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.

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 tax.
- No VAT is shown on the invoice.

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

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.

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. 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

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. T*he 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. (As of 1 January 2021, the regulations relating to the MOSS apply to distance sales, as well as any supply of 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 (as of 1 January 2021) the last day of the month 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.

Online marketplaces and platforms. Currently there are no special rules that exist for online marketplaces and platforms in Austria. However, as of 1 January 2021, taxable persons supporting distance sales of goods via online marketplaces, platforms or similar constructs will be treated as if they had sold or acquired these goods themselves, meaning they become liable for emitting VAT. The rule applies to the support of import Distance Sales regarding goods whose worth is less than EUR150 for each delivery, as well as any intra-Community Distance Sales performed by non-EU suppliers. The time of supply is the end of the calendar month in which payment is received.

In cases where the online marketplaces and platforms are not seen as a taxpayer, they are obliged to keep records of such transactions for 10 years. Further, in case the revenues to be recorded exceed EUR1 million per year, the records have to be submitted electronically by 31 January of the following year.

Vouchers. The sale of vouchers to be used for a general range of goods or services before 31 December 2018 is not treated as a VAT liable turnover.

Vouchers sold after 1 January 2019 are categorized as follows:

- Single-purpose vouchers (SPV): place of supply and the tax liability concerning the respective voucher can be determined with certainty upon issue of the voucher. In this case, it is known upon issuance of the voucher which VAT amount is due in which Member State. The sale of a SPV is generally treated as VAT liable turnover, whereas redeeming the voucher later on is not subject to VAT. The tax is owed by the taxable person obliged by the voucher. Not only the issuance itself, but also any transfer of a SPV by a third party who acts in their own name (e.g., in the course of marketing operations) represents a taxable event.
- Multi-purpose vouchers (MPV): any voucher that is not a SPV. Sale of a MPV is not subject to VAT. VAT is owed for redeeming the voucher later on.

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 GrazStadt 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.

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.

D. 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: 19% (for the regions of Jungholz and Mittelberg), 20% (rest of Austria)
- Reduced rates:10%, 13%
- Zero-rate: 0%

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

Some supplies are classified as "exempt-with-credit" (i.e., zero-rated). This means that VAT is chargeable a 0%, and the supplier may recover related input tax.

Examples of goods and services taxable at 0%
(i.e., exempt-with-credit)

- Exports of goods and related services to non-EU countries
- Intra-Community supplies of goods and related services to taxable persons established in the EU
- Turnovers supporting ocean shipping and aviation
- Cross-border transportation of goods under certain conditions

Examples of goods and services taxable at 10%

- Most foodstuffs
- Books (including e-books as of 1 January 2020)
- Hotel accommodation
- 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
- 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 not liable to VAT and that do not qualify for input tax deduction.

Examples of exempt supplies of goods and services

- Supplies by businesses with annual turnover of less than EUR35,000
- 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 tax 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, 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.

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

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

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 canceled.

Reverse-charge services. There is no special time of supply rule for reverse-charge services. The general rule applies (i.e., end of the calendar month in which the service is performed). However, for reverse charge services, the time of supply cannot 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.

Leased assets. No special time of supply rules apply for leased assets. As such the normal time of supply rules apply.

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

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.

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.

Distance sales. The time of supply for distance sales is the end of the calendar month in which payment is received.

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.

A valid VAT invoice or customs document is required for an input tax 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 tax 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 (if related to a taxable business use)

- Accommodation
- Mobile phone costs
- Books
- Small business gifts, if allowed for direct tax purposes (but gifts are subject to output tax 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 tax 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 tax 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 tax, 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 tax 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.

Pre-registration costs. VAT invoiced for pre-registration 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 tax deduction is only allowed for purchases relating to business activities. In cases where both business and nonbusiness activities are performed, the input tax 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.

EU businesses. For businesses established in the EU, refunds are made under the terms of EU Directive 2008/9. The VAT refund procedure under the 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.

The deadline for EU claimants is 30 September of the year following the year in which the input tax was incurred.

EU claimants must file the refund application electronically in the EU Member State in which they are seated.

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.

Claims must be submitted in German and must be accompanied by the appropriate documentation.

Non-EU businesses. 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 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.

The deadline for non-EU claimants is 30 June of the year following the year in which the input tax was incurred.

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

H. Invoicing

VAT invoices 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.

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 tamper proof technical security device with electronic signature creation.

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

Credit notes. 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.

Electronic invoicing. Austrian VAT law permits electronic invoicing in line with EU Directive 2010/45/EU (see the chapter on the EU).

Simplified VAT invoices. A less detailed tax invoice can be issued for supplies with values less than EUR400.

Self-billing. Self-billing is allowed in Austria, subject to the following conditions:
- The taxable person supplying goods or services must be entitled to issue invoices.
- There must be an agreement on self-billing the supplied goods or services between the taxable person and its customer (no special formal requirements).
- Self-billing invoices must meet the general requirements for invoices and have to explicitly refer to their own status. They can either use the Austrian term ("Gutschrift") or the respective term used in any other language version of the EU Directive 2010/45/EU (e.g., self-billing).
- The self-billing invoice must be delivered to the taxable person supplying the goods or services.

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).

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 tax by the recipient.

Supplies to nontaxable persons. VAT invoices are not mandatory for retail transactions with private customers, unless requested by the customer.

In case of work performance supplies/services related to immovable property, distance selling and electronic platforms involved in the supply, invoices have to be issued.

Further, taxable businesses are generally required to issue receipts to all customers for cash transactions at the time of the payment (specific exemptions can apply).

Records. Generally any taxable person is obliged to keep all relevant records to determine the tax and the basis of its calculation on an ongoing basis. Such records include:
- Supplies of goods and services
- Remuneration separated by rate of taxation
- Day of supply separated by taxable and exempt from taxation
- Self-supplies
- Input tax
- Import of goods
- Prepayments
- Payments for turnovers that are subject to reverse charge (these have to be recorded separately)

Record retention period. Generally, records have to be kept for a duration of seven years. The retention period is longer if the business is subject to an administrative procedure. Special rules apply to real estate, application of a one-stop shop and electronic platforms.

Electronic archiving. 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.

I. Returns and payment

Periodic returns. 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.

If the taxable turnover in the preceding calendar year was less than EUR35,000 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.

Monthly VAT returns must be submitted by the 15th day of the second month following the return period.

Quarterly VAT returns must be submitted by the 15th day of the second month following the end of the VAT return period.

If the day of submission due is a Saturday, Sunday or public holiday, the due date shifts automatically to the next working day.

Periodic payments. For monthly VAT returns, full payment of the VAT due must be made by the 15th day of the second month following the return period.

For quarterly VAT returns, full payment of the VAT due must be submitted by the 15th day of the second month following the end of the VAT return period.

If the day of payment due is a Saturday, Sunday or public holiday, the due date shifts automatically to the next working day.

Electronic filing. 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.

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

Payments on account. Payments on account are not required in Austria.

Special schemes. In addition to the *cash accounting* scheme outlined below, there are special rules for art dealers; secondhand goods, including cars; farmers and forestry and tour operators (travel services). Further, in case consolidation with a lump sum is possible according to Austrian income tax law. Input tax consolidation with a lump sum is possible as well.

Cash accounting. Austria operates a cash accounting scheme for certain businesses.

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, businesses can opt out from the cash accounting. 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.

If a threshold of EUR2 million turnover is not exceeded, input tax 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 tax deduction, provided the business's revenues do not exceed EUR2 million.

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.

Supplementary filings. *Intrastat.* 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 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.

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.

Digital reporting. VAT returns must be filed electronically in Austria via FinanzOnline (the online portal of the Austrian tax authorities).

J. Penalties

Penalties for late-registration. There are no specific penalties in Austria for late registration of VAT. However, the tax authorities may impose the penalties outlined in the subsections below. 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 might arise, depending on the facts and circumstances.

Penalties for late payment and filings. 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 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.

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

For ESLs, late submissions 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.

In general, please note that there is no interest applicable on VAT due in Austria.

Penalties for errors. There are no specific penalties in Austria for errors. The general regulations according to Austrian Fiscal Criminal Law might be applicable. However, these regulations are quite complex and have to be analyzed on a case-by-case basis. Tax advisors might also be subject to Austrian Fiscal Criminal Law.

Penalties for fraud. There are no specific penalties in Austria for fraud. The general regulations according to Austrian Fiscal Criminal Law might be applicable. However, these regulations are quite complex and have to be analyzed on a case-by-case basis. Tax advisors might also be subject to Austrian Fiscal Criminal Law.

Azerbaijan

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A. At a glance

Name of the tax	Value-added tax (VAT)
Local name	Əlavə Dəyər Vergisi (ƏDV)
Date introduced	1 January 1992
Trading bloc membership	None
Administered by	Ministry of Taxes (http://www.taxes.gov.az)
Rates	
Standard	18%
Others	Zero-rated (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

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.

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.

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 a VAT payer within 10 days following the end of the 12-month period.

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.

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 and small businesses. 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.

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. 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. Tax representatives are not required in Azerbaijan.

Reverse charge. See "Non-established businesses" above. Whenever a domestic taxpayer purchases services from a non-established business, which, in accordance with the rules on the determination of location of taxable transactions, is provided in Azerbaijan, the reverse-charge mechanism applies. In this case, the purchaser should self-assess VAT at 18% and report/remit the amount to the budget during the month when payment for the received services is made.

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 for the VAT to the tax authorities in Azerbaijan, on the behalf of the nonresident supplier.

Domestic reverse charge. There are no domestic reverse charges in Azerbaijan.

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 a 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.

Online marketplaces and platforms. No special rules exist for online marketplaces and platforms in Azerbaijan.

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.

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.

D. 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: 18%
- 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%
- 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

The term “exempt supplies” refers to supplies of goods and services that are not liable to VAT and that do not qualify for input tax deduction.

Examples of exempt supplies of goods and services
- 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. The option to tax exempt supplies is not available in Azerbaijan.

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 five 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 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.

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

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.

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.

Continuous supplies 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.

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.

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).

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.

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

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 taxpayer, in accordance with the electronic VAT invoices, the electronic 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.

Nondeductible input tax. In general, no credit of input tax 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.

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 tax can be deductible for profit tax purposes in case the nature of the transaction is also deductible.

Examples of items for which input tax is nondeductible

- Entertainment expenses
- Meal expenses
- Accommodation expenses
- Other expenses of a social nature
- Expenses not related to commercial activities

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

- Advertising expenses
- Rental expenses
- Telecommunication expenses
- Purchase of goods/materials
- Other expenses related to commercial activity

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, the total amount of VAT paid on the taxable operations might be claimed from the budget.

Capital goods. There are no specific rules in relation to the capital goods input tax recovery under Azerbaijani tax legislation. Input tax incurred on capital goods can be recovered in accordance with general rules.

Refunds. An excess of VAT credit amount over the output tax 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.

Pre-registration costs. Input tax incurred on pre-registration costs in Azerbaijan is not recoverable.

Write-off of bad debts. Input tax incurred in relation to bad debts is not recoverable in Azerbaijan.

Noneconomic activities. Input tax incurred in relation to noneconomic activities is not recoverable in Azerbaijan.

G. Recovery of VAT by non-established businesses

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

H. Invoicing

VAT invoices. 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.

Credit notes. The VAT turnover should be adjusted by a taxpayer in the period in which the credit note is issued. There is no special form for VAT credit notes. In case the amount of the transaction is credited, there should be an adjustment to the previously submitted electronic VAT invoice.

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

Simplified VAT invoices. Simplified VAT invoicing is not allowed in Azerbaijan. As such, full VAT invoices are required.

Self-billing. Self-billing is not allowed in Azerbaijan.

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

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 taxable event took place.

Supplies to nontaxable person. 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.

Records.

Record retention period. In accordance with the requirements set under the Azerbaijani Tax Code, accounting documentation, including information in electronic and (or) paper form, must be kept in full readability for at least five years.

Electronic archiving. Electronic archiving is allowed in Azerbaijan.

I. Returns and payments

Periodic 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.

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

Periodic payments. The payment of VAT must be made by the same day as the return submission deadline. This is by the 20th day of the month following the accounting month.

Electronic filing. Electronic filing is available. Generally, both electronic and hard copy filing are possible. In case of e-submission, taxpayers must use an e-signature or ASAN-signature for the submission of tax returns via a specific online tax system. All tax returns submitted through this system are electronically archived and are easily retrievable from the system.

Payments on account. Payments on account are not required in Azerbaijan.

Special schemes. No special schemes are available in Azerbaijan.

Annual returns. Annual returns are not required in Azerbaijan.

Supplementary filings. No supplementary filings are required in Azerbaijan.

Digital reporting. No digital reporting requirements apply in Azerbaijan.

J. Penalties

Penalties for late registration. 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.

Penalties for late payment and filings. 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.

Penalties for errors. The penalty for the understatement of a VAT liability is 50% as outlined above. In addition, penalties are applied for the absence of electronic VAT invoices confirming sales and purchase of goods. The penalty for the first violation during the calendar year is 10%; for the second — 20%; for the third and further — 40%.

Penalties for fraud. There are no separate penalties for fraud. Other penalties outlined above should apply.

Bahamas

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A. At a glance

Name of the tax	Value-added tax (VAT)
Local name	Value-added tax (VAT)
Date introduced	1 January 2015
Trading bloc membership	Caribbean Community and Common Market (CARICOM)
Administered by	Department of Inland Revenue (DIR)
VAT rates	
Standard	12%
Reduced	2.5%, 7.5% and 10%
Other	Zero-rated (0%) and exempt
VAT return periods	Monthly and quarterly
Thresholds	
Registration	BSD100,000 annual turnover (except for telecommunication and electronic commerce)
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 taxable supplies must also exceed the annual threshold of BSD100,000 in value.

Exemption from registration. Exemption from registration is possible for certain zero-rated suppliers, mainly in the financial services industry. Businesses 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, a business cannot recover VAT on costs, as it will not be registered for VAT.

Voluntary registration and small businesses. 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.

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.

Non-established businesses are subject to mandatory registration if they make domestic sales of goods, and if they specifically sell digital services to consumers (i.e., telecommunication services/electronic commerce business).

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.

Tax representatives. For established businesses, they can appoint a third-party representative, such as an external accountant or business advisor, 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. For non-established businesses, they can also appoint a local tax representative. For both types of taxpayers, appointing a tax representative is optional and not mandatory.

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.

Domestic reverse charge. There are no domestic reverse charges in the Bahamas.

Digital economy. No special provisions apply to the digital economy.

Online marketplaces and platforms. No special rules exist for online marketplaces and platforms in the Bahamas. However, the VAT law outlines guidelines for professional services, which includes similar services of electronic commerce and the supply of internet access. A person must apply for registration where such person, in the course or furtherance of a taxable activity carried on by them, makes taxable supplies or taxable importations and is domiciled within or outside the Bahamas to the extent such person provides, through an agent, telecommunication services or electronic commerce to persons for use, enjoyment, benefit or advantage within the Bahamas, regardless of the registration threshold.

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.

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.

D. 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: 12%
- Reduced rates: 2.5%, 7.5% and 10%
- 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 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 goods and services taxable at 7.5%

- Flat rate scheme for businesses that make supplies of goods or services at the standard rate of VAT. 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 7.5% to net sales and pays this amount to the comptroller.

Examples of goods and services taxable at 2.5% and 10%

- With effect from 1 July 2019, conveyances, mortgages, long-term leases and other real property transactions attract VAT. Apart from a few exceptions, most of these transactions will no longer attract stamp duty, and the rates of the transactions under the VAT Act will be identical to what was obtained under the Stamp Act prior to 1 July 2019. Values under BSD100,000 are subject to VAT at 2.5%; values BSD100,000 and greater are subject to VAT at 2.5%. Some examples:
  - Every deed of conveyance, assignment or transfer of real property
  - An assignment, transfer, long-term lease, sublease or license of a marina slip
  - A supply of real property that (a) has the effect of transferring any interest in a real property holding entity and that would have a similar effect on the legal or beneficial interest in any real property in the Bahamas that is legally or beneficially owned by the entity, had the legal or beneficial ownership of such entity represented the proportionate parts into which that legal or beneficial interest in the real property were divided; or (b) forms part of a series of transactions, and has the cumulative effect on real property as referred to in paragraph (a) above, unless the comptroller is satisfied that the transaction is not of a series having regard to a statement to that effect endorsed in the instrument.

The term "exempt supplies" refers to supplies of goods and services that are not liable to VAT and that do not qualify for input tax deduction.

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

- Rental of a residential building

Option to tax for exempt supplies. The option to tax exempt supplies is not available in the Bahamas.

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.

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.

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.

Reverse-charge services. There is no special time of supply rule in the Bahamas for reverse-charge services. As such, the normal time of supply rules apply.

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.

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.

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 nonbusiness 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 nonbusiness 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 tax 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.

Pre-registration 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 pre-registration 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

Input tax incurred by non-established businesses in the Bahamas is not recoverable.

H. Invoicing

VAT invoices. 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.

Credit notes. 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. Electronic invoicing is allowed in the Bahamas, but it is not mandatory. VAT invoices can be issued either by paper or electronically. A VAT invoice must show the required

information as outlined in VAT law and there are no specific requirements for electronic invoicing in the Bahamas.

Simplified VAT invoices. Simplified VAT invoices are allowed for retail sales in the Bahamas. For retail sales, a taxpayer 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 on a sales receipt may be VAT inclusive or exclusive.

Self-billing. Self-billing is not allowed in the Bahamas.

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.

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.

Supplies to nontaxable persons. 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.

Records. 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.

Record retention period. Records are required to be kept for five years.

Electronic archiving. Electronic archiving is allowed in the Bahamas, but not mandatory. Records must be kept for all supplies and purchases. This means keeping a copy of all sales invoices, debit and credit notes, receipts, and all purchase invoices either in paper or electronic form. All sales invoices must be sequentially numbered so if a taxpayer spoils an invoice and has to issue a new one, the taxpayer must keep a copy of the spoiled invoice. If a taxpayer does not hold a copy of an invoice on which it has paid VAT or import documents showing the VAT amount, it is not entitled to recover the VAT on these costs, so it is very important to keep such documents. The records a taxpayer keeps must be such that the comptroller can determine, with reasonable accuracy at any time, the liability of the taxable person to pay tax.

I. Returns and payment

Periodic returns. The timelines 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)

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).

Periodic payments. Where the amount of output tax is greater than the input tax, the difference must be paid to the comptroller. It is required to pay any VAT due to the comptroller within 21 days after the end of the VAT period so effectively the taxpayer needs to file the VAT return and pay any amount due by the 21st day of the month following the last day of a VAT period.

VAT can be paid in the following ways:

- Using a debit or credit card via the online portal
- Via a taxpayer's online banking service
- Paying over-the-counter at the taxpayer's bank
- Presenting cash/manager's cheque at any bank

All payments must include the related tax identification number (TIN) and reach the VAT Department by the due date.

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. Payments on account are not required in the Bahamas.

Special schemes.

Flat rate scheme. Businesses are allowed to use this scheme, if they 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 12% to net sales and pays this amount to the comptroller.

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.

Annual returns. Annual returns are not required in the Bahamas.

Supplementary filings. No supplementary filings are required in the Bahamas.

Digital reporting. No digital reporting requirements apply in the Bahamas.

J. Penalties

Penalties for late registration. There is no specific penalty for late registration of VAT in the Bahamas. However, where a taxable person that fails to apply for registration, that person commits an offense and is liable to a fixed penalty up to BSD150,000. 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%.

Penalties for late payment and filings. Regulations impose heavy penalties for noncompliance. 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. 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%.

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.

Penalties for errors. 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 fraud. An unregistered or nontaxable person collecting, advertising or quoting VAT in respect of a taxable supply made to another person is liable on conviction to a fine not exceeding BSD70,000.

Taxpayers submitting statements to the comptroller or VAT officer that are falsified, omit information or are misleading are liable on conviction to the sum of BSD150,000.

A taxpayer who includes a false taxpayer identification number on a document is liable on conviction to a fine not exceeding BSD150,000.

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A. At a glance

Name of the tax	Value-added tax (VAT)
Local name	Value-added tax (VAT)
Date introduced	1 January 2019
Trading bloc membership	Gulf Cooperation Council (GCC) Member State
Administered by	National Bureau for Revenue (NBR)
VAT rates	
Standard	5%
Other	Zero-rated (0%) and exempt
VAT number format	Numeric (15 digits)
VAT return periods	
Monthly	If annual supplies greater than BHD3 million
Quarterly	If annual supplies are less than BHD3 million
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	The VAT legislation allows certain persons to benefit from special refund schemes, including non-established businesses. *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

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.

Every nonresident person who conducts taxable supplies in Bahrain must register for VAT. This is generally the case when a nonresident person supplies goods or services where no one else is liable to account for the VAT due. There is no minimum registration threshold for nonresident persons.

For 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 NBR may allow the taxable person to defer the payment of import VAT until filing the VAT return.

Transport of own goods by a taxable person to another GCC implementing state may be treated as a taxable supply, except where the goods are transferred either on a temporary basis or as part of a supply taxable in the other GCC implementing state (e.g., a supply of goods with installation). However, the above will not apply until Bahrain recognizes one or more of the other GCC member states as an implementing state for VAT purposes.

Exemption from registration. A taxable person whose value of taxable supplies exceeds BHD37,500 but are exclusively zero-rated, and the person does not receive services or goods for which they are liable to account for standard rated VAT under the reverse charge mechanism, may apply to the NBR for an exception from VAT registration. However, the NBR 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.

Voluntary registration and small businesses. 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.

When a person applies for a VAT registration on a voluntary basis, the effective date of registration is the date of approval of the registration by the NBR. The taxable person must remain registered for at least 24 months before being able to ask for voluntary deregistration.

Group registration. Two or more persons can apply to form a VAT group if the following conditions are met:
• Each applicant must be a legal person.
• Each applicant must have a place of residence in Bahrain.
• Each applicant must be conducting an economic activity in Bahrain.
• Each applicant must be registered for VAT purposes at the date of making the application to form/join the VAT group.
• The applicant must not be a member of another VAT group in Bahrain.
• The applicants must be related, which means that:
  • One of them has the authority to direct and supervise (i.e., control) the others.
  Or
  • They are all directed and supervised (i.e., controlled) by the same person (the same person could be a legal person, a natural person or a group of persons acting under a formal arrangement).

For the purposes of the above, control is considered to be established where either the same person, or the same group of persons (acting under a formal agreement):
• Hold, directly or indirectly, more than 50% of the voting rights attaching to the shares in each applying entity
• Hold, directly or indirectly, more than 50% of the capital or ownership in each applying entity
• Control each applying entity by any other means than voting rights or capital

All members of the VAT group shall be jointly and severally liable for the VAT related obligations of the VAT group. The NBR may amend or deregister the VAT group in some instances, and a member must leave the VAT group as soon as it ceases to meet the relevant conditions. Members of the VAT group shall not withdraw from the group before a period of at least 12 months has passed since joining the VAT group.

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 NBR for VAT registration regardless of the value of his supplies, as there is no minimum registration threshold for nonresident persons. Registration can be done directly with the NBR or through appointing a tax representative (which requires an approval from the NBR).

Tax representatives. The NBR 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 NBR will grant such approval upon meeting certain rules and conditions, as well as the payment of certain license fees and the submission of a power of attorney. The NBR will publish a list of the approved tax representatives and tax agents. *At the time of preparing this chapter, the NBR has not made available any application form to apply to be a tax representative or agent, and therefore there is no list of approved tax representatives or agents in Bahrain.*

A tax representative or tax agent must meet the following conditions:
• They must be resident in Bahrain.
• They must be of good conduct and reputation (no sentence to a restriction of freedom in a crime against honor).
• If an individual, he/she must possess of a university degree or accounting or legal qualification that has been certified and approved by the Ministry of Education.
• If a legal person, he must have a valid and current commercial registration.
• They must pay the fee prescribed by the NBR.

The tax representative shall have a joint and severe liability for paying any VAT due from the taxable person he is representing until the date when the NBR announces that the tax representative ceases to act on behalf of that taxable person. A tax agent does not assume any of the taxable person’s liabilities or obligations.

Reverse charge. For certain transactions, the liability to account for VAT in Bahrain is shifted from the supplier to the customer, under the reverse-charge mechanism. The reverse-charge mechanism must be applied when a taxable person in Bahrain receives a supply of goods or services from a nonresident person, and those goods or services are subject to VAT in Bahrain.

Domestic reverse charge. The VAT legislation provides for a reverse-charge mechanism to apply on certain domestic supplies. *At the time of preparing this chapter, the DRC has not been introduced (the expectation is that it may be available in 2020).*

A taxpayer needs to apply and obtain approval from the NBR 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 NBR 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 NBR will issue a certificate to the taxpayer to evidence that the DRC can be used, and a copy of this certificate needs to be provided to suppliers in order for them not to charge VAT on supplies made.

The taxable person must notify the NBR within 30 days when he ceases to meet the conditions to benefit from the domestic reverse-charge mechanism. The NBR will then revoke its approval.

This domestic reverse-charge mechanism allows taxable persons with significant supplies either subject to VAT at the rate of 0% or occurring outside the territorial scope of Bahrain VAT to mitigate the negative cash flow impact of the VAT incurred on their business expenses.

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.

Telecommunication services are defined in the VAT legislation as "services relating to the transport, transmission, conversion or reception of signals used for the dissemination of words, images, audio or information by any kind of wire, radio and telephone services, visual telephone services, Voice over Internet Protocol (VoIP), voice mail, call waiting and other call management services, internet access and roaming data, including related transmission services or granting the right to use the ability to convert, transmit, receive or other similar means."

Electronic services are defined in the VAT legislation as "services provided over the internet or any electronic platform, and which operate in an automated manner with limited human intervention and which are impossible to complete without the use of information technology."

Some examples (not exhaustive) of electronic services include:
- The supply of a website, web page on the internet and web hosting services
- The supply of computer and software programs, as well as their maintenance and update
- The supply of digital products and visual content, including app, screensavers, e-book and digital files
- Online supply of music, films, television series, games, magazines, newspapers or other programs
- Supply of advertising space on websites and of any rights associated with such advertising
- Supply of online educational services

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

Online marketplaces and platforms. Online portals and interfaces, for example, websites, apps and electronic software, are now commonly used to facilitate the supply of goods and services.

An online platform may act as a disclosed or undisclosed agent. In some cases, the platform will be a pass-through for the supply of goods and it will obtain a commission — this arrangement is akin to the platform acting in a disclosed agent capacity. Alternatively, there may be platforms that purchase the goods from their suppliers and later sell these goods to customers — under this arrangement, the platform is acting as an undisclosed agent.

Typically, such platforms directly act as the seller of the goods or services to the final customer and a separate agreement is in place between the platform and the original supplier. Additional conditions arise when the original supplier is a nonresident. In such cases, the platform is likely to be perceived as an undisclosed agent, unless:

- The nonresident is expressly mentioned as the supplier of the goods or services sold on the platform, on the contractual agreement and on the invoice or receipt issued for the sale of the goods or services sold.
- The platform cannot charge the customer for the goods or services sold themselves and has no rights on the terms and conditions of the supply provided.

When the platform is considered as an undisclosed agent for a nonresident supplier, the following supplies will take place:

- The goods or services will be purchased from the nonresident supplier (VAT registration obligations may arise for the nonresident if the platform is not registered for VAT).
- A separate local supply by the platform to the final customer will take place for the supply of goods or services purchased online.

Registration procedures. Registration to be undertaken electronically via the NBR website. The various stages of the process are as follows:

i. Create a profile on the registration portal of the NBR's website
ii. Await the NBR to review and approve the profile creation, after which login details will be provided to access the created taxpayer account
iii. Complete the registration application form and upload the required supporting documents

iv. Await confirmation from the NBR of the approval or communications asking for further information
v. Download VAT certificate once approved and showing the NBR account

The information that needs to be submitted to the NBR during the application process is contained within six sections of the application form:
- Eligibility criteria — details to determine the eligibility and registration options for VAT payer
- VAT payer details — legal name, ID type and number, physical and postal address
- Contact details — phone number, email address, verification of information
- Economic activities — import and export activities, business activity details
- Bank details — IBAN, bank name and owner, SWIFT code
- Financial details — supply and expenses details for the last and next 12 months, value of imports and exports, supply timelines and thresholds, financial year details

The following additional documents may also need to be provided with the registration application:
- Identification documents (e.g., Bahrain commercial registration, proof of foreign taxpayer status)
- Proof of business relationship to VAT payer (employment contract, letter from the company to confirm that the person is authorized to represent the company)
- Proof of residence (e.g., passport, residence permit)
- Proof of bank account ownership and validation
- Financial details (e.g., audited financial accounts/statements, income statement, contracts)

The length of time it takes to obtain a VAT registration number varies, although on average it tends to be between two to three weeks.

Transitional VAT registration phasing took place in 2019. That was a transitional year for VAT in Bahrain and specific rules were in place relating to VAT registration, whereby three phased mandatory VAT registration deadlines applied: 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

From 1 January 2020, the requirement for residents to register is determined by whether the amount of annual supplies during the previous 12 months exceeded the threshold of BHD37,500, or the amount of annual supplies for the next 12 months is expected to exceed the threshold of BHD37,500. If either of these conditions are met, an application to register must be made within 30 days, starting from the last day of the month, where the mandatory threshold was exceeded or within 30 days prior to the first day of the month where there was an expectation to exceed the mandatory threshold.

Deregistration. A taxable person must apply to the NBR 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 resident 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. A nonresident person may not choose to deregister on a voluntary basis. In all cases, the deregis-

tered person must maintain books, records and invoices related to his supplies for a period of five years from the date of his deregistration for possible inspection.

D. 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: 5%
- 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%

- 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, within 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 upstream, midstream and downstream activities are generally zero-rated. As an exception, zero-rating does not apply to specific downstream activities, such as import or supply of oil, oil derivatives and gas byproducts, for example, plastic and fertilizers.)
- The supply or import 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 (The health care services must be qualifying medical services provided by qualified medical professionals or qualified medical institutions to a patient during the course of his treatment.)
- 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 food items listed in the GCC list of basic food items
- Construction of new buildings

The term "exempt supplies" refers to supplies of goods and services that are not liable to VAT and that do not qualify for input tax deduction.

Examples of exempt 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 (including residential and commercial) by way of sale, lease or license

- Imports of goods are exempt from VAT in Bahrain in the following circumstances:
  - Goods for diplomatic and military use that are exempt from customs duties
  - Imports of personal effects and household appliances by Bahraini citizens residing abroad and foreigners who are coming to reside in Bahrain for the first time who are exempt from customs duties
  - Imports of returned goods that are exempt from customs duties
  - Imports of personal items and gifts carried in a traveler's personal luggage
  - Goods designed for people with special needs, where the importer possesses the relevant documentation issued and certified by the competent authorities

Option to tax for exempt supplies. The option to tax exempt supplies is not available in Bahrain.

E. Time of supply

The time at which VAT becomes due is called the "tax due date" or "time of supply."

For the supply of goods, the general 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)

For the supply of services, the general time of supply is the earliest of any of the following dates:
- The date when the service is considered as completed
- The date the VAT invoice is issued
- The date that payment is received (to the extent of the amount received)

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 create a tax due date 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.

Continuous supplies of services. 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

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

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.

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. Where the contract contains a purchase option exercisable at the end of the contract, VAT becomes due on the purchase value of the goods on that tax due date.

Imported goods. Import VAT is due at the same time when the customs duties become due, as follows:
• When the goods enter the territory of the implementing states and are imported
• When the goods are released from a customs duty suspension arrangement, if the goods were placed under one of these arrangements upon entry in the territory of the implementing states

Deemed supplies. The tax due date of a deemed supply of goods or services shall be the date when a deemed supply event is triggered, as follows:
• For goods or services provided for no consideration, the tax due date is when the goods are made available to the third party or where the services have been completed
• For goods the taxable person retains upon deregistration, the tax due date is the effective date of deregistration
• For the transfer of the taxable person's own goods from Bahrain to another implementing state or vice versa, the tax due date is the transfer date
• For the change in the use of a good, the tax due date is the date where the change occurred

Other supplies. *Vouchers:* For single-purpose vouchers, the tax due date is the date of issue of the voucher, however, if it is subsequently sold, the tax due date for that sale is the date of that subsequent sale. For multi-purpose vouchers, the tax due date is the date on which the voucher is exchanged for the goods/services.

Vending machines. The tax due date in cases where payment is made through vending machines is the date on which funds are collected from the machine.

Compulsory supply of goods and supply of goods with a right of refund. The tax due date is the date of supply of the goods.

Supply of goods deposited, and supply of goods pledged as collateral. Tax due date is the earlier of:
• The bailee or creditor selling the goods
• The bailee or creditor deducting a cash amount deposited as a bond in order to definitively acquire the goods

F. Recovery of VAT by taxable persons

For a taxable person to deduct input tax incurred, the taxable person must meet all the following conditions:
• The expenses on which VAT is charged were incurred for the purpose of the taxable person's economic activity
• The recovery of input tax on the expenses is not specifically disallowed by the VAT law
• The expenses are used for making taxable supplies
• The taxable person holds the supporting original tax invoices that comply with the requirements of the VAT law or the relevant import documentation
• Input tax must be claimed within the time limit set by the VAT law (i.e., five years)

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

Examples of items for which input tax is nondeductible

- Entertainment expenses incurred for staff and non-staff members (e.g., accommodation, hospitality, food and drinks when not provided within the course of a meeting or as normal refreshments)
- Accessing events or functions, and trips for recreational purposes (e.g., concerts, shows, social
- dinners, team building events and activities when not provided as part of a business meeting)
- 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 (i.e., maintenance, repair, insurance) provided to employees to the extent of nonbusiness use

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

- Motor vehicles
- Mobile phones

Where a motor vehicle or mobile phone has been provided to an employee that may be subject to personal use (e.g., to commute to or from work, making or receiving personal phone calls), the input tax claimable in respect of costs must be allocated between business and personal use. This apportionment should be carried out on a fair and reasonable basis, by reference to actual business/private usage and any company policies and procedures. Alternatively, a simplified method of recovery may be used, as follows:
- Motor vehicles — fixed input tax recovery rate of 40% on all costs
- Mobile phones — fixed input tax recovery rate of 60% on all costs. No input tax can be claimed in respect of mobile phone costs where the actual business usage of the phone does not exceed 50%

If a taxable person uses one of the fixed input tax recovery rates, it must be used for all assets in the relevant category. There is no requirement to notify or inform the NBR of the use of the fixed recovery method, however, the taxable person must use the fixed recovery rate for a period of two years before moving to a method based on actual use.

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.

If the NBR approves a special apportionment method, it will also confirm the effective date for using it and, if relevant, the time limit and conditions associated with its use. If the alternative special method is rejected by the NBR, the taxable person must continue to apply the standard apportionment method.

The NBR may also direct a taxable person to use a special apportionment method where the standard method does not provide a fair and reasonable reflection of the taxable person's economic activity.

Capital goods. 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 (i.e., real estate). 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. Any change in the use of a capital asset once its adjustment period has expired does not trigger the requirement to adjust the amount of input tax recovered.

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. Taxable persons are required to keep and maintain a record of their capital assets and of the related input tax recovery position throughout the adjustment period.

Refunds. When a taxable person submits his VAT return and he is in a VAT-receivable position, he should receive a VAT refund from the NBR, unless the taxable person requests the NBR to carry forward the receivable VAT to subsequent tax periods or the NBR offsets such VAT against any other payable taxes or administrative penalties.

VAT legislation allows certain persons to obtain a refund of Bahrain VAT they incur on their expenses and imports of goods irrespective of whether they qualify as taxable persons or meet the general conditions for input tax recovery. These are called "special refund schemes." *At the time of preparing this chapter, there is no further information published regarding these schemes.*

Pre-registration 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 and they are still in the taxable person's possession on 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.

The taxable person should provide the NBR with the following documents:
- A list of the purchases for which input tax recovery is sought
- An inventory of the stock of goods and raw materials still at his disposal on the effective date of VAT registration (nature, quantity and value, date of purchase and amount of the input tax paid)
- Copies of the tax invoices issued by the suppliers for the goods and services acquired
- Customs declarations for imports.

Write-off of 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 tax 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.

Noneconomic activities. Bahrain does not have input tax recovery schemes for noneconomic activities.

G. Recovery of VAT by non-established businesses

There are no rules currently in place in Bahrain for the 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 nonresident taxable persons in the GCC territory.

A VAT refund scheme for tourists is in place relating to eligible goods that are purchased from an authorized merchant during the tourist's stay in Bahrain and the tourist leaves Bahrain within two months from the date of supply of the goods.

The NBR may extend a VAT refund to business visitors from non-implementing states, taxable persons from other implementing states' foreign governments, international organizations, and diplomatic bodies and missions relating to VAT incurred on goods and services received by such

persons in Bahrain. *At the time of preparing this chapter, there are currently no rules in place for such refund schemes.*

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. A VAT invoice should be issued for supplies made to both resident and nonresident persons. 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.

Taxable persons supplying VAT exempt financial services, remunerated by way of interest or a margin, may choose not to issue VAT invoices for these services, provided they are able, upon request of the NBR, to electronically extract and provide the details of their VAT exempt financial services income.

Credit 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 and should be issued no later than the 15th day of the month following the month during which the adjustment was done.

Electronic invoicing. The VAT legislation states that approval is required from the NBR to issue tax invoices electronically. However, it has been communicated by the NBR 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.

Simplified VAT invoices. 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 (inclusive of VAT)

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.

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

Self-billing. 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.

Proof of exports. 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 person responsible for shipping the goods can be the supplier, the purchaser or a third party acting for the supplier or purchaser).
- 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.

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.

As part of the transitional measures, if the exchange rate approved by the Central Bank of Bahrain is not available, a reliable source of foreign exchange rates should be used. This alternative exchange rate source should be used consistently until the exchange rates approved by the Central Bank of Bahrain are available.

Supplies to nontaxable persons. There are no specific rules currently in place in for invoicing for supplies to nontaxable persons. As such, normal VAT invoicing rules apply.

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 NBR with such records, invoices and accounting books upon its request.

Record retention period. A taxable person must keep the relevant records for a period of five years after the end of the tax period to which they relate.

Records that relate to real estate must be kept for a period of 15 years after the end of the tax period to which they relate.

Where a taxable person is declared bankrupt or in the event of insolvency, the taxable person's legal representative must retain records of such a person for a period of not less than 12 months from the date on which those proceedings have been finalized.

Electronic archiving. 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 NBR.
- 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.

I. Returns and payment

Periodic returns. The taxable person shall submit a VAT return via the NBR's online portal no later than the last day of the month following the end of the tax period. Where there are no transactions to be reported in a given tax period, a taxable person should still submit a nil return.

From 1 January 2020, the filing period frequency is as follows:
- Monthly filing — required if the taxable person's annual supplies exceed BHD3m
- Quarterly filing — required if the taxable person's annual supplies do not exceed BHD3m

Periodic payments. The taxable person shall pay the net VAT amount due to the NBR, along with the submitted VAT return, by the due date. Once the VAT return is submitted, the taxable person should receive a bill from the NBR identifying the net liability.

For resident taxable persons, payments can only be made via Benefit's "Fawateer" banking service, using one of the three available channels below:
- Internet/mobile banking
- BenefitPay application
- Visiting the bank branch and requesting Fawateer payment

For nonresident taxable persons who have no local bank account, the payment can be made from a foreign bank account. The taxable person would need to directly contact the NBR to obtain the relevant bank details (they are not published).

Electronic filing. All tax returns should be submitted via the NBR's online portal by the taxable person or by a person authorized to do so on behalf of the taxable person (i.e., its agent or its tax representative; however, *at the time of preparing this chapter no facility is available for a representative or agent to file a return on behalf of the taxable person).*

Payments on account. A*t the time of preparing this chapter, payments on account are not required in Bahrain.*

Special schemes.

Profit margin scheme. The taxable person, upon obtaining an approval from the NBR, may account for VAT on the profit margin in respect of the supply of specific goods and under specific conditions. This regime is not mandatory, and suppliers can elect to use their margin as the value of their supplies to compute the output tax due.

The following conditions must be met:
- The good to be sold must:
  - Be a used good suitable for further use in its current state or after repair
    Or
  - Be a work of art, artifact or other items of scientific, historical or archaeological interest
- The supplier must:
  - Have purchased the good in Bahrain from a nontaxable person (e.g., private individual), from a taxable person who himself sold the good under the profit margin scheme or from a taxable person who could not recover the VAT charged on the good
  - Not recover any input tax on the incidental expenses related to the acquisition of the good
  - Issue and retain the correct documentation

A VAT invoice must be issued for supplies under the profit margin scheme that clearly indicates that the VAT has been imposed using the profit margin scheme but must not show any VAT amount.

Annual returns. Annual returns are not required in Bahrain.

Supplementary filings. *At the time of preparing this chapter, no supplementary filings are required in Bahrain.*

Digital reporting. *At the time of preparing this chapter, no digital reporting requirements apply in Bahrain.*

J. Penalties

Penalties for late registration. The NBR shall issue an administrative penalty assessment to the taxable person for 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. The fine imposed would not exceed BHD10,000. Criminal sanctions can be imposed for a failure to apply beyond 60 days (see below).

Penalties for late payment and filings. The NBR 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 NBR shall base the assessment on specific facts, documentations and records.

The statute of limitations is five years. Generally, no claim for additional tax due can be made by the NBR after five years from the end of the tax period to which the additional tax due relates or the tax was wrongfully recovered.

The NBR shall issue an administrative penalty assessment to the taxable person, in any of the following cases:
• 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 time frame in which the NBR has to issue the fine.

Penalties for errors. 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 NBR, from performing their duties and exercising their jurisdiction in supervising, inspecting, controlling, reviewing and requesting documents
• Fails to notify the NBR 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 NBR
• Fails to comply with the terms and procedures relating to the issuance of a VAT invoice
• Violating any other provision of the VAT law or the regulations

Penalties for fraud. 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. The offender or multiple offenders are jointly liable for the payment of the tax due.

Appeal process. Upon written request of the accused, the NBR may accept reconciliation before the lawsuit is filed, during the hearing and before the judgment is given, provided the accused pays an amount equivalent to the minimum fine for the crime as well as the value of the tax. The reconciliation results in the termination of the criminal case. The taxable person can also appeal to the Committee of Examination of Tax Objections and Appeals (the Committee) against any assessment, penalty or a decision made by the NBR 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 objection submitted to the Tax Appeals Review Committee must include, at the minimum, the following information:
- Name of the objector (i.e., taxable person objecting the decision), his VAT number and address of place of business or postal address
- A summary of the objection, together with the reasons for the objection and the legal basis
- The tax period to which the objection relates
- Documents or any other information supporting the objection
- The email address of the tax representative or tax agent of the objector, where applicable

The Tax Appeals Review Committee will notify the objector of the hearing date of the objection at least 10 days beforehand.

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.

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 exceed BHD500,000
- VAT implementation from 1 January 2020 — applies if annual supplies exceed 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.

VAT return periods. For 2019, transitional tax return periods were 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 is quarterly, moving to monthly filing in 2020 for all taxpayers whose annual supplies exceed BHD3 million. All other taxpayers will file returns on a quarterly basis from 1 January 2020 onward.

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 person's residence 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.

Bangladesh

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A. At a glance

Name of the tax	Value-added tax (VAT)
Local name	Value-added tax (VAT)
Date introduced	1 July 2019
Trading bloc membership	Asia-Pacific Trade Agreement (APTA), South Asia Free Trade Area (SAFTA), Global System of Trade Preference (GSTP)
Administered by	National Board of Revenue (NBR) under Ministry of Finance, Government of Bangladesh
VAT rates	
Standard	15%
Reduced	5%, 7.5%, 10%
Other	Zero-rated (0%) and exempt
VAT number format	13-digit Electronic Business Identification Number (EBIN) in numeric (no alphabets and special characters). However, earlier BIN was in 9 and 11-digit formats, and a migration to 13-digit BIN is now taking place.
VAT return periods	Quarterly or monthly
Thresholds	
Registration	
Mandatory	VAT registration if annual turnover > BDT30 million
Voluntary	VAT enlistment (as turnover taxpayer) if annual turnover is between BDT5 million – 30 million (in this case a person can pay turnover tax at standard rate of 4% rather than product or service specific VAT rates)
Deregistration	If a person refrains from carrying out an economic activity or the economic activity has been declared as exempt or the annual turnover falls below registration limit for two consecutive years
Recovery of VAT by non-established businesses	No

B. Scope of the taxes

The VAT and Supplementary Duty Act, 2012 (in short, the VAT Act) is made effective from 1 July 2019 and the same has replaced the erstwhile VAT Act, 1991.

In Bangladesh, there is a unified system of VAT on all goods and services imported into or supplied locally in the country. Supply of immovable properties is also covered within the ambit of Bangladesh VAT laws. Further, the ambit of supply of service is wide and the same covers any service other than goods and immovable property. It also includes any grant, assignment, termination or conferment of right, agreement to perform, refrain from performing an act or accepting a situation or tolerate an act, etc.

C. Who is liable

VAT shall be imposed and payable on the taxable import and taxable supply of goods and services. The following persons shall be liable to pay VAT:
- For taxable import — the importer
- For any taxable supply in Bangladesh — the supplier
- For taxable supply of imported services — the recipient of such supply
- For any other cases — supplier or the recipient of services

All suppliers whose annual turnover exceeds the turnover threshold of BDT30 million is required to register for VAT.

Further, VAT registration is mandatory for the following persons irrespective of turnover threshold:
- Supplier, manufacturer or importer of goods or services liable to Supplementary Duty in Bangladesh
- Supplies of goods or services or both through participating in a tender or against any agreement or work order
- Any person engaged in export-import business
- Any person engaged in the supply, manufacture or import of specific goods or services or in any specified geographical areas as may be prescribed by the board

Voluntary registration and small businesses. Any person making a taxable supply and is not required to be registered may apply to register for VAT voluntarily. A person registered voluntarily shall pay tax from the first day of the next tax period following the date of registration and shall preserve the required records and accounts.

Any person with an annual turnover between BDT5 million to 30 million is also required to obtain registration under VAT Act. This registration is generally termed as VAT enlistment. In this case, a supplier can pay turnover tax at 4% of its turnover and is not required to pay VAT at goods/service specific rates.

Group registration. Single VAT registration for different legal entities of the same group is not permissible in Bangladesh. However, a single VAT registration can be obtained for multiple business locations of same legal entity. Single registrations for multiple business locations are permissible when records are preserved at one central unit and such multiple units/business locations are engaged in economic activity relating to the supply of identical or similar goods or services.

Non-established businesses. The following supplies, interalia, made by a nonresident shall be treated to be made within Bangladesh and the nonresident would be liable to be registered under VAT:

(a) Any supply made by a nonresident carrying on an economic activity from or through a fixed place in Bangladesh

(b) Any supply (other than the one specified above) made by the nonresident:

— Made in relation to an immovable property and the land attached to it is situated in Bangladesh
— Made in relation to goods that is transferred, conferred, installed or assembled in Bangladesh

(c) Certain specific supplies made by nonresidents to a VAT unregistered person in Bangladesh, such as:
  (i) The services are physically provided in Bangladesh by the service provider staying in Bangladesh at the time of supply
  (ii) The services are directly related to land located in Bangladesh
  (iii) The services are radio or television broadcasting, or telecasting services received at an address in Bangladesh
  (iv) The services are electronic services delivered to a person located in Bangladesh at the time of supply
  (v) The supply is of a telecommunications service initiated by a person located in Bangladesh at the time of supply, other than a telecommunications supplier or a person who is a global-roaming person temporarily staying in Bangladesh

In case of scenario (a) above, i.e., a nonresident carries on an economic activity from or through a fixed place in Bangladesh, it would be required to obtain a VAT registration in Bangladesh. The term fixed place includes a branch, office, workshop, mine, gas well, quarry for the extraction of mineral resources, location of any construction or installation project.

In case of scenarios (b) and (c), the nonresident is required to obtain a VAT registration in Bangladesh through a local VAT agent (tax representative). Detail on tax representatives is outlined in the section below.

Tax representatives. For specific scenarios, nonresident businesses not having any physical place of business in Bangladesh, are required to register for VAT in Bangladesh through a local VAT agent (i.e., a tax representative). VAT compliance (including payment of VAT) is required to be made through such local VAT agents. The VAT agent and nonresident businesses shall be jointly and severally responsible for payment of all dues including taxes, fines, penalties and interest. Outlined below are examples of the specific scenarios mentioned above, for where a tax representative would be required:

- Supply of electronic services by nonresident business to non-VAT-registered customers in Bangladesh
- Supply of radio or television broadcasting, or telecasting services by a non-established business, to an address in Bangladesh, when the recipient is not registered for VAT
- Supply of a telecommunications service by a non-established business, to person located in Bangladesh, where the recipient is not registered for VAT
- Supply made by a non-established business, in relation to an immovable property/land situated in Bangladesh
- Supply made by a non-established business in relation to goods that is transferred, conferred, installed or assembled in Bangladesh

Reverse charge. In case of import of services by a VAT-registered person in Bangladesh, the recipient of the service is liable to pay VAT. Import of a service is defined as a supply of service made from outside Bangladesh to a person registered or required to be registered.

Domestic reverse charge. In case of certain services (like payment of rent for properties), the recipient of the service is required to deposit VAT.

Digital economy. Nonresidents (entities outside Bangladesh) engaged in providing electronic services to VAT unregistered customers in Bangladesh are required to pay VAT and obtain a VAT registration in Bangladesh.

An electronic service is defined to mean the following services, when provided or delivered on or through a telecommunications network, a local or global information network, or similar means, namely:
(a) Websites, web-hosting, or remote maintenance of programs and equipment
(b) Software and the updating thereof delivered remotely
(c) Images, texts, and information delivered
(d) Access to databases
(e) Self-education packages
(f) Music, films, and games
(g) Political, cultural, artistic, sporting, scientific and entertainment broadcasts and telecasts and events, including telecasts

Online marketplaces and platforms. "Online sales" in the Bangladesh VAT Act is defined as the means to buy, sell or transfer of goods or services, using an electronic network, which are supplied from any manufacturer of goods or provider of services registered for VAT, and has no physical presence/stores in Bangladesh. Such sales are subject to the reduced rate of VAT for such category of supply is 5%.

Registration procedures. Every person required to be registered under VAT is required to make an online application with requisite documents. If the tax officials find the application proper after primary verification, a VAT Registration Certificate is issued, which contains a Business Identification Number (BIN/VAT registration number.). However, registration for nonresidents are required to be made through a local VAT agent.

Deregistration. A registered person may apply for cancellation of VAT registration (deregistration) for the following reasons:
• Failure to commence economic activity after registration
• Closure of economic activity
• Economic activity has been declared as exempted
• Annual turnover falls below the limit of registration for two consecutive years

For the purpose of deregistration, an application is required to be made before the VAT Department. No specific time limit is prescribed for the filing of an application for cancellation of VAT registration.

D. 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: 15%
• Reduced rates: 5%, 7.5% and 10%
• 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 taxable at 0%

• Immovable property situated outside Bangladesh
• Goods for export
• Services directly related to land situated outside Bangladesh
• Services physically carried out on goods situated outside Bangladesh
• Services included in the customs value of an imported goods

Examples of goods and services taxable at 5% rate

- Specified fruits juice
- LPG gas
- Information technology-enabled services (ITES)
- English Medium School

Examples of goods and services taxable at 7.5% rate

- Packing paper
- Self-copy paper
- Non-AC hotel and restaurant
- Construction firm

Examples of goods and services taxable at 10% rate

- Electric poles
- Repair and servicing
- Transport contractor
- Printing press

The term “fixed VAT rate” is a lump sum amount of VAT depending on the tonnage/quantity of the commodity supplied, i.e., the VAT rate is fixed on a unit basis and not on sale value.

Examples of goods and services taxable at a fixed VAT rate

- Newsprint
- Brick chips
- SIM card supplier

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.

Examples of exempt supplies of goods and services

- Prescribed basic food items for human consumption
- Supply of unprocessed agricultural, horticultural, or piscicultural products, if the supplier is the producer of the goods
- Public health and medical services provided by a government entity or an approved charitable institution
- Sale of vacant land

Option to tax for exempt supplies. The option to tax exempt supplies is not available in Bangladesh.

E. Time of supply

The time of supply for goods is the time when the possession of goods is conferred, or they are removed.

For services, the time of supply is the time when the services are rendered, generated, transferred or assigned.

For immovable property, the time of supply is the time when the property is delivered, created, transferred or assigned.

The VAT imposed on a taxable supply shall become payable at the time when any of the following activities first occurs:
(a) When such supply is made
(b) When a tax invoice for such supply is issued
(c) When a part or the whole of the consideration is received
(d) When any supply is used personally or given to others for use

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 since a prepayment for a supply of goods or service triggers a tax payment.

Continuous supplies of services. VAT imposed on periodic or progressive supplies becomes payable when any of the following activities occurs first:
(a) When separate invoices are issued for each such supply
(b) When the receivable consideration against each such supply is received in part or in full
(c) When the price against the series of supplies becomes payable
(d) The first day of the tax period to which the payable consideration relates, if it is possible to ascertain the payable amount at that time

Goods sent on approval for sale or return. There are no specific time of supply rules in Bangladesh for goods sent on approval for sale or return. As such, the normal time of supply rules apply.

Reverse-charge services. There are no specific time of supply rules in Bangladesh for reverse-charge services. However, it is prescribed that in case of import of services, the bank or any other financial institution used as a medium for making the payment shall deduct the VAT payable while making payment of the value of service. Thus, effectively, VAT is paid at the stage of payment to foreign suppliers of services.

Leased assets. For the supply of leased assets (i.e., lay by agreements, where consideration for any supply is paid in more than one installment), the time of supply is when each installment/rental is paid. As such separate tax invoices shall be issued for each instalment/rental and the output tax is payable on a monthly basis against such invoices. There is no separate or specific provision depending on the nature of lease.

Imported goods. VAT is levied at the time of importation for imported goods and they are collected at the same time and in the same manner as customs duty, even if import duty is not imposable on such import.

Advance tax. Advance tax is payable at the time of import of goods, along with customs and VAT. The rate of advance tax is 5%. Advance tax payable at the stage of import is available for set-off against the output tax payable on the subsequent domestic supply.

F. Recovery of VAT by taxable persons

A registered person is entitled to take input tax credit of VAT charged on goods or services procurement by him, provided the goods or services are procured in the course of such person's economic activity.

Tax invoice or a bill of entry in case of import is the mandatory document for claiming input tax credit.

Availability of input tax credit is subject to conditions prescribed under the law, such as
- Claim of credit is required to be made within two months
- Input tax credit not available for turnover tax, supplementary duty
- Goods or services not recorded in a purchase register and not declared in the input-output coefficient
- Value of supplies exceeding BDT1 million shall be made through banking channel only

Nondeductible input tax. Deduction for input tax is not available, in the following cases:
- When the purchaser is paying VAT on its output at a rate lower than 15%
- When the VAT invoice containing all requisite information such as name, address, registration number of both the buyer and the seller is not available
- Any of the aforesaid condition (maintenance of registers, payment through banks, etc.) are not complied with

Further, input tax deduction is also not permissible for certain procurements specified under the law. Examples of such procurement specifically not eligible for input tax deduction is given below.

Examples of items for which input tax is nondeductible

- Passenger vehicle or its spare parts or repairs and maintenance of such vehicle. Input tax credit may be allowed when the economic activities of such person include dealing in vehicles, renting them out or supplying transportation services
- Entertainment or costs used for the provision of entertainment. Input tax credit may be allowed when provision of entertainment relates to such person's economic activities and the entertainment is provided in the normal course of his economic activities
- Membership or right of entry in a club, association, or society, of a sporting, social or recreational nature
- Acquisition related to transportation services

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

- Imported goods for the purpose of resale or manufacture
- Locally purchased goods for the purpose of resale or manufacture
- Office equipment, computers

Partial exemption. Where a registered person pays or is liable to pay VAT on only a part of the turnover, the input tax credit shall be calculated on the basis of the amount of the turnover subject to VAT. Also, input tax credit is not available on the purchase of inputs for supply of such prescribed goods and services on which the rate of VAT is below 15% or fixed.

If a registered person is not entitled to the input tax credit in full, his entitlement to it against his total imports and acquisitions shall be calculated proportionately based on a formula (IxT/A) where I is the input tax originating from imports and acquisitions; T is the taxable turnover; and A is the total turnover (including exempted supplies).

Capital goods. Capital goods have not been defined under the VAT regulations and there is separate provision in respect of input tax rebate pertaining to procurement of capital goods. Thus, input tax rebate for capital goods can be claimed under the normal input tax recovery rules (as outlined above).

Refunds. If in a tax period, the sum of input tax and the receivable decreasing adjustments exceeds the sum of output tax, supplementary duty and increasing adjustments, the excess amount of money shall be carried forward and may be deducted over the following six tax periods, after which any remaining excess money shall be refunded. Further, such refund is permissible on a monthly basis (i.e., without carry forward for six months) subject to the following:
(a) 50% or more of such person's turnover is or will be derived from zero-rated supplies
(b) 50% or more of such person's expenditure on inputs is on imports or acquisitions used in the manufacture of zero-rated supplies
(c) In other cases, the Commissioner is satisfied that the nature of such person's economic activity regularly results in excess input tax credits

The following entities, defined as "withholding entity," are required to deduct VAT at source (VDS), while making payment to vendors:
(a) A government entity
(b) A nongovernment organisation approved by the NGO Affairs Bureau or the Directorate-General of Social Welfare
(c) A bank, insurance company or a similar financial institution
(d) Any secondary or post-secondary educational institution
(e) Any limited company

A VAT deduction at the source is not required, when a supplier charges VAT at 15% and issues VAT invoice in form Mushak 6.3.

In case of a supply at a lower VAT rate, VAT at the source is to be deducted at the actual amount of tax charged in invoice.

A VAT-registered entity is required to deposit VDS before filing of VAT return. In case of VDS deduction by unregistered person, VDS is required to be deposited within 15 days from payment to vendor.

Pre-registration costs. Input tax incurred on pre-registration costs in Bangladesh, is not recoverable.

Write off bad debts. In case, partial or full amount of a supply remains unpaid for a period more than 12 months, the supplier can claim adjustment of corresponding VAT with prior to approval of tax department, subject to reduction in corresponding input tax credit claim by the recipient of supply.

Noneconomic activities. A registered person shall be entitled to input tax credit against VAT imposed in the course of his economic activities. Input tax credit for noneconomic activities is not available.

G. Recovery of VAT by non-established businesses

Only entities registered for VAT in Bangladesh can recover and claim credit on VAT paid on procurement of goods and services. No input tax credit can be taken by non-registered business entities. Registered nonresidents would also be in a position to avail credit of VAT paid at the time of procurement of goods and services.

H. Invoicing

VAT invoices. Every registered supplier shall issue, on or before the date when VAT becomes payable on the taxable supply, a serially numbered tax invoice in Mushak. No input tax credit shall be admissible against a tax invoice if the information specified is not included in such invoice. A person registered as a turnover taxpayer shall issue a serially numbered turnover tax invoice.

Credit notes. Credit notes mean a supplementary invoice based on which the registered person can make a decreasing adjustment of one or more than one invoice issued earlier. A debit note means a supplementary invoice based on which the registered person can make increasing adjustment of one or more than one invoice issued earlier.

Electronic invoicing. Electronic invoicing is not allowed in Bangladesh. Invoices are required to be issued in printed form.

Simplified VAT invoices. Simplified VAT invoicing is not allowed in Bangladesh. As such, full VAT invoices are required.

Self-billing. Self-billing is not allowed in Bangladesh. However, in case there is any transfer of goods between two locations of an entity having a single centralized VAT registration, the inter unit movement shall be under the cover of Form Mushak 6.5.

Proof of exports. Supply of goods from inside to outside the geographical limits of Bangladesh is considered as export of goods. In case of export of goods, the following would serve the proof of export:

- Copy of bill of lading or airway bill or consignment note/truck receipt
- Copy of export general manifest
- Copy of proceeds realization certificate

The supply of a service shall be zero-rated if it is supplied outside Bangladesh and is of a kind that is received by a person at the time and place where it is provided. To substantiate the same, one has to analyze whether its supply can be classified as a zero-rated supply of service or not. There is no standard prescribed document as proof of export for services. However, agreement with the foreign service recipient, availability of the invoice and proof of receipt of foreign currency would be critical documents which may be required depending on the scenario.

Foreign currency invoices. As per the prescribed format of VAT invoice, price, value and taxes are to be mentioned in BDT. Hence, the invoices should contain the BDT values. Values in foreign currency may also be mentioned in the invoice, as incorporation of any additional information on VAT invoice is permissible.

Supplies to nontaxable persons. A VAT-registered person is required to issue a full VAT invoice in all cases and there is no specific provision for VAT invoices for supplies to non-registered persons.

Records. Businesses must keep all accounts and records so as to facilitate assessment of their tax liability and other obligations.

The format of some of the records are prescribed under the law. Some examples of prescribed records are:
- Books of accounts for purchases
- Books of accounts for sale
- Books of accounts for purchases — sales (for trading kind of activity)
- VAT invoice
- Invoice for contractual manufacturing
- Invoice for transfer of goods
- Certificate for tax deduction at source
- Credit note and debit note

Record retention period. Every taxpayer shall maintain and keep records for a period of five years.

Electronic archiving. Any specific methodology of electronic archiving of records is not prescribed under the law. However, it is provided that the electronic information is to be preserved with proper security in such a way so that those can be easily used. If the turnover of a registered person is more than BDT50 million, then accounts and records should be maintained in the software from enlisted vendors. A person can also get their own software approved from the VAT Department for such purposes. Separate guideline is issued by NBR for such software.

I. Returns and payment

Periodic returns. Every registered or enlisted person shall file the return for each tax period within a period not exceeding 15 days after the end of the tax period. The tax period in case of a VAT-registered person is one month and for a turnover taxpayer is three months. A taxpayer may file an application with the Commissioner to grant permission to file an amended return after removing the clerical mistakes and omissions from such return.

Periodic payments. Payment of VAT has to be made on a monthly basis for every taxpayer. Payment of VAT is required to be made before 15th day of the subsequent month. Turnover tax shall be paid by the enlisted person before filing the quarterly return for the tax period.

As per law, online or electronic payment of tax is prescribed. *However, at the time of preparing this chapter, the online or electronic payment of VAT has not yet been implemented. Consequently, the payment of VAT is required to be made manually through tax payment challans, which is required to be duly filled and submitted before the banks with check for the due amount. Post realization of the check, the bank gives its acknowledgment on challan and such bank acknowl-*

edged challan is required to be submitted to the VAT Department along with the VAT return, as proof of payment of VAT.

Electronic filing. As per law, returns can be filed online or through electronic means. However, at the time of preparing this chapter, the online filing and payment of tax has not been implemented yet, and as such paper filing is the only option available.

Payments on account. Payments on account are not required in Bangladesh.

Special schemes. Small businesses with annual turnover from BDT5 million to 30 million have the option to pay a flat tax at the rate of 4% on the turnover, known as turnover tax.

Annual returns. Annual returns are not required in Bangladesh.

Supplementary filings. Invoice level information relating to sales and purchase invoices which are of the value more than BDT2 million has to be filed online in prescribed form. Further, in case, online submission of such information is not feasible, the same shall be submitted to the VAT Department in paper form. *At the time of preparing this chapter, the online system of filing such invoice level information for purchases and sales has not been implemented.*

Digital reporting. Under the new VAT law, which is made effective from 1 July 2019, it is prescribed that filing of monthly VAT returns, monthly information on purchases and sales invoices having value more than BDT200,000 would be carried out online or electronically. However, at the time of preparation of this chapter, the online or electronic processes of filing of tax return information has not been initiated and hence, all filings with the VAT Department are presently carried out manually, except the submission of an application for a VAT registration and migration of registration from erstwhile VAT law to new VAT law.

J. Penalties

Penalties for late registration. The penalty for not applying for registration or enlistment within the prescribed time-limit is BDT10,000.

Penalties for late payment and filings. The penalty for not filing the VAT or turnover tax return within the prescribed time period — is BDT10,000. For the late payment of tax, interest may be charged at a rate of 2% per month.

Penalties for errors. An error of not including the output tax in the VAT return may result in a penalty twice the amount of output tax not included.

An error of claiming more input tax credit than entitled to in the VAT return may result in a penalty twice the amount of input tax irregulary taken.

An error of making incorrect adjustments in the VAT return may result in a penalty twice the amount of the incorrect adjustment.

An error of an irregularity related to a tax invoice or credit/debit notes may result in a penalty of BDT10,000.

Failure to maintain prescribed records may result in a penalty of BDT10,000.

Penalties for fraud. The penalty for willingly evading or attempting to evade assessment and payment of taxes is twice the amount of taxes evaded.

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A. At a glance

Name of the tax	Value-added tax (VAT)
Local name	Value-added tax (VAT)
Date introduced	1 January 1997
Trading bloc membership	Caribbean community and common market (CARICOM)
Administered by	Barbados Revenue Authority Value-Added Tax Division
VAT rates	
Standard	17.5%
Reduced	7.5%
Other	22%, zero-rated (0%) and exempt
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.

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., entities that are grandfathered under the previous international business companies (IBC) Act, SRLs, etc., and entities that currently hold a foreign currency permit. Companies licensed under the International Business Companies Act) are not required to register for VAT.

Voluntary registration and small businesses. 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.

Group registration. VAT grouping is not allowed under the Barbados VAT law. Legal entities that are closely connected must register for VAT individually.

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.

Reverse charge. There are no reverse-charge provisions in the Barbados VAT Act. Also, VAT incurred in a foreign jurisdiction on services purchased from overseas suppliers is not recoverable in Barbados.

Domestic reverse charge. There are no domestic reverse charges in Barbados.

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 or the services are enjoyed in Barbados.

However, Barbados recently enacted legislation to facilitate the collection of VAT on goods and services purchased online from a vendor outside Barbados, where the goods and services are for consumption in Barbados. *At the time of preparing this chapter, no further detail has yet been released by the tax authorities on this matter.*

Online marketplaces and platforms. There are no specific rules in Barbados relating to online marketplaces and platforms. However, as mentioned above, the government of Barbados intends to apply VAT to certain online transactions in the near future, and this may result in streaming services and goods purchased overseas for consumption in Barbados being subject to VAT.

Registration procedures. Taxpayers must register through the Revenue Authority's new 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 legacy 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.

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 ceases to make taxable supplies.

D. 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: 17.5%
- Reduced rate: 7.5%
- Zero-rate: 0%
- Increased rate: 22%

The standard rate of VAT applies to all supplies of goods and services, unless a specific measure provides for a reduced rate, the zero rate, increased rate or an exemption.

Examples of goods and services taxable at 0%
- Exported goods and services
- A small basket of staple food items
- Prescribed drugs
- Veterinary services
- International cruises
- Imported inputs for manufacturing

Examples of goods and services taxable at 7.5%
- 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.

Examples of goods and services taxable at 22%
- Mobile services of voice, data and text messaging

The term "exempt supplies" refers to supplies of goods and services that are not liable to VAT and that do not qualify for input tax deduction.

Examples of exempt supplies of goods and services
- Financial services
- Medical services
- Residential property sales
- Water and sewerage services
- Public postal services
- Transportation services

Option to tax for exempt supplies. The option to tax exempt supplies is not available in Barbados.

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.

Deposits and prepayments. Deposits are generally not regarded as consideration for a supply because they are given merely as security for the performance of an act. However, deposits under a construction contract are taxable at the time of payment.

Continuous supplies of services. 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

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.

Reverse-charge services. There are no provisions in the Barbados VAT Act relating to reverse-charge. As such, there are no time-of-supply rules.

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.

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.

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

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

- A personal vehicle
- A portion of the input tax for company vehicles

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

Partial exemption. 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. 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. 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.

Capital goods. Input tax incurred on capital goods (e.g., equipment) acquired for the making of taxable supplies, is deductible. However, there are specific restrictions for certain capital assets, e.g., motor vehicles.

Input tax incurred on capital goods or assets that are acquired for the making of both taxable and exempt supplies must be allocated to the respective taxable and exempt supplies on a reasonable basis. Input tax allocated to exempt supplies is not deductible.

Refunds. A refund arises when the amount of input tax recoverable in a taxable period exceeds the amount of output tax 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 six months, the tax authorities are required to pay interest to the taxpayer on the outstanding balance at a prescribed rate of 1% per month.

Pre-registration costs. There is no provision for persons to claim VAT incurred on costs prior to registration.

Write-off of bad debts. A taxpayer may claim an input tax deduction for tax they have paid on credit sales where they have written off the account receivable as a bad debt. This relief is, however, subject to the following conditions:

- The supply was made to an unrelated party.
- The debt was unpaid for at least 12 months.
- A return was filed for the period in which the supply was made and the output tax paid.

Noneconomic activities. Input tax incurred upon purchases that are used for noneconomic activities is not recoverable in Barbados.

G. Recovery of VAT by non-established businesses

Non-established businesses, which in Barbados are referred to as nonresident non-registrant business, are not liable to VAT and do not recover input tax, unless they are making taxable supplies in Barbados in excess of the registration threshold.

H. Invoicing

Sales invoices. 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.

Credit notes. 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.

Electronic invoicing. Electronic invoices are accepted by the Barbados Revenue Authority. It is not mandatory, but optional. There are currently no separate requirements for the format of electronic invoices.

Simplified VAT invoices. Simplified VAT invoicing is not allowed in Barbados. As such, full VAT invoices are required.

Self-billing. Self-billing is not allowed in Barbados.

Proof of 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.

Supplies to nontaxable persons. Where a registrant makes a supply to a consumer (i.e., a non-registrant), no VAT invoice is required unless requested by the purchaser.

Records. Registrants are required to keep records and books of account in Barbados, expressed in the English language and the currency of Barbados, in such a form and containing such information as will enable taxes to be determined.

Record retention period. Records should be retained until the expiration of seven years after the end of year to which the records and books of account relate or for such other period as may be prescribed.

Electronic archiving. Records and books of account can be kept in an electronic format, as long as they are kept in a retrievable format that is easily accessible by the Comptroller.

I. VAT returns and payment

Periodic returns. VAT reporting periods are generally bimonthly, i.e., every 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. 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. However, it is difficult to determine the time frame in which this will be actioned.

Periodic payments. Any tax due for the period must be remitted with the return to the Barbados Revenue Authority, by the 21st day of the month following the end of the tax period. VAT due must be paid electronically.

Electronic filing. VAT returns must be filed electronically, online with the tax authority at https://tamis.bra.gov.bb.

Payments on account. Payments on account are not required in Barbados.

Special schemes.

International business companies. 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 tax it has incurred on a monthly basis.

Secondhand goods. A supplier of secondhand goods may apply to be registered under the secondhand goods scheme, whereby output tax in respect of a sale of a secondhand good under the scheme is determined by applying the tax fraction (i.e., 17.5/117.5) to the difference between the cost price of the item and the selling price of the item (i.e., mark-up). No output tax will be due if the item is sold for the same price or a lesser price than what it costs.

Annual returns. Annual returns are not required in Barbados.

Supplementary filings. There are no supplementary filings required in Barbados.

Digital reporting. VAT returns must be filed electronically, online with the tax authority at https://tamis.bra.gov.bb. However, invoices are not required to be reported in real time.

J. Penalties

VAT penalties generally relate to VAT accounting. The following are some of the penalties associated with breaches of the VAT law.

Penalties for late registration. A person who fails to register is compulsorily registered and may be subject to a penalty not exceeding BBD1,000.

Penalties for late payment and filing. A late payment penalty of 10% of any output tax due. A penalty of BBD100 for the late submission of a VAT return. Interest at the rate of 1% of any outstanding tax and penalty.

Penalties for errors. There are no specific penalties for errors. However, 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

Penalties for fraud. Criminal penalties may also apply in certain circumstances, such as in cases of fraudulent conduct, including the following:
- False statements or omissions in a record, book of account, a return or tax invoice: BBD250
- Issuing false invoices: BBD5,000 or six months imprisonment
- Failure to display VAT prices on goods or services: BBD5,000 and a further penalty of BBD2,500 for each day or part thereof that the breach continues or three times the value of goods or services, whichever is the greater

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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://nalog.gov.by)
VAT rates	
Standard	20%
Reduced	10%
Other	25%, 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 registration. 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 head count 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.

Voluntary registration and small businesses. 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).

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. 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.
- It sells goods to another non-established entity.

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.

Tax representatives. Tax representatives are not required in Belarus. However, tax representatives are optional, and 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 tax or refunded from the budget.

Domestic reverse charge. The Belarus VAT law does not specify a reverse-charge mechanism, but Belarus has a similar tax mechanism in place. Foreign legal entities that do not have a permanent establishment in Belarus are not subject to VAT when they make a supply, i.e., sell goods, perform works, render services or 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 tax or refunded from the budget.

Where a foreign legal entity or non-established business makes a supply to non-established but locally registered businesses, the reverse charge cannot be used, and the supplier must register for VAT in Belarus and charge local VAT.

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.

Online marketplaces and platforms. Foreign companies that provide electronic services to individuals in Belarus are required to register with the tax authority and pay VAT to the budget for such services at a rate of 20% (B2C). The general procedure of paying VAT is applied when Belarusian companies buy electronic services (B2B). The requirement to pay VAT by a Belarusian company (individual entrepreneur) depends on whether Belarus is recognized as the place of sale of such services. The place of sale of electronic services is determined by the location of the buyer (customer of services).

Tax legislation provides the closed list of what should be recognized as electronic services in Belarus. This list contains such electronic services as providing via the internet capabilities using information technologies and systems to establish contacts and enter into transactions between sellers and buyers (including the provision of an internet trade platform). However, the sale of goods (works, services) does not apply to electronic services in case, when ordering these goods (works, services) is performed via the internet, delivering of them is provided without using the internet.

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.

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.

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: 20%
- Reduced rate: 10%
- Increased rate: 25%
- 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 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

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)

The term "exempt supplies" refers to supplies of goods and services that are not liable to VAT and that do not qualify for input tax deduction.

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 tax period, on which the day of payment (including advance payment) or other way of customer's obligation fulfillment falls.

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).

Continuous supplies of services. 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.

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.

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 (must be established as well as locally registered), 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).

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.

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).

F. Recovery of VAT by taxable persons

A taxable person 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 taxable person generally recovers input tax by deducting it from output tax, which is VAT charged on supplies made.

Nondeductible input tax. Input tax 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

Examples of items for which input tax is nondeductible
- Employee expenses
- Goods (excluding fixed assets and intangible assets) in case of damages or losses
- Transfer by a construction project owner to the third parties

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

With respect to the VAT paid upon importation of goods from outside the Eurasian Economic Union, a delay of deduction is established:
- For goods imported before 31 December 2018, input tax is deductible after 60 days from the date of release of the goods in accordance with the declared customs procedure.
- For goods imported from 1 January 2019 to 23 April 2019, input tax is accepted for deduction without a deferral.
- For goods imported from 24 April 2019 to 31 December 2019, input tax is deductible after 30 days from the date of release of the goods in accordance with the declared customs procedure.

Partial exemption. If a taxpayer engages in both exempt and taxable activities, it may account for input tax related to each activity separately. In this case, input tax directly related to taxable activities is recoverable in accordance with the sequence of VAT deductions, and input tax 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 tax 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 tax related to each kind of activity is determined by multiplying the total amount of input tax and the relevant percentage.

The amount of input tax is deducted in the following sequence:
- The amount of input tax 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 tax is deductible up to the amount of output tax calculated on the sales of goods, works and services, and property rights.

- The amount of input tax on fixed and intangible assets. The amount of input tax that may be deducted may not exceed the amount of output tax 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 tax 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 tax calculated on sales of goods, works and services, and property rights.
- The amount of input tax 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 tax calculated on sales of goods, works and services, and property rights.
- The amount of input tax 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 tax 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 tax 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 tax calculated on sales of goods, works and services, and property rights.

Capital goods. A taxpayer may deduct input tax paid on purchased fixed assets and intangible assets in accordance with the usual VAT deduction rules, or capitalize input tax 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 tax) in a VAT return exceeds the amount of output tax 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.

Pre-registration costs. Input tax incurred on pre-registration costs in Belarus is not recoverable.

Write-off of bad debts. Output tax accounted for on bad debts cannot be recovered in Belarus.

Noneconomic activities. In general, input tax (including input tax related to nonbusiness activities) may be recovered in Belarus, except for VAT related to the cost of food, subscription to print media, works and services purchased by the taxpayer for its employees.

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). If a business is registered for VAT in Belarus but does not have a permanent establishment, and makes supplies to non-established businesses, it cannot recover input tax incurred in Belarus.

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.

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.

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. Taxable persons are required to issue electronic VAT invoices for each VAT-taxable transaction.

Credit notes. A credit note should be issued where both parties agree reduction of the cost of previously bought goods (works, services), property rights, so the adjustment output/input tax should be accompanied by an additional electronical VAT invoice formed according to the Belarusian legislation.

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.

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 tax.

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.

Simplified VAT invoices. Simplified VAT invoicing is not allowed in Belarus. As such, full VAT invoices are required.

Self-billing. Self-billing is not allowed in Belarus. However, in some cases it is an obligation to file the primary accounting documents unilaterally (e.g., for leasing).

However, the one of the obligatory basis to recover input tax is a signed electronic VAT invoice. The suppliers (VAT payers) are obliged to file the electronic VAT invoices in respect of supplies, including exemption, and send them to the customers or direct to the web portal. And the customers should individually file and submit electronic VAT invoices in the case of import goods or purchases of goods, works, services or property rights from a nonresident when the place of realization is Belarus.

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.

Supplies to nontaxable persons. 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.

Records. Each transaction should be confirmed by primary accounting documents (acts, invoices, etc.). Input tax can be recovered after its reflection in the accounting and the purchase ledger (if the conduct of the purchase ledger is established by the taxpayer's accounting policy).

Primary accounting documents must contain the following information:
- Name of the document, date of its preparation
- Name of a company
- The content and basis of an economic transaction, its assessment in physical and value indicators or only in value indicators
- The positions of persons responsible for the transaction and/or the correctness of its design, their names, initials and signatures

Primary accounting documents may contain other information that is not mandatory.

Record retention period. The primary accounting documents in a company should be stored 3 years after the tax audit and 10 years if the tax audit was not carried out. Purchase ledgers are stored for five years from the date of the last entry in it, if the tax audit was carried out in a company. If the tax audit has not been carried out purchase ledgers should be stored 10 years from the date of the last record.

Documents confirming the application of the zero VAT rate (application for the import of goods and payment of VAT, etc.) are stored for 3 years after the tax audit, if the tax audit has not been carried out within 10 years. And electronic VAT invoices and returns are stored on the web portal for an unlimited time.

Electronic archiving. Belarusian legislation allows to archive the primary accounting records in paper or electronic form (in case electronic documents are signed by electronic digital signature). Electronic VAT invoices and VAT returns are created only in the form of electronic documents and archived in the electronic archive of the web portal.

I. Returns and payment

Periodic 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.

Periodic payments. At the choice of the taxpayer, the reporting period for VAT is a calendar month or calendar quarter. The decision to choose a reporting period is not subject to change during the current tax period.

VAT is calculated and paid at the end of each reporting period. As a general rule, payments must be made by the 22nd day of the month following the reporting period.

VAT is paid in cash or with a cash-free payment in Belarusian rubles. Also, the payment of VAT is possible by offsetting the previously excessively paid or recovered amount of VAT or other taxes and penalties.

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.

Electronic filing. VAT returns must be filed only in the form of an electronic document signed by taxpayer's digital signature.

The taxpayer is entitled to use one of the following methods of creating and filing an electronic document to the Belarusian tax authorities:
- Using specialized software developed by the Ministry of Taxes and Duties of the Republic of Belarus and posted on the web portal, which can be installed on the taxpayer's computer
- Through the personal account of the taxpayer on the web portal
- By sending an xml file to the web portal

Significantly, the day of submission of electronic VAT returns is considered the date of its acceptance by the web portal, recorded in the confirmation of the web portal.

Payments on account. Payments on account are not required in Belarus.

Special schemes. VAT returns in respect of property income trusts must be submitted to the tax authorities separately from VAT returns related to other activities of the trust manager.

Annual returns. Annual returns are not required in Belarus.

Supplementary filings. No supplementary filings are required in Belarus.

Digital reporting. No digital reporting requirements apply in Belarus. According to the Belarusian legislation, taxpayers are obliged to submit VAT returns in electronic form and electronic VAT invoices to the Digital Tax Administration.

J. Penalties

Penalties for late registration. 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.

Penalties for late payment and filings. 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

Penalties for errors. If the taxpayer made a mistake carelessly, that resulted in late payment of VAT:

- Identified error within a desk audit — penalty on responsible official of two to eight basic units
- Identified error (except within a desk audit) — penalty on responsible official of 8 to 20 basic units

According to the general rules, if the taxpayer finds errors in VAT returns submitted for a previous period, the taxpayer must make changes or additions to VAT returns and make an additional payment in the budget if necessary. The deadline for submitting revised VAT returns has not been set. In case there is no additional VAT payable after submitting a the revised VAT return, then there will be no penalties for late payments.

Penalties for fraud. If the taxpayer made a mistake willfully, that resulted in late payment of VAT — penalty on responsible official of 40 to 120 basic units. For failure to provide documents and other information for tax control or the provision of false information (e.g., in relation to an electronic VAT invoice) — penalty on responsible official of 2 to 30 basic units.

Belgium

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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 (0%) and exempt

VAT number format	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	
Established	None
Non-established	None
Distance selling	EUR35,000
Intra-Community acquisitions	EUR11,200 (for exempt taxable persons)
Electronically supplied services (MOSS)	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 Belgium by a taxable person
- The intra-Community acquisition of goods in Belgium for goods coming 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 activities in Belgium must notify the Belgian VAT authorities by means of form 604A.

Special rules apply to foreign or "non-established businesses."

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 tax. 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., when a taxable person not established in Belgium performs output supplies subject to the general domestic reverse charge and supports deductible input tax for EUR10,000 per year). In these

situations, a taxable person not established in Belgium can still apply for a VAT registration in Belgium, if so desired.

Voluntary registration and small businesses. 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 tax reaches or exceed EUR10,000 a year.

Group registration. 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. Members in a VAT group have joint liability for any VAT debts due, as they are treated as one single VAT registration.

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

Tax representatives. Businesses that are established in the EU may register for VAT without appointing a specific VAT representative. However, EU businesses may opt to appoint a tax representative.

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, Centrum Buitenland; in French, Bureau central de TVA pour Assujettis Étrangers) at this address:

Centrum Buitenland
Kruidtuinlaan 50 Bus 3410
1000 Brussel
foreigners.team1@minfin.fed.be

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.

In Belgium there is also the concept of "Global VAT Representation" by which the global representative takes all VAT compliance obligations of the non-established business. This representation is limited in scope (depending on type of activities carried out by the non-established business).

Reverse charge. 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.

Domestic reverse charge. In Belgium, there are two types of reverse charge: (i) a general domestic reverse charge and (ii) a specific domestic reverse.

The general domestic reverse charge generally applies to supplies (goods and services) taking place in Belgium made by non-established businesses to the following:
- Taxable persons established in Belgium that file periodic VAT returns in Belgium (merely holding a Belgian VAT ID number as resident company is hence not sufficient)
- Non-established businesses that are registered for VAT and have appointed an individual fiscal representative in Belgium

The specific domestic reverse charge applies to supplies of immovable works. The specific reverse charge applies to supplies of immovable works by a taxable person established in Belgium in the benefit of the following persons:
- Taxable persons established in Belgium that file periodic VAT returns in Belgium
- Non-established businesses that are registered for VAT and have appointed an individual fiscal representative in Belgium

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 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 business-to-consumer (B2C) context, 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 less than 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.

Online marketplaces and platforms. No special rules exist for online marketplaces and platforms in Belgium.

Vouchers. In Belgium, a voucher (i.e., an instrument where there is an obligation for a supplier to accept it as full or partial consideration for a supply of goods or services) may be either a single-purpose voucher (SPV) or a multi-purpose voucher (MPV). A voucher will be considered as a SPV if, at the time of issue, the place of supply of the goods or services to which the voucher relates and the VAT due on those goods or service are known. If not known, the voucher is an MPV.

From a VAT perspective, a SPV is treated from a VAT perspective as follows:
- Transfer of the voucher is considered as a supply of the underlying goods/services.
- VAT becomes due at the moment of the sale (VAT applies at each transfer of the voucher).
- The consideration paid at each transfer is VAT inclusive.
- The distributor can deduct any VAT charged to it in line with the normal rules.

From a VAT perspective, an MPV is characterized by the following elements:
- Transfer of the voucher is not considered as a supply of the underlying goods/services.
- VAT becomes due at the moment of redemption (no VAT applicable for transfers of the voucher prior to redemption).
- VAT is calculated based on price paid by the consumer or, if it is not known, the face value.
- Distributors are considered to supply distribution/promotion services.

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.

These documents must be dated and signed by someone who is entitled to legally bind the EU business (and include proof that this person is holding these legal rights), 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 country 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.

This is one of the means to provide "security" to the Belgian tax authorities. The foreign company may also consider the following as alternatives:

(1) A cash deposit made to a blocked account of the Belgian Treasury
(2) Rights on an immovable property located in Belgium
(3) "Personal guarantee" issued by the fiscal representative

All documents must be sent to the Central VAT Office for Foreign Taxpayers (in Dutch, Centrum Buitenland; 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.

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. In addition, if a taxpayer has a change of VAT status, they must submit Form 604B. A change of VAT status includes the following situations:
• Change of address
• Type of activities resulting in change of right of input tax deduction rights

D. 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 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. 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 goods and services taxable at 0% (i.e., exempt with credit)

• Waste products (hard-copy newspapers, metal waste, etc.)
• 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)

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 VAT and that do not qualify for input tax deduction.

Examples of exempt supplies of goods and services

• 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

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).

From 1 January 2019, an option to tax for the rent of a building (or a part of a building) used for professional purposes (B2B) is available 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.

Deposits and 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.

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.

Goods sent on approval for sale or return. 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.

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.

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.

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.

Intra-Community acquisitions. The time-of-supply rule for intra-Community acquisitions is when the invoice is issued or, at the latest, the 15th day of the month following the month in which the taxable event occurred if no invoice has been issued before that date.

Intra-Community supplies of goods. The time of supply rule for intra-Community supplies is when the invoice is issued or, at the latest, the 15th day of the month following the month in which the taxable event occurred (if no invoice has been issued before that date).

F. Recovery of VAT by taxable persons

In principle, every VAT-taxable person has the right to deduct the Belgian input tax incurred. The right to recover input tax 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 tax 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 tax 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 tax can only be deducted at the end of the third calendar year following the year in which the VAT became due.

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 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. Depending on whether the employee pays a renumeration for the private use, the percentage of input tax deduction will vary. Further in the case of a renumeration, a self-supply at the normal value is deemed to take place. Similar rules apply for use of mobile phones with 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)
- Restaurant and catering costs (except if can be shown that they have an advertising purpose)
- 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
- 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 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 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. This special pro rate needs to be objective and controllable by 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 1 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)
- 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 tax, 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. As of 1 January 2020, all startup companies may opt for monthly VAT refunds.

Pre-registration costs. There is a tolerance regarding the pre-registration 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. Nevertheless, a corrective document (for instance a credit note) needs to be drawn up.

Noneconomic activities. Input tax incurred in relation to noneconomic activities is not recoverable in Belgium.

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.

EU businesses. For businesses established in the EU, refund is made under the terms of the EU Council Directive 2008/9.

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. In some cases, electronic copies of invoices must be added, depending on the type of cost and the taxable amount of the invoice.

For the general VAT refund rules applicable to the refund schemes for EU businesses and non-EU businesses, 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 statute of limitations for all refund claims is one year, and claims must be submitted before 30 September of the following year when the VAT was due.

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.

Non-EU businesses. 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.

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

H. Invoicing

VAT invoices. 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).

Credit notes. 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. Belgium VAT law permits electronic invoicing in line with EU Directive 2010/45/EU (see the chapter on the EU).

Simplified VAT invoices. Simplified VAT invoices are allowed where the amount of the invoice is EUR100 (excluding VAT) or less. Simplified VAT invoices are also allowed if it is difficult for a particular sector to be compliant with the invoice requirements due to its commercial and administrative habits (e.g., catering and restaurants (HORECA) — cash register system). Simplified VAT invoices cannot be issued for certain supplies, for example, for distance sales, intra-Community supply of goods and for supplies of goods with assembly and installation.

Self-billing. Self-billing (i.e., invoicing by the customer on behalf of the supplier) is allowed in Belgium when the following conditions are fulfilled:
- Both parties have an agreement in advance for self-billing.
- Each invoice must be subject to the acceptance (implicit or explicit) by the taxable person who makes the supply of goods or services.

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. Under specific conditions, the supplier may still rely on the VAT exemption if the customer is mentioned as exporter of record on the export document, validated by Customs.
- 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 the supply is taking place in Belgium. 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).

Supplies to nontaxable persons. 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 MOSS 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.

Records. In Belgium, taxable persons must keep appropriate accounting records to the extent of their activities in order to allow the tax authorities to carry out a VAT audit. Such accounting records include the following registers:
- A purchase ledger (including imports and intra-Community acquisitions of goods)
- A sales ledger
- A cash revenue ledger

Record retention period. Input and output invoices issued and received must be kept for seven years as from 1 January of the year following the date the invoice is issued.

Ledgers issued and received must be kept for seven years as from 1 January of the year following the end of the financial year of the taxable person.

In respect of deduction of VAT on real estate investment goods, the taxable persons are obliged to keep the related documentation (i.e., invoices, documents, account statement) for 15 years.

In case of the option to tax for the rent of a building (or a part of a building) used for professional purposes (B2B), the taxable persons are required to keep related documentation (i.e., invoices, documents, account statement) for 25 years.

Electronic archiving. Paper and electronic invoices may be archived in electronic format using electronic data storage equipment, including digital compression.

In case the electronic archiving option is chosen, one must demonstrate that the technology used to digitalize the invoice guarantees the authenticity, integrity and legibility of electronically archived invoices as from the date on which the invoice is issued until the end of the minimum storage period.

I. VAT returns and payment

Periodic 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.

Monthly VAT returns 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.

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.

Periodic payments. For monthly VAT returns, payment is 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.

Electronic filing. 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.

Payments on account. Special VAT prepayment rules apply in Belgium, where companies must make a VAT prepayment by 24 December of each year.

If companies file monthly VAT returns, one of the following methods can be used for the calculation of the December prepayment:

- The calculation of the difference of the amounts of VAT due and the amounts of deductible VAT for the period from 1 December until 20 December of the year
- The amount of the VAT due in the November VAT return (box 71 on the VAT return)

If companies file quarterly VAT returns, one of the following methods can be used for the calculation of the December prepayment:

- The calculation of the difference of the amounts of VAT due and the amounts of deductible VAT for the period from 1 October until 20 December of the year
- The amount of the VAT due in the third-quarter VAT return (box 71 on the VAT return)

Special schemes.

Margin scheme. 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.

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).

Annual returns. Annual VAT returns are not permitted in Belgium. However, every year an annual sales listing (form 725) has to be filed before 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.

Supplementary filings. 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 2019 calendar year is EUR1.5 million. The threshold for Intrastat Dispatches for the 2019 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.

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."

ESLs are filed monthly by monthly VAT filers and quarterly by quarterly VAT filers.

Digital reporting. From 1 January 2009, it is in principle required to file the VAT return and listings electronically. However, a derogation is still possible in case of inability or issue with the electronic platform. In this scenario, a specific certificate (authorization) is granted by the VAT authorities. The taxable person is authorized to submit a paper VAT return.

J. Penalties

The Belgian VAT legislation contains a detailed list of administrative penalties, both proportional and nonproportional, which the VAT authorities automatically impose when violations against Belgian VAT legislation are detected. The guidelines classify all violations into different categories. For certain categories, the penalty policy will apply, while other categories are subject to additional conditions or are explicitly excluded from the application of the penalty policy. In case of a so-called voluntary VAT disclosure, the proportional penalties will be waived by the VAT authorities.

For some categories, the penalties will automatically be canceled 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). 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 tax deduction. Instead, it opens the possibility to provide corrective invoices or other supporting documents so that the VAT deduction can be safeguarded.

Penalties for late registration. 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.

Penalties for late payment and filings. There is a large range of penalties that can be assessed for late payment or filings of VAT returns or listings. These include, for example:

- Failure to submit VAT return: EUR1,000 per VAT return
- Late submission of VAT return: EUR100 per month it is late (with a maximum of EUR1,000)
- Late payment of VAT return: fine equal to twice the tax paid late and a late payment interest of 0.8% per month is due
- No submission of the annual sales listing or the European sales listing: EUR3,000 per listing/document
- Late submission of the annual sales listing (ASL) or the European sales listing (ESL)
  - (i) For the late submission of maximum two months, a late penalty between EUR75 and EUR1,500 is due
  - (ii) For the late submission of maximum six months, a late penalty between EUR225 and EUR2,250 is due
  - (iii) For the late submission of more than six months, a penalty of EUR3,000 is due

For Intrastat 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).

Penalties may be imposed for late, missing or inaccurate ESLs.

Penalties for errors. There is a large range of penalties that could be assessed for late payment or filings of VAT returns or listings. These include, for example:

- For VAT return, the penalty depends on the kind of error: (i) for accidental irregularities, a penalty of EUR80 per document is due, (ii) for the other irregularities, a penalty of EUR500 per document is due
- For listings (i.e., annual sales listing (ASL) or the European sales listing (ESL), the penalty depends of the kind of error: (i) for missing data, a penalty between EUR150 and EUR1,350 per missing data is due, (ii) error in data, a penalty of EUR25 and EUR750 per data is due if the correct data is communicated to the Belgian tax authorities within two months

Penalties for fraud. For any intentional breach of the obligation to pay VAT, taxable persons are liable to pay a fine equal to twice the VAT amount evaded.

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	
Standard	13%
Other	Zero-rated (0%) and exempt
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

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

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 and small businesses. 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).

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.

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.

A non-established business is not required to appoint a tax representative to register for VAT.

Reverse charge. In Bolivia, the reverse charge for services does not apply. Bolivia does not apply VAT on the importation of services that are performed outside of the country. When a service is purchased from abroad, it is not subject to VAT. There are no procedures to withhold this tax. On the other hand, when a local company provides services to a foreign company and the service is performed locally, then it must be subject to Bolivian VAT, even if the recipient is outside of Bolivia.

Domestic reverse charge. There are no domestic reverse charges in Bolivia.

Digital economy. There are special 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.

Online marketplaces and platforms. No special rules exist for online markets or platforms in Bolivia. The general rules state only that the sale of goods through electronic commerce, within

the national territory, made by natural and legal persons, are subject to the VAT, but there are no detailed procedures.

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.

Deregistration. In Bolivia, companies do not deregister. It is possible, however, to deactivate the tax identification number.

D. VAT rates

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

The VAT rates are:

- Standard rate: 13% (however, the effective rate is 14.94% because VAT must be included in the sales price)
- 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

The term "exempt supplies" refers to supplies of good and services that are not liable to VAT and that do not qualify for input tax deduction.

Examples of exempt supplies goods and services

- 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
- Sale of books printed in Bolivia or those imported by or published by Bolivian institutions

Option to tax for exempt supplies. The option to tax exempt supplies is not available in Bolivia.

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.

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.

Continuous supply of services. If services are supplied continuously (e.g., domestic supplies of electricity, water and gas) they must be invoiced on a monthly basis, and the tax point is created when the invoice is issued.

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.

Reverse-charge services. In Bolivia, the reverse charge for services does not apply. As such there are no special time of supply rules.

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.

Imported goods. The tax event for imported goods is when the goods clear all customs procedures.

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. A taxable person generally recovers input tax by deducting it 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 in Bolivia and VAT paid on imports of goods.

A valid tax invoice or import statement must generally accompany a claim for input tax.

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 tax. Input tax 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 BOB50,000 (bolívianos) 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

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

Partial exemption. Input tax can be offset against output tax due. However, the input tax can only be offset if it has been incurred in relation to the taxable activities of the business. Where input tax relates to both taxable and exempt activities, it cannot be offset in full. This situation is referred to as "partial exemption." In this sense, when the purchases of goods or services are in relation to taxable activities and nontaxable activities, the process is as follows:
- The tax credit will be appropriate directly to the operations taxed by VAT.
- When a direct appropriation is not possible, the tax credit shall be appropriated in the proportion of the income taxed with respect to the total income taxed by the VAT of the business (proportionality).

Capital goods. There are no special input tax recovery rules on capital goods. Therefore, input tax incurred on capital goods can be offset with the output tax as per the normal rules. Only export companies that cannot offset the output tax with local sales that generate input tax can request a reimbursement.

When purchases of goods and services are intended to obtain income taxable and not taxable activities, the proportionality criterion shall be applied.

Refunds. If the amount of input tax (credit VAT) recoverable in a month exceeds the amount of output tax (debit VAT) payable, the excess credit may be carried forward to offset output tax in the following tax period. The amount of input tax 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.

Pre-registration costs. Input tax incurred on pre-registration costs in Bolivia is not recoverable.

Write-off of bad debts. Input tax incurred on bad debts can be recovered in Bolivia. For purchases greater than BOB50,000 (equivalent to USD7,183) proof of bank payment is required. Otherwise, no other obligations are required in order to recover the input tax.

Noneconomic activities. Input tax incurred in relation to noneconomic activities is not recoverable in Bolivia.

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

VAT invoices. A taxable person must provide a VAT sales invoice for all taxable supplies made, including exports (subject to VAT at the zero rate). A VAT invoice is required to support a claim for input tax deduction.

Credit notes. 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 return of goods (total or partial) and the cancellation of services.

Electronic invoicing. Effective 1 June 2020, electronic invoicing for VAT purposes is being introduced in Bolivia. Paper invoicing is still available; however, electronic invoicing will gradually become mandatory for all taxpayers in Bolivia.

Simplified VAT invoices. In cases of retail supplies sales for amounts less than BOB5, full VAT invoices are not mandatory to be issued for such transaction. In these cases, the seller could issue a summary invoice at the end of the day that includes all these sales.

Self-billing. Self-billing is not allowed in Bolivia.

Proof of 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 tax 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.

Supplies to nontaxable persons. 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).

Records. In general terms, the VAT taxpayers must have purchase and sales VAT books that will be reported monthly to the tax authority. Also, they are required to have:
- Counterfoil of the invoices that are being used (manual and prevailed billing)
- Book of minor sales of the day, if applicable

Also, the company must maintain in digital or physical formats, according to current provisions, all the documentation that supports the transactions, for the term of the statute of limitations.

Record retention period. The record retention period in Bolivia is eight years. This is to enable the tax administration to control, verify, supervise, investigate, determine the taxes and collection within this period.

Electronic archiving. The tax administration allows the sending of digital information (books of purchases and sales, tax forms). However, there is no specific rule for electronic archiving. In practice, businesses keep records in physical (paper) format.

I. Returns and payment

Periodic returns. VAT returns are submitted for monthly periods. Returns 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).

Periodic payments. Payment is due in full 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."

Electronic filing. VAT returns must be submitted through the tax authority's virtual platform.

Payments on account. Payments on account are not required in Bolivia.

Special schemes. No special schemes are available in Bolivia.

Annual returns. Annual returns are not required in Bolivia.

Supplementary filings. VAT purchases and sales book must be submitted monthly through the tax authority virtual platform.

Digital reporting. No digital reporting requirements apply in Bolivia. However, from 1 June 2020, electronic invoicing will be implemented through the tax administration web portal.

J. Penalties

Penalties for late registration. 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 company 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.

Penalties for late payment and filings. The amount of "penalty" charged in Bolivia is how much the input tax credit 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.

The following penalties apply for late payment and filings in Bolivia:
- UFV50 for individuals and UFV100 for business entities for not filing a tax return
- UFV500 for individuals and UFV1,000 for business entities for not submitting the VAT purchases and sales book.
- UFV100 for individuals and UFV200 for sending VAT purchases and sales books out of time
- UFV500 for individuals and UFV1,000 for business entities for not submitting the report regarding proof of banking payments for transactions higher than BOB50,000

In addition, interest and inflation adjustments based on changes to the UFV are assessed on unpaid VAT.

Penalties for errors. Penalties are assessed for errors and omissions with respect to VAT reporting. The penalties include the following:
- UFV50 for individuals and UFV100 for business entities, for sending amendments of VAT purchases and sales books out of time
- UFV100 for individuals and UFV200 for business entities, for submitting the report regarding the proof of payments for transactions higher than BOB50,000, with errors
- A penalty of UFV50 to UFV500 for individuals and business entities, for issuance of invoices with one or more errors per invoice or noncompliance of technical aspects established in specific regulations

Penalties for fraud. Tax fraud applies when anybody (individual or a company) acts in any way (by action or omission) to reduce or avoid the tax payments. These cases are considered tax fraud only when the amount of the tax is equal or higher than UFV10.000. In these cases, the sanction will the imprisonment between three to six years and a penalty of 100% of the tax debt.

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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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.

Exemption from registration. The BES GET legislation does not contain any provision for exemption from registration.

Voluntary registration and small businesses. The BES GET legislation does not contain any provision for voluntary VAT registration.

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.

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.

Tax representatives. A taxpayer may be represented by a third party based on a power of attorney.

Reverse charge. 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.

Domestic reverse charge. There are no domestic reverse charges in the BES Islands.

Digital economy. 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 subject to GET.

Online marketplaces and platforms. No special rules exist for online marketplaces and platforms in the BES Islands.

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.

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 de-registration as issued by the Chamber of Commerce to the Inspectorate of Taxes along with some additional documentation.

D. Rates

The term “taxable supplies” refers to supplies of goods and services that are liable to a rate of GET, including the zero rate.

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 abovementioned 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 supplies” refers to supplies of goods and services that are not liable to GET and that do not qualify for input tax deduction.

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
- Lease of real estate that is designed to be used as a permanent residence and is permanently used by individual residents of the BES Islands
- Specific services provided by entrepreneurs established in trading and service depots in the BES Islands
- Exported goods

Option to tax for exempt supplies. The option to tax exempt supplies is not available in the BES Islands.

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.

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.

Continuous supplies of services. 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.

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.

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).

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.

Imported goods. For imported goods the time of supply is considered to be the moment of importation.

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.

Examples of items for which input is nondeductible

- No specific examples (all GET is nondeductible apart from raw materials for manufacture)

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

- Raw materials for manufacture

GET on purchases is only recoverable on raw materials and nothing else.

Partial exemption. In general, GET is nondeductible in the BES Islands. As such, there is no distinction between input tax incurred in relation to exempt and taxable supplies. Consequently, the GET legislation does not specifically mention any regulations in connection with partial exemption.

Capital goods. In general, GET is nondeductible in the BES Islands. As such, there are no special rules regarding input tax incurred in relation to capital goods. Consequently, the GET legislation does not specifically mention any regulations in connection with capital goods.

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.

Pre-registration costs. Input GET incurred prior to reregistration is not recoverable.

Write-off of bad debts. If payment for the supplied goods or services will eventually not be received by the business, a refund request can be submitted to the tax authorities.

Noneconomic activities. Input tax incurred in relation to noneconomic activities is not recoverable in the BES Islands.

G. Recovery of GET by non-established businesses

Input tax incurred by non-established businesses in the BES Islands is not recoverable.

H. Invoicing

GET invoices. 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.

Credit notes. 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.

Electronic invoices. The issuance of electronic invoices is optional in the BES Islands. In this regard, the same invoice requirements apply for electronic invoices as they do for regular invoices.

Simplified invoices. Simplified VAT invoicing is not allowed in the BES Islands. As such, full VAT invoices are required.

Self-billing. Self-billing is not allowed in the BES Islands.

Proof of export. When trade goods are exported, an electronic customs declaration or, on request, a written declaration should be submitted.

Foreign currency invoices. An invoice can also be issued in a foreign currency. However, the invoice should also state the local currency.

Supplies to nontaxable persons. There are no specific rules, and as such, a GET invoice should always be issued for all supplies.

Records. Taxpayers are required to keep records in such a manner that at any time their rights, obligations and all other information relevant for tax purposes are clear and readily available upon request from the tax authorities.

Record retention period. The retention period is currently 10 years. *At the time of preparing this chapter, it is expected that in 2020 this period will likely become seven years, but has not yet been finalized by the tax authorities.*

Electronic archiving. Electronic archiving is allowed in the BES Islands.

I. Returns and payment

Periodic 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 by the 15th day of the month following the end of the reporting period.

Period payments. 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.

Electronic filing. Tax returns can be filed electronically with the Inspectorate of Taxes. In this regard, online credentials can be requested from the tax authorities.

Payments on account. Payments on account are not required in the BES Islands.

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.

Small businesses. Small businesses are exempt from GET if it concerns an individual who:
- Is a resident of the BES Islands, or has a permanent establishment in the BES Islands
- Can demonstrate they will have an annual turnover of USD20,000 or less

Cultural activities. Such supplies can be exempt from GET upon written request to the tax authorities. This is only allowed if it concerns an entrepreneur (not an individual) who exclusively or almost exclusively performs social and/or cultural activities.

Annual returns. Annual returns are not required in the BES Islands.

Supplementary filings. Annual returns are not required in the BES Islands.

Digital reporting. GET returns have to be filed digitally through the online portal of the tax authorities. Other than that, there are no digital reporting obligations.

J. Penalties

Penalties for late registration. 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.

Penalties for late payment and filings. 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.

Penalties for errors. A negligence tax penalty of up to 100% of the additional tax due can be imposed if the deficit is attributable to the intent or gross negligence of the taxpayer.

Penalties for fraud. Criminal penalties may also apply in certain circumstances, such as in cases of fraudulent conduct. In case of serious fraud, the tax authorities may submit the case with the District Attorney's office for criminal prosecution. Depending on the circumstances, the district attorney may decide to prosecute for either forgery ("valsheid in geschrifte") with a penalty of up to USD56,000 or up to six years imprisonment, or money laundering ("witwassen") with a penalty of up to USD56,000 or up to 12 years imprisonment.

Botswana

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A. At a glance

Name of the tax	Value-added tax (VAT)
Local name	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 (0%) and exempt
VAT number format	C01234567890 for companies I01234567890 for individuals P01234567890 for partnerships T01234567890 for trusts *The VAT number format will be changing as from 1 July 2020 when all companies will be required to have re-registered online on the Company and Intellectual Property Authority (CIPA) site, and the new CIPA registration number will be the format used to generate the VAT number.* ID/passport for individuals Unique numbers to be generated for Partnership and Trusts by the Revenue Authority
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 Eswatini) 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.

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

Voluntary registration and small businesses. 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

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.

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.

Domestic reverse charge. There are no domestic reverse charges in Botswana.

Digital economy. In a business-to-business (B2B) 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.

Online marketplaces and platforms. No special rules exist for online marketplaces and platforms 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

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.

D. 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: 12%
- 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 VAT and that do not qualify for input tax deduction.

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. The option to tax exempt supplies is not available in Botswana.

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.

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.

Continuous supplies of services. 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.

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. As such, 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.

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.

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.

Imported goods. 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.

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. VAT directly related to making exempt supplies is not recoverable. A registered person who makes both exempt and taxable supplies cannot recover input tax 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.

Capital goods. A VAT-registered person is allowed to recover input tax incurred on acquisition or importation of capital goods used for making taxable supplies. Capital goods means assets that are subject to capital allowances under the Income Tax Act. If the capital goods are used for taxable and exempt supplies, the portion of input tax relating to exempt supplies that is not recoverable is capitalized to be part of cost of the asset, and so is the VAT paid on capital goods that is not recoverable as input tax, e.g., VAT on capital goods used for entertainment. The input tax is recovered at the same time and in same manner as other VAT on acquisition or importation of the goods.

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).

Pre-registration 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

Write-off of bad debts. A VAT-registered person is allowed to claim VAT on a bad debt that has been written off. The VAT is claimed on the later of the date the bad debt was written off, or 12 months after the end of the tax period in which the VAT on the bad debt was accounted for. When the bad debt is recovered, the registered person is required to recoup the VAT previously allowed as input tax.

Noneconomic activities. Input tax incurred in relation to noneconomic activities is not recoverable in Botswana.

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. Registered persons must provide VAT tax invoices for all taxable supplies made, including exports.

Credit notes. 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.

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.

Simplified VAT invoices. A VAT-registered person is allowed to issue simplified VAT invoices (by way of a nontax invoice or receipt), provided the amount does not exceed BWP20.

Self-billing. Self-billing is allowed in Botswana, provided both the buyer and seller are registered for VAT and they have agreed that the buyer will issue the tax invoice and not the seller, and the Commissioner General has granted written approval to issue a "recipient-created tax invoice."

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 at the time when VAT is accounted for on the supply.

Supplies to nontaxable persons. No VAT tax invoices need to be issued for supplies with consideration that is below BWP20 and for supplies to any persons who are not registered for VAT.

Records.

Record retention period. Records are required to be kept in Botswana for a period of seven years.

Electronic archiving. Electronic archiving is not allowed in Botswana. Hard copies of the original tax invoices received for claiming input tax should be kept, and copies of the invoices issued by the registered persons.

I. Returns and payment

Periodic 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. If the due date falls on a Saturday, Sunday or public holiday, the due date is the last business day before the holiday.

Periodic payments. Payment is due in full by the same date as the return submission, i.e.,. on or before the 25th of the month following the end of the tax period.

Electronic filing. 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.

Payments on account. A registered person can apply to the Commissioner General to extend the time or make other arrangements for the payment of VAT, but such arrangements will not waive the charging of interest on the staggered or delayed payments.

Special schemes. No special schemes are available in Botswana.

Annual returns. Annual returns are not required in Botswana.

Supplementary filings. No supplementary filings are required in Botswana.

Digital reporting. No digital reporting requirements apply in Botswana.

J. Penalties

Penalties for late registration. 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.

Penalties for late payment and filings. The greater of the following penalties is imposed for the late filing of the VAT return:
- BWP50 per day
  Or
- 10% of the outstanding tax for each month or part of a calendar month that the return remains outstanding

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 at a rate of 1.5% per month (compounded).

Penalties for errors. Penalties are not charged where the Commissioner considers that any error on the VAT return is genuine, e.g., transposition of figures on the VAT return.

Penalties for fraud. Penalties are imposed in respect of any offenses, including making false statements and obstructing a VAT officer.

Prosecution proceedings may be instituted against offenders and where a person is convicted, no penalties will be charged.

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	Brazilian Mercosur Member
Administered by	Brazilian 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.

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. *At the time of preparing this chapter, the Supreme Court (STF) has yet to decide whether the rule will apply from the publication of the decision (ex nunc) or since the beginning of the discussion (ex tunc).*

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.

Interpretation of PIS and COFINS legislation. The Federal Tax Authority (Receita Federal do Brasil) recently issued the normative ruling n° 1.1911/19 (IN 1.911/19) that gathers its interpretation of PIS and COFINS legislation. Due to the publication of such act, all other normative rulings are extinct. Some relevant matters were addressed, such as the amount of ICMS that should be excluded from PIS and COFINS calculation basis, the concept of 'raw materials' (due

to the recent tax ruling of its expansion), etc. It's important that companies comply with what is set to reduce the risk of notification from Receita Federal do Brasil (RFB).

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.

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 and small businesses. The VAT law in Brazil does not contain any provision for voluntary VAT registration.

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.

Tax representatives. Tax representation is not allowed in Brazil.

Reverse charge. If a non-established business supplies services to a Brazilian taxable person but does not register for VAT (for example. importation of goods/services), the Brazilian 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, but not in all cases (subject to the normal input tax recovery rules).

Domestic reverse charge. There are no domestic reverse charges in Brazil.

Digital economy. Business-to-business (B2B) 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-consumer (B2C) 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.

Online marketplaces and platforms. No special rules exist for online marketplaces and platforms. Regular VAT will levy on the sale of goods (ICMS, PIS/COFINS and IPI — if manufactured or imported by the company).

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.

Deregistration. Upon termination of activities, companies can deregister before federal, state and municipal tax authorities.

D. 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 20% 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 payable at import, PIS and COFINS, and every other custom cost that was charged to the buyer. 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% for goods and 1.65% when importing services.

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 goods and 7.6% when importing services.

For certain types of goods, and depending on specific tariff code, an additional 1% of COFINS upon importation is levied. However, this additional 1% is not recoverable (no credit entitlement).

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. The option to tax exempt supplies is not available in Brazil.

E. Time of supply

The general time of supply rule is when the sale takes place, as it is commonly, the moment when the ownership changes in the case of goods. At the time of supply, the supplier must collect taxes (ICMS, IPI and PIS/COFINS).

Deposits and 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.

Continuous supplies of services. There are no special time of supply rules in Brazil for continuous supplies of services. As such the normal time of supply rules apply.

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.

Leased assets. Leased assets are not considered a sale, however certain states still demand ICMS collection on those transactions.

Imported goods. Goods are deemed to be supplied when they leave the seller's facilities.

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.

Examples of items for which input tax is nondeductible

- Individual protection equipment
- Coffee breaks
- Office supplies

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

- Raw materials
- Packing materials

Partial exemption. For PIS/COFINS the company can keep the whole amount of credits that were recovered when the input was purchased. However, for IPI and ICMS when selling a product that is exempt, the company must reverse the amount of credits related to such items. To measure the value of credits that can be booked, the company must calculate the percentage of taxable revenues over the total revenue. The result of such calculation is the percentage of credits over inputs that can be recovered.

Capital goods. For PIS/COFINS purposes, capital goods that allow the recovery of credits are machinery, equipment, tolls and building constructions. Commonly, the credits are booked at once — at the time of purchase, calculated over the value of the capital good (for building construction the company must take advantage of the credit for a 24-month period).

For ICMS purposes, the company is allowed to recover the amount related to machinery, equipment and tools only if related to the assembly of the goods. (Must take advantage of the credit for a 48-month period). No capital goods for IPI.

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.

Pre-registration 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.

Write-off of bad debts. Output tax accounted for on supplies that do not get paid by the recipient (i.e., a bad debt), cannot be recovered in Brazil.

Noneconomic activities. Input tax incurred in relation to noneconomic activities is not recoverable in Brazil.

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.

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. 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. 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.

Credit notes. A credit note (input invoice) must contain the same information as a VAT invoice, but it is not valid in all situations. 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.

Electronic invoicing. 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.

Simplified VAT invoices. Simplified VAT invoicing is not allowed in Brazil. As such, full VAT invoices are required.

Self-billing. Self-billing is allowed in Brazil when importing goods or when the seller/buyer does not need to issue invoices (i.e., a nontaxable person). There are no special conditions for self-billing and it is available for all taxpayers.

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).

Supplies to nontaxable persons. 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.

Records. All invoices and ancillary obligations must be recorded.

Record retention period. Records must be retained for five years.

Electronic archiving. Electronic archiving is permitted in Brazil, but not mandatory. Paper archiving is possible.

I. Returns and payment

Periodic returns. *ICMS.* ICMS returns must be submitted for monthly periods. The VAT return must consist of 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.

IPI. 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 return form must be completed each month. ISS returns are generally due monthly, but the rules differ between municipalities (Brazil has more than 5,500 municipalities).

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.

Periodic payments. *ICMS.* The VAT return must include a payment receipt (GARE). 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.

ISS. ISS is due monthly. A specific payment 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).

PIS-PASEP and COFINS. PIS-PASEP and COFINS are due monthly, using a DARF.

Electronic filing. Monthly electronic filing is required from companies where the detailed throughput of goods and services are to be reported to the authorities.

Payments on account. Payments on account are not required in Brazil.

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.

Supplementary filings. No supplementary filings are required in Brazil.

Digital reporting. Most of Brazilian's ancillary obligations are filed digitally. Taxpayers are obliged to file the following to the tax authority:
- Digital invoicing (real time)
- EFD contribuições (for PIS and COFINS)
- EFD fiscal (for ICMS and IPI)

J. Penalties

Penalties for late registration.

ICMS. A fine that may vary from 1% to 80% of the value of the transactions that occurred before registration.

IPI. A fine that may vary from 2% to 20% of the debt when not informed to the tax authority the payable amount.

ISS. Penalties may vary depending on the municipality and on the type of irregularity. For example, in the São Paulo municipality, the fine varies from 10% to 100% of the ISS due.

PIS-PASEP and COFINS. A fine that may vary from 20% to 70%. A lower rate is applicable when it is confessed by a taxpayer and higher rate when identified in tax diligence.

Penalties for late payment and filings.

ICMS. A fine of between 50% and 150% of the tax due and a fine of between 10% and 100% of the tax credit. The penalty varies if the company spontaneously informs the tax authority about under payments. However, if the tax authority identifies a deficiency without any disclosure from the taxpayer, the fine is higher.

IPI. The penalty for an error connected is a fine of at least 75% of the tax due. However, it may be reduced to 20% when spontaneously informed by the taxpayer.

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.

PIS-PASEP and COFINS. The penalty for an error connected is a fine of at least 75% of the tax due. However, it may be reduced to 20% when spontaneously informed by the taxpayer.

Penalties for errors.

ICMS. A fine is levied between 1% and 10% of the value of the transaction.

IPI. The penalty for an error connected is a fine of at least 75% of the tax due. However, it may be reduced to 20% when spontaneously informed by the taxpayer.

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.

PIS-PASEP and COFINS. The penalty for an error connected is a fine of at least 75% of the tax due. However, it may be reduced to 20% when spontaneously informed by the taxpayer.

Penalties for fraud.

ICMS. A fine is levied between 20% and 100% of the value of the transaction.

IPI. The penalty for an error connected is a fine of at least 75% of the tax due. However, it may be reduced to 20% when spontaneously informed by the taxpayer.

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.

PIS-PASEP and COFINS. The penalty for an error connected is a fine of at least 75% of the tax due. However, it may be reduced to 20% when spontaneously informed by the taxpayer.

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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%
Other	Zero-rated (0%) and exempt
VAT number format	BG123456789 (BG + 9 digits) BG1234567890 (BG + 10 digits)
VAT return periods	Monthly
Thresholds	
Registration	
Established	BGN50,000 (EUR25,564.59)
Non-established	None
Distance selling	
Intra-Community acquisitions	BGN20,000 (EUR10,225.84)
Electronically supplied services (MOSS)	BGN19,558.30 (EUR10,000)
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 for taxable persons, established in Bulgaria, 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.

There is no VAT registration threshold for taxable persons who are non-established in Bulgaria and perform any of these supplies. Non-established taxable persons are obliged to apply for VAT registration seven days before VAT becomes chargeable regardless of the generated turnover.

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.

A taxable person, established in another EU Member State and performing intra-Community acquisitions in Bulgaria under the call-off stock regime or in chain transactions, must register for VAT purposes in Bulgaria, regardless of the taxable turnover of the intra-Community acquisitions.

When two or more related parties, or parties that consistently carry out a homogeneous activity in the same commercial premises, the taxable turnover of each subsequent participant will include the taxable turnovers of all the persons before them, generated for the last 12 months, including the current one. A homogeneous activity will be any activity for which there is a significant identity in respect of two or more of the following elements: the goods or services offered, the assets used, the staff, the commercial mark or name of the outlet, the suppliers or the customers.

Exemption from registration. Incidental taxable activities and supplies of fixed assets do not account toward the VAT registration threshold.

Voluntary registration and small businesses. A taxable person may register for VAT voluntarily irrespective of its taxable turnover.

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.

Group registration. Group VAT registration is not available in Bulgaria.

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.

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

Domestic reverse charge. 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 provided by agricultural producers (a temporary measure, applicable 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. Regulated on the EU level, the Mini One-Stop Shop (MOSS), 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.

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 website 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.

Online marketplaces and platforms. Online marketplace is any software accessed through the internet using a web browser or mobile application and through which goods/services are sold by providing the customer with the option of selecting goods/services through a shopping basket or otherwise, as well as providing customer contact information, delivery address and payment method. One may perform supplies through an online marketplace, using their own domain, a rented domain or a domain of another person who provides a platform for online trade.

In any case, online marketplaces are subject to mandatory registration with a specific register of the Bulgarian tax authorities and must apply for it before commencing the activity. Online marketplaces are not obliged to issue fiscal receipts on paper. They could issue such receipts electronically, though the data shall be kept in store for the case of tax control procedures.

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.

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 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.

Effective 1 January 2020, the email address included in the application for VAT registration is assumed to be the official email address for correspondence with the tax authorities of the registered person.

Deregistration. A registered person may deregister when it ceases to make taxable supplies and the conditions for mandatory VAT registration are no longer met.

VAT deregistration is mandatory on the winding up of a company or on the death of a taxable individual.

D. 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: 20%
- Reduced rate: 9%
- 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 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

Examples of supplies of goods and services taxable at 9%

- Hotel accommodation

The term "exempt supplies" refers to supplies of goods and services that are not liable to VAT and that do not qualify for input tax 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 transfer of another right *in rem* of the goods or the transfer of any other right to dispose 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.

Deposits and 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.

Continuous supplies of services. 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.

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.

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.

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.

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.

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.

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.

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.

Effective 1 January 2020, to substantiate the zero VAT rate on an intra-Community supply, the supplier should have not only the documents previously required, i.e.:

- 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.

The supplier should also have at its disposal the documents under Article 45a of the Council Implementing Regulation (EU) 2018/1912 of 4 December 2018.

In addition, the 0% VAT rate shall be applied only if the recipient has provided the supplier with its valid VAT ID in advance, and if the intra-Community supply is correctly reported in the VIES return of the supplier.

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.

Private use. Private use of services and goods by a taxable person for nonbusiness purposes is deemed supply for consideration. 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 tax 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 tax 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 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 tax 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.

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 tax is deductible from output tax 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 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

- 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.

Capital goods. The period of adjustment for capital goods is 5 years and for real estate is 20 years. The input tax 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.

In case of improvements of existing buildings as a result of which a new building is created, for the purposes of input tax corrections, a new 20-year period commences for the improvement.

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).

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 tax must be carried forward in the following two consecutive months and offset against VAT payables. If, at the end of the offsetting procedure, input tax 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.

Pre-registration costs. Input tax 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

Write-off of bad debts. No bad debt relief applies in Bulgaria. However, based on a decision of the CJEU on a Bulgarian request for a preliminary ruling, it is expected the bad debt relief to be legislatively introduced in Bulgaria in 2020. *At the time of preparing this chapter, no further details have yet to be released on this matter, by the tax authority.*

Noneconomic activities. Input tax incurred upon purchases that are used for noneconomic activities is not recoverable in Bulgaria.

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.

EU businesses. For businesses established in the EU, refunds are made under the terms of EU Directive 2008/9/EC.

Non-EU businesses. 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. 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 notes. 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.

Electronic invoicing. Bulgaria VAT law permits electronic invoicing in line with EU Directive 2010/45/EU (see the chapter on the EU).

Electronic invoicing is permitted for all Bulgarian VAT taxpayers. Electronic 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.

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.

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.

Self-billing. Self-billing is allowed in Bulgaria. For self-billing to be applied, the supplier and the recipient should conclude an explicit agreement in this regard. The Bulgarian tax authorities should also be notified by the supplier of this agreement. The signing of such agreement, however, does not release the supplier from its obligation to properly and timely document the supplies, and in case that the recipient does not issue an invoice, the latter should be issued by the supplier. In case that the supplier or the recipient is not established in Bulgaria, the supply should be documented under the legislation of the country where the place of supply is.

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 documents proving the dispatch of the goods to another EU Member State

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.

Supplies to nontaxable persons. Effective 1 January 2019, 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.

Bulgarian legislation envisages that the issuance of an invoice to nontaxable persons is optional, unless the latter explicitly requests it. When an invoice is issued to a nontaxable person, the invoice shall contain its official identification number, i.e., personal identification number, BULSTAT number, etc. *At the time of preparing this chapter, no further information on this has been issued.*

Records.

Record retention period. Any taxable person shall ensure the storage of the tax documents issued by or on their behalf, as well as of all tax documents received thereby, for five years after the expiry of the statute of limitation of the tax liabilities that such documents certify, in their original form. The authenticity of the origin and the integrity of content of the tax documents, as well as the readability thereof, must be guaranteed during the entire period of storage. 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.

Electronic archiving. 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.

I. Returns and payment

Periodic returns. Bulgarian taxable persons file VAT returns monthly. VAT returns must be filed by the 14th day of the month following the tax period.

Periodic payments. 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.

Electronic filing. Effective 1 January 2018, VAT returns must be filed in electronic format only.

Payments on account. Payments on account are not required in Bulgaria.

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 secondhand 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

- MOSS 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 goods per unit equals or exceeds BGN50,000

Annual returns. Annual returns are not required in Bulgaria.

Supplementary 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 BGN470,000. The threshold for Intrastat Dispatches for 2019 is BGN290,000.

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 2020 does not exceed the following:
- Dispatches: BGN15.8 million
- Arrivals: BGN7.6 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.

EU Sales Lists. 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.

Call-off stock register. Taxable persons that apply the call-off stock regime must keep a specific register where all the movements are included from the beginning of the transport of the goods. Any subsequent changes in the circumstances, i.e., change of the final customer of the goods, must be reflected in this register in due course.

Digital reporting. Effective 1 January 2018, VAT returns must be filed in electronic format only.

J. Penalties

Penalties for late registration. 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 dereister on time.

Penalties for late payment and filings. 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 late submissions or for missing or inaccurate Intrastat declarations ranges from BGN500 to BGN5,000.

Penalties may be imposed for late, missing or inaccurate ESLs.

Penalties for errors. The penalty for failing to charge VAT is the amount of VAT not charged, but not less than BGN500. 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 tax is nondeductible.

If failure to charge VAT is due to a technical mistake, the same may be settled by cancellation of the wrong invoice and issuance of a new one containing the respective VAT. It is also necessary that a countersigned cancellation protocol containing the grounds for the cancellation is issued and kept for tax control purposes. This, however, does not exclude the abovementioned administrative penalties.

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.

Penalties for fraud. If a taxable person avoids the assessment or payment of tax obligations in large amounts, i.e., over BGN3,000, by non-submission of return or by declaring wrong data in a return, they may be subject to criminal liability from one to six years imprisonment or a fine of up to BGN2,000. Should the tax obligations be in respect of large amounts, i.e., over BGN12,000, one shall be imposed to imprisonment from three to eight years and confiscation of a part or all of their property.

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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 1999
Administered by	General Directorate of Taxation (GDT)
Trading bloc membership	Central African Economic and Monetary Community (CEMAC) Member State
VAT rates	
Standard	19.25%
Other	Zero-rated (0%) and exempt
VAT number format	M 0 8 5 4 0 0 0 0 1 4 7 6 E
VAT return periods	Monthly
Thresholds	
Registration	XAF50 million annual turnover
Recovery of VAT by non-established businesses	No

B. Scope of the tax

VAT applies to transactions carried out or deemed to have been carried out in Cameroon for consideration. A transaction is deemed to have been carried out in Cameroon where:

- In the case of sale of goods, delivery takes place within Cameroon.
- In the case of all other activities, the services provided, the items leased or the rights ceded are used within Cameroon.

The Finance Law for 2020 expressly specifies that the following transactions are also subject to VAT:

- Sales of goods and services provided on Cameroonian territory or through foreign or local electronic commerce platforms
- Commissions received by the operators of online trading platforms during the operations described above

By way of exception, with regard only to transport between CEMAC Member States, operations shall be deemed to have been carried out in Cameroon if the transporter is domiciled or has his registered office in Cameroon, even where the principal part of the operation is carried out in another Member State.

C. Who is liable

A taxable person is any business entity or individual that makes supplies of goods or services in the course of a business in Cameroon.

Only business entities or individuals taxable under the real regime, i.e., those who have an annual turnover excluding tax of XAF50 million or more, are subject to VAT.

Voluntary registration and small businesses. The VAT law in Cameroon does not contain any provision for voluntary registration.

Group registration. Group VAT registration is not allowed in Cameroon.

Non-established businesses. A "non-established business" is a business that has no permanent establishment in the territory of Cameroon. Non-established businesses that perform taxable operations in Cameroon must nominate a representative who is a taxable person for VAT purposes. The representative must comply with all the obligations created under the General Tax Code for taxable persons, namely the filing 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).

Tax representatives. Non-established businesses must nominate a tax representative for VAT purposes in Cameroon. 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 whenever a non-established entity fails to nominate a VAT representative. In such a case, the local entity (the customer) will be liable for VAT on the supply made by the nonresident service provider. As part of the VAT reverse-charge mechanism, the VAT shall be declared as output and input tax in the same tax return. Therefore, there shall be no cash impact for the client, to the extent there is a full right of deduction.

Domestic reverse charge. There are no domestic reverse charges in Cameroon.

Digital economy. No special rules exist for digital economy supplies.

Online marketplaces and platforms. Operators of electronic commerce platforms should calculate, submit and pay on behalf of suppliers, the VAT due on goods and services rendered through electronic commerce platforms. The Finance Law for 2020 specifies that a text will set out the procedures for implementing the above provisions. At the time of preparing this chapter, the said text has not yet been published.

Registration procedures. Any business entity or individual subject to the payment of a tax (including VAT) in Cameroon is required to apply for registration with the tax office territorially competent within 15 days of the commencement of its activities, and to attach a localization plan to its application. A unique identifier number is definitively assigned by the General Directorate of Taxation after certification of the taxpayer's actual localization.

The Finance Law for 2020 states that operators of electronic commerce platforms are required to file a registration request with the tax authorities. The registration can be carried out online through the internet portal of the tax administration. The Finance Law for 2020 specifies that a

text will set out the procedures for implementing the above provisions. *At the time of preparing this chapter, the said text has not yet been published*.

Deregistration. Any business entity or individual subject to the payment of a tax (including VAT) in Cameroon must, within 30 days from the date of termination of activity, file the return of taxable income until the date of the termination with the tax office territorially competent.

D. 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: 17.5%
  - —An additional council tax applies at the rate of 10%, to reach an effective VAT rate of 19.25%.
- 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%
- Exportation of taxable goods
- Transactions carried out in free zones

Examples of exempt supplies of goods and services
- Transactions relating to the transfer of ownership of real estate and goodwill subject to transfer tax or equivalent taxation, provided such transactions are subject to registration duties
- Real estate transactions of all kinds carried out by non-professionals, provided such transactions are subject to registration duties
- Fees charged by educational institutions and universities
- Goods of basic necessity, including but not limited to pesticides, fertilizers and their inputs, beef (except imported meat), pharmaceuticals, etc. (listed in appendix I of Title 2 of the General Tax Code)
- Sales of petroleum products for the refueling of airplanes of companies based in Cameroon
- Supplies of water and electricity for domestic consumption up to 20 m3/month and 220 kW/month respectively
- Medical services
- Materials and equipment for producing solar and wind energy
- Urban public transport by bus
- Interest on negotiable debt securities issued by the state, regional and local authorities
- Interest on loans of less than F.CFA2 million granted by category 1 micro-finance institutions
- Contracts and commissions on life insurance products with a savings component

Option to tax for exempt supplies. A taxable person may opt for certain operations such as urban public commuter services to be subject to VAT.

E. Time of supply

In Cameroon, 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 time 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. In principle, if the consideration for a supply of services is paid in instalments, VAT is due on the receipt of each installment.

Deposits and 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.

Continuous supplies of services. In the case of instalment payments or continuous payments with respect to continuous supplies of services, the chargeable event occurs at the end of the periods to which such instalments or payments refer.

Goods sent on approval for sale or return. There are no special time of supply rules in Cameroon for goods sent on approval for sale or return. As such, the normal time of supply rules apply.

Reverse-charge services. The time of supply for a reverse-charge service received by a Cameroonian taxable person is the date of payment for the service.

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.

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.

F. Recovery of VAT by taxable persons

A taxable person may recover input tax charged on goods and services supplied to it for business purposes. A taxable person generally recovers input tax by offsetting it against output tax charged on supplies made. Input tax includes VAT charged on goods and services supplied in Cameroon, 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.

Nondeductible 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.

Examples of items for which input tax is nondeductible

- Expenses for accommodation, catering, receptions, shows, and rental of passenger vehicles and passenger transport vehicles (with the exception of the expenses borne, by reason of their taxable activity, by the professionals of the tourism, the restoration, the spectacle and the car dealers)
- Imports of goods used for business purposes, unused and re-exported as is.
- Goods and services acquired by enterprises, but used by third parties, managers or employees of such enterprises.
- Services relating to goods excluded from the right of deduction.

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

- Raw materials and supplies used in producing goods and services
- Services that have actually contributed to this production, provided that the service providers themselves are registrants subject to the real regime
- Purchase of goods and merchandise necessary and related to the business
- Capital goods required for the business use, excluding passenger vehicles and their spare parts, and associated repair costs
- Goods used by the concessionaire but belonging to the licensing authority

Partial exemption. Input tax directly related to exempt supplies is not generally recoverable. If a Cameroonian 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."

For taxable persons who do not carry out exclusively recoverable transactions, the recovery is applied on a pro rata basis. This pro rata applies to both fixed assets and goods and services. It is calculated from the fraction of turnover relating to taxable transactions. This fraction is the ratio between:

- In the numerator, the amount of revenue relating to transactions subject to VAT, including exports
- At the denominator, the amount of revenue of any kind made by the taxable person

A taxable person that performs within the same business entity different types of business activities that are subject to different VAT rules must maintain separate accounts for each branch of activity and compute its recovery rights separately for each business unit. Failure to comply with this condition calls into question the option, and the prorate is automatically applicable.

Capital goods. Capital goods are items of capital expenditure that are used in a business over several years and thus qualify as fixed assets. Where a good that has been recovered, in respect of capital goods, is no longer part of the assets of the business by way of an assignment before the end of the fourth year from its acquisition, and that such assignment is not subject to VAT for any reason, the taxable person is liable for a fraction of the VAT previously recovered. This fraction is equal to the amount of the recovery, minus one-fifth per year or fraction of a year since the acquisition.

The full refund of the VAT initially recovered is also required when the goods concerned have been subject to misappropriation or fraud attributable directly or indirectly to a shareholder or a manager of the enterprise.

Refunds. The tax credits generated by the deduction mechanism are chargeable on the VAT due for subsequent periods until exhaustion, without limitation of time.

VAT credits may be subject to compensation and possibly refunded provided that their beneficiaries are not liable for any taxes and duties of any kind whatsoever and that these credits are justified.

They are refundable:

- Within three months to enterprises in structural credit situation due to withholdings
- Within three months from the filing of the refund application, to industrialists, marketers and leasing institutions when they renounce to the mechanism of imputation
- Exporters, within two months of the filing date of the refund application. However, the amount of the VAT credit to be refunded is limited to the amount of VAT calculated by applying the general rate in force to the amount of the exports made. Exporters are required to attach to their declaration the customs references of the exports made, the actual export certificate issued by

the customs administration, as well as that of the repatriation of the funds delivered by the administration in charge of the treasure on the export sales of which the refunding is requested.
- At the end of each quarter, to diplomatic or consular missions, subject to formal agreement of reciprocity, when they have previously paid VAT
- At the end of each quarter, to diplomatic or consular missions and international organizations, subject to formal agreement of reciprocity or headquarters agreement, when they have previously paid VAT
- At the end of the fiscal year, to nonprofit and public interest organizations whose management is voluntary and selfless for the benefit of any person, when their operations are of a social, sporting, cultural, religious, educational or philanthropic in accordance with their object. The organization must be approved by the competent authority; each transaction must be subject to the prior approval of the General Director of Taxation.

Requests for refund are accompanied by a non-debt clearance certificate. Requests for refund of eligible VAT credits, accompanied by supporting documents, submitted electronically to the competent tax authorities, are admissible.

Refunds of VAT credits are made according to the following terms:
- For low-risk enterprises, reimbursement is automatic without a prior validation check procedure
- For medium risk enterprises, reimbursement is carried out after a credit validation check procedure
- For high-risk enterprises, reimbursement can only be made after a general accounting audit procedure that must be completed within one month after the submission of the refund application

Pre-registration costs. Newly created companies may claim a refund of input tax 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 tax registration certificate, evidence of market investigation and marketing expenses, etc.

Write-off bad debts. A taxable person may recover input tax 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.

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

Input tax incurred by non-established businesses in Cameroon is not recoverable.

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.

Credit notes. VAT paid on sales or services that are subsequently terminated, canceled or remain unpaid, can be recovered by charging the tax due for future transactions.

For terminated or canceled transactions, the recovery of the VAT paid is subject to the establishment and sending to the client of a new invoice to replace the original invoice.

For unpaid transactions, when the claim is actually and permanently irrecoverable, the rectification of the invoice consists in sending a duplicate of the original invoice with the regulatory indications, overloaded with the mention "invoice remained unpaid for the amount of __, price excluding VAT, and for the sum of __ corresponding VAT, which may be deducted."

Electronic invoicing. The VAT law in Cameroon does not contain any provision for electronic invoicing. As such, electronic invoicing is not allowed in Cameroon.

Simplified VAT invoices. Simplified VAT invoicing is not allowed in Cameroon. As such, full VAT invoices are required. However, in practice, 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 consumer 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' unique identifier 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)

Self-billing. Self-billing is not allowed in Cameroon.

Proof of exports. VAT is chargeable on supplies of exported goods at the zero rate. However, for the application of the zero rate, exports must be supported by evidence indicating that the goods have left Cameroon. Acceptable proof includes 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.

Foreign currency invoices. If a Cameroonian VAT invoice is issued in a foreign currency, the VAT amount to be paid must be converted into XAF using the rate published by the Bank of Central African States for the date of the supply.

Supplies to nontaxable persons. There are no special rules for VAT invoices issued for supplies made by taxable persons to private consumers. However, in practice, it is possible to raise other types of documents instead of invoices, if the consumer is not a VATable person, and such goods or services acquired are not linked or connected with any business activity. Detail on such documents are outlined above under Simplified VAT invoices.

Records.

Record retention period. All invoices or equivalent documents must be kept, according to the legislation in place, by the taxable person for 10 years.

Electronic archiving. Electronic archiving is not compulsory and paper invoices issued and received can be archived under their paper format.

Invoicing is subject to an electronic follow-up by the tax administration in the conditions defined by a decree of the Minister in charge of Finance. However, the decree has not yet been published.

I. Returns and payment

Periodic returns. VAT returns must be submitted monthly, until the 15th day of the month following when the operations took place.

Periodic payments. Payment of VAT due must be paid together with the submission of the VAT return, i.e., by the 15th day of the month following the one where the operations took place. The amount of VAT is paid directly and spontaneously by the taxpayer at the time of filing the return to the tax collector of the tax center, on which depends its head office, its principal establishment or the representative accredited by him. However, for the enterprises belonging specialized management units, the filing and the payment are carried out with them.

For suppliers of the State, Decentralized Territorial Communities, Public Administration Establishments and partially or wholly public-owned companies, and of some private sector companies whose lists are set by regulation, VAT is withheld at source when settling invoices and paid back to the tax centers or specialized management units under the same conditions and deadlines applied to other transactions. However, the Minister in charge of Finance may, as necessary, exempt certain enterprises potentially in a situation of structural credit from the withholding referred to above.

From 1 January 2020, VAT due on sales of goods and services rendered through electronic commerce platforms, should be liquidated, submitted and paid by the operators of said platforms, on behalf of suppliers. VAT due on commissions received on sales made in Cameroon through electronic commerce platforms should be submitted and paid by the operators of said platforms.

The filing and payment of the VAT collected by the said operators can be carried out online through the internet portal of the tax administration. The Finance Law for 2020 specifies that a text will set out the procedures for implementing the above provisions. *At the time of preparing this chapter, the said text has not yet been published.*

Electronic filing. VAT returns can be submitted electronically. In this case, the tax notice generated is compulsorily presented to the bank in support of the payment of the corresponding VAT.

Payments on account. Payments on account are not required in Cameroon.

Special schemes. There is one special scheme in Cameroon (which is optional), called the "debit regime." It is the regime according to which the chargeable event of the VAT is constituted by debits for the contractors of real estate works which opt expressly for this regime.

Annual returns. Annual returns are not required in Cameroon.

Supplementary filings. No supplementary filings are required in Cameroon.

Digital reporting. VAT returns can be submitted electronically. In this case, the tax notice generated is compulsorily presented to the bank in support of the payment of the corresponding VAT.

From 1 January 2020, VAT due on sales of goods and services rendered through electronic commerce platforms, should be liquidated, submitted and paid by the operators of said platforms, on behalf of suppliers. VAT due on commissions received on sales made in Cameroon through electronic commerce platforms should be submitted and paid by the operators of said platforms.

The filing and payment of the VAT collected by the said operators can be carried out online through the internet portal of the tax administration. The Finance Law for 2020 specifies that a text will set out the procedures for implementing the above provisions. *At the time of preparing this chapter, the said text has not yet been published.*

J. Penalties

Penalties for late registration. The non-filing, within the legal deadlines, of an application for registration, gives rise to a fixed fine equal to XAF250,000. The exercise of an economic activity without prior registration, gives rise to the application of a fine of XAF100,000 per month.

Penalties for late payment and filings. The filing, after formal notice, of a VAT return showing a nil tax or a credit, gives rise to the application of a fixed fine equal to XAF1 million.

Failure to file VAT returns in due time after formal notice gives rise to the application of a fine of XAF1 million per month.

Late payment of VAT entails the application of a late payment interest of 1.5% per month of delay.

Moreover, any late declaration or payment of VAT entails the application of a penalty of 10% per month of delay, without exceeding 30% of the VAT due in principal.

Penalties for errors. The insufficiencies, omissions or inaccuracies that affect the VAT base and which led the tax administration to make adjustments, give rise to the application of a late payment interest rate of 1.5% per month, capped at 50%, calculated on the basis of the amount of VAT charged to the taxpayer, following the notification of the last procedural act in case of audit.

Penalties for fraud. Without prejudice to the applicable fiscal sanctions, is liable to imprisonment of one to five years and a fine of XAF500,000 to XAF5 million or only one of these two penalties, whoever:
- Evades fraudulently or attempts to fraudulently evade the establishment, payment, total or partial repayment of VAT
- Expressly refuses to file within the prescribed time
- Conceal part of the sums subject to VAT
- Organizes its insolvency or prevents the recovery of VAT
- Fraudulently gets a refund of VAT credit

The insufficiencies, omissions or inaccuracies that affect the VAT base and which led the tax administration to make adjustments, mention of which must be made in the last procedural document, in addition to the abovementioned late payment interest, give rise to the application of the following surcharges:
- 30% in case of good faith
- 100% in case of bad faith
- 150% in case of fraudulent practices, without prejudice to criminal prosecution

The taxpayer who, after a formal notice to declare, has not filed his tax return, is subject to automatic taxation and the amount of VAT due give rise to the application of a 100% surcharge. The surcharge is increased to 150% in case of recidivism. Moreover, the taxpayer is subject to the late payment interest at the rate of 1.5% per month, capped at 50%.

Taxpayers may seek the opinion of the tax authorities on how to interpret and apply VAT, prior to concluding a transaction. Where the information provided by the taxpayer is complete, the advice given by the tax authorities is binding.

The tax administration must process applications for tax rulings within one month from the date of receipt of the complete request. Taxpayers applying for a tax ruling are required to (i) provide a clear, complete and truthful statement concerning the proposed transaction, (ii) identify the parties and their relationships, and (iii) provide copies of documents necessary to assess the scope of the transaction.

The scope of the guarantee offered by the tax authorities' ruling is restricted to the parties to the proposed transaction and the legal provisions in force at the time of referral to the tax authorities.

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A. At a glance

Name of the tax	Goods and services tax (GST)
Local name	Goods and services tax (GST)
Date introduced	1 January 1991
Name of the tax	Harmonized services tax (HST)
Local name	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 (https://www.canada.ca/en/services/taxes.html)
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%
Other	Zero-rated (0%) and exempt
GST/HST 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 (personal rights to property). 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

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.

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

Voluntary registration and small businesses. 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 startup 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.

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 solitarily) 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.

Non-established 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.

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.

Domestic reverse charge. There are no domestic reverse charges in Canada.

Digital economy. In the 2018–19 budget, Quebec announced it would 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 are 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 (for tax purposes) suppliers located in Canada are required to collect and remit the QST on taxable corporeal movable property they supply in Quebec to specified Quebec consumers. This mandatory registration applies to nonresident suppliers if the value of the consideration for all taxable supplies made by the supplier in Quebec to consumers exceeds CAD30,000. Mandatory registration also applies 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 took 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

To date, the federal government has not followed Quebec's lead. Online vendors who do not have a physical presence in Canada are not considered to be "carrying on business" in Canada. The obligation to pay the GST/HST on supplies is technically on the consumers, who are required to self-assess under the legislation although in practice this is rarely done.

The Auditor General of Canada released a report entitled "Taxation of e-commerce" on 7 May 2019. The report stated that the Canadian sales tax system has not kept pace with the rapidly evolving digital marketplace. On the basis of publicly available data, it estimated losses of CAD169 million in the GST on foreign digital products and services sold in Canada in 2017.

Online marketplaces and platforms. No special rules exist for online marketplaces and platforms in Canada, aside for those for the province of Quebec (as outlined above).

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 Revenue 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.

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.

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 canceled 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.

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 goods and services taxable at 0%

- 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 of goods and services

- 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.

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.

Continuous supplies of services. 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.

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.

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.

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.

Imported goods. 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. Tax on imported goods becomes due when the goods are released by the Canada Border Services Agency for entry into Canada. 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.

F. Recovery of GST/HST by taxable persons

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.

Nondeductible input tax. 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.

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 to taxable business use.

Examples of items for which input tax is nondeductible

- 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 for which input tax is deductible (if related to a taxable business use)

- 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

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.

On 17 May 2019, the federal Department of Finance released a package of draft legislative proposals and explanatory notes relating to the holding corporation rules. These proposals extend the application of the rules to include holding partnerships and trusts and modify the legislative proposals released on 27 July 2018, respecting these rules, to take into account consultations and deliberations since their release.

Capital goods. Although registrants are generally entitled to claim input tax credits in full at the time assets are acquired, special rules apply to certain capital goods. Generally, these rules apply to goods defined to be capital property, other than real property, of the registrant within the meaning of the Income Tax Act (referred to as capital personal property), as discussed below. Input tax credits are available at the time of acquisition to the extent an asset is primarily for use in a commercial activity. Certain subsequent changes in the proportion of commercial use over the life of the asset may trigger adjustments in GST/HST.

For GST/HST purposes, capital property includes any property that is capital property for income tax purposes, other than property included in Class 12, 14 or 44 of the capital cost allowance classes. Capital property for income tax purposes is defined as any depreciable property (i.e., property on which capital cost allowance may be claimed) and any property, such as land, shares, bonds, debentures and mortgages, that if disposed of would result in a capital gain or loss. Class 12 includes low-value assets (such as small tools, dishes, cutlery and motion picture films) for which a 100% write-off for income tax purposes is allowed, while Class 14 includes franchises, concessions and licenses for a limited period. Class 44 includes patents, and rights to use patented information for a limited or unlimited period. The definition of capital property for GST/HST purposes applies to a registrant whether or not the registrant is a taxpayer for income tax purposes.

The GST/HST status of the disposition of capital personal property generally depends on its use immediately prior to its disposition. GST/HST applies if the most recent use was primarily in a commercial activity, since, presumably, an input tax credit would have been taken.

Proportional input tax credits are available for acquisitions of capital real property, even where the property is not used primarily in a commercial activity. However, they are not available where the property is acquired primarily for the personal use and enjoyment of the registrant. Change-of-use rules apply if significant shifts occur in the mix of noncommercial and commercial usage.

Special rules also apply in the case of capital personal property and capital real property used by public sector bodies.

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.

Pre-registration 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.

Write-off of bad debts. The legislation provides relief for tax charged but not collected in the case of bad debts incurred by a supplier, to the extent these debts are subsequently written off. Specifically, the formula in the legislation provides that the deduction is equal to the tax payable in respect of the supply multiplied by the ratio of the total amount of the bad debt written off (including GST/HST and applicable provincial taxes) to the total amount payable for the supply (including GST/HST and applicable provincial taxes). This relief is not available for bad debts in

respect of which an accounting reserve has been established. The debt must be written off in the books of account to access the relief.

Noneconomic activities. Input tax incurred in relation to noneconomic activities is not recoverable in Canada.

G. Recovery of GST/HST by non-established 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. 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.

Credit notes. 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.

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.

Simplified GST/HST invoices. Simplified GST/HST invoicing is allowed in Canada. Invoice requirements are based on the value of the supply. For supplies less than CAD30, the only pieces of information required on supporting documents are the vendor's name or trading name, sufficient information to identify when GST/HST in respect of the supply was paid or became payable and the total consideration paid or payable for the supply.

For supplies greater than CAD30 but less than CAD150, two additional pieces of information are required. These are the vendor's GST/HST registration number and the total amount of GST/HST charged on the supply or, if prices are on a tax-included basis, a statement to this effect.

Where a document contains a combination of taxable and zero-rated or exempt items, the tax status of each must be shown if the document is to support an input tax credit claim. A statement that "prices include GST/HST where applicable" is not sufficient.

For supplies greater than CAD150, additional information is required. These are the purchaser's name, trading name or the name of their duly authorized representative; sufficient information to ascertain the terms of sale (e.g., cash, credit); and a description sufficient to identify the supply.

Self-billing. Self-billing is not allowed in Canada.

Proof of 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.

Supplies to nontaxable persons. 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.

Records. 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.

Record retention period. 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.

Electronic archiving. 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.

I. Returns and payment

Periodic 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 registrant has the option of filing returns monthly, even if revenue from taxable and zero-rated supplies is less than CAD6 million.

Periodic payments. Any net tax due for the period must be remitted with the return. Payments must be made in Canadian dollars.

Electronic filing. 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.

Payments on account. Payments on account are not required in Canada.

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.

Annual returns. Annual returns are not required in Canada.

Supplementary filings. Financial institutions are required to file an annual information schedule, Form GST111, Financial Institution GST/HST Annual Information Return. No other supplementary filings are required in Canada.

Digital reporting. No digital reporting requirements apply in Canada.

J. Penalties

Penalties for late registration. 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.

Penalties for late payment and filing. 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.

Penalties for errors. 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.

Penalties for fraud. 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

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.

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A. At a glance

Name of the tax	Value-added tax (VAT)
Local name	Value-added tax (VAT)
Date introduced	20 December 1999
Trading bloc membership	Central African Economic and Monetary Union
Administered by	General Director of Taxation
VAT rates	
Standard	18%
Reduced	9%
Other	Zero-rated (0%) and exempt
VAT number format	9000000Z
VAT return periods	Monthly or quarterly
Thresholds	
Registration	
Mandatory	XAF50 million
Deregistration	No threshold
Recovery of VAT by non-established businesses	No

B. Scope of the tax

VAT applies to the following transactions made in Chad:
- Supply of goods or services made in Chad by a taxable person
- Importation of goods

The territory of Chad includes, air space and other areas where, in accordance with international law, the Republic of Chad has sovereign rights for the purposes of exploration and exploitation of the natural resources of its soils, subsoil and water.

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 Chad. A taxable person that begins activity must notify the tax authorities of its liability to register for VAT purposes.

From 1 January 2018 onward, "large contributors" will be subject to VAT. "Large contributors" are taxpayers registered in the Large Taxpayers' Division with annual turnover more than XAF500 million. For entities not treated as large contributors, there are two different tax regimes depending on the business revenue. There is the "simplified" regime and "not subject" regime. The "simplified" regime is for entities that exceed the threshold from XAF50 million to XAF500 million.

However, while the "simplified" 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 subject to VAT obligations (turnover less than XAF50 million).

Voluntary registration and small businesses. The VAT law in Chad does not contain any provision for voluntary VAT registration.

Group registration. Group VAT registration is not allowed in Chad.

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

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).

Tax representatives. As mentioned above, non-established businesses must appoint a tax representative for VAT purposes in Chad. 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. Whenever a non-established entity fails to nominate a VAT representative, the non-established entity sends to the local customer (purchaser) an invoice without local VAT. The VAT is calculated and remitted to the tax authorities by the purchaser within 15 days of the month following the supplier's payment. This VAT paid will be deducted in the declaration of the following month to the extent there is a full right of deduction.

Domestic reverse charge. There are no domestic reverse charges in Chad.

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

Online marketplaces and platforms. No special rules exist for online marketplaces and platforms in Chad.

Registration procedures. Under the General Taxpayer Registration regime, all Chadian businesses or non-established entities that have a head office or other establishment in Chad must be registered. The submission should be made in the General Tax Payer Registry. The documentation needed would is the following:

- Copy of the company's deed registered by the notary
- Copy of the registration of the Company or natural person with the trade register
- Copy of the ID of the partners, directors and technicians of the company or passport/residence card (for foreign persons)

The registration must be done within 15 days following the start of its activity.

Deregistration. Individuals or companies subject to VAT must, within 15 days from the date of termination of activity, submit a Statement of Termination of Activity to the General Director of Taxation.

D. 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: 18%
- Reduced rate: 9% (with effect from 1 January 2020)
- 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, zero rate or an exemption.

Examples of goods and services taxable at 9%
- Local products only, e.g., cement, sugar, oil, soap and by-products of the local agrifood industry excluding alcohol (with effect from 1 January 2020)

Examples of goods and services taxable at 0%
- Exports of goods subject to a declaration signed by the customs administration, and related international transportation.

Examples of exempt supplies of goods and services
- Sales made directly to consumers by farmers, livestock breeders or fishermen, of non-processed products of their farming, livestock production or fishing.

The following operations provided they are subject to specific taxations exclusive of any taxation on revenue:
- Operations connected with insurance and reinsurance contracts implemented by insurance and reinsurance companies in the normal course of their business, as well as services related to such operations provided by brokers and other insurance intermediaries
- Operations whose purpose is the transmission of immovable property and intangible personal property liable to registration duties, excluding operations of the same kind performed by estate agents or those of leasing
- Operations relating to postage stamps, duty stamps and stamped documents issued by the State and local authorities
- Operations covering the import and sale of newspapers and periodicals, excluding advertising income
- Services or operations of a social, health, education, sporting, cultural, philanthropic or religious character provided by nonprofit organizations for which the management is voluntary and selfless and when these operations are directly related to the collective defense of their members' moral or material interests. But operations carried out by these organizations are taxable when they take place in a competitive sector
- Sums paid to the central bank responsible for the privilege of issuing banknotes and the proceeds of the operations carried out by this bank generating the issuance of banknotes
- Operations relative to leasing undeveloped land and empty premises
- Services coming under the statutory exercise of the medical or paramedical professions with the exception of accommodation and catering costs
- Teaching institutions practicing under approval delivered by the National Education Ministry and practicing approved pricing
- Leasing operations

- Delivery of super and gasoil by the National Refinery
- Any exoneration or tax or customs exemptions specified by the General Tax Code, the Customs Code, the Investments Code or relating to public contracts financed from the State budget may only be approved by the Finance Ministry. Any tax exemption or exoneration granted without the prior opinion of the Finance Ministry shall not be binding on the tax administration
- Imports of goods exempted, concerning equipment for mining and oil prospecting
- Sales made by painters, sculptors, engravers and basket makers when they concern only the products of their craftsmanship and provided that the amount of annual revenue does not exceed CFA20 million
- Replenishment of aircraft
- Sales, disposals or services performed by the State, regional authorities and public institutions not having an industrial or commercial character
- Essential goods shown on the list of products exempt from the tax on revenue by Article 5 of Law No. 003/PR/99 implementing the 1999 State budget, as supplemented by the CEMAC list (appendix 1)
- Equipment and goods specifically and solely intended for mining and oil prospecting that is the subject of a decree from the Finance Ministry
- Potable water produced by the Chad Water Company (STE) or any other company that may substitute for it
- Electricity produced by the Chad Electricity Company (SNE) or any other company that may substitute for it
- Potable water produced by other company (with effect from 1 January 2020)
- Electricity produced by other company (with effect from 1 January 2020)
- Interest remunerating external loans
- Interests on professionals' deposits with credit or financial institutions
- Examinations, consultations, treatment, hospitalisation, medical biology and analysis work and the supply of prostheses performed by health facilities
- Input products for livestock breeding and fishing, used by the producers
- Leasing empty buildings used for housing
- Small items of fishing equipment, agricultural equipment and machinery
- The materials, equipment and services necessary to the production and exploitation of cotton fiber
- The materials, equipment and services necessary to the production and distribution of water and electricity
- Baked bricks manufactured locally
- Interest on loans of an amount between CFA1 and 1 million granted by micro-credit financial institutions with a repayment schedule of at least six months and monthly payments less than or equal to CFA100,000
- Interest on property loans granted by financial institutions
- Gambling and games of amusement
- Equipment and products used for the fight against HIV AIDS, malaria, tuberculosis, yellow fever and severe viral infections related to illnesses in children and the elderly without resources, under the conditions fixed by the regulations
- The acquisition of materials and equipment used for the production and promotion of renewable energy, as well as associated services (the addition of associated services takes effect from 1 January 2020)
- Interest on loans for financing the renewable energy (with effect from 1 January 2020)

Option to tax for exempt supplies. The option to tax exempt supplies is not available in Chad.

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.

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).

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

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.

Continuous supplies of services. For 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.

Goods sent on approval for sale or return. There is no special time of supply rules in Chad for goods sent on approval for sale or return. As such, the normal time of supply rules apply.

Reverse-charge services. There is no special time of supply rules in Chad for reverse-charge services. As such, the normal time of supply rules apply.

Leased assets. Leasing agreements are also considered a continuous supply of services, and as such the time of supply occurs at each payment.

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

Construction works. Qualified as serviceproviders and entrepreneurs in property renovation or enterprises with mixed activities covering the delivery of goods and the provision of services, with the exception of transactions made with the State or local authorities, may be authorised to pay VAT according to the debits. In the case of receiving instalments before the debit memo, the tax is payable when the VAT is collected according to the debits.

F. Recovery of VAT by taxable persons

A taxable person may recover input tax incurred with the acquisition of goods and services deemed indispensable for the maintenance of the business. A taxable person generally recovers input tax 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 Chad, 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 and this invoice must contains mandatory information provided by the Tax code.

Nondeductible input tax. In principle, for registered taxpayers, VAT applied upstream on the price of a taxable operation, shall be deductible from the final tax applicable to such transactions,

provided that the said operation is necessary for the company exploitation. However, the Chadian General tax code has limited the deduction to certain goods and services.

Examples of items for which input tax is nondeductible

- Expenses for housing, accommodation, catering, reception, shows, vehicle hire and transport of persons. This exclusion does not concern professionals in tourism, catering and shows
- Imports of goods and merchandise re-dispatched in its current condition
- Services related to goods excluded from the right to deduction
- Oil products, with the exception of fuel purchased for resale by importers or wholesalers
- Assets transferred without remuneration or in return for remuneration much less than their normal price, particularly commissions, salaries, bonuses or gifts, whatever the capacity of the beneficiary or the form of the distribution
- Tax that has been paid on vehicles or machinery, irrespective of their type, designed or developed to transport persons or for mixed uses constituting a fixed asset
- The spare parts, accessories and expenses for maintenance and/or repairs for the said vehicles or machinery, except:
  — Road vehicles including, other than the driver's seat, more than eight seated places and used by enterprises for the exclusive transport of their personnel
  — The fixed assets of vehicle hire enterprises or enterprises for the public transport of persons

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

- Raw materials and supplies used in producing goods and services
- Purchase of goods and merchandise used for business purposes
- Capital goods used for business purposes, excluding items listed above
- Purchases of assets

Partial exemption. Input tax directly related to exempt supplies of goods or services is not generally recoverable. If a Chadian 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 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.

A second method, referred to as the "direct allocation method," prescribes the real allocation of all or part of the goods and services used.

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

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, the refund can be requested if the tax credit is less than 24 consecutive months from the beginning of the credit.

Pre-registration costs. Input tax incurred on pre-registration costs in Chad, is not recoverable.

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 many 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

Input tax incurred by non-established businesses in Chad is not recoverable.

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.

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 statement: credit note. The supplier can make the reductions if it has in its possession the proof that the customer agreed and acknowledged with such procedure.

Electronic invoicing. There is no formal prohibition of electronic invoicing in Chad. However, the Chad tax law does not make any specific reference to electronic invoicing. As such, generally only paper invoices are allowed in Chad.

Simplified VAT invoices. Simplified VAT invoicing is not allowed in Chad. As such, full VAT invoices are required.

Self-billing. Self-billing is not allowed in Chad.

Proof of exports. VAT is charged on supplies of exported goods at the rate of 0%. For the application of this rate, exports must be supported by evidence that confirms the goods have left Chad. Sufficient evidence is the receipt of the country of destination of the goods and proof of the repatriation of funds by the exchange services.

Foreign currency supplies. 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.

Supplies to nontaxable persons. There are no special invoicing rules for supplies to nontaxable persons in Chad. As such, full VAT invoices are required.

Records. For VAT purposes, all invoices must be recorded with a chronological number and kept available in Chad.

Record retention period. All invoices or equivalent documents must be kept, according to the legislation in place, by the taxable person for 10 years.

There are no specific record keeping requirements for VAT in Chad. The documents must be kept in a form accessible to the tax authorities in case of a tax audit.

Electronic archiving. Electronic archiving is not allowed in Chad. Archiving must be made in paper form only.

I. Returns and payment

Periodic returns. VAT returns must be submitted monthly or quarterly. They must be filed together with full payment of VAT. VAT returns must be submitted within 15 days of the month following the realization of taxable operations.

State-owned companies, public and para-public institutions, as well as private companies which the list is established and published by the General Director of Taxation, are required (with effect from 1 January 2020) to withhold VAT on the invoices received from their suppliers. However, this withholding does not apply to reciprocal transactions between companies entitled to withhold VAT at source. Any compensation between withheld VAT and taxes due is prohibited. Withholding VAT must be reversed by the 15th of the following month.

Periodic payments. VAT amounts due should be paid to the collection service of the tax department, by the same date as the VAT return filing deadline, i.e., by the 15th day of the month following the realization of taxable operations.

The VAT returns, according to the template provided by tax authorities, shall be subscribed in two copies, signed and dated by the person liable or his authorizes agent. This form is submitted jointly with the proof of payment (notice of credit of tax administration bank account). When confirmation of payment is received, the tax receipt reference is mentioned on the declaration and copy given to the taxpayer.

Electronic filing. Electronic filing is not allowed in Chad. The taxpayers can only submit their VAT returns by paper. The said returns are filed with the tax authorities within the legal deadlines.

Payments on account. Payments on account are not required in Chad.

Special schemes. No special schemes are available in Chad.

Annual returns. Taxpayers are required to file an annual tax return for the period ended 31 December. The taxpayer must submit the annual return by 30 April of the following year. The annual return must include a summary of VAT payments made during the prior calendar year (January to December), including output tax, input tax and the net VAT paid to the tax administration of VAT credit position at the end of the year. This annual return must also contain the reference of tax receipts issued by the tax administration. The prescribed format of the annual return is provided by the tax authorities.

Supplementary filings. No supplementary filings are required in Chad.

Digital reporting. No digital reporting requirements apply in Chad.

J. Penalties

Penalties for late registration. Late registration of taxpayers liable to VAT generate immediate taxation by tax authorities. Immediate taxation refers to arbitrary assessment procedure in which tax authorities unilaterally determine the amount of taxes due by the taxpayer. This procedure is only possible when the taxpayer has not regularized its situation within seven days following reception of a reminder representing a notice to register. The taxation is based on the gross margin realized by the taxpayers. This immediate taxation is in addition to a penalty of 25% of tax due, for late registration of VAT.

Penalties for late payment and filings. Whenever the taxable person fails to submit a VAT return or pay the VAT due on time, or does so after the legal deadline has passed, the amount of tax due is increased by 100%. The increase is raised to 150% in the event of a repeat offense. Notwithstanding the application of these penalties, the taxpayer owes an interest of delay of 5% per month up to 50%.

If the VAT return is not submitted on time, the taxpayer will receive a reminder letter to declare within seven days receiving the letter. In case of nonperformance, the tax authorities will proceed with an arbitrary assessment. The basis used to calculate due taxes is the gross margin realized with penalty of 25%.

If the taxpayer fails to pay VAT assessed by the tax authorities within the established deadline, proceedings aiming at the coercive collection of tax due will ensure. However, if the taxable person voluntarily submits the missing VAT return before the deadline expires, as a result, the tax assessed by the tax authorities will no longer be due. Notwithstanding, penalties for late submission may still be applicable.

Penalties for errors. Deficiencies, omissions or inaccuracies that affect the basis or elements taxation and which lead the tax authorities to make any adjustments will result in the application a late payment interest of 5% per month, capped at 50%. For any missing invoices, false invoices or invoicing and accounting errors, the penalties are as follows:

- Nondeduction of the VAT mentioned on the invoice in case of absence of the ID number
- A fine of 100% of the transaction value with a minimum of XAF500,000

Penalties for fraud. Any fraudulent activities can result in the increase of 150% of the amount due without prejudice to criminal proceedings.

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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 [IRS] (Servicio de Impuestos Internos [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.

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.

Exemption from registration. The VAT law in Chile does not contain any provision regarding exemption from registration.

Voluntary registration and small businesses. 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.

Group registration. VAT grouping is not allowed under 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 a 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 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.

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.

Domestic reverse charge. Domestic reverse charges are available in Chile, only when the law or the national director of the IRS establishes a "change of the taxpayer." Cases that involve a domestic reverse charge normally are related with particularly exceptional situations in informal/undeveloped markets where there is a lack of tax compliance (for example multilevel marketing schemes that include multiple transactions among individuals before the products are purchased by end consumers, sale of metal scrap and other similar, agro-products from small producers, etc.).

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; or a reverse charge should apply (see the *Reserve charge* 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.

Online marketplaces and platforms. No special rules exist for online marketplaces and platforms in Chile. *At the time of preparing this chapter, it is expected that next year a bill of law is to be approved according to which services rendered via online marketplaces and digital platforms will be subject to a 19% rate VAT.*

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 that it is legally incorporated by means of the public deed, and prove that 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 — duly apostilled or authorized before a Notary Public (defending 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.).

Deregistration. As the tax identification number (RUT) is for VAT and other tax purposes, there are no specific deregistration rules for VAT.

D. Rates

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

The VAT rates are:
• Standard rate: 19%

Also, additional taxes ranging from 10% to 50% may be imposed under the VAT law on the provision of specific items. 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.

The term "exempt supplies" refers to supplies of goods and services that are not liable to VAT and that do not qualify for input tax deduction. However, while the supply of exports of goods is exempt, exporters are allowed to recover input tax.

Examples of exempt supplies 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
- 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 option to tax exempt supplies is not available in Chile.

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 invoice is issued
- The time when a full or partial payment of the consideration is received

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.

Continuous supplies of services. For the 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.

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).

Reverse-charge services. The VAT law in Chile does not contain any special provision for reverse-charge services, therefore the general time of supply rules apply in these circumstances.

Leased assets. Lease contracts of 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.

Please note that a lease may trigger different taxable events (i.e., if there is an option to purchase or not) on the following scenarios:

- In the case of movable tangible assets, a lease should always be subject to VAT, regardless if there is a purchase option.

- In the case of real property, a lease would be subject to VAT if:
  - (i) The real property is furnished or has equipment that allow to develop commercial or industrial activity, regardless if there is a purchase option.
  - (ii) In case of the lease of a real property without any furnishes or equipment — but there is in place a purchase option. The lease of mere real property without furnishes, equipment and with no purchase option is not subject to VAT.

Historically the sale/purchase of real property has not been subject to VAT in Chile. Recent changes introduced VAT in respect to real properties — but mainly in the case of real estate entrepreneurs that actively purchase and sold this type of assets. The sale of a real property among two individuals should not be subject to VAT.

Actually, please note that rules regarding how to compute the VAT tax basis normally allow to deduct the value of the land from the transaction in order to apply the VAT. VAT is aimed to affect the "valued added," i.e., constructions, furnishes and equipment placed in the land.

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.

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 the 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.

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 tax in full. This situation is referred to as "partial exemption." The percentage of input tax that may be recovered is calculated based on the value of taxable operations carried out during the period, compared to total turnover. These rules apply to any type of input tax incurred, whether it is generated by the acquisition of inventory, general expenses or capital goods.

Capital goods. No special input tax rules apply for input tax incurred on capital goods. If the usage of capital goods is split between taxable and exempt, a split calculation must be carried out, in line with the partial exemption rules (see above).

Refunds. If the amount of input tax (VAT credit) recoverable in a certain period (a month) exceeds the amount of output tax (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.

Pre-registration costs. VAT recovery is not available. In Chile, input tax incurred on pre-registration costs cannot be recovered by the taxpayer. It is only once the business is registered as a taxpayer, that it may recover any input tax credit going forward, subject to the general rules on input tax deduction, as outlined above.

Write-off of bad debts. Output tax accounted for on supplies that do not get paid by the recipient (i.e., a bad debt) can be recovered in Chile. No special conditions apply. VAT can be recovered, regardless the actual payment of the accounts receivable or the accounts payable.

Noneconomic activities. Input tax incurred in relation to noneconomic activities is not recoverable in Chile.

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

VAT invoices. 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. Invoices must be issued in Chilean pesos (CLP).

Credit notes. 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.

Electronic invoicing. Electronic invoicing is 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.

Simplified VAT invoices. Simplified VAT invoicing is not allowed in Chile. As such, full VAT invoices are required.

Self-billing. Self-billing is not allowed in Chile.

Proof of 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 issuance. However, as an exception, export invoices may be issued in foreign currency.

Supplies to nontaxable persons. 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.

Records.

Record retention period. Taxpayers must keep a record of invoices issued and received on the Chilean tax authority website, for six years. However, for income tax purposes it is advisable to keep documentation from the date tax losses have been generated.

Electronic archiving. Records may be kept and archived electronically in Chile.

I. Returns and payment

Periodic returns. VAT returns are submitted for monthly periods on Form 29. VAT returns are due by the 12th day of the month following the end of the return period. For taxpayers that issue electronic tax documents, VAT returns are due by the 20th day of the month following the end of the return period.

Periodic payments. Payments in full are due by the 12th day of the month following the end of the return period. For taxpayers that issue electronic tax documents, payment in full is due by the 20th day of the month following the end of the return period. Return liabilities must be paid in Chilean pesos (CLP).

Electronic filing. 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.

Payments on account. Payments on account are not required in Chile.

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.

Annual returns. Annual returns are not required in Chile.

Supplementary filings. No supplementary filings are required in Chile.

If VAT was underpaid due to a mistake (i.e., an invoice issued was not considered), the only way to rectify this situation is by amending the corresponding Form 29 (i.e., the monthly tax return)

and paying any VAT difference that may arise (plus applicable penalties, that may include adjustments, interest and fines, if any).

Digital reporting. VAT returns may be submitted electronically, through the monthly Form 29.

J. Penalties

Penalties for late registration. Penalties related to late registration normally involve fines up to CLP600,000 (approx. USD800). However, additional penalties may result if this leads to, as a consequence of the late registration, a late payment of VAT.

Penalties for late payment and filing. Penalties in case of late payments and filings are subject to interest (1.5% per month) and fines of up to 60% of due taxes.

Penalties for errors. 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.

Penalties for fraud. Criminal tax evasion may be punished by a term of imprisonment, a fine or both, depending on the severity of the case. There are no implications for tax advisors in case of fraud, as penal responsibilities are personal responsibilities of the taxpayer.

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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)
Local name	Zeng Zhi Shui (增值税)
Date 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	13%
Reduced	3%, 5%, 6%, 9%
Other	Zero-rated (0%) and exempt
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

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 tax 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.

VAT pilot services include the following:
- Sales of services (see below)
- Sales of intangible assets (see below)
- Sales of immovable properties (see below)

Sale 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.

Sale 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.

Sale of services includes the following:
- Transportation
- Postal
- Telecommunications
- Construction
- Financial
- Research and development
- Information and technology
- Cultural, creative and sports
- Logistics supporting
- Leasing
- Authentication and consulting
- Radio, film and television
- Business support
- Education and medical
- Tourism and entertainment
- Catering and accommodation
- Daily residential services (e.g., municipal administration, housekeeping, care and nursing

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.

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.

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.

Exemption from registration. The VAT regulations in China do not contain any provision for exemption from registration. However, there are special rules for small businesses with monthly sales amount or turnover of less than CNY100,000. The sales could be exempted from VAT. See the *Voluntary registration and small businesses* subsection below.

Voluntary registration and small businesses. 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.

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 the VAT threshold for small-scale VAT taxpayers will be raised from a monthly sales revenue of CNY30,000 to CNY100,000 (or CNY300,000 for small-scale VAT taxpayers who adopt the quarterly filing basis). The new threshold will be retroactive to 1 January 2019 and will be effective for a tentative three years.

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.

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.

Non-established businesses. 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.

Tax representatives. A taxpayer or withholding agent may appoint a tax agent to handle various tax matters on its behalf, including but not limited to filing of tax returns, tax consultation, tax planning, tax-related authentication, tax payment review, bookkeeping and other tax-related services. The tax agent shall comply with the relevant measures and requirements specified by the SAT.

Representative office. 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.

Reverse charge. The reverse charge does not apply in China. As such, where an entity or individual located outside the territory of China conducts taxable activities within the territory without establishing an operating institution within the territory, the corresponding buyer shall be the VAT withholding agent, unless as otherwise specified by the MOF and the SAT. The VAT withholding agent can recover the VAT withheld as input tax.

Domestic reverse charge. There are no domestic reverse charges in China.

Digital economy. Imports supplied cross-border via the internet (i.e., 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 CNY5,000, and annual individual limits of CNY26,000. 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 canceled, 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 CNY5,000, 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.

Online marketplaces and platforms. Domestic e-commerce activities conducted within the territory of China shall be governed by the "E-commerce Law of the People's Republic of China." Operators of e-commerce platforms and e-commerce operators shall register and fulfill their tax obligations according to the existing laws and regulations. E-commerce operators shall issue paper or electronic invoices for selling commodities or providing services.

Registration procedures. To register for VAT, enterprises (i.e., incorporated or similar) 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.

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 canceled 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 canceled.

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.

D. 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: 13%
- Reduced rates: 3%, 5%, 6% and 9%
- Special rate of 3% and 5% (for small-scale VAT taxpayers)
- Zero-rate: 0%

The standard VAT rate applies to all supplies of goods or services, unless a specific measure provides for a reduced rate or an exemption.

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 goods and services taxable at 3%

- 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
- Certain rare disease drugs (orphan drugs)

Examples of goods and services taxable at 5%

- Labor dispatching service
- Human resource outsourcing service

Examples of goods and services taxable at 6%

- 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

Examples of goods and services taxable at 9%

- 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
- Audiovisual 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

The following lists provide examples of goods and services taxable at the different rates, for small-scale VAT taxpayers.

Examples of goods and services taxable at 3%

- Other VAT pilot services

Examples of goods and services taxable at 5%

- Sales of immovable properties
- Leasing of immovable properties
- Transfer of land use rights
- Labor dispatching service

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.

Examples of goods and services taxable at 0%
(i.e., exempt-with-credit)

- Exports of goods (excluding prohibited or restricted exports)
- Services rendered by domestic entities or individuals to overseas entities and consumed entirely outside of China:
  - — 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 exempt supplies of goods and services (i.e., exempt-without-credit)

• 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

• Cross-border services:
— 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
— 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

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).

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.

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.

The obligation to withhold VAT arises on the day when the VAT payment obligation arises for the taxpayer.

Deposits and prepayments. For 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 nonrefundable 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.

Continuous supplies of services. There is no specific regulation for the time of supply rule for continuous supplies. As such, the normal time of supply rules for services apply.

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.

Reverse-charge services. The reverse charge does not apply in China. As such, where an entity or individual located outside the territory of China conducts taxable activities within the territory without establishing an operating institution within the territory, the corresponding buyer shall be the VAT withholding agent, unless as otherwise specified by the MOF and the SAT. There is no special time of supply rule for such supplies, and as such the general rules apply.

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.

Imported goods. VAT is payable for imported goods when the goods are declared to Customs.

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 tax 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 tax 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 tax 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 tax to the tax authorities. The claim for input tax 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 tax invoices and other documents to the tax authorities for verification within 360 days after the date of issuance of the documents.

In calculating its net VAT payable, a taxable person may also claim an input tax credit equal to 11% of the purchase value of VAT-exempt agricultural products purchased from primary agricultural producers or agricultural cooperative societies. The input tax 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.

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. Starting from 1 April 2019, it can be offset (one-off) by the output tax upon obtaining the special VAT invoices.

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 tax 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 tax disallowance.”

Depending on the type of exporting enterprise, the VAT export refund and the input tax disallowance are calculated based on different methods.

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.

Nondeductible input tax. Input tax may not be recovered on purchases of goods and services that are not used for taxable business purposes.

Examples of items for which input tax is nondeductible

- Goods or services used in VAT-exempt activities
- Goods or services used in activities subject to VAT on a simplified basis
- 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 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

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

- Purchase, lease or hire of a car, van or truck
- Fuel for cars, vans and trucks
- Car maintenance
- Business travel (see Domestic passenger traveling expenses)
- Advertising
- Hotel accommodation
- Mobile phone expenses

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 tax 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 tax is allowed. The allowable input tax credit is generally calculated using the ratio of turnover from taxable supplies compared with the total turnover of that month from all supplies.

Capital goods. The same rules apply for goods and services supplied for business purposes. There is also no specific definition for capital goods. However, starting from 1 January 2018, input tax on fixed assets or immovable properties rented by taxpayers, that are used for supplies subject to tax under the general calculation method and a taxable item subject to tax under the simplified calculation method, a VAT-exempt item, collective welfare or personal consumption purposes is allowed to be recovered in full, against the output tax.

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.

Incremental excess input tax refund regime. The incremental excess input tax refund regime came into effect from 1 April 2019. Taxpayers meeting all of the following criteria may apply to their in-charge tax authority for the refund of incremental excess input tax:

1. Starting from the tax filing period of April 2019, the incremental excess input tax is more than zero for a consecutive six months (or consecutive two quarters if the filing is on a quarterly basis), and the incremental excess input tax at the sixth month is not lower than CNY500,000
2. The taxpayer's tax credit rating would need to reach Grade A or Grade B

3. Within the 36 months before applying for the incremental excess input tax refund, the taxpayer has not committed any fraudulent application for tax refund from (1) excess input tax (2) export VAT refund (3) false issuance of special VAT invoice
4. Within the 36 months before applying for incremental excess input tax refund, the tax authorities have not punished the taxpayer for more than two times (including two times) due to tax evasion
5. Have not adopted any of the Refund Upon Collection as well as Collection First Refund Later measures

The incremental excess input tax refundable to a taxpayer for the current period shall be computed using the formula below:

Amount of incremental excess input tax refund =
Incremental amount of excess input tax X 60% X input tax ratio

The input tax ratio refers to the proportion of the VAT specified in the special VAT invoices, customs importation special VAT payment certificates and tax payment certificate for remitting taxes from April 2019 to the tax period before the application for incremental excess input tax refund in all credited input tax in the same period.

Super input tax credit regime. From 1 April 2019 to 31 December 2021, taxpayers providing the following four types of qualifying services would be entitled to an additional 10% super input tax credit. Taxpayers that provide postal services, telecommunications services, modern services and life services with the relevant sales amount of more than 50% of the total sales would be eligible for 10% super input tax credit, while a more recent circular states that starting from 1 October 2019 to 31 December 2021, taxpayers that provide life services with the relevant sales amount of more than 50% of the total sales would be eligible for super input tax credit of 15% instead of 10%. Qualifying taxpayers shall submit a declaration to their in-charge tax authority to confirm the sales amount on an annual basis in order to be eligible for the additional input tax.

Domestic passenger travel expenses. Starting from 1 April 2019, general VAT taxpayers are allowed to recover input tax when they have collected specific documentary evidence for the domestic passenger travel costs/expenses that are for business purpose. Where the taxpayer cannot obtain a special VAT invoice, the input tax shall be tentatively determined in accordance with the following:

1. Where an electronic normal VAT invoice is obtained, the tax amount indicated on the invoice shall apply
2. Where an e-ticket itinerary receipt for air transport with passenger identity information indicated is obtained, the input tax shall be calculated as per the following formula:

   Input tax for air passenger transport = (airfare + fuel surcharge) / (1 + 9%) × 9%

3. Where a railway ticket with passenger identity information indicated is obtained, the input tax shall be calculated as per the following formula:

   Input tax for railway passenger transport = face value / (1+9%) × 9%

4. Where other passenger tickets for roads, waterways, etc., with passenger identity information indicated are obtained, the input tax shall be calculated as per the following formula:

   Input tax for other passenger transport such as roads and waterways =
   face value / (1 + 3%) × 3%

Pre-registration costs. No input tax recovery is possible for costs and purchases made prior to registration.

Write-off of bad debts. Output tax accounted for on supplies that do not get paid by the recipient (i.e., a bad debt) cannot be recovered in China.

Noneconomic activities. Input tax incurred in relation to noneconomic activities is not recoverable in China.

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. 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 tax recovery.

A special VAT invoice may only be issued for supplies of taxable goods or services made to taxable recipients. 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

Credit notes. If goods are returned after an invoice has been issued, a credit note (or also in China known as 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 reissuing a new invoice, or a red-letter invoice shall be issued after a notification is obtained from the other party.

Electronic invoicing. 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 normal VAT invoices in China.

Simplified VAT invoices. Subject to the following circumstances, a full VAT invoice is not required to be issued:
- Selling any service, intangible asset or real property to any individual consumer
- Any taxable activity to which the provisions on VAT exemption apply

For the above circumstances, what is known as a "normal" VAT invoice must be issued.

Normal VAT invoices are simplified VAT invoices issued to small-scale VAT taxpayers and individuals. However, general VAT taxpayers would not be able to recover input tax with normal VAT invoices, except for domestic passenger travel expenses. For supplies to general VAT taxpayers, special VAT invoices (i.e., full VAT invoices) must be issued, in order for the taxpayer to be able to recover respective input tax.

Self-billing. Self-billing is not allowed in China.

Proof of exports. For proof of export, 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

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.

Supplies to nontaxable persons. 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.

Records. Taxpayers and withholding agents shall establish accounting books in accordance with the relevant laws, administrative regulations and provisions formulated by the authorized fiscal or tax department under the State Council and keep records and carry out accounting based on legitimate and valid vouchers.

The taxpayers engaging in production or business operations shall submit their financial and accounting systems or methods and accounting software to the tax authorities for record.

Accounting books, account supporting vouchers, tax payment receipts and other relevant information shall not be forged, revised or damaged without approval.

Record retention period. 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.

Electronic archiving. Taxpayers may keep electronic accounting documents created in the course of transactions in electronic format in accordance with the measures and requirements specified by the MOF and the National Archives Administration (NAA).

I. Returns and payment

Periodic 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.

Taxable persons that have a VAT tax period of 1 month or 1 quarter must submit VAT returns 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 submit a VAT return for the previous month by the 15th day of the following month.

Periodic payments. 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 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 settle the VAT payable for the previous month by the 15th day of the following month.

VAT payments are made through bank transfer, and only amounts in CNY are acceptable.

Electronic filing. 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.

Payments on account. Payments on account are not required in China.

Special schemes.

Secondhand goods. 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.

Flat rate. Small-scale VAT taxpayers account for VAT at a rate of 3% on a simplified, flat-rate basis and input tax paid on purchases is not deductible.

Netting mechanism. The VAT pilot rules contain a new computation method, which incorporates the "netting" mechanism. Only the following services specified by law could be applicable to 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 of bond issuance, 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
- HR outsourcing services

Annual returns. Annual returns are not required in China.

Supplementary filings. Taxpayers are required to file returns for the following local surcharges, which are calculated based on the amount of VAT payable at the same time of the VAT returns filing.

Urban construction and maintenance tax. Urban construction and maintenance tax is levied at a certain rate on the amount of indirect tax payable (i.e., VAT payable) by the taxpayer. There are three different rates depending on the taxpayer's location, i.e., 7% for urban areas, 5% for county areas, and 1% for other areas.

Educational surcharge. Educational surcharge is levied at 3% on the amount of indirect tax payable (i.e., VAT payable) by the taxpayer.

Local educational surcharge. Local educational surcharge is levied at 2% on the amount of indirect tax payable (i.e., VAT payable) by the taxpayer.

Digital reporting. From 2015, the SAT implemented the "1,000 Accounts Plan" which is targeted at large enterprises, requesting access to detailed transaction detail to account for all tax types. The list of qualified enterprises is announced by SAT on an annual basis.

J. Penalties

Penalties for late registration. 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 tax and use special VAT invoices until it completes the relevant formalities.

Penalties for late payment and filings. 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.

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.

Penalties for errors. Penalties for errors. In the event that a taxpayer or withholding agent fails to pay taxes or underpay taxes due to its own errors such as a miscalculation, the tax authorities may, within three years, pursue the payment of the tax amount and late payment fines. In special circumstances, such time period for pursuing payment may be extended to five years.

Penalties for fraud. Where a taxpayer fails to pay or underpays the amount of tax payable by means of forging, altering, concealing or, without permission, destroying accounting books or account supporting vouchers or overstating expenses or failing to state or understating incomes in accounting books, or refusing to report tax returns after being notified by the tax authorities to do so, or filing false tax returns, it shall be regarded as tax evasion. For taxpayers who evade

taxes, the tax authorities shall seek from them the payment of the unpaid or underpaid taxes and late payment fines, and concurrently impose a fine not less than 50% of and not more than 500% of the amount of taxes unpaid or underpaid. For cases that constitute crimes, criminal liabilities shall be investigated according to law.

If a withholding agent fails to remit or under-remit the amount of tax withheld or collected by the means listed in the above paragraph, the tax authorities shall seek the remittance of unremitted or under-remitted taxes and late payment fines, and concurrently impose a fine not less than 50% of and not more than 500% of the amount of taxes unremitted or under remitted. For cases that constitute crimes, criminal liabilities shall be investigated according to law.

If a taxpayer or withholding agent falsifies tax calculation bases, the tax authorities shall order him to make rectifications within a given time limit and impose a fine of not more than CNY50,000.

In the cases of tax evasion, tax refusal or tax fraud, the tax authorities shall not be restricted by the time limit set forth in the preceding paragraph in pursuing payments of taxes unpaid or underpaid, late payment fines or tax amount defrauded.

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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 (0%) and exempt
VAT number format	Tax identification number (NIT)
VAT return periods	Bimonthly/quarterly
Thresholds	
Registration	None, for corporations. COP3,450 for individuals
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 to the whole value of the contract. In such cases, the creditable input tax 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.

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.

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 USD35,000 (Based on an exchange rate of COP3,450).
- 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 did or do not enter into sales agreements for goods or services exceeding approximately USD35,000
- During the prior year, or in the current year, bank deposits and financial investments made did or do not exceed approximately USD35,000
- 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).

Exemption from registration. Exemption from registration is not allowed in Colombia.

Voluntary registration and small businesses. VAT law in Colombia does not contain any provision for voluntary VAT registration. Special rules apply for small businesses (see above).

Group registration. VAT grouping is not allowed in Colombia.

Non-established businesses. 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 receives a service from a non-established business, the reverse-charge mechanism applies.

Tax representatives. Tax representatives are not required in Colombia.

Reverse charge. 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.

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. 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%).

Domestic reverse charge. Reverse charges are only applicable as previously indicated. Although, the withholding tax will be equivalent to 15% of the corresponding tax, except in those cases where the government determines a different percentage, which in any case may not exceed 50% of the tax.

Digital economy. VAT addresses digital services as a taxable event. Taxation is applied through a withholding mechanism on 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).Also, there is an exception to being registered if payments for this type of services are made using credit or debit cards, in which case the issuer entity of the respective credit or debit cards will be the withholding agent.

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 the Colombian territory

Online marketplaces and platforms. No special rules exist for online marketplaces and platforms in Colombia.

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.

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.

D. Rates

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

The VAT rates are:
- Standard rate: 19%
- 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 a reduced, the zero rate or an exemption.

The term "exempt supplies" refers to supplies of goods and services that are subject to VAT at the zero rate. 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 as refund.

Examples of goods and services taxable at 0%
(e.g., 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. It also includes sales to international trading companies, which are considered as an export activity.
- 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

Examples of goods and services taxable at 5% rate

- Toasted coffee
- Wheat
- Sugar cane
- Cotton seeds
- Soy
- Rice
- Prepaid health services
- Health insurance
- Storage of agricultural products

The term "excluded supplies" refers to supplies of goods and services that are not liable to VAT and that do not qualify for input tax deduction.

Examples of exempt
(e.g., excluded) supplies of goods and services

- Interest and financial income from credit operations
- Education services provided by preschool, primary, middle and intermediate, higher and special or non-formal education establishments, recognized as such by the national government
- Public energy services. Energy and public energy services based on gas or other inputs
- Water for the provision of public water supply and sewerage services, public water supply and sewerage services, public sanitation services and public garbage collection services

Option to tax for exempt supplies. The option to tax exempt supplies is not available in Colombia.

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

Deposits and prepayments. In Colombia, there is no requirement to account for VAT on deposits. For prepayments, there is no special time of supply rule in Colombia. As such, the general time of supply rules apply (as outlined above).

Continuous supplies of services. There is 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 as the service is being rendered.

Goods sent on approval for sale or return. There is no special time of supply rule 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.

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 may be recovered by the Colombian taxpayer/customer as a creditable input tax, subject to the normal recovery rules.

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 the absence of an 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 is 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.

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. Custom 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.

Imported goods. 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. VAT is due at the time of the importation. Companies that the DIAN recognizes as Highly Exporters Users (that will be replaced by the Authorized Economic Operators — or 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
- Services export, such as:
  — Services of transmission, distribution, and commercialization of electric energy
  — Special design services, value added telecommunications and software exports

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 territory 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 the sale of products is to the rest of the Colombian territory, the 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

F. Recovery of VAT by taxable persons

A taxable person may discount (credit) VAT paid on purchases (input tax) from VAT charged on sales (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.

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

- Construction services, the accrual of the tax is recognized on the income obtained by the builder. For construction services, a special taxable base is required where VAT is levied only on the income corresponding to the fees obtained by the builder or in the event that no agreement is reached on the utility of the latter. In this sense, implicitly the utility must be reported and/or known by the contracting party. In the same sense, only the VAT paid on expenses directly related to the fees received or the profit obtained is deductible. Consequently, the possibility of recovering the VAT paid by the builder is limited, so most of the VAT paid will constitute a greater value of the work.
- Input tax paid associated with excluded goods or services will be considered as a higher cost of such services/goods and will not be creditable for VAT purposes
- Input tax associated with the acquisition of fixed assets

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

- In general terms, input tax paid associated with exempt and taxable activities will be considered as creditable for VAT purposes as long as the payments constitute a deductible cost or expense for corporate income tax purposes.

Partial exemption. If a taxable person makes both taxable and exempt transactions, it may not deduct the input tax incurred in full. It may deduct only the amount of input tax related to the goods and services used in taxable transactions, and not the input tax that relates to exempt transactions. Where input tax is incurred that relates to both taxable and exempt supplies, the business must carry out a proportionality calculation, to calculate the amount of input tax recoverable. This situation is referred to as "partial exemption." The apportionment may be calculated based on the value of taxable transactions carried out compared with the total turnover.

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 covers 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.

Refunds. If the amount of input tax recoverable in a taxable period exceeds the amount of output tax payable, the taxable person earns an input tax 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 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 favor must originate from 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.

Pre-registration costs. VAT invoiced for pre-registration 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 tax incurred in relation to noneconomic activities is not recoverable in Colombia.

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

VAT invoices. 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.

Credit notes. Credit notes must be issued when returns or cancellations are made, as long as the transaction has not yet been accepted by the acquirer, the numbers of canceled invoices may not be used again and a record of them must be kept. Credit notes must correspond to a consecutive numbering system and must contain at least the number and date of the invoice to which they refer, name or business name and NIT of the acquirer, the date of the note, number of units, description, VAT (where applicable), unit value and total value. This only has an effect on the generated VAT, scenarios like discounts do not apply.

Electronic invoicing. The electronic invoicing system is mandatory for all taxpayers, applicable to the purchase and sale of goods and services. This system is also applicable to other operations such as payroll payments, exports, imports and payments in favor of those who are not responsible for the VAT. All electronic invoices for tax recognition purposes, must be validated prior to their issuance by the tax authority or by a supplier authorized by it. As a consequence, the invoice shall be deemed to have been issued only when it has been validated and delivered to the acquirer. In cases where prior validation of the electronic invoice cannot be carried out, for reasons attributable to the tax authority or to an authorized supplier, the party obliged to invoice is entitled to deliver the electronic invoice to the acquirer without prior validation.

In all cases, the responsibility for the delivery of the electronic invoice, for its validation and the delivery to the purchaser once validated, corresponds to the party obliged to invoice.

Simplified VAT invoices. Simplified VAT invoicing is not allowed in Colombia. As such, full VAT invoices are required.

Self-billing. Self-billing is not allowed in Colombia. However, special rules apply where the tax authority can require an invoice from a business, for the withdrawal of stocks for self-consumption. In addition, with implementation of the electronic invoice, it would be required to also invoice the payroll department.

Proof of exports. VAT is not chargeable on supplies of exported goods. Exports are exempt from VAT. However, to qualify as VAT free, exports must be supported by customs documents that prove that the goods have actually left Colombia. The exporter must file a return 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.

Supplies to nontaxable persons. 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.

Records.

Record retention period. According to the current legislation there is an obligation to preserve information and evidence, for purposes of auditing of the taxes administered by the DIAN, individuals or entities, taxpayers or nontaxpayers, must keep for a minimum period of five years, counted from 1 January of the year following its preparation, issuance or receipt, information and evidence, of the tax returns filed and the receipts corresponding to payments, which must be made available to the tax administration, when required.

Finally, it is important to consider that the VAT returns statute of limitations period is three years from the filing of the income tax return for the year in which the VAT is filed.

Electronic archiving. Records can be electronically archived in Colombia. Same retention period mentioned above would apply for electronic invoices.

I. Returns and payment

Periodic returns. VAT returns are filed bimonthly during March, May, July, September, November and January by large taxpayers, which are those with gross revenues equal to or higher (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.

Periodic payments. Payments must be made directly using the portal of the tax authority to submit the returns and using the financial system considering the due date set by the government each year.

Liabilities must be paid in Colombian pesos using the receipts established in the website of the tax authority.

The due dates are the following (for FY2020) considering the last tax ID number of the taxpayer. The returns are filed the next month of the corresponding bimester.

Last tax ID number	0	9	8	7	6	5	4	3	2	1
1st bimester (Jan-Feb)	10	11	12	13	16	17	18	19	20	24
March:										
2nd bimester (Mar-Apr)	12	13	14	15	18	19	20	21	22	26
May:										
3rd bimester (May-Jun)	7	8	9	10	13	14	15	16	17	21
July:										
4th bimester (Jul-Aug)	8	9	10	11	14	15	16	17	18	21
September:										
5th bimester (Sep-Oct)	10	11	12	13	17	18	19	20	23	24
November:										
6th bimester (Nov-Dec)	13	14	15	18	19	20	21	22	25	26
January 2021:										

Electronic filing. Returns must be filed electronically, Provided the taxpayer has a digital signature, VAT returns must be filed electronically at www.dian.gov.co. When the taxpayer is obliged to have a statutory auditor, the return must be signed also by this auditor.

Payments on account. Payments on account are not required in Colombia.

Special schemes. No special schemes are available in Colombia.

Annual returns. Annual returns are not possible nor required in Colombia.

Supplementary filings. 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.

The consumption tax rates are as follows:
- 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 estate): 2%

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 for the consumption tax are filed quarterly, starting on the date when taxable activities commenced and ending at the end of the calendar quarter.

Consumption tax paid does not generate input tax (VAT credit) but may be treated as a deduction for income tax purposes, except in the case of plastic bags.

Digital reporting. Known as Magnetic Media, it is an obligation for individuals and legal entities, to file a report before the tax authority regarding all fiscal and commercial relations with third parties. For VAT purposes, any individuals, legal entities, public and private entities and others obliged to carry out a withholding tax must comply with this obligation. In accordance with the Colombian Tax Code, the DIAN has the authority to request tax information. The Tax Code empowers the DIAN to request from individuals or entities, taxpayers and nontaxpayers, information to carry out studies and cross-checks necessary for the proper auditing and control of taxes, as well as to comply with other functions within its competence, including those related to compliance with obligations and commitments enshrined in the tax conventions and treaties signed by Colombia.

J. Penalties

Penalties for late registration. A penalty corresponding to 1 tax unit (UVT), which in 2019 is COP34,270, is levied for each day of late registration.

Penalties for late payment and filings. 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 for October 2019 is 26.65% annually. At any time, it is necessary to review and confirm the interest rate published.

Penalties for failure to file consumption tax returns are calculated in the same manner as for VAT.

Penalties for errors. When the taxpayer has filed his tax returns with errors, he has the obligation to correct them and pay an amendment penalty. The opportunity for the taxpayer to amend his own tax return is either by initiative or requirement from the tax administration. If the taxpayer decides not to amend its tax returns, the tax authority can proceed to establish a penalty for inaccuracy. Colombian legislation establishes that in the specific scenario in which the taxpayer decides to amend its mistakes, the penalty would be paid regarding the higher payable tax or the lower balance in favor in the amendment made. There are two specific rates to calculate the penalty. Each one is linked to a specific scenario. The first one is a 10% rate applicable only when the taxpayer amends its errors prior to an official act from the tax authority or before it orders a tax inspection. The second scenario is a 20% rate if the amendment is made after the official act has been notified or a tax inspection has been made. If the tax authority has to take further action, the taxpayer would have to pay a penalty for inaccuracy, which could amount to a 200% rate.

In accordance to Colombian legislation, any mistake on the filing of Magnetic Media, has sanctions that vary from 3%-5% (depending on the case) of the values that were incorrectly reported to the tax authorities. On the one hand, the foregoing fine shall be reduced to 50% of the amount determined as provided if the omission is rectified before the imposition of the sanction is notified; or to 70% of such amount, if the omission is rectified within two months following the date on which the fine is notified.

If the taxpayer decides to carry out a self-liquidation, fines can be reduced to 20% of the calculated value if requirements are met by the taxpayer, and an additional 50% reduction is available if the taxpayer has not displayed other sanctionable conducts.

Penalties for fraud. The Criminal Code includes penalties for two specific conducts, the first one is regarding to the income tax and the second one is an omission of tax liabilities. When a taxpayer or tax withholder agent does not pay the collected VAT amounts within the two months after the due date, it can be punished with imprisonment of the legal representative of the legal entity to whom the negligent conduct is imputable, for a term of between 48 and 108 months, and payment of a penalty is equal to double the amount that was not recorded, but not exceeding the equivalent of 1,020,000 UVT.

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A. At a glance

Name of the tax	Value-added tax (VAT)
Local name	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	Zero-rated (0%) and exempt
VAT number format	Corporate or individual identification number
VAT return period	Monthly
Thresholds	
Registration	None
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 and services 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.

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 and small businesses. 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).

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.

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. If a non-domiciled entity renders a service consumed and utilized within the Costa Rican territory, the local recipient should apply the reverse-charge mechanism to declare and pay the VAT within 15 days of the following month in which the service was rendered or the invoice was issued, whichever occurs first.

Domestic reverse charge. There are no domestic reverse charges in Costa Rica.

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.

Online marketplaces and platforms. The tax authorities are authorized to charge VAT to providers and intermediaries that sell services consumed within the Costa Rican territory through a digital platform.

Moreover, financial institutions that process credit/debit cards should act as withholding agents for VAT derived from the purchase of services through the internet and any other digital platform, if they are consumed within the Costa Rican territory.

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.

D. 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: 13%
- Reduced rates: 4%, 2% and 1%
- Zero-rate: 0%

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

Examples of goods and services taxable at 0%
- Goods and services destined for exports, goods and services sold to a beneficiary of Free Trade Zone Regime (FTZR)
- Books
- Services rendered for cultural radio stations
- Private education services when they are rendered by preschool, middle school, high school, college and any other education institution supervised by the Superior Education Counsel (in Spanish: "CONESUP")

Examples of goods and services taxable at 1%
- Goods that form part of the "basic consumption basket" (a list of items essential for the traditional household) are subject to 1%.

Examples of goods and services taxable at 2%
- Medicines, private education services and personal insurance premiums are subject to 2%.

Examples of goods and services taxable at 4%
- Private health services and local flight tickets are subject to a 4% rate.

The term "exempt supplies" refers to supplies of goods and services that are not liable to VAT and that do not qualify for input tax deduction.

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. The option to tax exempt supplies is not available in Costa Rica.

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.

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.

Continuous supplies of services. 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.

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.

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.

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.

Imported goods. The time of supply for imported goods is when the bill of lading or the customs form for the goods is accepted.

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. The purchase of goods and services that are used for both exempt activities and taxable activities may give rise to the right of input tax proportionally based on the percentage of taxable activities in relation to the taxpayer's total activities.

Capital goods. Capital goods are defined as the goods used in the production and manufacture of other products and its purchase should exceed 15 base salaries (i.e., approx. USD11,500). When a taxpayer purchases a capital good that is used exclusively on taxable activities, the tax paid should give rise to the right of tax credit in the same month of acquisition.

When a taxpayer purchases a capital good used for exempt and taxable activities, it should give rise to the right of input tax proportionally on the percentage of taxable activities in relation to the total activities of the taxpayer. However, for the following four years from the first December the capital goods were acquired, the proportionality should be adjusted considering the real figures that represented in each year the percentage of the exempted activities and taxable activities of the taxpayer.

Refunds. If the amount of input tax recoverable in a month exceeds the amount of output tax payable, the taxpayer obtains an input tax credit. The input tax 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.

Pre-registration costs. Taxpayers are not permitted to recover input tax 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.

Write-off of bad debts. Output tax accounted for on supplies that do not get paid by the recipient (i.e., bad debts) cannot be recovered in Costa Rica.

Noneconomic activities. Input tax incurred in relation to noneconomic activities is not recoverable in Costa Rica.

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. 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 at the time when the service is rendered or the good is purchased.

Credit notes. An electronic VAT credit note may be used to reduce the VAT charged and reclaimed on the supply of goods and services.

Electronic invoicing. Electronic invoicing is mandatory and 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.

Simplified VAT invoices. Simplified VAT invoicing is not allowed in Costa Rica. As such, full VAT invoices are required.

Self-billing. Since 1 July 2019, purchase electronic invoices are allowed to be issued by the customer, in the event where a supplier is not required to issue such invoices, (i.e., where the sup-

plier is registered for the Simplified Tax Regime). In this case, the customer may issue a purchase electronic invoice on behalf of the supplier as documentation to support tax credits and deductible expenses.

Proof of 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.

Supplies to nontaxable persons. Small taxpayers are not required to issue VAT invoices for sales under 5% of a base salary (approximately USD34) unless requested by the purchaser.

Unless requested by the purchaser, small taxpayers are not required to issue full VAT invoices. In practice, such taxpayers do not have the electronic platform to issue full VAT invoices, therefore the purchase electronic invoice is an alternative for the purchaser to have an invoice to support its input tax and deductible expenses.

Records.

Record retention period. The records and other accounting information must be kept for five years.

Electronic archiving. Records can be kept electronically or physically in Costa Rica. There are no specific requirements to be met regarding the records. They may be kept and archived electronically or physically.

I. Returns and payment

Periodic returns. VAT returns (D-104 return) are submitted monthly. Returns must be submitted by the 15th day of the month following the end of the return period. A return must be filed even if no VAT is due for the period.

Periodic payments. Payment in full is due by the same date as the return submission, i.e., the 15th day of the month following the end of the return period. Tax due must be paid in Costa Rican currency — colons.

Electronic filing. VAT returns must be filed online (at www.hacienda.go.cr/ATV/Login.aspx). Filing requires a Tax ID (Nite or Dimex) issued by the tax authorities.

Payments on account. Payments on account are not required in Costa Rica.

Special schemes.

Simplified Tax Regime. 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.

Annual returns. Annual returns are not required in Costa Rica. 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.

Supplementary filings. No supplementary filings are required in Costa Rica.

Digital reporting. VAT returns (D-104 return) must be filed electronically online (at www.hacienda.go.cr/ATV/Login.aspx). Filing requires a tax ID (Nite or Dimex) issued by the tax authorities. There are no further digital reporting requirements that apply in Costa Rica.

J. Penalties

Penalties for late registration. 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.

Penalties for late payment and filings. 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.

Penalties for errors. A penalty of 50% of the unpaid amount (as determined by the tax authorities) is due for inaccuracies in the return. 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.

Penalties for 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.

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

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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-with-credit, and exempt
VAT number format	Prefix HR followed by the 11-digit personal identification number (OIB), e.g., HR12345678910
VAT return periods	Monthly or quarterly
Thresholds	
Registration	
Established	HRK300,000 (approximately EUR40,000) of taxable supplies in the preceding or current calendar year
Non-established	None
Distance selling	HRK270,000 (approximately EUR36,000)
Intra-Community aquisitions	HRK77,000 (approximately EUR10,000)
Electronically supplied services (MOSS)	HRK77,000 (approximately EUR10,000)
Recovery of VAT by non-established businesses	Yes

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

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.

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

Voluntary registration and small businesses. 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.

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 tax.

Group registration. Group VAT registration is not allowed in Croatia.

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 entered 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 applies 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.

Domestic reverse charge. 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)

Digital economy. As of 1 January 2019, a threshold of HRK77,000 (approximately EUR10,000) is 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.

The threshold of HRK77,000 (approximately EUR10,000) applies to taxable persons established in only one EU Member State. There is no threshold for other taxable persons.

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.

The Mini One-Stop Shop scheme applies 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 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 tax through the respective VAT return but will have to apply refund procedures prescribed by 13th Directive 86/560/EEC (no reciprocity requirement).

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.*

Online marketplaces and platforms. No special rules exist for online marketplaces and platforms in Croatia.

Vouchers. "Voucher" means an instrument where there is an obligation to accept it as consideration or part consideration for a supply of goods or services and where the goods or services to be supplied or the identities of their potential suppliers are either indicated on the instrument itself or in related documentation, including the terms and conditions of use of such instrument.

"Single-purpose voucher" (SPV) means 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.

"Multi-purpose voucher" (MPV) means a voucher, other than a SPV.

Each transfer of an SPV by a taxable person is regarded as a supply of goods or services to which the voucher relates. The transfer of an MPV is not treated as a supply for VAT purposes. The supply takes place when the actual handing over of the goods or the actual provision of the services in return for a MPV occurs.

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 eight 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.

Deregistration. 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.

D. Rates

The term "taxable supply" refers to supplies of goods and services that are liable to a rate of VAT, including supplies that are exempt with the right to deduct input tax.

The VAT rates are:
- Standard rate: 25%
- Reduced rates: 13%, 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.

Some supplies are "exempt-with-credit," meaning no VAT is charged, but input tax incurred in relation to such supplies can be recovered. Such supplies 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 goods and services taxable at 5%

- All types of bread
- All types of milk (except for yogurt)
- 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%, and do not 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
- Restaurant and catering services

The term "exempt supply" refers to all supplies of goods and services that are not liable to VAT and that do not qualify for input tax deduction.

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 tax 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.

Deposits and 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.

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.

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.

Reverse-charge services. The supply of reverse-charge services becomes generally taxable when the service is supplied, i.e., consumed by the recipient.

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.

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).

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.

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 the supplier proves that the goods have left the territory of

Croatia and a VAT ID is obtained from the customer. The customer's VAT ID must be reported in the EC Sales List.

Cash accounting. All taxpayers whose supplies in the preceding calendar year did not exceed HRK7.5 million (EUR1 million) may apply the cash accounting scheme. Taxpayers who choose to apply the cash accounting scheme are not able to deduct input tax on invoices received from their suppliers until they have paid them.

F. Recovery of VAT by taxable persons

A taxable person may recover input tax, which is the VAT charged on goods and services supplied to the taxable person for its 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 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 tax 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 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

- 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 tax 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 tax deduction is allowed and also uses them with respect to the supply of goods and services for which input tax deduction is not allowed, the amount of "mixed" input tax must be divided between deductible input tax and nondeductible input tax.

To determine the amount of input tax that may be recovered, one of the following methods may be used:

- The deductible input tax 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 tax as described above, a pro rata method can be used to determine the amount of deductible input tax. Under the pro rata method, the total annual supplies (exclusive of VAT) for which input tax is deductible is divided by total annual supplies, including supplies for which VAT is not deductible and subsidies.
- The amount of deductible input tax 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 tax, it is entitled to a 100% input tax deduction.

Capital goods. Capital goods are goods classified according to accounting standards as long-term assets. Input tax is deducted in the year in which the goods are acquired or produced. In general, input tax on the purchase or lease of vehicles for personal transportation is 50% deductible (as of 1 January 2019, 50% of input tax should be deductible on the purchase of passenger cars regardless of their value).

If the conditions applicable to the deduction of input tax change within a five-year period beginning with the year in which the goods begin to be used, the amount of input tax is corrected in the period after the change. For real estate, the adjustment period of 10 years applies.

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 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.

The tax authorities must pay interest on delayed repayments of VAT. As of 1 January 2020, the annual penalty interest rate is 6.11%.

Pre-registration costs. The economic or other activity of the taxpayer begins with preparatory activities undertaken to starting the economy activity. Input tax 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 tax 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 tax and informed the supplier in writing.

Noneconomic activities. A taxpayer cannot deduct input tax 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.

EU businesses. Businesses established in the EU can submit a claim for refund with the tax authorities of their country of establishment.

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.

Non-EU businesses. As of 1 January 2019, requirements for the VAT refund to taxpayers from third countries (outside the EU) are aligned with the requirements for the VAT refund to the taxpayers from other EU Member States and the taxpayers from third countries are able to request a refund of the Croatian VAT even in the cases of supply of goods where the reverse-charge rules are applied.

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.

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

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.

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 tax and informs the supplier respectively in writing. Credit notes should provide the same data as the original invoice.

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.

Simplified VAT invoices. A simplified invoice may be issued for supplies made within Croatia (i.e., local supplies) that do not exceed HRK700 (approximately EUR93) A simplified invoice cannot be issued for supplies to other EU Member States where VAT is due by the recipient.

Self-billing. Self-billing is allowed in Croatia. An invoice can be issued by the recipient under the condition that there is a prior agreement between the supplier and the recipient for the acceptance of each invoice by the supplier. A prior agreement means that it should be concluded before the start of self-billing. When a customer issues the invoice on behalf of the supplier, the invoice must be marked "self-invoicing" ("*samoizdavanje računa*").

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, two suitable pieces of evidence that goods have been removed from Croatia to another Member State. The pieces of evidence should be issued by two different parties that are independent of each other, of the supplier and of the customer.

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.

Supplies to nontaxable persons. Mandatory issuance of invoices in B2C transactions is not prescribed by the VAT legislation.

Records.

Record retention period. 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.

Electronic archiving. 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). Taxpayers can make electronic copies of the paper invoices, so long as the authenticity of the original invoices and the legibility and integrity of their content are kept throughout the whole storage period.

I. Returns and payment

Periodic 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.

Periodic payments. The VAT payment for the respective tax period must me made no later than the last day of the following month. For instance: the obligation for March must be paid by the last day of April. VAT due must be paid electronically.

Electronic filing. 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

Payments on account. Payments on account are not required in Croatia.

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, secondhand goods, antique goods and public auctions
- Special scheme for investment gold
- Cash accounting

Special schemes mentioned above apply regular VAT return filing rules.

Annual returns. Annual returns are not required in Croatia.

Supplementary filings.

Intrastat. The Intrastat reporting threshold for 2020 is HRK2.2 million (approximately EUR293,333) for arrivals and HRK1.2 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.

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.

Special evidence for local purchases. Taxable persons that are registered for VAT purposes in Croatia must submit a report outlining all local taxed purchases in Croatia. These are the purchases where Croatian VAT has been incurred. The special evidence is submitted electronically together with the VAT return.

Digital reporting. The VAT return and all supplementary filings must be filed electronically in Croatia.

J. Penalties

Penalties for late registration. Penalties for non-registration range from HRK2,000 to HRK500,000 (approximately EUR275 and EUR67,100) for the company and from HRK1,000 to HRK50,000 (approximately EUR135 and EUR6,700) for the responsible person within the company.

Penalties for late payment and filings. For late payment of VAT, interest is charged at an annual rate of 6.11%.

Penalties for errors. The penalties for non-registration (see above) may also apply for errors.

Penalties for fraud. The penalties for non-registration (see above) may also apply for fraud.

If the criminal offense of tax evasion is an amount higher than HRK20,000 (approximately EUR2,600), it 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.

Curaçao

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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.

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.

Exemption from registration. The TOT law in Curaçao does not contain any provision for exemption from registration.

Voluntary registration and small businesses. 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).

Group registration. TOT grouping is not allowed under the TOT legislation; group entities that are closely connected must register for TOT individually.

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

Tax representatives. A taxpayer may be represented by a third party based on a power of attorney.

Reverse-charge mechanism. 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.

Domestic reverse charge. There are no domestic reverse charges in Curaçao.

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 (B2B) 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 B2B 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 (B2C) 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.

Online marketplaces and platforms. No special rules exist for online marketplaces and platforms in Curaçao.

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.

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 documentation. The deregistration with the tax authorities should be completed once all tax filing and payment obligations have been met by the taxpayer.

D. Rates

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

The TOT rates are:
- Standard rate: 6%
- Standard rate for insurance and hotel accommodation: 7%
- Standard rate for the import of most goods, as well as specific goods and services listed as luxurious or unhealthy: 9%

The standard rate of TOT 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

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 supplies" refers to supplies of goods and services that are not liable to TOT and that do not qualify for input tax deduction.

Examples of exempt supplies of goods and services

- Exports of goods (subject to evidence the goods have left Curaçao)
- 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

Option to tax for exempt supplies. The option to tax exempt supplies is not available in Curaçao.

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.

Deposits and prepayments. The time of supply rule for deposits and prepayments is the earlier of when an invoice has been issued, or should have been issued, for the delivery of goods or rendering of services.

Continuous supplies of services. The time of supply rule for continuous supplies of services is the earlier of when an invoice has been issued, or should have been issued, for the delivery of goods or rendering of services.

Goods sent on approval for sale or return. Curaçao has no specific time of supply rule for goods sent for sale or return. As such, the general time of supply rules apply (see above).

Reverse-charge services. Curaçao has no specific time of supply rule for reverse-charge services. As such, the general time of supply rules apply (see above).

Leased assets. Curaçao has no specific time of supply rule for leased assets. As such, the general time of supply rules apply (see above).

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.

Nondeductible input tax. In general, TOT is nondeductible in Curaçao. However, with regard to the import of goods, an entrepreneur may, subject to certain conditions and instructions, request the Inspectorate of Taxes to approve a 50% deduction of TOT.

Examples of items for which input tax is nondeductible

- 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 (if related to a taxable business use)

- 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

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. In general, TOT is nondeductible in Curaçao. As such, there is no distinction between input tax incurred in relation to exempt and taxable supplies. Consequently, the TOT legislation does not specifically mention any regulations in connection with partial exemption.

Capital goods. In general, TOT is nondeductible in Curaçao. As such, there are no special rules regarding input tax incurred in relation to capital goods. Consequently, the TOT legislation does not specifically mention any regulations in connection with capital goods.

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.

Pre-registration costs. TOT incurred on pre-registration costs in Curaçao is not recoverable.

Write-off of bad debts. When an amount receivable will not be paid (in full), businesses can reclaim the remitted TOT. Entitlement to a TOT refund arises when it is established that a receivable will not be paid partially or in full, at the moment that this can be determined. Entitlement to a refund arises ultimately one year after the date on which the receivable has become due. The refund request is not included in the regular TOT return, a separate request must in principle be made with the Curaçao tax authorities. Please note that if a receivable has been marked as a "bad debt," and then is subsequently paid (in full or partially) after the overpaid TOT has been refunded, the business will have to repay (in full or partially) the refunded TOT.

Noneconomic activities. TOT incurred in relation to noneconomic activities is not recoverable in Curaçao.

G. Recovery of TOT by non-established businesses

TOT incurred by non-established businesses in Curaçao is not recoverable.

H. Invoicing

TOT invoices. A taxable person must provide a receipt or invoice for all taxable supplies made, including exports.

Credit notes. 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.

Electronic invoices. The issuance of electronic invoices is optional in Curaçao. In this regard, the same invoice requirements apply for regular invoices, PDF files are generally accepted.

Simplified TOT invoices. Simplified TOT invoices are allowed for certain industries. This includes entrepreneurs active in the hospitality industry, repair of retail products and sale of retail products, as well as entrepreneurs providing personal services. Such suppliers are required to provide a receipt to their customers instead of a full TOT invoice.

Self-billing. Self-billing is not allowed in Curaçao.

Proof of exports. 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

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.

Supplies to nontaxable persons. The Curaçao TOT legislation does not have any special rules for TOT invoices issued to private consumers. However, 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.

Records. Taxpayers are required to keep records in such a manner that at any time their rights, obligations and all other information relevant for tax purposes are clear and readily available upon request from the tax authorities.

Record retention period. Taxable businesses must retain a copy of their invoices for 10 years.

Electronic archiving. Electronic archiving is allowed.

I. Returns and payment

Periodic returns. TOT returns are generally submitted for monthly periods. Returns must be filed by the 15th day of the month following the end of the reporting period.

Periodic payments. 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.

Electronic filing. TOT returns can be filed electronically upon request.

Payments on account. Payments on account are not required in Curaçao.

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.

Annual returns. The Inspectorate of Taxes may allow the filing of an annual TOT return instead of monthly TOT returns in one of the following situations:
- It concerns a small enterprise (see above under the *Special schemes* subsection).
- The company almost exclusively provides TOT exempt supplies and the TOT taxable revenue does not exceed the threshold of ANG30,000.

The annual tax return (and payment) is due on the first 15 February following the respective calendar year.

Supplementary filings. No supplementary filings are required in Curaçao.

Digital reporting. TOT returns have to be filed digitally through the online portal of the tax authorities. Other than that, there are no digital reporting obligations.

J. Penalties

Penalties for late registration. 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.

Penalties for late payment and filings. 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.

Penalties for errors. A negligence tax penalty of up to 100% of the additional tax due can be imposed if the deficit is attributable to the intent or gross negligence of the taxpayer.

Penalties for fraud. 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	Φόρος Προστιθέμενης Αξίας
Date introduced	1 July 1992
Trading bloc membership	European Union (EU)
Administered by	Tax Department, Indirect Taxation (https://www.mof.gov.cy/mof/tax/taxdep.nsf/ced12_gr/ced12_gr?opendocument)
VAT rates	
Standard	19%
Reduced	5% or 9%
Other	Zero-rated (0%) and exempt
VAT number format	12345678X

VAT return periods	Quarterly
Thresholds	
Registration	
Established	EUR15,600
Non-established	None
Distance selling	EUR35,000
Intra-Community acquisitions	EUR10,251
Electronically supplied services (MOSS)	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 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.

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

Voluntary registration and small businesses. 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).

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.

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.

Domestic 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.

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. Special 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 (MOSS)" 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.

Online marketplaces and platforms. Goods and services supplied through online platforms are subject to Cypriot VAT when supplied in Cyprus. If the supplies relate to electronically supplied services, they fall under the auspice of the MOSS system. Otherwise, distance sales VAT thresholds apply.

Vouchers. As from 1 January 2019, the Cypriot VAT treatment of vouchers is determined in line with the EU VAT Directive. In essence, the Cypriot VAT law provides definitions of what constitutes a voucher separating a single-purpose voucher (SPV) and a multi-purpose voucher (MPV) according to their contractual terms and conditions.

A SPV is a voucher for which the country of supply is known at the time of the issue and the goods/services that can be redeemed are subject to one VAT rate (one of 5% or 9% or 19%). VAT is accounted at the time of issue or subsequent transfer (sale) of the voucher.

An MPV is a voucher for which at the time of its payment, the nature of goods/services that will be delivered is not known. VAT is accounted at the time of redemption. Issue and subsequent transfer (sale) is not subject to VAT.

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 cancel-

lation 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.

D. 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: 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 0%
- Supply, lease and repair of seagoing vehicles and aircraft and related services
- International transport of persons
- 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 recipients outside the EU (see the chapter on the EU)

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

The term "exempt supplies" refers to supplies of goods and services that are not liable to VAT and that do not qualify for input tax deduction.

Examples of exempt supplies of goods and services

- Real estate (except: "new buildings," transfer of 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 and reinsurance
- Human organs
- Education services

Option to tax for exempt supplies. The option to tax exempt supplies is not available in Cyprus.

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.

Deposits and 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.

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.

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.

Reverse-charge services. 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.

Leased assets. There is no special time of supply rule for leased assets. As such, the normal tax point rules for goods apply (see above). In accordance with CJEU case law, financial leases where the economic rationale lies in acquiring the asset at the end of the lease may be considered to be supplies of goods and VAT on the full amount of the asset's value is due from the onset of the lease.

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.

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

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 tax is due)
- Business use of home telephone
- Mobile phones (the invoices must be issued in the name of the business)
- Advertising

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. Nonattributable input tax must be apportioned. The standard method for apportioning input tax is to multiply nonattributable 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 tax 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 tax 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 tax, 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 tax 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.

Pre-registration 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.

Noneconomic activities. A taxable person who is engaged in noneconomic activities, such as holding activities, may not deduct input tax 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 tax on the general overhead expenses to economic and noneconomic activities. A taxable person may deduct the portion of input tax based on this reasonable percentage of input tax attributed to economic activities of the taxable person.

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.

EU 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 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.

Non-EU businesses. 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 persons established in a country outside the EU, 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. 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).

An invoice should be issued, if a prepayment has been received for the supply of goods or services to a customer.

Credit notes. 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).

Electronic invoicing. Cyprus VAT law permits electronic invoicing in line with EU Directive 2010/45/EU (see the chapter on the EU).

Simplified VAT invoices. Simplified invoices are allowed for retail supplies where the gross value does not exceed EUR85. Such invoices must contain the name, address and VAT number of the supplier, the date of issue, a description of goods supplied, the total gross value of the goods inclusive of VAT, as well as for each applicable VAT rate — the total amount payable inclusive of VAT together with the applicable VAT rate.

Self-billing. Cyprus VAT law permits self-billing upon pre-approval from the Tax Commissioner and subject to certain conditions in line with the EU VAT Directive. The person operating the self-billing system is liable for any understated VAT. There are various requirements for self-invoicing and the mutual consent of the two parties is a prerequisite. Such requirements among others include:
- The existence of a self-billing agreement between the parties, whereby the customer will be authorized to bill itself for supplies by the supplier (no invoicing by supplier)
- Period for the effect of such agreement is 12 months, unless prolonged by the Tax Commissioner
- Self-billing documentation to be signed by both parties

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.

Supplies to nontaxable persons. A VAT-registered person who carries out a taxable supply of goods/services to a nontaxable person/consumer in Cyprus should issue a legal receipt at the time of the supply. The legal receipt should include at least the following:
- Date of issuance
- Serial/ID number
- The name, address and VAT registration number of the supplier
- Sufficient description of the goods/services supplied
- Total gross amount inclusive of VAT
- For each applicable VAT rate, the total gross amount inclusive of VAT together with the relevant VAT rate
- Indication of whether it relates to cash payment, prepayment or otherwise

Records. In principle, the records that a Cypriot VAT-taxable person needs to be maintained should be stored in Cyprus.

However, there is the option for the taxable person to store its records outside Cyprus, provided that the Tax Commissioner is notified in advance and provided that online access to the data is available. Invoices, whether in paper or electronic format, must be stored in the original form in which they have been sent or made available.

Upon request of the Tax Commissioner, the records of a Cypriot VAT taxable person need to be available to the authorities within a period of five days.

Record retention period. Every taxable person has an obligation to keep records on all its supplies, either electronically or manually and these records need to be maintained for a period of at least six years.

Electronic archiving. Electronic archiving is allowed in Cyprus. Online access to information is allowed under certain conditions.

I. Returns and payment

Periodic 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.

Periodic payments. Any VAT due must be paid by the same date as VAT return submission, i.e., by the 10th day of the second month following the end of the VAT quarter. Payment of the VAT due can be made at the till of any commercial bank in Cyprus, by wire transfer or through designated internet banking services of selected major banks in Cyprus.

Electronic filing. Since 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.

Payments on account. Payments on account are not required in Cyprus.

Special schemes.

Profit margin scheme. 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.

Farming. 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.

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.

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.

Cash accounting. The scheme is applicable since 20 December 2013 for businesses whose turnover does not exceed EUR25,000 in the last 12 months.

Annual returns. Annual returns are not required in Cyprus.

Supplementary 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 2019 are EUR160 for Arrivals and EUR55,000 for Dispatches. In addition, special thresholds have been set at EUR2.7 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.

EU Sales Lists. 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 an EU Sales List (i.e., 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.

Digital reporting. VAT returns must be filed electronically.

J. Penalties

Penalties for late registration. A penalty is applied to late registration equal to EUR85 for each month the failure continues.

Penalties for late payment and filings. A one-off penalty of EUR51 per late submitted VAT return. Late payment of an outstanding VAT amount results in the imposition of a penalty of 10% of the outstanding amount. Interest is charged at the rate of 2.0% per annum on the outstanding amount and the penalty (interest is calculated for complete months).

For Intrastat forms, a one-off penalty of EUR15 is imposed for each late submitted form. Any omission or delay in submission of Intrastat forms for a period beyond 30 days constitutes a criminal offense and in case of conviction the penalty may reach up to EUR2,562.

For VIES forms, a one-off penalty of EUR50 is imposed for each form that is submitted late. Continuous omission to submit the VIES forms constitutes a criminal offense and in case of conviction the penalty may reach up to EUR850.

Penalties for errors. Penalties may be also assessed for the following offenses:
- 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

Penalties for fraud. Fraudulent evasion of VAT may be penalized by 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 may result in 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 may result in up to 12 months' imprisonment or a fine of EUR8,543, or both.

In accordance with legislation and recent case law, any persons of authority, i.e., directors and secretaries, may be also liable for the above offenses.

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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% and 10%
Other	Zero-rated (0%) and exempt
VAT number format	CZ then 8 to 10 digits ranging from 0 to 9
VAT return periods	Monthly Quarterly
Thresholds	
Registration	
Established	CZK1 million (EUR40,000
Non-established	None
Distance selling	CZK1.14 million (EUR45,600)
Intra-Community acquisitions	CZK326,000 (EUR13,040)
Electronically supplied Services (MOSS)	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 for consideration in the Czech Republic by a taxable person acting as such, including the transfer of real estate

- The intra-Community acquisition of goods for consideration made in the Czech Republic by a taxable person acting as such (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 regardless of the status of the customer.

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. 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 tax, 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, unless the sale of long-term assets is a common business activity of the taxpayer.
- 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 the Czech Republic. 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 another EU Member State. The taxable person must file an application for registration by the 15th day following the tax point of the service.

Exemption from registration. The VAT law in the Czech Republic does not contain any provision for exemption from registration. Businesses that exclusively make exempt supplies, that is, supplies that are exempt without the right to deduct input tax, may not register for VAT.

Voluntary registration and small businesses. 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.

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 choose to 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. The minimum time frame for which the VAT group can exist, is one 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 from a non-established business or it receives a service, 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 a 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.

Tax representatives. 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.

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 services. In general, the reverse charge applies to services, 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.

Domestic reverse charge. Certain local transactions (supplies between persons registered for Czech VAT and acting as taxable person) 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.

Digital economy. Special 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. Consequently, where the customer is established in the Czech Republic, Czech VAT will be due.

Generally, 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 (MOSS).

As of January 2019, there is an exception from the general rule for place of supply of B2C digital services — if a supplier has its seat of business in one EU Member State and does not have any fixed establishment in other EU Member States, or has its seat of business in non-EU state and fixed establishment only in one EU Member State, and the total amount of sales has not exceeded EUR10,000 neither in current nor in preceding calendar year, the place of supply is where the supplier is established. A taxable person may however opt for general rule of place of supply.

Mini-One-Stop Shop. The place of supply of telecommunications, broadcasting and electronic services to non-VAT taxable customers is the place of the service recipient 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.

Online marketplaces and platforms. Special rules for distance selling of goods by non-EU supplier will be introduced starting from January 2021 implementing EU Directive 2017/2455/EU. According to these rules, if the goods are sold to the final EU customers from the non-EU destination using an online marketplace or platform, the online marketplace or platform is deemed to be the one that acquires the goods and supplies the goods to EU customer itself. This will lead to VAT registration of marketplaces/platforms in EU countries of destination or in one EU country using One-Stop Shop procedure. *At the time of preparing this chapter, the amendment of the VAT Act implementing these changes had not been released.*

Vouchers. There are two types of vouchers that need to be distinguished — single-purpose voucher (SPV) and multi-purpose 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 (VAT inclusive), 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.

Registration procedures. A taxable person that becomes a VAT payer by law or would like to register for VAT must file electronically an application form that is available online in the Czech language on the Czech Ministry of Finance website at http://www.mfcr.cz by the 15th day following the tax point of the supply. 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.

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 six consecutive calendar months, except for taxable supplies from which the recipient would be obliged to declare output tax under the reverse-charge mechanism, or supplies of goods that would qualify for triangular simplification if the supplier were not registered for VAT in the Czech Republic.
- 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 12 calendar months.

The VAT registration will be also canceled by the tax authorities in certain specific cases if the VAT payer breaches its tax administrative obligations.

A VAT-identified person may apply for deregistration if it is not registered for MOSS in the Czech Republic and 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.

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 is 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 supplier of fuels was not at the moment of supply properly registered as a distributor of fuels according to the relevant legislation.

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.

D. Rates

In the Czech Republic, the term “taxable supplies” refers to supplies of goods and services that are liable to a rate of VAT.

The following are the VAT rates:
- Standard rate: 21%
- Reduced rates: 15%, 10%
- Zero-rated: 0%

The standard rate of VAT applies to all supplies of goods or services, unless a specific measure provides for the reduced rate or exemption.

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.

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

Examples of goods and services taxable at 10%

- Public transport (excluding private ski lift)
- Heating
- Books and magazines subject to certain conditions
- Medications
- Medications for veterinary use
- Necessary baby food

Starting from 1 May 2020, the list of items included in 10% VAT rate will be extended, for example:
- Restaurant and catering services, including serving draft beer
- Household cleaning services
- Bicycle repairs, footwear and clothing repairs
- Children, senior and disabled homecare
- Hairdresser and barber services
- Drinking water supplied through a pipe
- Water distribution and treatment of sewage
- E-books

Examples of goods and services taxable at 15%

- Foodstuffs
- Repairs and work on medical instruments
- Nonalcoholic beverages
- 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)

The term "exempt supplies" refers to supplies of goods and services that are not liable to VAT and that do not qualify for input tax deduction. 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.

A VAT payer can also opt to tax a rent of real estate if a tenant is also a VAT payer and will use the immovable property for his economic activities. Starting from 1 January 2021, this option of taxation will be limited to renting of nonresidential buildings only.

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.

Deposits and prepayments. If the payment is received by the supplier before the supply takes place, the supplier is generally obliged to issue the VAT document for the received payment and declare and pay output tax. 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.

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, except for services supplied based on a decision of the public authorities and paid by the state (e.g., ex offo attorney) or services of the insolvency administrator.

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.

Reverse-charge services. For reverse-charge 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. 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.
- 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.

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 allowed to buy the asset after the leasing, the time of supply is the date on which the asset is handed over to the customer if under the normal course of events the customer will likely buy the asset at the end of lease.
- In the case of a standard lease, the VAT is payable upon the agreed monthly or quarterly installments.

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 tax at the appropriate rate. The self-assessed tax is also treated as input tax and may be recovered. 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.

Intra-Community acquisitions. 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

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.

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 tax 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 tax 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 tax 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 tax 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 tax deduction (that is, claim only a partial deduction) of input tax 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 tax 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 tax deduction may be claimed.

The input tax 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 tax deduction is claimed in full, output tax 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 tax 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 tax 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 tax 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 tax claimed must be adjusted if the actual use of the respective business property differs from the purposes reflected in the original input tax 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.

As of 1 April 2019, there is a new obligation to adjust the VAT amount incurred on construction services related to repairs of real estate the net value of which exceeded of CZK200,000. The adjustment period for repair services is 10 years.

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. *At the time of preparing this chapter, it is proposed to prolong this period to 45 days. The proposal is expected to come into force during 2020. The refund may take much longer if a VAT audit is initiated by the tax authorities. A new draft amendment of the Czech VAT Act proposes to introduce so-called prepayment of VAT refund, where the tax authorities refund at least part of the VAT overpayment that is not disputed during the VAT audit.*

Pre-registration costs. A VAT taxable person can deduct VAT from received taxable purchases incurred before VAT registration:

- 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
- During the preceding 60 consecutive calendar months, provided the incurred input supply became part of long-term asset and it was completed and ready to launch for usual business use during the preceding 12 consecutive calendar months before the taxable person became VAT payer and this long-term asset is still part of the business assets on the registration date
- During the preceding six consecutive calendar months and used for exportation of goods outside the EU
- Provided the taxable person would be entitled to apply for VAT refund according to VAT Directive 2008/9/EC but could not apply for refund only due to requirement of minimum time period for VAT refund

Write-off of bad debts. The VAT payer can recover the output tax declared and paid on supplies provided to VAT registered customers who became insolvent and more generally 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.

Noneconomic activities. The input tax 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 to the same extent as a VAT registered business.

EU businesses. For businesses established in the EU, refund is made under the terms of EU Directive 2008/9/EC. A non-established taxable person that was not registered as a Czech VAT payer during the relevant refund period, may request a refund of Czech VAT by filing an application through the electronic portal in its country of establishment (i.e., either in the Member State of its business seat or Member State of the fixed establishment, if the latter is the actual recipient of the supply). 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).

Non-EU businesses. 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.

H. Invoicing

VAT invoices. 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
  Or
- 15 days after the end of the calendar month in which the VAT-exempt supply with credit or out of scope supply took place

A VAT payer is obliged 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) also within the period for issuance of invoice.

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.

Credit notes. 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 canceled (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.

A VAT payer is obliged to issue and to make all possible efforts to deliver the credit note or debit note to the customer by means agreed between the parties (i.e., in paper or electronically) within 15 days from the day when the obligation to issue the document arose.

Electronic invoicing. Czech VAT law permits electronic invoicing in line with EU Directive 2010/45/EU (see the chapter on the EU).

Simplified VAT invoices. A VAT payer can issue a simplified VAT invoice, provided the total amount on the invoice does not exceed CZK10,000. For certain supplies, the VAT law precludes simplified VAT invoicing — for example, distance selling of goods, goods subject to excise duty, supplies of goods or services where output tax should be declared by the recipient.

Self-billing. A supplier may authorize in writing, that their customer or a third party is approved to issue invoices on their behalf. If such an authorization is granted electronically, it should be signed by certified electronic signature.

Proof of exports and intra-Community supplies. Czech VAT is not chargeable on supplies of exported goods. To prove VAT exemption, the supplier should show that the goods were transported by them or by the customer and that they left territory of the EU. Exit from the EU can be proved either by export customs declaration or in some cases also by other means. In early 2020, a new amendment will come into force implementing recent EU case law with respect to exportation. Once implemented, release of goods into a specific customs regime will no longer be the condition for VAT exemption, and the tax authorities, in addition to customs declaration, should accept also other proofs of exit of goods from EU.

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 is VAT registered in the other EU Member State and indicated his VAT number to supplier.
- The acquisition of the goods must be subject to VAT in the other EU Member State.
- The supplier correctly set out information about this supply in his EC Sales List (this condition will be implemented by VATA Amendment in the beginning of 2020 — known as the EU Quick Fixes).

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.

A supplier may also prove the transportation of goods by combination of documents listed in Article 45a of the EU Implementing Regulation 282/2011.

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.

Supplies to nontaxable persons. With some exceptions, it is not mandatory to issue an invoice to non-VAT taxable customers, apart from nontaxable legal persons.

Records.

Record retention period. All VAT documents should be retained for 10 years starting from the end of taxable period in which the taxable supply occurred. If the documents are kept outside the Czech Republic, the tax administrator should be informed about the address of storage in advance.

Electronic archiving. Electronic archiving of VAT documents is permissible, as long as the authenticity of origin, integrity of content and legibility of a tax document is guaranteed.

I. Returns and payment

Periodic 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. So-called nil returns must be filed if no taxable transactions have taken place in the period. Non-established VAT payers are not obliged to file nil VAT return.

Periodic payments. Payment of the VAT liability must be credited to the bank account of the tax authorities within the same time period as the return submission, i.e., within 25 days after the end of the tax period. VAT liabilities must be paid in Czech crowns.

Electronic filing. Electronic filing of the VAT returns, and other VAT-related reports is mandatory for all VAT payers.

Payments on account. Payments on account are not required in the Czech Republic.

Special schemes.

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 tax 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 tax incurred in connection with production or transformation of investment gold.

Annual returns. Annual returns are not required in the Czech Republic.

Supplementary 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 2020 threshold for Intrastat Arrivals is CZK12 million per calendar year. The 2020 threshold for Intrastat Dispatches is CZK12 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.

EU Sales Lists. If a Czech VAT payer makes intra-Community supplies of goods or provides 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. Starting from 2020, the filing of the correct EU Sales List is a material condition for the VAT exemption of supply of goods to another EU Member State (this will be implemented by VAT Amendment in the beginning of 2020 — known as the EU Quick Fixes).

An identified person providing 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.

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.

Digital reporting.

Electronic filing of VAT reports. All VAT reports should be filed electronically in the prescribed xml format. A VAT payer may submit VAT filing by either the following:
- By uploading the data to an application accessible on the website of the Ministry of Finance, signed by guaranteed electronic signature based on the qualified certificate issued by an authorized provider
- Via so called Data Box, which is a web-based instrument for electronic communications between legal or natural persons and state authorities or public bodies

It is now proposed to introduce two new methods of electronic filing:
- Via the so-called verified identity of the taxpayer (i.e., smart ID card)
- Via the so-called Tax Informative Box, which is used already but will be upgraded

The proposal shall come into force during 2020. *At the time of preparing this chapter, the exact implementation date is not known.*

It is also possible to file VAT reports electronically by uploading the data to a special application of the Ministry of Finance without the certified electronic signature. In such a case, the VAT payer should confirm its filing also in paper form within certain short deadlines.

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) do not need to be registered.

ERS has a gradual effect. Hotel, restaurant services, wholesale and retail activity have been subject to ERS. Further expansion will come into force from May 2020 and will include almost all revenues (e.g., legal and accounting services, transportation, medical services, certain crafts, sales of own products).

Permanent exceptions from ERS include, for example, one-off revenues that do not represent regular economic activity, revenues of state or regulated entities, public-benefit organizations, financial institutions, securities traders, pension funds, energy companies and revenues for water supply and sanitation, etc.

J. Penalties

Penalties for 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.

Penalties for late payment and filings. 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. There is a proposal to abolish the penalty-free period and, on the other hand, to lower the penalty rate. These proposals are expected to come into force during 2020.

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.

The fine for failure to file a Czech VAT return electronically is now CZK2,000.

Default interest is charged for the late payment of VAT due on a VAT return, beginning with the fifth working day. It is proposed to abolish the interest-free period. 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. It is proposed to lower the interest rate. Both proposals are expected to come into force during 2020.

For Intrastat, a penalty of up to CZK1 million may be imposed for late submission or for missing or inaccurate declarations.

The fine for failure to file an 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).

Penalties in connection with the new obligation to report sales revenues online, may result in a fine up to CZK500,000 for undermining or complicating the registration of revenues.

Penalties for errors. There are no specific penalties for errors. The only consequences of the errors are penalized (as outlined above).

Penalties for fraud. The Czech VAT Act does not provide for any specific penalties for fraud. If a business knew or should have known that the respective VAT will not be paid, the tax authorities may either reject input tax deduction from such input supplies, or the business may be held jointly liable for unpaid VAT using mechanism of VAT guarantee described above.

Democratic Republic of the Congo

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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	20 August 2010
Trading bloc membership	Economic Community of Central African States (ECCAS) Member and Southern African Development Community (SADC) Member
Administered by	Tax Administration (Direction Générale des Impôts)
VAT rates	
Standard	16%
Other	Zero-rated (0%) and exempt
VAT number format	A1234567R
VAT return periods	Monthly
Thresholds	
Registration	CDF80 million
Deregistration	Mandatory for any business ceasing to trade in the Democratic Republic of the Congo

Recovery of VAT by non-established businesses	Yes, subject to certain conditions

B. Scope of the tax

VAT applies to the following transactions in the Democratic Republic of the Congo (DRC):
- Supply of goods and tangible assets to third parties
- Services provided to third parties
- Self-supply of goods
- Self-provision of services
- Imports of goods and services
- Export of goods and services

All operations carried out in the DRC are subject to VAT, even though the residence of the taxpayer may be located outside of the DRC.

C. Who is liable

Voluntary registration and small businesses. Companies operating in the DRC are required to register with the tax authorities. Moreover, businesses with a minimum annual turnover of CDF80 million (approximately USD48,485) are required to obtain a VAT number. A business with an annual turnover less than CDF80 million (approximately USD48,485) can register for VAT in the DRC voluntarily. In order to register for VAT, the business must send a request to the tax administration accordingly.

Group registration. Group VAT registration is not allowed in the DRC.

Non-established businesses. A "non-established business" is a business that has no permanent establishment in the territory of DRC. Non-established businesses must designate a resident representative based on a legalized or notarized letter. This resident representative is liable to declare and pay the VAT on behalf of the non-established business. 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).

Tax representatives. As mentioned above, nonresident companies are required to appoint a representative resident in DRC. The nonresident company may appoint only one representative for all its operations in the DRC. In the absence of a representative, the tax and the penalties relating to, are payable by the resident beneficiary of services on behalf of the nonresident company.

Reverse charge. The reverse-charge mechanism is applicable whenever a non-established entity fails to nominate a VAT representative. In such a case, the local entity (the customer) will be liable for VAT on the supply made by the nonresident service provider. As part of the VAT reverse-charge mechanism, the VAT shall be declared as output and input tax in the same tax return. Therefore, there shall be no cash impact for the client, to the extent there is a full right of deduction.

Domestic reverse charge. There are no domestic reverse charges in the DRC.

Digital economy. No special rules exist for digital economy supplies.

Online marketplaces and platforms. No special rules exist for online marketplaces and platforms in the DRC.

Registration procedures. A business with an annual turnover of CDF80 million (approximately USD48,485) must within 15 days file a VAT registration form with the tax administration. Each taxpayer should be identified by a VAT number. In practice, the specific VAT number is not yet allocated to the taxpayers, and the general tax ID is used currently instead.

Deregistration. Deregistration from VAT in the DRC is mandatory for any business ceasing to trade in the DRC. For the deregistration of a business, it should provide the trade court with the decision made by the business to cease the activity or declare the company as dormant. With the acknowledgement receipt from the trade court while waiting for the deregistration, the business will notify the tax administration by providing it with a copy of the acknowledgement receipt from the trade court. Until the final decision from the trade court is issued, the business will be required to continue to submit a nil VAT return. Once the final decision of the deregistration will be made by the trade court, the business will provide the tax administration with it to obtain the tax clearance. However, before issuing the tax clearance, the tax administration needs to ensure that the business is debt free from the tax administration. Thus, the business's tax current account balance should be zero, i.e., nothing to pay to the tax administration.

D. 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: 16%
- 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%

- Exportation of goods and services (i.e., services rendered by a resident company to a foreign entity abroad)

The term "exempt supplies" refers to supplies of goods and services that are not liable to VAT and that do not qualify for input tax deduction.

Examples of exempt supplies of goods and services

- Supply of secondhand movable property, supplied by persons who used the goods for the purposes of their business when those goods do not have the right to deduct the VAT upon their acquisition
- Sales and imports made by not-for-profit associations legally constituted when these operations are of a social nature, sporting, cultural, religious, educational or philanthropic purpose
- Sales and imports of official stamps or stamped papers
- Importing bank notes, associated costs in the production process of the bank notes equipment serving in the manufacture of monetary signs and their spare parts made exclusively by the Currency Issuing Institute
- Sales and imports of boats

Option to tax for exempt supplies. The option to tax exempt supplies is not available in the DRC.

E. Time of supply

VAT is due when the payment has been received for the services provided (i.e., on a cash basis) and when goods have been supplied (i.e., on an invoice basis). The time of payment of the VAT to the tax administration is due by the 15th day of the month following the transaction. For example, where payment is received, or goods are supplied in October 2019, the VAT should be paid to the tax administration by the 15th of November 2019.

Deposits and prepayments. For deposits and prepayments, the VAT becomes due when the deposits and prepayments have been paid for the services provided (cash basis); and for the goods, VAT is due when goods have been supplied (invoice basis).

Continuous supplies of services. For installment payments or continuous payments with respect to continuous supplies of services, the chargeable event occurs when such installments or payments are made.

Goods sent on approval for sale or return. The time of supply for goods sent on approval for sale or return is when the goods are delivered to the customer.

Reverse-charge services. The time of supply for a reverse-charge service received by a DRC taxable person is the date of payment for the service.

Leased assets. The time of supply for leased assets is when payment is made.

Imported goods. The time of supply for imported goods is the submission of the declaration of goods with the customs administration.

F. Recovery of VAT by taxable persons

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

- Expense on accommodation, catering, reception, shows, rental of passenger vehicles and transport of persons, excluding expenditure incurred, under their taxable activity, by tourism professionals, catering and entertainment
- Goods and services acquired by the enterprise but used by third parties, the directors or the personnel of the company, excluding work or protective clothing, equipment assigned to the collective satisfaction of staff needs, as well as free accommodation in the workplace of salaried staff, especially of the surveillance or the guard of these places
- Services of any kind, including rental, maintenance, repair, relating to products or goods excluded from right to deduction

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

- Raw materials, intermediate goods and consumables included in the composition of taxable products or which, not entering in the finished product, are destroyed or lose their specific qualities in a single operation of manufacturing the same products
- Goods for resale in the context of a taxable operation
- Services entering into the cost price of the operations giving right to deduction

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. This scenario is known as "partial exemption," and as such an apportionment percentage will be applied to the taxable person's input tax.

The apportionment percentage is equal to the sum of revenues (revenue from the items for which the deduction of the VAT is allowed, which includes exports and related transactions) then divided by the total of revenues realized (all revenues included) during the current tax year.

A partially exempt business should calculate their apportionment to find the correct percentage of apportionment to be applied and regularize the VAT due by 31 March of the following year. In case of all items are VAT deductible and full VAT has been applied, no regularization should be made.

Capital goods. The VAT on acquisition of capital goods for the business purpose is deductible. There are no special time limits or rules for the recovery of input tax incurred on capital goods.

Refunds. If for the same month, the amount of input tax exceeds the amount of output tax of the same period, the taxpayer has a right to the VAT refund which is a tax credit to be carried forward to the next taxable period(s). The tax credit cannot be refunded to the taxable person.

Except for exporters, companies making heavy investments, mining and oil companies in phase of research or development and construction of the mining or petroleum project, those who cease activities and public enterprises in which the State owns all of the share capital and whose VAT has been invoiced and has been subject to withholding tax, may get the refund of their tax credit on VAT resulting from the acquisition of movable property and services.

Heavy investment means acquisition of new property, plant and equipment in which the value of the project is not less than CDF1 billion.

Pre-registration costs. Input tax incurred on pre-registration costs in the DRC, is not recoverable.

Write-off bad debts. The VAT accounted for on supplies which are subsequently canceled or remain unpaid, may be recovered by imputation on the tax due for subsequent transactions.

For unpaid transactions, when the claim is actually and definitively unpaid, the rectification of the invoice consists in sending a duplicate of the invoice with regulatory indications with the mention that the amount of the invoice remained unpaid at the price excluding VAT and of the amount of the corresponding VAT which cannot be deducted.

Noneconomic activities. Input tax incurred in relation to noneconomic activities is not recoverable in the DRC.

G. Recovery of VAT by non-established businesses

Non-established businesses are able to recover input tax incurred in the DRC, through an appointed resident VAT representative in the DRC. If no representative is appointed, input tax cannot be recovered by non-established businesses.

H. Invoicing

VAT invoices. A VAT invoice must be issued for each transaction made, and include all the mandatory information including the amount excluding VAT, the amount of VAT and the total including VAT.

Credit notes. For canceled transactions, the related invoice and VAT should be canceled. Therefore, a credit note should be raised to cancel the original invoice. The recovery of the VAT to be paid to the supplier is subordinated by the tax authorities and the sending to the customer of a new invoice or credit note canceling or replacing the original invoice. Thus, the original invoice must be crossed out and kept in the chronological order.

Electronic invoicing. Electronic invoicing is allowed in the DRC, but not mandatory. It must contain the same information as required for a paper invoice. Electronic invoices must contain all the same required information as a full VAT invoice. If this is not complied with, the tax administration will challenge the deductibility of the input tax on such an invoice for the customer.

Simplified VAT invoices. Simplified VAT invoicing is not allowed in the DRC. As such, full VAT invoices are required.

Self-billing. Self-billing is allowed for the self-supply of goods or self-provision of services. In these cases, the VAT is due: at first use, for the self-supply of goods, and at the date of the execution of services for the self-provision of services.

Proof of exports. VAT for exported goods is zero rated. In order to obtain the zero rating, the following evidence must be provided:
- A copy of the bank document establishing proof of payment by the exporter's customer and a copy of the transport document
- Copies of the export declarations certified by the customs authorities.

Foreign currency supplies. Invoices cannot be issued in a foreign currency in the DRC. All invoices must be issued in the domestic currency (CDF).

Supplies to nontaxable persons. Please note that when the suppliers issue invoices to customers even if the customers are not registered for VAT, the VAT should be charged on these invoices, unless the customers show an exemption certificate. This means that invoices issued to customers that are exempt from VAT, then VAT should not be charged (and should not be included on the invoice). Otherwise, all the invoices issued by the suppliers to customers including the ones who are not registered VAT are subject to VAT.

Records.

Record retention period. All invoices or equivalent documents must be kept, according to the legislation in place, for at least 10 years.

There is a prescription period for the recovery of taxes and other duties due after 15 years from the filing of the declaration or the issuance of the notice of recovery.

Electronic archiving. Records can be kept manually or electronically and must be kept for at least 10 years.

I. VAT returns and payment

Periodic returns. The VAT return is filed with the tax administration on a monthly basis, by the 15th of the following month. The VAT return must be submitted with the proof of payment of the VAT. Without proof of payment, the tax administration will not receive the VAT return (unless it is a nil VAT return). In the case of a VAT refund, the refund will be reported as a VAT credit in the return for the next month. No refund is paid back directly to taxpayers (apart from mining companies). In practice, even the mining companies don't receive the refund easily or readily.

Periodic payments. The VAT is paid no later than the 15th of the month following the delivery of the goods (invoice) for the goods, and payment received for the services.

Electronic filing. Electronic filing is allowed by law in the DRC. However, it has not yet been implemented in practice. So manual filing is still applied.

Payments on account. Payments on account are not required in the DRC.

Special schemes. Cash accounting is allowed in the DRC. For services providers, the VAT is due when they receive the cash. By the 15th of the following month, they should proceed with the payment of the VAT and join the proof of payment to the VAT return and file the return with the tax administration. No other special schemes are available in the DRC.

Annual returns. Annual returns are not required in the DRC.

Supplementary filings. In the DRC a detailed statement of deductions is required to be filed alongside the monthly VAT return. Also, in March, businesses are required to file a confirmation of the annual pro rata. This is for businesses that are partially exempt. These need to calculate the apportionment to find the correct percentage to be applied and to regularize the VAT by 31 March of the following year. In case of all items are VAT deductible and full VAT has been applied, no regularization should be made.

Digital reporting. No digital reporting requirements apply in the DRC. However, electronic filing of VAT returns has been provided by the law but not yet implemented. The law will be implemented from 1 January 2020.

J. Penalties

Penalties for late registration. Failure to register for VAT with the DRC tax administration within the required period is subject to a fine of CDF500,000.

Penalties for late payment and filings. The absence or late filling of VAT returns is subject to a penalty of 25%. In the case of discretionary taxation for lack of declaration, the penalty is equal to 50% of the amount of the tax due. In case of recidivism, the penalty will increase to 100% of the same amount.

In the case of tax of a tax audit, the penalty equals 20% of the amount of tax due. In case of recidivism, the penalty will increase to 40% of the same amount.

Penalties for errors. When supplying goods or providing service without invoice, the VAT payer will be liable for the penalties amounting to twice the VAT due. In case of recidivism, the taxpayer will be liable for the penalties amounted to triple of the VAT due.

Penalties for fraud. Any abuse of VAT on an invoice or similar document is subject to a penalty equal to three times of the amount of the tax illegally invoiced.

The taxpayer who issues a false invoice including VAT or falsifying an invoice presented as justification for a deduction is subject to the payment of a fine equal to three times of the tax due.

Any refund of credits from the VAT obtained on the basis of false invoices gives rise to an immediate reimbursement of the sums unduly received, with a fine equal to the same amount.

Any deduction made and not corresponding, in part or in whole, to an acquisition of goods or the provision of services, is subject to a fine equal to the amount of duties unduly deducted.

The taxpayer who fraudulently abuses the electronic filing system will be liable for the payment of the penalties amounted to CDF5 million (USD3,030) for the first time and triple in case of recidivism. However, because electronic filing has not yet been implemented in practice, the associated penalties have also not yet been implemented.

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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, quarterly and half-yearly
Thresholds	
Registration	
Established	DKK50,000 (EUR6,700)
Non-established	No threshold
Distance selling	DKK280,000 (EUR37,500)
Intra-Community acquisitions	DKK80,000 (EUR10,700)
Electronically supplied services (MOSS)	DKK74,415 (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 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.

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 and small businesses. 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 (unless registered for VAT via the Mini One-Stop Shop for e-services, where there is a EUR10,000 threshold).

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.

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 tax 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 (except if such EU sales do not exceed the threshold).
- 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 must register for VAT by filling out the following form:
https://indberet.virk.dk/integration/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 (also applies to the non-EU countries mentioned above).

VAT registration for non-established taxable persons from the Aland Islands, EU Member States, the Faroe Islands, Greenland, Iceland and Norway without a fiscal representative will mean that the Danish tax authorities will contact the business directly at their address in their home country.

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.

Reverse charge. If a non-established business supplies services to a taxable person in Denmark 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, 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 (except for EU businesses whose B2C supplies do not exceed the threshold of EUR10,000). We refer to the section on MOSS below for more information.

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.

Domestic reverse charge. The domestic reverse charge is applicable in Denmark. The domestic reverse charge works the same way as the normal reverse charge, but domestically within country territory.

The mechanism applies to sales to taxable persons of metal scrap, mobile phones, computer chips, gaming devices, tablet-PCs, laptops, CO2 quotas, CO2 credits, and gas and electricity certificates.

For mobile phones, computer chips, gaming devices, tablet-PCs and laptops, the reverse-charge mechanism does not apply if the vendor's supply of products subject to domestic reverse charge (high-value goods) are made exclusively or predominantly to private consumers. If more than 50% of the sales of high-value goods are made to private consumers, the general rule applies, i.e., the Danish supplier must charge DK VAT on local sales.

The domestic reverse charge also applies to sales of investment gold to VAT registered businesses.

Finally, the reverse charge applies to sales of gas or electricity to a taxable person who is a reseller of the gas or electricity.

Digital economy. Supplies of digital services to EU consumers 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. A threshold of EUR10,000 is applicable for these types of services. If the sales to consumers outside his home country 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.

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.

Mini One-Stop Shop. Suppliers of B2C e-services, broadcasting and telecommunications in the EU can register and use the VAT Mini One-Stop Shop (MOSS) scheme.

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.

Online marketplaces and platforms. Currently, Denmark does not have any specific rules for online marketplaces and platforms in relation to the VAT treatment of the sales. If the goods are shipped from within the EU, the rules regarding distance sales apply. If the goods are shipped from outside the EU, normally the consumer will be the importer. For goods where the value does not exceed DKK80 (EUR10.7), the import is exempt (from import VAT and customs duties). For goods where the value exceeds this threshold, import VAT (and customs duties, if applicable) will be payable. In most cases a fee for the customs handling is charged by the shipping agent.

Vouchers. Denmark has implemented the EU Voucher Directive in the Danish VAT law with effect as of 1 July 2019. Prior to this implementation, no definition of the VAT treatment of vouchers was included in the Danish VAT law. Thus, any voucher issued on 1 July or later shall from a Danish VAT point of view be treated under the new definition of single-purpose vouchers (SPVs) and multi-purpose vouchers (MPVs) set out in the Danish VAT law. The wording of the Danish Amendment Act implementing the EU Voucher Directive is very similar to the wording in the EU Voucher Directive.

If the voucher is issued between 1 January 2019 and 30 June 2019, the company issuing the voucher can choose to use the former Danish practice for vouchers or the newly implemented rules on VAT treatment of these vouchers.

Under the newly implemented rules and since there is only the standard VAT rate of 25% in Denmark (except for a 0% VAT rate on newspapers), any voucher that can only be redeemed in Denmark would in general be qualified as an SPV for VAT purposes, unless the voucher can also be used for VAT-exempt goods or services (or newspapers). According to the guidelines made by the Danish Tax Agency in connection with the implementation of the EU Voucher Directive, any SPV must be treated as if the issuer supplied the goods and services (even if it is not so from a civil law point of view). The issuer must therefore pay the VAT when the voucher is transferred. It is the opinion of the Danish Tax Agency that it makes no difference if an SPV is issued in own name or if the issuer acts as provider of the voucher in its own name. The tax base for an SPV is the payment received.

For an MPV, VAT is not settled until the actual transfer of the underlying good or service to the bearer of the voucher. Thus, VAT is not due until the time of redemption, and no VAT is settled of the preceding transfers of an MPV. The VAT basis for an MPV is a starting point of the counter value paid for the voucher. If an MPV can be used multiple times, it is only the part of the voucher that is redeemed of which VAT should be calculated.

Registration procedures. For domestic businesses, the registration process is performed online and requires a digital signature/NemID (which could be that of a Danish advisor, e.g., an auditor or a lawyer). 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. For foreign business, the registration could be made on paper (as foreign business will normally not have a Danish digital signature) or made by an advisor using his/her digital signature. A number of documents must accompany the application for foreign businesses.

The registration process takes between 1 and 14 days. A certificate with the Danish VAT number will be sent to the registered postal address.

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.

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: 25%
- Zero-rate: 0%

The standard rate of VAT applies to all supplies of goods or services, unless specific measure 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 qualify for 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 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 to tax 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. However, if one of the other events described below occurs before the time of the actual supply, the VAT will become due at the time of that event.

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 shortly after the time of supply if that is the taxable person's normal business practice.

Deposits and 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. In this case, the VAT will be due for the prepaid amount at the time of prepayment. 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.

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. 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.

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. As such, the normal time of supply rules apply.

Reverse-charge services. 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.

Leased assets. There are no special time-of-supply rules for supplies of leased assets in Denmark. As such, the normal time of supply rules apply.

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.

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.

Intra-Community supplies of goods. The time of supply for an intra-Community supply of goods is the 15th day of the month following the month in which the supply occurred. If the supplier issues an invoice before this date, the time of supply is when the invoice is issued.

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 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: 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 goods). The adjustment may result in either an increase or a decrease of deductible input tax, 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 tax recoverable in a period exceeds the amount of output tax payable, a refund may be claimed by submitting the VAT return form.

Pre-registration costs. Pre-registration costs are refundable if they relate to the business's taxable activities. Whether or not the costs qualify for a refund 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.

Regarding bad debts 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.

EU businesses. Refunds to businesses established in the EU are made under the rules in Directive 2008/9/EC. For the general rules of the EU VAT refund schemes, see the chapter on the EU.

The deadline for refund claims for EU 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.

The deadline for refund claims for EU businesses is 30 September of the year following the year in which the tax is incurred.

Businesses established in another EU Member State must apply for a VAT refund by following an electronic procedure. The application for a refund must be accompanied by the appropriate documentation.

Non-EU businesses. 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.

The deadline for refund claims for non-EU businesses is 30 September of the year following the year in which the tax is 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 DKK3,000. For an annual claim, the minimum amount is DKK400.

The deadline for refund claims for 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.

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

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. 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).

Credit notes. 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. Danish VAT law permits electronic invoicing in line with EU Directive 2010/45/EU (see the chapter on the EU).

Simplified VAT invoices. A simplified invoice can be issued if the total sales value does not exceed DKK3,000 ex VAT. The simplified invoices must contain the following data:

- Date of issue
- Sequential invoice number
- Supplier's VAT number
- Supplier's name and address
- Quantity and nature of the goods/services supplied
- Total payable amount, including VAT
- Payable VAT amount or the necessary information to calculate the VAT amount, e.g., by stating that the VAT amount is 20% of the total payable amount including VAT (equal to the Danish VAT rate of 25%)

Companies mainly or only selling to private consumers must issue a simplified invoice, unless they use a cash register system and provide a cash receipt to the customer. The cash receipt must contain the following data:

- Date of issue
- Supplier's VAT number or supplier's name and address
- Quantity and nature of the goods/services supplied
- Total payable amount including VAT
- Payable VAT amount or the necessary information to calculate the VAT amount, e.g., by stating that the VAT amount is 20% of the total payable amount including VAT

Self-billing. It is possible to enter into an agreement where the customer issues the invoice to themselves on behalf of the supplier. The parties must enter into a written agreement to allow for self-billing. The agreement must include a description of the process, including how the supplier approves each invoice (may be by not opposing the invoice within a fixed number of days). The self-billing invoice must contain the same information as a regular invoice, plus the wording "selvfakturering" or "self-billing" and the customer's VAT registration number.

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.

At this time, it is not expected that EU rules regarding maximum documentation requirements will lead to additional requirements in Denmark.

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.

Supplies to nontaxable persons. Special rules apply to the place of supply for supplies of telecommunications, broadcasting and electronic services to non-VAT taxable customers. Foreign businesses registered under the MOSS 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.

Records.

Record retention period. VAT records must be kept for 5 years, and if the records concern immovable property covered by the capital goods scheme, they must be kept for 10 years.

Electronic archiving. 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.

Electronically archived records may be stored outside of Denmark. Paper files may only be stored outside Denmark temporarily (for the month when the document is issued and the following month — to allow bookkeeping to take place outside of Denmark).

I. Returns and payment

Periodic 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 are due by the 25th day of the month following the return period. Quarterly VAT returns are due by the first day of the third month following the end of the return period. Half-yearly VAT returns are due by the first day of the third month following the end of the return period.

A summer VAT relief scheme allows filing for the June period to be made by 17 August.

Periodic payments. Returns must be completed, and liabilities must be paid in Danish kroner.

Monthly VAT payments are due by the 25th day of the month following the return period. Quarterly VAT payments are due by the first day of the third month following the end of the return period. Half-yearly VAT payments are due by the first day of the third month following the end of the return period.

A summer VAT relief scheme allows payment for the June period to be made by 17 August.

Electronic filing. It is compulsory for all businesses to submit VAT returns online, using the Danish tax authorities' website, www.skat.dk, through "E-tax for businesses" ("Tast Selv").

Payments on account. Payments on account are not required in Denmark.

Special schemes. There are special rules for artists, dealers in secondhand goods and travel agents in terms of how the VAT is calculated. VAT reporting follows these general rules:

Artists. Artists (or their heirs) have a special scheme where the VAT on the first sale of the artist's own works may be calculated on the basis of a reduced taxable amount of 20% of the regular taxable amount.

Dealers in secondhand goods, art, collectibles and antiques. Dealers in secondhand goods, art, collectibles and antiques may calculate the VAT payable based on the profit made on the sale (either calculated on the basis of the individual sales or on the basis of the combined inventory of the dealer). For dealers in used cars, similar rules apply, however, the VAT payable must be calculated on the individual car. Due to the high Danish car registration tax, special rules apply for the calculation. In all cases, the rules are only applicable if the goods are purchased from a

private individual or in circumstances where the goods were originally bought from a seller whose sale was exempt or also covered by the rules on secondhand goods.

Travel agents. Travel agents should calculate VAT on their supplies based on their profit on the travels sold.

Annual returns. Annual returns are not required in Denmark.

Supplementary 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. *At the time of preparing this chapter, the thresholds for 2020 are not yet known.*

Intrastat declarations must be completed in Danish kroner.

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.

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 completed in Danish kroner.

ESLs return period is monthly. In some cases, businesses that have limited intra-Community supplies may obtain permission to submit ESLs on a quarterly basis.

Digital reporting. The VAT returns, ESLs and Intrastat returns must all be completed electronically. The Danish tax authorities do not require any live reporting or detailed information (e.g., SAF-T).

J. Penalties

Penalties for late registration. 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.

Penalties for late payment and filings. 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.

For Intrastat, 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.

If an ESL is late, a reminder penalty of DKK65 is imposed.

Penalties for errors. If the authorities find that an error was made by simple negligence, no penalty will normally apply if the business makes a self-disclosure to the authorities. This could include erroneously treating a supply as exempt when it should have been taxed, deducting input tax that was not deductible or miscalculating the deductible pro rata for partially exempt busi-

nesses. It should be mentioned that if the rules are very clear, it is the opinion of the tax authorities that it is not possible to regard an error as a result of simple negligence.

If an error is discovered during an audit, and the error is excusable and/or common, the tax authorities will most likely simply issue a decision that the business must correct the error. If not, the authorities may issue a fine of up to two times the VAT wrongfully deducted or not reported.

Penalties for fraud. If a business by gross negligence or deliberately reports VAT incorrectly resulting in excess repayment of VAT or insufficient settling of VAT, the consequences will depend on several things. In the VAT rules, the penalty for fraud may be fines or prison for up to 18 months. In severe cases, the penalty code may be used, allowing for significantly longer prison sentences. In case of fraud, any involved tax advisors may also be subject to fines. This would require that the advisor has displayed gross negligence. In severe cases, it would be possible to prosecute the advisor under the penalty code, including sentencing the advisor to prison.

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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	Free Trade Agreement with Central America, Dominican Republic and the United States of America (DR-CAFTA) Free Trade Agreement between CARICOM and the Dominican Republic Free Trade Agreement between Panama and the Dominican Republic Free Trade Agreement with Central America and the Dominican Republic GSP — Generalized System of Preferences Economic Partnership Agreement (EPA) with the European Union
Administered by	General Directorate of Internal Taxes (Dirección General de Impuestos Internos (DGII) (www.dgii.gov.do)
ITBIS rates	
Standard	18%
Other	16%, zero-rated (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, ITBIS 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 the ITBIS taxpayer should be requested from the tax authorities prior to the issuance of any tax valid invoice.

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 and small businesses. The ITBIS law in the Dominican Republic does not contain any provision for voluntary ITBIS 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 ITBIS purposes.

A taxpayer may use a simplified tax procedure (*"Régimen Simplificado de Tributación,"* or RST for its Spanish acronyms) if it meets certain purchase or income criteria to qualify as a small or medium taxpayer.

The RST based on purchases applies to a taxpayer that makes annual purchases of DOP40 million (approximately USD784,313) or less and performs commercial activities related to retail sales to final consumers.

The RST based on income criteria applies to a small taxpayer that satisfies all the following conditions:
- The taxpayer is dedicated to the provision of services, production of goods or belongs to the agricultural sector.
- The taxpayer has annual income of DOP8.7 million or less (approximately USD170,588).

The RST allows the taxpayer to benefit from the following:
- No obligation to file sending monthly purchases and sales formats through the Data Submission Formats (606, 607, 608, among others) established by the Dominican tax administration (DTA)
- No advanced payments of income tax
- No payment of the asset tax
- Right to opt for automatic payment agreements for the payment of taxes
- Simplified annual declaration forms for ITBIS and income tax

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 withholding 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 formal established entity. 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 an ITBIS taxpayer, a tax representative must be appointed.

Reverse charge. The reverse-charge mechanism is not allowed in the Dominican Republic. Consequently, if a non-established business supplies goods or services in the Dominican Republic, it must register for ITBIS to pay the ITBIS to the tax authorities, due on the supply made.

Domestic reverse charge. There are no domestic reverse charges in the Dominican Republic.

Digital economy. There are no specific ITBIS rules in relation to the digital economy. In principle, the same ITBIS rules should apply to goods and services that are provided digitally, nonetheless, the rules are not that clear.

However, at the time of preparing this chapter, the draft of the Dominican Finance Budget for the year 2020 contemplates the possibility of establishing an indirect tax that would be applied to the sale of digital content from international platforms, from the year 2020. That is, to all services sold online, provided by persons that have no domicile in the country. Designated withholding agents would be the intermediaries in the payment of said services. No further information has been published by the tax authority.

Online marketplaces and platforms. The general rules for online marketplaces and platforms are provided through Law No. 126-02 on Electronic Commerce, Digital Documents and Signatures and its Regulation of Application the Decree No. 335-03. However, from a tax perspective, no specific ITBIS rules are provided for such supplies through online marketplaces and platforms.

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 for its Spanish acronym) through Form RC-02, attaching copies of their registered-corporate documentation.

Deregistration. In order to deregister from the RNC, 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.

D. Rates

The term "taxable supplies" refers to supplies of goods and services that are liable to a rate of ITBIS, the zero rate.

The ITBIS rates are:
- Standard rate: 18%
- Reduced rate: 16%
- Zero-rate: 0%

The standard rate of ITBIS 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 taxable at 0%

- Exportation of goods

Examples of goods and services taxable 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 supplies of 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. The option to tax exempt supplies is not available in the Dominican Republic.

E. Time of supply

The time when the taxable event is considered to take place and ITBIS becomes due is called the "tax point."

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.

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

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.

Continuous supplies of services. 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).

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 ITBIS should apply.

Reverse-charge services. Local legislation in the Dominican Republic does not contain any provision for ITBIS for reverse-charge services.

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.

Imported goods. The time of supply for imported goods is when the goods are placed at the disposition of the importer.

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.

Nondeductible input tax. Taxpayers may deduct from their output ITBIS the amounts that by concept of this tax have been paid in advance in the same period (input ITBIS), if the following requirements are met:
- The input ITBIS that is intended to be deducted corresponds to goods and services used to carry out activities subject to this tax, except in the case of exempt goods producers and exporters.
- The expense on which the ITBIS was incurred is deductible for the purposes of income tax.
- The input ITBIS has been expressly transferred to the taxpayer who intends to make the deduction.
- The input ITBIS has not been considered as part of the cost or expense for the purposes of the allowable income tax deductions.
- The input ITBIS does not come from acquisitions of goods that are part of Category 1 assets.
- The invoiced ITBIS is recorded separately in a fiscal invoice that meets the conditions established in the Dominican legislation.

When it is not possible to discriminate whether the imports or acquisitions of local goods and services made by a taxpayer have been used in taxed or exempt operations, the deduction of the taxes that have been charged will be made in the proportion corresponding to the amount of their taxed operations, considering the total of its operations in the period in question.

Examples of items for which input tax is nondeductible
- The purchase of ITBIS subject goods used for the sale of ITBIS exempt goods
- The purchase of goods used in the construction of a building

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

- Renting a car for a company employee for corporate use
- Purchase of a mobile phone for a company employee for its professional activities

Partial exemption. 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.

Capital goods. The Dominican Republic tax regulations do not establish a definition for capital goods for indirect tax purposes. There are no special input tax recovery rules for capital goods. As such, input tax recovery is subject to the normal rules (as outlined above).

Refunds. Exporters that have excess credits for advanced payments of taxes on the purchase of materials employed in the production of exported goods may request a refund for the advanced tax.

If an invoice is voided within 30 days after its issuance, a refund of the ITBIS may be requested in that period.

Pre-registration costs. Taxpayers are not permitted to recover input ITBIS paid on purchases made prior to registration for ITBIS purposes.

Write-off of bad debts. If customers do not pay businesses back for goods/services provided, the entity would be required to sustain this loss, as there is no ITBIS claim relief mechanism for bad debts in our jurisdiction.

Noneconomic activities. Input tax incurred in relation to noneconomic activities is not recoverable in the Dominican Republic.

G. Recovery of ITBIS by non-established businesses

In the Dominican Republic, it is not possible to refund the ITBIS incurred by foreign or non-established businesses, unless they are registered as taxpayers before the tax authorities.

H. Invoicing

ITBIS invoices. 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.

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.

Credit notes. 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.

Electronic invoicing. Electronic invoicing has been launched as a pilot plan by the Dominican Republic tax authorities for large taxpayers' businesses, in which the authorities are testing the use of said invoicing. As of 1 October 2019, tax regulations (General Ruling 05-19 issued by the tax authorities) have only introduced the concept of "E-NCF," as a digital tax valid invoice recognized in the Dominican Republic. However, this is not yet regulated in detail. *At the time of preparing this chapter, a General Ruling is expected to be formally issued by the Dominican tax authorities.*

Simplified ITBIS invoices. Simplified invoices are not contemplated in the Dominican Republic legislation. Nevertheless, Dominican legislation establishes the final consumer invoice, which can be used to invoice the ultimate consumer of a good or service that will not be used as part of any subsequent commercial operation or activity.

The format is the same as an invoice, except for the customer's tax information, which is not included in the final consumer invoice. It is not possible to deduct ITBIS from a final consumer invoice under any circumstances, provided that this kind of invoice is not used for tax purposes.

Self-billing. Self-billing is not allowed in the Dominican Republic.

Proof of exports. Exported goods are zero-rated for ITBIS purposes. Under the ITBIS Law, a compensation and reimbursement procedure are 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.

Supplies to nontaxable persons. 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.

Records. The Dominican Republic tax code establishes that taxpayers must be able to provide the tax authorities with tax returns, reports, documents, forms, invoices, proof of legitimate origin of goods, receipts, lists of prices, etc., related to events generating tax obligations, and in general, provide all requested clarifications. No special rules for record keeping are provided for indirect tax purposes.

Record retention period. Conforming to the Dominican Republic tax code, accounting records need to be kept for 10 years.

Electronic archiving. Records can be kept and archived electronically or physically (i.e., in paper). The Dominican Republic legislation does not establish a specific format for said documentation.

I. Returns and payment

Periodic returns. ITBIS returns are submitted monthly. ITBIS taxpayers must file the return by 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.

Periodic payments. ITBIS taxpayers must pay the corresponding ITBIS amount through the form IT-1 by the first 20 days of the following month of the verification of the tax liability.

Tax due must be paid in Dominican pesos (DOP).

Electronic filing. ITBIS returns should be monthly submitted via the tax authority's virtual office, through Form IT-1.

Payments on account. Payments on account are not required in the Dominican Republic.

Special schemes. No special schemes are available in the Dominican Republic.

Annual returns. Annual returns are not required in the Dominican Republic.

Supplementary filings. Along with the ITBIS monthly return, taxpayers must submit data formats 606 (to report purchases made), 607 (to report sales made) and 608 (for invoice cancellation).

Digital reporting. The ITBIS return must be submitted electronically via the tax authority's virtual office, through Form IT-1. Most of the formal communication, such as, returns, applications, filings, correspondence, and so forth between the Dominican Republic tax authority and taxpayers is done electronically. This includes web tax e-portal ("Oficina Virtual" for its Spanish name), an electronic data box, and email. Evidence and supplementary documents may be in some cases submitted in paper (e.g., tax audits, administrative tax appeals). Most tax forms are submitted electronically in XML format or directly as e-forms via web e-portal of the tax authorities. Generally, issuing and keeping of tax records/documents (e.g., invoices) are treated equally in paper and electronic form.

J. Penalties

Penalties for late registration. A taxpayer that fails to register for ITBIS on a timely basis may not deduct input tax paid on the purchase of goods and services. The tax authorities may assess unpaid ITBIS, and penalties and interest are also assessed for late registration.

Penalties for late payment and filings. 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.

Additionally, failing to file the corresponding tax returns is considered a violation of formal duties, and as such, a tax infraction subject to a penalty of 5 to 30 minimum wages. In practice, such penalty is currently established at approximately USD500.

The failure to pay ITBIS owed to the DTA on time would also lead to surcharges and interests.

Penalties for errors. 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)

Penalties for fraud. 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.

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.

Ecuador

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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	Zero-rated (0%) and exempt
VAT number format	Nine-digit Tax ID
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)

At the time of preparing this chapter, a tax reform is being discussed by the government to consider including within the scope of taxable transactions the supply of digital services. Please see the digital economy section below.

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 of a foreign business, located in Ecuador.

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 and small businesses. The tax law in Ecuador does not contain any provision for voluntary registration.

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).

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.

Domestic reverse charge. There are no domestic reverse charges in Ecuador.

Digital economy. There are no specific requirements for digital economy transactions other than general VAT regulations. For business-to-business (B2B) transactions, the services provided by a nonresident 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-consumer (B2C) 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 B2B and B2C transactions).

Online marketplaces and platforms. At the time of preparing this chapter, there is a bill being discussed by the government, which includes digital services as transactions subject to 12% VAT. If this bill is approved by the end of December 2019, it would be in force from 1 January 2020.

“Digital services” are being defined as those provided and/or contracted through the internet or any adaptation or application of protocols, platforms or technology used by the internet or other network, through which similar services are provided that, by their nature, are automated and require minimal human intervention, regardless of the device used for downloading, viewing or use. For digital services consisting in delivery and shipping of tangible movable goods, the tax will be calculated on the commission paid in addition to the value of the good.

The payment of the VAT generated on digital services supply would be assumed by the “importer of the service” (Ecuadorian resident).

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 Superintendence 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.

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.

D. 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: 12%
• 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%

• 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

The term “exempt supplies” refers to supplies of goods and services that are not liable to VAT and that do not qualify for input tax deduction.

Examples of exempt supplies of goods and services

- 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. The option to tax exempt supplies is not available in Ecuador.

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.

Deposits and prepayments. There is no special time of supply rule in Ecuador for deposits and prepayments. As such, the normal time of supply rules apply.

Continuous supplies of services. There is no special time of supply rule in Ecuador for continuous supplies. As such, the normal time of supply rules apply, 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.

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.

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.

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.

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.

F. Recovery of VAT by 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.

Nondeductible input tax. In general, input tax is nondeductible when the expenses are not related to sales levied with 12% VAT. In general, input tax incurred on personal expenses that are not directly related to the taxable economic activity cannot be recovered.

Examples of items for which input tax is nondeductible

- Food
- Clothing
- Housing

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

- Travel expenses
- Expenses related to the acquisition, use or ownership of vehicles, computers or other goods used in the exercise of the economic activity levied with 12% VAT

Partial exemption. 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. 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:

$$\frac{\text{Supplies subject to a rate of 12\% + exports}}{\text{Total sales + exports}}$$

Capital goods. There are no special input tax recovery rules for capital goods. For capital goods, the general input tax recovery rules apply, i.e., only the tax related to the taxable sales can be deducted. If they are used for both taxable and exempt transactions, then the pro rata method should be applied.

Refunds. If the amount of input tax (credit VAT) recoverable in a month exceeds the amount of output tax (debit VAT) payable, the excess credit may be carried forward to offset output tax in the following tax period.

Pre-registration costs. For input tax incurred on pre-registration costs, the sales receipt must be issued in the name of the company, with its respective tax ID. However, usually these types of costs are not able to be recovered since there are no invoices or receipts issued in the name of the taxpayer at the stage of pre-registration.

Write-off of bad debts. Input tax incurred in relation to bad debts is not recoverable in Ecuador.

Noneconomic activities. Output tax accounted for on supplies that do not get paid by the recipient (i.e., a bad debt) cannot be recovered in Ecuador.

G. Recovery of VAT by non-established businesses

Ecuador does not refund VAT incurred by foreign businesses unless they have a permanent establishment 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.

Credit notes. Credit notes are documents that are issued to cancel operations, accept returns and grant discounts or bonuses. The credit notes must record the denomination, series and number of the sales receipts to which they refer. The acquirer, or who in his name receives the credit note, must enter in his original and copy the name of the acquirer, his tax ID or passport ID, and date of receipt. Additionally, the credit notes must comply with the general requirements established for VAT invoices.

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. 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.

Simplified VAT invoices. Simplified VAT invoicing is not allowed in Ecuador. As such, full VAT invoices are required.

Self-billing. Self-billing is not allowed in Ecuador. However, a type of self-billing applies for self-consumption or donation transactions and for imported services (see the reverse-charge services section above). For self-consumption or donation, 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.

Proof of 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).

Supplies to nontaxable persons. 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.

Records. Sales receipts, supporting documents and withholding receipts must be kept in archive by taxpayers.

Record retention period. Taxpayers must store tax records for at least seven years.

Electronic archiving. Electronic sales receipts must be archived digitally. However, all other records must be kept physically on paper.

I. Returns and payment

Periodic returns. VAT returns are generally submitted monthly. VAT returns 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).

Taxpayers who perform only zero-rated (0%) VAT-rated sales and purchases must file a VAT return every six 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).

Periodic payments. VAT payment in full is due between the 10th and the 28th day of the month following the end of the return period. VAT shown in tax returns must be paid in US dollars.

Electronic filing. 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 tax authority website www.sri.gob.ec.

Payments on account. Payments on account are not required in Ecuador.

Special schemes. No special schemes are available in Ecuador.

Annual returns. Annual returns are not required in Ecuador.

Supplementary filings. Taxpayers must submit complementary information on transactions made regarding purchases or acquisitions, sales or revenues, exports, voided receipts and withholdings. This information is denominated “Anexo Transaccional” and is filed electronically through the tax authority’s digital applications.

Digital reporting. No digital reporting requirements apply in Ecuador.

J. Penalties

Penalties for late registration. There are no penalties for late registration.

Penalties for late payment and filings. 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.

Penalties for errors. In case of errors that imply an additional VAT payment, interest applies. Other regulatory infractions may be subject to penalties up to USD1,500.

Penalties for fraud. Tax fraud is typified in the Organic Criminal Code and is punishable by deprivation of liberty from one to seven years.

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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%
Reduced	5%
Other	Zero-rated (0%) and special table tax rates
Number format	123/456/789
Return periods	Monthly
Thresholds	
Registration threshold:	EGP500,000 annual turnover
Recovery of VAT by non-established businesses:	No

B. Scope of the tax

All local and imported goods and services are subject to VAT except those specifically exempted. Services are defined in the law as any work that is imported or performed locally that is not classified as goods.

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

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.

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

Voluntary registration and small businesses. The VAT law in Egypt does not contain any provision for voluntary VAT registration.

Group registration. Group VAT registration is not allowed in Egypt.

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 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 within 30 days from making the payment, 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.

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.

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.

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

Voluntary registration and small businesses. The VAT law in Egypt does not contain any provision for voluntary VAT registration.

Group registration. Group VAT registration is not allowed in Egypt.

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 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 within 30 days from making the payment, 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.

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.

Domestic reverse charge. There are no domestic reverse charges in Egypt.

Digital economy. Normal VAT rules apply to digital goods and services.

Online marketplaces and platforms. The online marketplaces/platforms are subject to VAT, where the tax is due upon selling the commodity or rendering the service by the supplier or online marketplace (which will issue an invoice) at all stages of circulation thereof, regardless of the method of selling or rendering or circulation, including the electronic means.

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.

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.

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: 14%
- Reduced rates: 5%
- 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 taxable at 0%

- Exported goods and services

Examples of goods and services taxable at 5%

- Machinery and equipment used in producing taxable or nontaxable goods or rendering services

The VAT law has two types of tables attached, stating certain goods and services are subject to certain VAT rates, other than the general VAT rate (i.e., special rates). This list is known as "table tax."

Examples of goods and services subject to table tax

Special rates apply to a number of goods and services, as follows:
- 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 tax up to the application of VAT at the general rate:
- Soda water, 8%+14% (**)
- Nonalcoholic 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

The term "exempt" refers to supplies of goods and services that are not liable to VAT and that do not qualify for input tax deduction.

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. The option to tax exempt supplies is not available in Egypt.

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

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).

Continuous supplies of services. If services are supplied continuously, a tax point is created each time the vendor issues an invoice.

The following are considered to be services of a continuous nature:
- Communication and facsimile services
- Contracting services of construction and building

- Cleaning and guarding services
- Transport services of goods and materials

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 is considered to be 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 is 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 must 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.

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.

Imported goods. The VAT on imported goods is due on customs clearance.

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.

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). Input tax may also not be recovered on table tax. Input tax incurred in relation to exempt supplies also cannot be recovered.

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 goods (i.e., via a credit note)
- 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 must be made in the following manner:
- The total tax on inputs relating to the sale of a commodity or provision of a service subject only to the tax is deducted, whether the sale is effected during or after the tax period.
- The tax on inputs that are only used for sales which are tax exempt or which are subject only to the schedule tax cannot be deducted, whether the sale is effected during or after the tax period.
- 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 are deducted based on the ratio of the taxable sales to the total sales.

Capital goods. The general input tax recovery rules apply to input tax incurred on capital goods. However, some special rules apply for the recoverability of VAT incurred on capital goods, as follows:

- If the capital goods are subject to VAT at the general rate of 13%/14%, the input tax can be deductible immediately upon issuing the first VAT return.
- If the capital goods which are subject to table tax (the table rates attached to the VAT law), the taxpayer cannot deduct the input tax but can claim for input tax refund after six respective months (six respective VAT returns).
- If the capital goods are exempted from VAT, no input tax deduction or refund is allowed.

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 is not 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.

Pre-registration 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 must 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 can be deducted.

Write-off of bad debts. Output tax accounted for on supplies that do not get paid by the recipient (i.e., a bad debt) cannot be recovered in Egypt.

Noneconomic activities. Input tax incurred in relation to noneconomic activities is not recoverable in Egypt.

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.

H. Invoicing

VAT invoices. Invoices must be issued before or after the sale. 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.

Credit notes. Credit notes are mainly required for sales returns and can be deducted within the following VAT returns. 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 invoices are permitted but are not yet mandatory.

Simplified VAT invoices. Simplified VAT invoicing is not allowed in Egypt. As such, full VAT invoices are required.

Self-billing. Self-billing is not allowed in Egypt.

Proof of exports. Exports are proved on the customs clearance certificate (Customs form 13). This evidence is needed to support the seller to charge VAT at the zero-rate on the export sale.

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.

Supplies to nontaxable persons. There are no special invoicing rules for supplies to nontaxable persons. As such, full VAT invoices are required.

Records. A VAT registrant is required to maintain proper books and records to record its transactions.

Record retention period. A VAT registrant 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 archiving. Records can be kept and archived electronically.

I. Returns and payments

Periodic returns. 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.

Periodic payments. The payment should be filed within two months from the month end and be transferred to the tax authority's bank account through authorized banks.

Electronic filing. Electronic filing is mandatory in Egypt.

Payments on account. Payments on account are not required in Egypt.

Special schemes. No special schemes are available in Egypt.

Annual returns. Annual returns are not required in Egypt.

Supplementary filings. No supplementary filings are required in Egypt.

Digital reporting. No digital reporting requirements apply in Egypt. Electronic filing is mandatory in Egypt.

J. Penalties

Penalties for late registration. Penalties for late registration range from EGP500 to EGP5,000 in addition to 1.5% monthly additional tax on the tax due.

Penalties for late payment and filings. For late payment of VAT, an additional payment is due for each month or part of the month starting from the tax payment deadline until the date of payment.

Penalties for errors. In Egyptian VAT law, errors mean the difference in tax calculations. As such, the penalties for errors are the same as those for late payment and filings.

Penalties for fraud. Tax evasion sanctions include the following:

For the taxpayer:
- 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

For the tax advisor:
- 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

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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	Zero-rated (0%) and exempt
VAT number format	Taxpayer registry number (NRC) 7 digits (0-9)
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 physically taking place 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 occur.

Voluntary registration and small businesses. Individuals whose turnover is below the registration threshold may register voluntarily as VAT taxpayers. Apart from the registration requirements outlined below for "Non-established businesses," they also have the option to register for VAT voluntarily, where they may want to do so to recover local input tax. 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 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 for business-to-business (B2B) supplies. Under this mechanism, the customer 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.

Domestic reverse charge. There are no domestic reverse charges in El Salvador.

Digital economy. There are no specific indirect tax regulations regarding the digital economy.

Online marketplaces and platforms. No special rules exist for online marketplaces and platforms in El Salvador.

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.

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.

D. 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: 13%
- 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%

- Exportation of goods and services
- Transfer of goods and services made to individuals or businesses authorized under the Free Trade Zone Law and the International Services Law (provided that the goods and services are necessary for the authorized activity)

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.

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. The option to tax exempt supplies is not available in El Salvador.

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

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.

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.

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.

Reverse-charge services. There is 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.

Leased assets. The taxable event for leased assets (movable goods) is the earlier of the issuance of the invoice or receipt payment.

Imported goods. The taxable event for imported goods is when the goods clear all customs formalities for importation (definite importation).

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. This documentation only needs to be available upon request from a tax audit but does not need to be presented at the moment of filing the VAT return.

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

- 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

Partial exemption. If a taxable person makes both taxable and exempt transactions, it may not deduct the input tax incurred in full. It may deduct only the amount of input tax related to the goods and services used in taxable transactions, and not the input tax that relates to exempt transactions. Where input tax is incurred that relates to both taxable and exempt supplies, the business must carry out a proportionality calculation, to calculate the amount of input tax recoverable. This situation is referred to as "partial exemption." The apportionment may be calculated based on the value of taxable transactions carried out compared with the total turnover. No approval or confirmation is required from the tax authority for using this apportionment method. The calculation is only based on total turnover, and no other methods are available.

Capital goods. Input tax generated on the acquisition of capital goods to form part of the current assets may be recovered by the taxpayer. If the operations carried out during the month are partially taxable, exempt and/or not subject to VAT, the input tax credited against the output tax will be determined proportionally to the taxable operations. If the input tax is higher than the output tax, the excess of the VAT credit may be carried forward to offset against output tax due in subsequent VAT periods. Currently there is no definition of capital goods in the Salvadoran legislation. The basis for the input tax calculation generally is the price or remuneration agreed in the supply of goods or services, or the customs value in imports and entries.

Refunds. If the amount of input tax recoverable in a particular month exceeds the amount of output tax payable, the taxpayer obtains an input tax 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 tax credit related to export supplies may be carried forward to offset output tax in the following VAT period. If the credit may not be fully offset against output tax within a tax period, the taxpayer may request an offset of other tax liabilities, including input tax withheld, perceived or generated as a result of the import of goods, or a refund of the excess amount.

Pre-registration costs. Taxpayers are not permitted to recover input tax paid on purchases made prior to VAT registration.

Write-off of bad debts. Output tax accounted for on supplies that do not get paid by the recipient (i.e., a bad debt) cannot be recovered in El Salvador.

Noneconomic activities. Input tax incurred upon purchases that are used for noneconomic activities is not recoverable in El Salvador.

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

VAT invoices. 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.

Credit notes. 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.

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. *At the time of preparing this chapter, the tax authorities have outlined plans to introduce a trial project to permit the use of electronic invoices in the near future.*

Simplified VAT invoices. Individuals registered as VAT taxpayers whose supplies in the previous year are equal to or less than USD50,000, must issue and deliver in transactions with final consumers a simplified sales invoice, only with respect to taxable or exempt transfers of tangible assets or services, which total amount of the operation is less than or equal to USD12.

Self-billing. Self-billing is only applicable for self-consumption of inventory by VAT taxpayers that does not generate an input tax credit.

Proof of exports. 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 must be issued in Salvadoran colones (SVC) or USD if the place of supply is El Salvador. However, in practice, SVC have been removed from circulation and all transactions are made in USD.

Supplies to nontaxable persons. 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.

Records.

Record retention period. Taxpayers must keep records for 10 years for the VAT documents and up to 5 years after the liquidation of the business.

Electronic archiving. 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.

I. Returns and payment

Periodic 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. 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.

Periodic payments. Payment of VAT in full is due on the same date as the VAT return submission, i.e., by the 10th working day 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.

Electronic filing. Electronic filing is allowed in El Salvador, but it is not mandatory. Electronic filing is allowed provided that the taxpayer has created a user id on the tax authority's website.

Payments on account. Taxpayers classified as large taxpayers (defined as domiciled or non-domiciled in El Salvador, with annual net income of USD500,000 or more) by the tax authorities are obliged to apply a 1% VAT withholding upon the payments for the acquisition of goods and services from other taxpayers with different classification.

Taxpayers upon the supply of goods and services by which payments are received through debit/credit cards are liable to 2% VAT withholding. The issuers and/or administrators of the debit/credit cards are designated as withholding agents upon payment of debit/credit card sales. The payments on account constitute an advance payment of the VAT, which can be credited against the assessed tax at the end of the period.

Taxpayers classified as large taxpayers by the tax authorities are obliged to charge a 1% VAT perception upon the transfer of goods to form part of the current assets made to other taxpayers with different classification.

Special schemes. No special schemes are available in El Salvador.

Annual returns. Annual returns are not required in El Salvador.

Supplementary filings. No supplementary filings are required in El Salvador.

Digital reporting. The tax authorities have implemented an electronic filing system for certain tax returns, including the monthly VAT return through which the taxpayers must create a user ID on the tax authority's website.

J. Penalties

Penalties for late registration. In the event of late registration, a penalty of three minimum legal wages would be applicable. 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 approximately USD305).

Penalties for late payment and filings. Late payment and filings are penalized as follows:
• Filed with no more than a month of delay: 5% of the unpaid tax
• Filed with more than a month but less than two months of delay: 10% of the unpaid tax
• Filed with more than two months but less than three months of delay: 15% of the unpaid tax
• Filed with more than three months of delay: 20% of the unpaid tax

If no unpaid tax is reported, the penalty will be equal to one monthly minimum wage (USD305). However, no penalty for late filing should be less than two monthly minimum wages (USD610).

A 75% penalty reduction is available if a voluntary filing and payment is done. A 30% penalty reduction is available if the filing and payment is voluntary and the tax authorities have identified the incompliance issue.

Penalties for errors. Filing a modified return to correct an incorrect payable tax is penalized with 40% of the unpaid taxes, which should not be less than one monthly minimum wage (USD305).

Filing the return with incorrect data is penalized with a 10% on the difference of the payable tax assessed by the taxpayer and the payable tax determined by the tax authorities, which should not be less than two monthly minimum wages (USD610).

Filing the return with missing, incomplete or incorrect information related to general information of the taxpayer is penalized with two monthly minimum wages (USD610).

Filing the return with missing, incomplete or incorrect information related to VAT documentation is penalized with four monthly minimum wages (USD1,220)

All penalties are subject to a potential reduction according to the rules explained in the before section.

Penalties for 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.

In the case of VAT taxpayers that are obligated to apply a proportionality method on the input tax credit (i.e., partial exemption), the amount of the evasion will be determined on a 12-month basis period and the penalty is imprisonment for 4 to 6 years if the unpaid VAT ranges from USD4,285.71 to USD57,142.86. If the amount of unpaid taxes exceeds USD57,142.86, the penalty is six to eight years of imprisonment. The rules and penalties apply when the taxpayer has input tax credit in one or more tax periods that affects other periods in which a tax avoidance was detected.

If the unpaid taxes plus the corresponding penalties are paid to the tax authorities, no criminal fraud penalties are imposed.

Penalties for tax evasion under the Salvadoran Criminal Code include imprisonment for a period of four to eight years.

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.

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A. At a glance

Name of the tax	Value-added tax (VAT)
Local name	Impuesto sobre Valor Añadidos (IVA)
Date introduced	28 October 2004
Trading bloc membership	Central African Economic and Monetary Community (CEMAC) Member State
Administered by	Ministry of Finances, Economy and Planification
VAT rates	
Standard	15%
Reduced	6%
Other	Zero-rated (0%) and exempt
VAT number format	Tax identification number, (3 digits/1 digit)
VAT return periods	Monthly
Thresholds	
Registration	None
Deregistration	None
Recovery of VAT by non-established businesses	No

B. Scope of the tax

The following transactions are subject to VAT in Equatorial Guinea (EG):

- Goods sold or assigned for valuable consideration
- Services provided
- Self-consumed goods and services
- Imports
- Other operations done by individuals or legal entities in their sphere of professional, individual or business activities, including extraction industries of all kinds

When these operations are performed in EG, they are subject to VAT, unless they are included in the list of exemptions, even though the domicile of the individual or legal address of the debtor corporation is located outside the territorial borders of EG.

C. Who is liable

All individuals and legal entities habitually or occasionally and independently performing the economic activities of production, trade or rendering services, as well as all operations connected to the said activities including extractive, farming and liberal professional or similar activities, are subject to VAT in EG.

Moreover, any individual or legal entity, reflecting VAT in an invoice or any other document, for the fact of having invoiced it, is required to declare and pay the said VAT.

Voluntary registration and small businesses. There is no specific registration for VAT in EG. Resident businesses (those that carry out operations or provide remunerated services in EG for more than three months within a calendar year or six months within two consecutive calendar years) are required to register with the tax administration in order to receive a tax identification number for all its tax obligations.

Group registration. Group VAT registration is not allowed in EG.

Non-established businesses. Non-established businesses must register for VAT in EG and must appoint an authorized and solvent agent with the EG tax authorities, resident of Equatorial Guinea, who will be jointly and severally liable with him for the payment of VAT.

Tax representatives. A non-established (nonresident) taxpayer must appoint near the EG tax administration an authorized and solvent agent, resident in EG, who will be jointly and severally liable with him for the payment of VAT.

In the event a taxpayer fails to appoint an agent, then both VAT, as well as any fines that may be payable, will be paid by the client on behalf of the party with no permanent place of business in EG.

Reverse charge. When the supplier of services is nonresident in EG and cannot collect and remit the VAT, the customer (who must be VAT-registered in EG) established in EG should account for the VAT via the reverse-charge mechanism.

Domestic reverse charge. There are no domestic reverse charges in EG.

Digital economy. There are no special rules related to supplies made within digital economy in EG.

Online marketplaces and platforms. There are no special rules related to supplies made within online marketplaces and platforms in EG.

Registration procedures. There is no specific registration for VAT in EG. The registration with the Ministry of Finances is sufficient for all tax obligations.

For such purposes, each legal entity engaged in economic activity, no matter what the nature or output, and who is classified as a taxpayer, is obliged to submit to the tax administration its registration. The deadline to submit the registration request to the tax administration is two days following the commencement of the activities in EG.

The documentation to be provided to the tax administration for registration purposes is the following:
- Name or company name
- Name and surnames of its legal representative
- Seed capital and increases, if any, used in its businesses

- Copy of the bylaws and articles of incorporation in which the purpose and capital stock are stated; names and interests of the partners or shareholders
- Principal place of business; district, town or village
- Activities of the company
- Reason for registration

Upon registration, a tax identification number will be issued, which is used for all taxes, and not specific to VAT.

Deregistration. The deregistration at the EG Ministry of Finances is applicable for all tax obligations. The deregistration request should be filed to the Ministry of Finances within 45 days following the end of the activity. In addition to the documentation listed above for the registration, for deregistration the taxpayer should also provide the notarial deed of dissolution or liquidation of a company and the reason for deregistration. After the filing of the said documents, the tax administration usually sends to the taxpayer a tax audit notification including all the necessary documentation to be provided. The deregistration certificate is issued by the tax administration at the end of the inspection and the payment of the additional debt, if any.

D. 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: 15%
- Reduced rate: 6%
- 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, reduced rate or an exemption.

Examples of goods and services taxable at 0%

- Insulin and its salts
- Quinine and its salts
- Antibiotics
- Pharmaceutical products
- Fertilizers
- Dental wax
- X-ray plates, tapes and films
- Insecticides
- Rubber hygiene and pharmacy items (including surgical gloves)
- School books in flexible protective covers
- Glass for eyeglasses
- Medical-surgical sterilizers for laboratories
- Wheelchairs and other vehicles for the handicapped
- Spares for wheelchair and other vehicles for the handicapped
- Corrective lenses
- Medical surgical devices
- Dental chairs
- Other medical and surgical furnishings
- Other agricultural supplies

Examples of goods and services taxable at 6%

- Meats and poultry
- Milk and cream that are not concentrates, containing sugar or other sweeteners
- Milk and cream concentrated or sweetened

- Bread
- Rice
- Prepared foods for children
- Books and school books

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.

Examples of exempt supplies of goods and services

- Raw agricultural, livestock, fishing and hunting products, sold directly to the end consumer by the owner
- Sale of products resulting from soil and subsoil extraction activities
- Operations transmitting real estate between individuals that do not qualify as real estate developers and that are subject to asset transfer tax
- Interest generated by foreign loans
- Interest generated by deposits of nonprofessional clients in credit or financial establishments
- Travelers with small imports when the value of the goods does not exceed XAF500,000
- Banking, insurance and reinsurance operations, which are subject to a specific tax
- Operations transferring real estate, and real estate rights and mutations of goodwill which are subject to the asset transfer tax or other equivalent taxes
- Medical services, including transportation of accident victims and sick people, and medical assistance to individuals provided by public hospitals and health centers, or similar agencies, and medical assistance provided by members of the medical and paramedic corps
- Staple commodities, as well as their supplies, the supplies of livestock and fishing products used by producers, as long as said products are exempt
- Services provided in the field of school or university teaching by public and private establishments or similar agencies
- Importation and sale of school or university books
- Sale of newspapers and periodicals, not including income received from advertising
- Rental of unfurnished houses
- Operations relating to the international traffic of:
  - — Ships or vessels used in industrial or commercial activities on the high seas
  - — Salvage or rescue ships
  - — Airplanes and ships used in international transit operations and related services, in accordance with the provisions of articles 158 and following of the EMCCA Customs Code
- Social, educational, sports, cultural, philanthropic or religious services or operations provided to their members by nonprofit benevolent and charitable agencies, as long as said operations can be directly related to the collective defense of the moral or material interests of their members. However, these are taxable when they are in a situation of competition with the private sector
- Importation of equipment goods
- Amounts deposited by the Public Treasury into the Central Bank in its capacity of issuing bank, as well as proceeds of the operations of said currency issuing bank
- Suspensive Customs systems to defer or suspend taxation can be accorded to mining, oil and timber companies. Nonetheless, the right to said systems must be sole and limited exclusively to investment goods strictly necessary to practice the activity in the implementation, prospecting or research phases

Option to tax for exempt supplies. The option to tax exempt supplies is not available in EG.

E. Time of supply

The VAT time of supply (or tax point) is defined as the as the event in which the necessary legal conditions are fulfilled leading to the enforceability of the tax. Enforceability is defined as the right of the Public Treasury to demand that the taxpayer pay the tax by a specific date.

For goods, the general rule is that the tax point is 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 time of the physical transfer of the goods from the supplier to the buyer.

For services, the tax point is the date when payment is received. In principle, if the consideration for a supply of services is paid in instalments, VAT is due on the receipt of each instalment. For transfers of real estate, the tax point is at the date of transfer.

Deposits and 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.

Continuous supplies of services. For the continuous supplies of services, the tax point is when payment is received.

Goods sent on approval for sale or return. There are no special time of supply rules in EG for goods sent on approval for sale or return. As such, the normal time of supply rules apply.

Reverse-charge services. The tax point for reverse-charge services is at the time that the tax is incurred.

Leased assets. For leased assets, the tax point is when the interest or payment is due.

Imported goods. For imported goods, the tax point is the time of the declaration of the goods into EG.

F. Recovery of VAT by taxable persons

A taxable person may recover input tax incurred in relation to the acquisition of goods and services necessary for the business.

Invoices must show the tax identification number of the parties, the invoice number, the transaction date, the price and the applicable VAT.

Moreover, any natural or legal person that charges VAT on its invoice shall be bound to declare and remit the corresponding tax.

Following these provisions, VAT charged is actually remitted when there is a balance further to the application of VAT deduction mechanism.

Nondeductible input tax. Taxpayers that do not have in their possession the invoices or the respective import declarations naming them the actual recipient have no right to deduct VAT. Moreover, VAT is not be deductible on exempt transactions.

Examples of items for which input tax is nondeductible

- Self-consumption and subsidies for equipment exempt from VAT
- Payment of damages that are a compensation of a transaction subject to VAT
- Private vehicles used for nonbusiness purposes

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

- VAT stated on purchase invoices issued by the providers, whenever these latter are legally authorized to charge VAT
- VAT paid at the time of import
- VAT levied on goods equipment, excluding private vehicles, as well as their spare parts and their respective repair expenses
- Consumables used for business purposes such as paper, ink, computers, furniture, etc.

Partial exemption. Taxpayers who make both taxable and exempt supplies, are authorized to deduct the VAT levied on goods and services acquired, by applying a prorated amount of the deduction. This prorated amount is calculated based on the fraction of the turnover relating to operations that are deductible.

The above fraction is the ratio of:
- Amount of respective income for transactions subject to the VAT, as the numerator
- Total amount of income of any kind obtained by taxpayer, as the denominator

Capital goods. There are no special input tax recovery rules for purchases of capital goods. Normal input tax deductibility rules apply (see above). Kindly note that the importation of certain capital goods is exempt from VAT.

Refunds. When the amount of VAT deductible for one month exceeds that of VAT due, the surplus constitutes a tax credit to be compensated with the VAT due for the following period.

The deduction right can be exercised until the end of the second fiscal year after that of enforceability.

Pre-registration costs. Input tax incurred on pre-registration costs in EG, is not recoverable.

Write-off bad debts. Input tax incurred in relation to bad debts is not recoverable in EG.

Noneconomic activities. Input tax incurred in relation to noneconomic activities is not recoverable in EG.

G. Recovery of VAT by non-established businesses

Non-established businesses must register for VAT in EG and must appoint an authorized and solvent agent with the EG tax authorities, resident of Equatorial Guinea, who will be jointly and severally liable with him for the payment and recovery of VAT.

H. Invoicing

VAT invoices. Each taxpayer is required to issue and deliver invoices for goods delivered or services provided to their clients, whether they are registered tax payers or not, as well as down payments received for said operations and which give rise to the enforceability of the tax.

In case goods or services are acquired without an invoice, the party acquiring those will be jointly and severally liable for the respective tax on said operations, except when it reports this circumstance to the tax administration.

Credit notes. VAT credit notes might be issued by a supplier to a customer to reflect a reduction in, or discount applied to, the price originally invoiced, or the cancellation of the invoice related to the goods or services supplied.

A credit note must be cross-referenced to the original invoice and contain the references of the invoices that are amended or canceled.

Electronic invoicing. Electronic invoicing is regulated in EG. To be valid, the electronic invoices must contain all the compulsory information as normal full VAT invoices. However, in practice, it is recommended to issue paper invoices, as electronic invoicing is not yet officially authorized by the tax administration.

Simplified VAT invoices. Simplified VAT invoicing is not allowed in EG. As such, full VAT invoices are required.

Self-billing. Self-billing is not allowed in EG.

Proof of exports. Zero VAT rate is applied to exports. However, the corresponding export return should be certified by the customs services. This certified document might be used as evidence that the goods were exported from EG.

Foreign currency supplies. The legal currency in Equatorial Guinea is XAF. However, the local legislation does not prohibit transaction in foreign currency. Transactions may be realized in one of the currencies of the two parties or in any other currency accepted by both parties to the transaction. Regarding the cash payment, this should only be made in XAF.

Supplies to nontaxable persons. There are no special invoicing rules for supplies to nontaxable persons in EG. As such, full VAT invoices are required.

Records. All accounting documents (including invoices) must be kept in EG and available at any time during a tax inspection.

Record retention period. Taxpayers should keep all accounting items showing income and expenses for five years following the respective supplies.

The abovementioned accounting books must allow a precise determination of the following for each settlement period:
• Total amount of VAT that the taxpayer has charged to its customers
• Total amount of VAT that suppliers have passed on to the tax administration during the same settlement period and that taxing imported goods

Electronic archiving. Accounting documents can be archived in electronic format. However, these documents should be available for tax audit at the request of the tax administration.

I. Returns and payment

Periodic returns. VAT returns should be made on a monthly basis, within the first 15 days following when payment was received for supplies.

The taxable basis is the turnover obtained during the previous month. In case the taxpayer does not perform any transaction during the month, they are required to file a mandatory nil return.

All invoices corresponding to the concerned month should be annexed to the return before the filing in order to avoid the rejection of the said return.

If a taxpayer is partially exempt (makes both taxable and exempt supplies), they can file a separate annual return for regularization purposes for the prorated amount it has claimed as input tax during the calendar year.

Periodic payments. The VAT payment should be made immediately after the corresponding declaration (i.e., 15th of the month following the recovery of the amount). However, in practice, the tax administration allows that the VAT returns should be filed by the 15th of the month following the transaction, and the corresponding payment, by the end of the same month. For example, July 2019 VAT return should be filed by August 15, 2019 and the corresponding payment should be proceeded by 31 August, 2019.

Electronic filing. Electronic filing of the returns is not allowed in EG.

The original return form (purchased at the tax administration at XAF2,000 /EUR3.50 per copy) should be filled, signed, stamped and submitted to the tax administration for the issuance of the corresponding settlement note. This settlement note allows taxpayers to proceed to the VAT payment near the bank, then confirm the said payment at the Public Treasury and the General Direction of Tax and Contributions.

Payments on account. Payments on account are allowed in EG. The request should be addressed to the General Director of Tax and Contributions for the amounts equal or less than XAF500,000. For the amount higher than XAF500,000, the request should be addressed to the Ministry of Finances, Economy and Planification.

Special schemes. No special schemes are available in EG.

Annual returns. Annual returns are not required in EG.

Supplementary filings. No supplementary filings are required in EG.

Digital reporting. No digital reporting requirements apply in EG.

J. Penalties

Penalties for late registration. In the case of late registration, the taxpayer will be punished with a fine from half to the full amount of the tax due with a minimum of XAF150,000, per month or fraction of month.

Penalties for late payment and filings. Penalties for late filing and payment of VAT amount to 60% of the amount due.

Penalties for errors. The EG tax administration allows a taxpayer to amend their tax returns in case of error. Thus, in case of insufficient reporting or any error in the VAT return, a taxpayer might file an additional return requesting an additional settlement note or the amendment of the return previously filed depending on the case.

In case the amendment is made within the deadline to file the return (i.e., by 15th of the month), no penalties will be due. Otherwise, the 60% penalties mentioned above will be applied.

Penalties for fraud. VAT penalties may increase to 100% of the amount due in case of fraud.

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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 (0%) and exempt
VAT number format	EE123456789
VAT return periods	Monthly
Thresholds	
Registration	EUR40,000
Established	EUR40,000
Non-established	None
Distance selling	EUR35,000
Intra-Community acquisitions	N/A
Electronically supplied services (MOSS)	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 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.

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 the place of supply is not in Estonia and the services are provided to a taxable person or a taxable person with limited liability as registered by the other Member State.

Voluntary registration and small businesses. A business established in Estonia of which the 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. Other persons may apply to register as a VAT group if these persons are economically and organizationally related and if more than 50% of the shares, holding company or votes of each company to be registered as a VAT group are owned by one and the same person or if the persons are related on the basis of a franchise contract. One single 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 which 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 representa-

tive 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 by email tokmkr@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 email 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).

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 tax credit on the declaration if the goods or services are used for the taxable business.

Domestic reverse charge. The domestic reverse charge VAT applies to 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 a 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 tax, but he has the right to a refund by the Member State concerned.

Online marketplaces and platforms. No special rules exist for online marketplaces and platforms in Estonia.

Vouchers. The VAT Act in Estonia differentiates single-purpose (SPV) and multi-purpose vouchers (MPV). The voucher SPV if the voucher-related place of supply of the goods or services and the amount of VAT due are known at the time of the issue of the voucher. A VAT obligation on the transfer of an SPV arises on the date when the full or partial payment for the voucher has been received. The voucher is a MPV if, at the time of the issue, the place of supply of the transferred goods or provision of service or the collectible VAT is not known. For MPV, the VAT obligation arises on the date when the goods have been handed over or services have been provided.

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 remove a taxable person, that is not performing business activities, from the VAT register.

D. 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: 20%
- Reduced rate: 9%
- 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 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 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 liable to VAT and that do not qualify for input tax deduction.

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 private dwellings
- Immovable property and parts thereof, except private 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 noncash means of payment (for example, electronic payment instruments, traveller'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 brokerage 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.

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.

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 destined 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

Deposits and 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.

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 the 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 rendered 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.

Goods sent on approval for sale or return. The Estonian VAT Act does not provide 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 apply.

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 the 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

Leased assets. In case of operational leases, supply of service rules shall be applied. In the case of capital leases, the supply of goods rules shall be applied.

Imported goods. The time of supply for imports is when the goods clear customs.

Intra-Community acquisitions. The intra-Community acquisition of goods is effected on the 15th day of the month following the month in which the 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. This is different 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. In such case the intra-Community acquisition of goods shall be deemed to have been affected on the date on which those grounds ceased to exist.

Intra-Community supplies of goods. An intra-Community supply takes place on the 15th day of the month following the month in which the goods obtained via an intra-Community acquisition, 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. This is different 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.

Call-off-stock. As of 1 January 2020, a call-off-stock definition will be implemented into the Estonian law regarding the Council Directive (EU) 2018/1910. Under the new definition, call-off-stock is considered as goods that are delivered to a stock in another Member State for the purpose of transferring the goods to another Member State's taxable person. The transport of call-off-stock to another Member State is no longer deemed an intra-Community supply if the goods are transferred within 12 months after the arrival to another Member State's taxable person, if the new acquirer is found during 12 months or if the goods are returned to Estonia.

Chain transactions. From 1 January 2020 a chain transaction will be considered as intra-Community supply in case goods are transferred to a taxable person of another Member State and if the same goods are transferred successively. The goods must be transferred directly from the first transferor to the final acquirer in another Member State.

If the goods are delivered to another Member State by the reseller upon notifying the transferor of its VAT registration number in the Member State of departure (same as the transferor), then the supply of goods between the transferor and reseller is a domestic supply of goods and the transaction by the reseller is regarded as the intra-Community supply. If the reseller is registered as a taxable person in the other Member State, the supply of goods between the transferor and reseller is intra-Community supply.

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 from 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 tax 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 tax 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 tax 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 tax 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 tax that may be allocated directly to both taxable and exempt supplies. Input tax allocated directly to taxable supplies is deductible, whereas 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 tax 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 tax, 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 just reasons to check the circumstances of the VAT refund application further.

Pre-registration 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 tax on such goods in the taxable period during which the goods were transferred as taxable supply.

A taxable person that has received services prior to the person's date of registration as a taxable person shall have the right to deduct the input tax on such services in the taxable period during which such services were provided as taxable supply.

The input tax on fixed assets acquired before registration of a person as a taxable person may be deducted, if the person has not used the fixed assets prior to the registration.

Write-off of bad debts. Output tax accounted for on supplies that do not get paid by the recipient (i.e., a bad debt) cannot be recovered in Estonia.

Noneconomic activities. Input tax 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 tax paid on goods or services used for business-related purposes from input tax paid on goods or services used for noneconomic activities, i.e., purposes not business related, the taxable person must request that the tax authority determines 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.

EU businesses. For businesses established in the EU, refunds are made under the terms of EU Directive 2008/9/EC. Directive 2008/9/EC rules and principles are applied.

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 the name of which person 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.

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.

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.

Non-EU businesses. 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. Estonian VAT is refunded on the condition of reciprocity to taxable persons of Norway, Iceland, Israel and Switzerland.

A non-established business from a non-EU state may request a refund of VAT by filing the 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. 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.

Credit notes. 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. Estonian VAT Act permits electronic invoicing in line with EU Directive 2010/45/EU (see the chapter on the EU). From 1 January 2019 electronic invoicing is mandatory when issuing invoices to the public sector.

Simplified VAT invoices. A simplified invoice may be issued upon the provision of transport services for passengers and in the case of invoices printed by automated machines (parking meters

and automated petrol stations). The total amount in the simplified invoice may not exceed EUR160 exclusive of VAT.

Self-billing. A self-billed invoice may be issued on the condition that there is a written agreement between the two parties which contains the procedure for the acceptance. The self-billing invoice must make reference to "self-billing."

Proof of exports and intra-Community supplies. 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).

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.

An intra-Community supply of goods must be certified by documents confirming the transfer of the goods and the transport of the goods to another Member State.

As of 2020, a taxable person must declare and submit a report on its intra-Community supplies in order for the zero rate to be applicable. It is also required that the VAT registration number of the acquirer in the other Member State is indicated.

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.

Supplies to nontaxable persons. It is not required to issue an invoice to nontaxable persons if the transfer of goods or provision of services is for personal use, except in the case of distance selling, the transfer of a new means of transport or treating goods transferred to third country nontaxable persons as exports.

Records. A taxable person is required to preserve copies of invoices issued by or on behalf of that taxable person and invoices for goods acquired or services received by or on behalf of the person, in a chronological order and in the original form. The place and manner at which invoices are preserved may be chosen by the taxable person on the condition that the invoices or information could be made immediately available at the request of the tax authority.

Record retention period. The retention period of records is seven years as of the date of the issue or receipt. Customs declarations certifying the import of goods shall be preserved for seven years as of the beginning of the calendar year, following customs formalities. The record retention period is 10 years from 31 December of the year of transaction for the person implementing special arrangements on an electronic communications service and electronically supplied service.

Electronic archiving. Electronic archiving of documents is allowed in Estonia. Estonian tax authorities maintain the electronic storage of the VAT declarations.

I. Returns and payment

Periodic 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.

Invoices must be disclosed in the VAT return appendix in the following cases, which must be fulfilled simultaneously:

- 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.

Periodic payments. Payment of VAT in full is required on the same date as the VAT return submission deadline, i.e., the 20th day of the month following the end of the tax period. All VAT liabilities must be paid in euros.

Electronic filing. 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 for at least 12 months. One can continue submitting paper forms after the tax authority approves a formal application.

Payments on account. Payments on account are not required in Estonia.

Special schemes. The following special schemes are available in Estonia provided that the statutory conditions are met.

Travel agents. VAT applies to the margin between the total amount paid by the customer and the total cost (inclusive of VAT) of travel agent's acquired goods and received services.

Secondhand goods, original works of art, collectors' items and antiques. VAT applies on the difference between the sales and purchase price of the goods which has been reduced by the VAT contained therein. The special scheme is applicable only if the goods are purchased for the purposes of resale.

Immovables, scrap metal, precious metal and metal products. A transferor may transfer the goods exclusive of VAT to an acquirer which calculates and pays the amount of VAT under the domestic reverse charge.

Cash accounting. All taxable persons of which the annual turnover does not exceed EUR200,000 can opt for cash-basis VAT accounting instead of accrual-basis accounting.

Annual returns. Annual returns are not required in Estonia.

Supplementary 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 of which the 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. *At the time of preparing this chapter, the thresholds for 2020 are not yet published.*

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 the ownership of 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.

Digital reporting. Digital reporting is the preferred method to file VAT returns in Estonia. The Estonian Tax and Customs Board has developed the electronic tax filing system called e-Tax portal for taxpayers to submit tax declarations by inserting and uploading data to e-Tax portal.

J. Penalties

Penalties for late registration. Penalties and interest are assessed for late registration for VAT and delay in remitting the VAT payable to the tax authority. Failure to register with a tax authority is punishable by a fine of up to EUR3,200.

Penalties for late payment and filings. Interest at a rate of 0.06% per day is charged on amounts of VAT underpaid or paid late. Penalty for not submitting monthly tax returns is punishable by a fine of up to EUR1,300 if the initial warning by the tax authorities is ignored and an additional EUR2,000 if the second warning is ignored. In addition, the penalties are subject to income tax at a rate of 20/80 as nonbusiness-related expenses.

Penalties for errors. Penalties and interest can be assessed for errors discovered after the tax audit conducted by the tax authority. In addition, a person may be fined up to EUR3,200.

Penalties for fraud. Intentional submission of false information to decrease VAT obligation or increase claim for refund is punishable by a fine of up to EUR32,000.

Eswatini

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Please direct all queries regarding Eswatini to the persons listed below.

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A. At a glance

Name of the tax	Value-added tax (VAT)
Local name	Value-added tax (VAT)
Date introduced	01 April 2012
Trading bloc membership	Southern African Customs Union (SACU) and SADC
Administered by	Swaziland Revenue Authority
VAT rates	
Standard	15%
Other	Zero-rate (0%) and exempt
VAT number format	Taxpayer identity number (xxx-xxx-xxx)
VAT return periods	Monthly Quarterly
Thresholds	
Registration	SZL500,000
Recovery of VAT by non-established businesses	No

B. Scope of the tax

VAT is collected on "taxable supplies" of goods and services consumed in Eswatini (i.e., domestic supplies), as well as on importation of goods and services into Eswatini.

C. Who is liable

Anyone who is making taxable supplies and meets the registration threshold (SZL500,000) is liable to register for VAT in Eswatini.The registration threshold only applies for domenstic supplies. For importation of goods, everyone is charged VAT. There is no requirement to register, the VAT is collected by the Revenue.

Voluntary registration and small businesses. At the Commissioner's discretion with regard to the following:
- Taxpayer needs to have a fixed place of business
- Taxpayer to evidence ability to maintain proper accounting and record keeping
- Taxpayer must be providing taxable supplies as defined

Any other person that wishes to register, but doesn't meet the registration threshold, may apply to the Commissioner, showing that they have a physical place of business in Eswatini and that they are making taxable supplies in Eswatini. The registration is approved at the Commissioner's discretion.

Group of persons, especially associations and clubs, can be registered for VAT under a single VAT registration at the discretion of the Commissioner General.

Group registration. Group VAT registration is not allowed in Eswatini.

Non-established businesses. Non-established businesses can register for VAT in Eswatini through a resident agent with a resident public officer. A non-established business is only required to register for VAT in Eswatini once it exceeds the registration threshold.

Tax representatives. Tax representatives are allowed, but not compulsory. However, the supply of the service by the agent on behalf of the principal is deemed to be supply by the principal.

Reverse charge. The reverse charge applies in Eswatini for business-to-business (B2B) supplies of services from a non-established service provider. VAT is due on the supply of imported services, where the importer of the services self-accounts for VAT. It only applies where the importer of the services does not have a requirement to register for VAT in Eswatini, because it does not exceed the registration threshold or it only makes exempt supplies in Eswatini. The importer of the services is not required to register, but required to pay the VAT due, 30 days from the date of receipt of the invoice from the foreign supplier. It must complete a special form to the tax authorities for the payment due.

Where the importer of the services is registered for VAT in Eswatini, and they are making fully taxable supplies, they are not required to account for VAT on the imported services from the non-established business.

Domestic reverse charge. There are no domestic reverse charges in Eswatini.

Digital economy. There are no special VAT rules for supplies within the digital economy. Normal VAT rules apply.

There is, however, in the VAT law a special place of supply rule for electronically supplied services, which covers the provision of websites, software, images, distance trading, etc. The place of supply for such services is deemed to be where the recipient uses/obtains advantage of the service, i.e., in Eswatini.

Online marketplaces and platforms. No special rules exist for online marketplaces and platforms in Eswatini.

Registration procedures. Businesses must apply for VAT registration by completing and submitting a TIN registration form (RG01(a)) and attach (where/if applicable) the following:
- Certified copy of a Certificate of Incorporation (for companies only)
- Certified copy of Form J (for companies only)
- Certified copy of Power of Attorney (where applicable)
- Certified copy of personal identity document (of the Public Officer)
- Certified copy of partnership deed (if the business is a partnership)
- Deed of trust (where applicable)
- Deed of sale (if it is a takeover)
- Constitution (only for NGOs and welfare organizations)
- Certified copy of Trading License

The TIN registration form may be collected from the nearest SRA office or downloaded from the SRA website. The SRA will review the application and inform the taxpayer of the outcome

within 30 days. Where necessary, the SRA may conduct inspection of taxpayer businesses. When registered, a taxpayer will be issued with a registration certificate with a taxpayer identification number (TIN) to be quoted in all correspondences with the SRA.

Deregistration. A taxpayer is required to complete and submit the VAT deregistration form and indicate the reason for applying for deregistration. The form can be submitted to the nearest SRA office. Deregistration for VAT is on a voluntary basis, but normally arises from a tax audit. The Commisioner can deregister a business if it is determined that a business is no longer meeting the registration requirements — i.e., not meeting the registration threshold.

D. 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: 15%
- 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%

- Goods or services exported
- International transportation of goods or passengers or connected goods or services
- Maize meal, maize, beans, milk, brown bread, samp, rice, fresh fruit and vegetables and fresh eggs, vegetable oil (except olive oil), paraffin and animal feeds
- Farming input such as fertilizers, seeds (excluding flower seeds) and pesticides
- Prescription drugs and medicines
- School textbooks
- Petrol, diesel and liquid gas

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.

Examples of exempt supplies of goods and services

- Financial and insurance services (both long and short term)
- Postage stamps
- Land and buildings not used for commercial and industrial purposes
- Lease or letting of residential immovable property
- Education, burial, cremation, medical, dental, nursing and social welfare services

Option to tax for exempt supplies. The option to tax exempt supplies is not available in Eswatini.

E. Time of supply

The time when VAT becomes due is called the "time of supply" or "tax point."

The tax point for services is the earlier of when the invoice is issued or payment is received. The basic tax point for goods is the earlier of when the goods are delivered, the issuance of the invoice or when payment is received.

If no invoice and no receipt of income is received, then there is no VAT liability.

Deposits and prepayments. The time of supply for deposits and prepayments is the receipt of the deposit/prepayment.

Continuous supplies of services. The time of supply for continuous supplies of services, is the earlier of receipt of the payment for service being consumed or the issuing of an invoice.

Goods sent on approval for sale or return. The time of supply for goods sent on approval for sale or return is the earlier of the date of change of ownership, receipt of payment or issuing of invoice.

Reverse-charge services. The time of supply for reverse-charge services is time the service is consumed/received by the customer.

Leased assets. The time of supply for leased assets is the time the assets are made available under the lease agreement.

Imported goods. The time of supply for imported goods is the time the goods are cleared by Customs for use in Eswatini.

F. Recovery of VAT by taxable persons

For input tax recovery, a valid VAT invoice must be issued for the supply. A taxable person can only claim a refund upon a submission of a VAT return and where the input tax is more than the output tax. That refund is paid to the taxable person.

Nondeductible input tax. The underlying principle is that input tax is claimable only where it has been paid on taxable supplies and charged by a registered taxpayer. As such, input tax credits on the purchases attributable to the supply of exempt goods or services are prohibited.

Examples of items for which input tax is nondeductible

- Entertainment (includes expenses relating to hotel accommodation, food and beverages, hospitality)
- Passenger motor vehicle
- 50% of mobile telephone services

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

- Entertainment (if the taxable person is in the business of providing entertainment), for example, hotels, food and beverages
- Passenger motor vehicles (if the taxable person is in the business of car sales and hire)

Partial exemption. Partially exempt businesses are not allowed to claim input tax credits on the purchases attributable to the supply of exempt goods or services. Consequently, mixed supply businesses are required to apportion input tax claim based on the portion of their taxable supplies.

Capital goods. Input tax credit is allowed to a taxable person, on becoming registered, for input tax paid or payable in respect of all taxable supplies of capital assets, made to the person prior to the person becoming registered; or, imports of 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, provided the goods are on hand at the date of registration and provided that the supply or import occurred not more than six months before the date of registration.

Refunds. If, for any tax period, a taxable person is due a VAT refund, the Commissioner-General shall refund the excess within two months of the due date of the return, or within two months of the date when the return was filed if the return was not filed by the due date.

Pre-registration costs. Input tax credit is allowed to a taxable person, on becoming registered, for input tax paid or payable in respect of all taxable supplies of goods (not services) made to the person prior to the person becoming registered; or, imports of goods, made by the person prior to becoming registered, where the supply or import was for use in the business of the taxable

person, provided the goods are on hand at the date of registration and provided that the supply or import occurred not more than four months before the date of registration.

Write-off bad debts. Where a taxable person has supplied goods or services for a consideration and has paid the full tax on the supply to the Commissioner-General but has not received payment, in whole or in part, from the person to whom the goods or services are supplied; and has taken all reasonable steps to the satisfaction of the Commissioner-General, to pursue payment and reasonably believes that they will not be paid, the taxable person may reduce the output tax by that portion of the tax paid for which payment has not been received. Further provision is made to define reasonable steps and they include:
(a) Creditors own letters of demand to debtor, in vain.
(b) Engagement of external debt collector who failed to collect the debt.
(c) The debt must be non-disputable and final.
(d) There must be a reasonable relation between the monetary size of the debt and the costs implication in connection with the recovery attempts.
(e) The business relations with the debtor must have ceased.

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 Eswatini do not qualify as taxable person, and as such, no VAT recovery is possible in Eswatini for non-established businesses.

H. Invoicing

VAT invoices. Only a valid tax invoice will be considered for the purposes of the VAT Act, and this tax invoice must be issued within 30 days of the supply being made.

Credit notes. A credit note is issued to correct a genuine mistake or to give a credit to your customer under the following situations:
(a) Goods invoiced as standard-rated which should have been exempt or zero rated
(b) If the supply did not take place
(c) If the nature of that supply has been fundamentally varied or altered
(d) If the previously agreed consideration is being altered by agreement with the recipient (including a discount)
(e) If substandard goods are accepted by the customer at a reduced price
(f) If goods are returned or services are not accepted
(g) If goods and services are supplied for an unconfirmed consideration

Electronic invoicing. Permitted for all taxpayers. There is no provision in VAT Act for electronic invoicing" to "Electronic invoicing is permitted for all taxpayers in Eswatini. There is however no provision in the VAT Act for electronic invoicing.

Simplified VAT invoices. Permissible for supplies that are less than SZL3,000.

Self-billing. Permissible only to sugar mills who purchase sugar cane from sugar cane farmers. The self-billing is only allowed upon application and approval with the tax authorities.

Proof of exports. For an export to qualify for a zero rating, a registered taxpayer shall obtain and be able to show as proof of export in every export transaction:
(a) A copy of the bill of entry or export certified by the customs authorities
(b) A copy of the invoice issued to the foreign purchasers with tax shown at zero rate

(c) Evidence sufficient to satisfy the Commissioner-General that the goods have been exported, in the form of an order form, or signed contract with a foreign purchaser, or transport documentation which identifies the goods as follows:
  (i) Transit order or consignment note issued by the Swaziland Railways for goods exported by rail
  (ii) Copy of an airway bill for goods exported by air
  (iii) Copy of a transport document for goods exported by road

Foreign currency supplies. All amounts on VAT invoices are to be expressed in Swazi Lilangeni (SZL). Where an amount is expressed in a currency other than Swazi Lilangeni, the amount shall be converted into Swazi Lilangeni at the average daily selling exchange rates of the previous month for the currency concerned.

Supplies to nontaxable persons. A full VAT invoice is not required to be issued for supplies to nontaxable persons, unless requested by the consumer.

Records. Key documentation to be retained are invoices (original invoices must be kept for supplies made and copies of invoices must be kept for purchase invoices), VAT account, general financial documents, financial statements, accounting documents.

Record retention period. All records and accounts, including tax invoices, debit and credit notes must be kept for a minimum of five years and made available for inspection to an authorized officer of the SRA on demand.

Electronic archiving. No specific provision on electronic archiving. However, it is important to retain sufficient records and accounts in formats that enable the SRA officers to examine them effectively.

I. Returns and payment

Periodic returns. “Category A” returns are filed monthly and the turnover of the registered person shall not be less than SZL20 million per annum. “Category B” returns are filed quarterly and the registered person in this category is anyone that does not qualify to be in Category A.

Returns are due before the 20th of the following month for both Category A and B returns.

Periodic payments. For taxpayers in Category A or B, payment of tax shall be made on or before the date the return is due to be filed. Where payment is in terms of a notice from the SRA, the due date shall be as specified in that notice. However, the Commissioner-General has, through Practice Note No. DT-VAT/011-14, authorized the payments of tax in advance of the VAT return due date.

Electronic filing. Returns can be filed electronically. There is no specific provision on electronic archiving. However, it is important to retain sufficient records and accounts in formats that enable the SRA officers to examine them effectively.

Payments on account. Payments on account are not required in Eswatini.

Special schemes.

Cash accounting. Taxpayers, who are permitted to use the cash basis, are required to account for VAT to the extent that payment has been made or received. Only businesses whose annual value of taxable supplies does not exceed SZL3 million are allowed to be on the cash basis of accounting. Regardless, even if a taxpayer is on the cash basis method, tax invoices must still be issued.

Annual returns. Annual returns are not required in Eswatini.

Supplementary filings. No supplementary filings are required in Eswatini.

Digital reporting. Returns can be filed electronically in Eswatini. However, no further digital reporting requirements apply in Eswatini.

J. Penalties

Penalties for late registration. A taxpayer is liable to pay an additional tax equal to double the VAT payable during the period for which he failed to register for VAT on time. The VAT payable is to be calculated from the time the taxable person was supposed to register.

Penalties for late payment and filings. Failure to submit a VAT payment on time and for late filings is an offense and additional tax at 2% per month will be payable. Furthermore, the taxpayer may be liable, on conviction, to fines or imprisonment or both.

Penalties for errors. Registered persons will be liable to a penalty of SZL2,000 to SZL6,000 or imprisonment for a term not exceeding three years, or to both. There is no specific description of what an "error" is for such penalties and will depend on the Commissioner's view.

Penalties for fraud. Registered persons will be liable to a penalty of SZL6,000 to SZL15,000 or imprisonment for a term not exceeding six years, or to both. There is no specific description of how "fraud" is defined for such penalties and will depend on the Commissioner's view.

European Union

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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

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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. After several delays of the withdrawal process, the UK left the EU on 31 January 2020. A transition period is agreed during which the EU VAT rules remain applicable (including the provisions regarding the “Quick Fixes” — see below). This transition period ends on 31 December 2020. After the transition period, the provisions of the EU VAT Directives concerning goods shall remain applicable to and in the UK in respect of Northern Ireland.

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 mailorder 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. 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. In June 2019, the Commission proposed that the Czech Republic be authorized to apply a generalized reverse charge from 1 January 2020 through 30 June 2022.

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 apply from 1 January 2020.

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 non-taxable 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 were 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 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 than 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*) or other exceptions apply for such as restaurant and catering services, hiring of means of transport and admission to cultural, artistic, sporting, scientific and educational events. 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 non-taxable 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.

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. 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 proposed new rules would ensure that all goods currently enjoying rates different from the standard rate can continue to do so. This proposal has not yet been adopted by the Council and the proposed new rules will only become effective if and when the Council adopts them.

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. As of 1 January 2020, for the intra-Community supply of goods to be zero-rated, the inclusion in the ESL of the correct VAT identification number of the recipient of the goods (in the Member State of arrival) has become a substantive requirement. 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 B2C 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 (SPV) and multi-purpose vouchers (MPVs). The former (SPVs) 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 MPVs. The transfer of an SPV by a taxable person acting in their 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 an SPV accepted as consideration by the supplier is not regarded as an independent transaction. The transfer of an MPV, 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 apply from 1 January 2019.

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:

- A 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 (0%) 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	
Established	EUR10,000
Non-established	None
Distance selling	EUR35,000
Intra-Community acquisitions	EUR10,000
Electronically supplied services (MOSS)	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.

Exemption from registration obligation. As a general rule, VAT registration obligations concern all entrepreneurs and companies supplying goods and/or services in the form of economic/business activities. There is generally no exemption to this obligation, unless supplies made are under the EUR10,000 threshold (Finnish businesses only).

Voluntary registration and small businesses. 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.

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. 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 tax 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."

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. 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.

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

Domestic reverse charge. 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.

Digital economy. Business to consumer (B2C) electronically supplied services, telecom and broadcasting are 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. Businesses supplying electronic services to EU nontaxable 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.

Online marketplaces and platforms. With respect to electronically supplied services in the EU (B2C sales), Finland applies the provisions of the EU Council Implementing Regulation (EU) 282/2011, and as such Finland applies the relevant provisions relating to electronically supplied services supplied through a telecommunications network, an interface or a portal.

In Finland, where electronically supplied services are supplied through a telecommunications network, an interface or a portal such as a marketplace for applications, a taxable person taking part in that supply shall be presumed to be acting in their own name but on behalf of the provider of those services, unless that provider is explicitly indicated as the supplier by that taxable person and that is reflected in the contractual arrangements between the parties.

In order to regard the provider of electronically supplied services as being explicitly indicated as the supplier of those services by the taxable person, the following conditions shall be met:

a) The invoice issued or made available by each taxable person taking part in the supply of the electronically supplied services must identify such services and the supplier thereof.
b) The bill or receipt issued or made available to the customer must identify the electronically supplied services and the supplier thereof.

A taxable person who, with regard to a supply of electronically supplied services, authorizes the charge to the customer or the delivery of the services or sets the general terms and conditions of

the supply, shall not be permitted to explicitly indicate another person as the supplier of those services.

The above shall also apply where telephone services provided through the internet, including voice over internet protocol (VoIP), are supplied through a telecommunications network, an interface or a portal such as a marketplace for applications and are supplied under the same conditions as set out above.

The abovementioned shall not apply to a taxable person who only provides for processing of payments in respect of electronically supplied services or of telephone services provided through the internet, including voice over internet protocol (VoIP), and who does not take part in the supply of those electronically supplied services or telephone services.

Vouchers. Finland has, as of 1 January 2019, implemented the EU Directive 2016/1065 amending VAT Directive (2006/112/EC) as regards treatment of vouchers.

A "voucher" means an instrument where there is an obligation to accept it as consideration or part consideration for a supply of goods or services and where the goods or services to be supplied or the identities of their potential suppliers are either indicated on the instrument itself or in related documentation, including the terms and conditions of use of such instrument.

Single-purpose voucher (SPV) means 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.

Multi-purpose voucher (MPV) means a voucher, other than a single-purpose voucher.

In short, where the VAT treatment attributable to the underlying supply of goods or services can be determined with certainty when the SPV is issued, VAT should be charged on each transfer, including on the issue of the SPV. The actual handing over of the goods or the actual provision of the services in return for an SPV should not be regarded as an independent transaction. For MPVs, VAT should be charged when the goods or services to which the voucher relates are supplied.

Registration procedures. In the case of mandatory VAT registration, retrospective VAT registration is required, provided that the business activities causing the Finnish VAT registration obligation to 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.

Deregistration. A taxable person that ceases to be eligible for VAT registration must deregister by filing a notification in paper format.

D. 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: 24%
• Reduced rates: 14% and 10%
• Zero-rate: 0%

The standard rate of VAT applies to all supplies of goods or services, unless a specific measure allows for a reduced rate, the zero rate or an exemption.

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.

Examples of goods and services taxable at 0%

- Exports of goods

Examples of goods and services taxable at 10%

- Cinema
- Sporting services
- Books (printed and digital versions)
- Medicine
- Passenger transport
- Accommodation
- Compensation from copyrights received by a copyright organization that represents the copyright holders
- Newspapers and periodicals (printed and digital versions)

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 VAT and that do not qualify for input tax deduction.

Examples of exempt supplies of goods and services

- Land and buildings
- Financial transactions
- Insurance
- Education
- 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).

Deposits and 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).

Continuous supplies of services. 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.

Goods sent on approval for sale or return. There is no special time of supply rule for "approval" or "sale or return" circumstances in Finland. As such, the normal time of supply rules apply.

Reverse-charge services. There is no special time of supply rule for reverse-charge services in Finland. As such, the normal time of supply rules apply.

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.

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.

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.

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.

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 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 tax 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 tax 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 tax, 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.

Pre-registration costs. In general, costs related to the starting up of a taxable business are deductible. A taxable person may deduct VAT on such acquisitions that have been purchased for the purposes of the upcoming business. The input tax on such costs should be allocated to the (first) calendar month during which the actual business activities and VAT liability starts.

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. Input tax incurred upon purchases that are used for noneconomic activities, is not recoverable in Finland.

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.

EU businesses. 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.

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.

According to the Finnish tax authority guidelines, applicants should use the electronic portal maintained by the tax authority in their Member State of establishment to reclaim Finnish VAT. The Finnish tax administration processes the electronically submitted applications in Finland.

The section of the tax.fi website called “ALVEU” has an electronic question/answer service, called “Contact User Support” (tax.fi/ALVEU).

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).

Non-EU businesses. 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 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.

According to the Finnish tax authority guidelines, refunds must be requested in writing. Form 9550 must be submitted, and the completed form should be sent to:

Finnish Tax Administration
P.O. Box 560
FI-00052 VERO
Finland

H. Invoicing

VAT invoices. 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.

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 tax 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 tax, unless the inadequate invoice is replaced with a new (corrected) invoice.

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.

Credit notes. A VAT credit note may be used to reduce the VAT charged and reclaimed on a supply.

Electronic invoicing. Finnish VAT law permits electronic invoicing in line with EU Directive 2010/45/EU (see the chapter on the EU).

Simplified VAT invoices. 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.

Self-billing. Self-billing is allowed in Finland, i.e., the buyer may draft the invoice on behalf of the supplier. There must be an agreement (written or oral) between the supplier and the purchaser on applying the self-billing arrangement. The general invoicing requirements apply also in self-billing cases and the supplier is responsible for the accuracy of the invoice.

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.
- With respect to intra-Community supplies, Finland will (as of 1 January 2020) apply new VAT rules regarding proof of transport for EU supplies. From 1 January 2020, the following evidence must be retained:
  Where the supplier is responsible for arranging the transport:
  - Two items of noncontradictory evidence relating to the dispatch or transport of the goods, such as a signed CMR document or note, a bill of lading, an airfreight invoice or an invoice from the carrier of the goods
    Or
  - One of the above items plus either:
    - An insurance policy with regard to the dispatch or transport of the goods, or bank documents proving payment for the dispatch or transport of the goods
    - Official documents issued by a public authority, such as a notary, confirming the arrival of the goods in the Member State of destination
    - A receipt issued by a warehouse keeper in the Member State of destination, confirming the storage of the goods in that Member State

Where the customer is responsible for arranging the transport:

- The supplier must be furnished with at least two items of noncontradictory evidence, per above.
- Additionally, the supplier must be in possession of a written statement from the acquirer, stating that the goods have been dispatched or transported by the acquirer, or by a third party on behalf of the acquirer, and identifying the Member State of destination of the goods. That written statement shall state:
- The date of issue
- The name and address of the acquirer
- The quantity and nature of the goods
- The date and place of the arrival of the goods
- In the case of the supply of means of transport, the identification number of the means of transport
- The identification of the individual accepting the goods on behalf of the acquirer

In addition, from 1 January 2020, in order to secure zero-rating for intra-Community supplies, obtaining and displaying the customer's valid VAT number on the invoice will become a substantive requirement.

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.

Supplies to nontaxable persons. Rules apply to the place of supply for supplies of telecommunications, broadcasting and electronic services to non-VAT taxable customers.

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.

Records. Bookkeeping materials (bookkeeping, financial statements, annual report) and tax invoices must be retained in Finland.

Record retention period. The retention period for bookkeeping materials is 10 years. As a general rule, invoices must be kept for six years. In certain specific situations, longer retention periods apply, e.g., 13 years for invoices and documents related to real estate investments subject to the VAT monitoring liability.

Electronic archiving. 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.

I. Returns and payment

Periodic returns. Finnish periodic VAT returns are submitted monthly or, in certain cases, quarterly or annually.

Under the "OmaVero" procedure, the taxpayer files self-assessed tax returns, such as VAT returns, and EU Sales Lists in the Finnish tax administration's online portal OmaVero (MyTax). In general, the periodic VAT 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 VAT return and payment of the tax due is the 28th day of the second month following the return period. The periodic VAT return is considered to be filed on time when the Finnish tax authorities receive the VAT return within the prescribed period. For example, the due date for the January 2020 VAT return is 12 March 2020.

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).

Periodic payments. 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 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.

Electronic filing. Electronic filing of VAT returns is compulsory, but the Finnish tax administration may allow taxpayers to file the VAT return in paper if the taxpayer does not have access to electronic filing. Non-Finnish users can also have 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. The Finnish tax administration is in the process of changing the identification system to a new Suomi.fi system. The new system is already available for Finnish citizens, but foreign representatives of taxpayers still have to use KATSO identification. *At the time of preparing this chapter, the KATSO identification system is expected to be removed by the end of 2020.*

Payments on account. Payments on account are not required in Finland.

Special schemes.

Cash accounting. 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.

Margin scheme. A special VAT margin scheme also applies for transactions carried out by travel agents and for transactions concerning secondhand goods, works of art, collectors' items and antiques.

Annual returns. Annual returns are not required in Finland.

Supplementary 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 2019 is EUR600,000. The threshold for Intrastat Dispatches for 2019 is EUR600,000. *At the time of preparing this chapter, the Intrastat thresholds for 2020 are not yet known.*

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.

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.

Digital reporting. There are no specific digital reporting obligations in relation to VAT. However, electronic filing of VAT returns is compulsory, but the Finnish tax administration may allow taxpayers to file the VAT return in paper form if the taxpayer does not have access to electronic filing options. Non-Finnish taxpayers can also have access to electronic filing services. Electronic 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 submit electronic filings, taxpayers should set up a Katso ID for electronic filing.

Currently, the setting up of an electronic filing procedure is rather complex, especially for foreign companies with no Finnish citizens as employees. The Finnish tax administration is in the process of changing the identification system to a new Suomi.fi system. The new system is already available for Finnish citizens, but foreign representatives of taxpayers still have to use KATSO identification. *At the time of preparing this chapter, the KATSO identification system is expected to be removed by the end of 2020.*

J. Penalties

Penalties for late registration. 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.

Penalties for late payment and filings. For the late payment of VAT, interest at an annual rate of 7% is assessed for 2020 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 also for 2020.

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.

For Intrastat, 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.

For ESL, 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.

Penalties for errors. A punitive tax increase will be imposed in case of submitting incorrect or erroneous tax returns, any other returns/declarations, as well as any other required information or clarification, or in case any of the aforementioned documents or information have not been submitted at all. As a main rule, the amount of punitive tax increase is 10% of the amount of tax payable. However, the amount of tax increase may vary and be between 15%-50 % depending, e.g., on the degree, extent and recurrence of the neglect.

Penalties for fraud. Both minor VAT misdemeanors and VAT/tax offenses are punishable under Finnish penal code. Respectively, VAT fraud is punishable under provisions of criminal legislation.

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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	Zero-rated (0%) and exempt
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 tax due in the previous year
Thresholds	
Registration	None
Established	None
Non-established	None
Distance selling	EUR35,000 — (EUR10,000 from 1 January 2021)
Intra-Community acquisitions	EUR10,000 (under specific conditions)
Electronically supplied services (MOSS)	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 performed in France by a taxable person
- The intra-Community acquisition of goods in France, for goods transported 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.

Exemption from registration. Regarding the reverse-charge mechanism, a non-established business will not be required to register for VAT in France for supplies made to a French taxable person (payer established in France), where the recipient will have to self-assess the related VAT.

Voluntary registration and small businesses. 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, 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. Rates* below.

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 minimum duration for a VAT group, is a three fiscal year period. 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 a result, all VAT liabilities due and input tax (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 and supplementary filings (e.g., Intrastat) for information purposes. Please note that intragroup transactions are thus still subject to French VAT.

Non-established businesses. A "non-established business" is a business that has no statutory seat nor 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, non-established businesses should review their French VAT registration status. In addition, a French VAT registration may be necessary to fulfill Intrastat obligations, which is a competency of the customs authorities.

Tax representatives. 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 for VAT 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.

Domestic reverse charge. 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

Digital economy. For telecommunications, broadcasting and electronically supplied services, for business-to-business (B2B) 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. The Mini One-Stop Shop (MOSS) regime allows taxable persons that supply telecommunication services, television and radio broadcasting services or electronically

supplied services to nontaxable persons 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.

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.

Online marketplaces and platforms. If services are supplied electronically via online marketplaces and platforms by an intermediary (who is a taxable person), the latter is considered acting as in their own name but on behalf of the supplier of those services ("undisclosed agent"). As a result, the undisclosed agent is deemed as the supplier of the electronically supplied services via the online marketplaces and platforms. Please note that the joint liability for online marketplaces and platforms will enter into force in France from 1 January 2021. However, at the time of preparing this chapter, no administrative guidelines have been published.

However, if electronically supplied services are performed by an intermediary acting in the name and on behalf of the principal supplier of services ("disclosed agent"), the disclosed agent is not considered as performing the electronically supplied services.

Furthermore, online platforms and marketplaces must meet several declarative obligations. Noncooperative online platforms that commit certain tax offenses/infringements will be published online following the "name and shame" mechanism. Notably, if an online platform operator is subject, in less than 12 months, to certain measures (e.g., debts collection of VAT by the FTA), the implementation of the measure may be accompanied by the publication, on a list of noncooperative platform operators, of the platform operator's commercial name, as well as, where applicable, its professional activity and its State or territory of residence.

Vouchers. Article 256 ter of the French Tax Code implemented the EU Directive 2016/1065 regarding VAT treatment of vouchers. A voucher is an instrument where there is an obligation to accept it as consideration or part consideration for a supply of goods or services and where the goods or services to be supplied or the identities of their potential suppliers are either indicated on the instrument itself or in related documentation, including the terms and conditions of use of such instrument.

Vouchers can be classified as a "single-purpose voucher" (SPV) or "multi-purpose voucher" (MPV). SPVs are vouchers 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. The VAT on SPVs becomes due upon the time of issuance. MPVs are vouchers, other than SPVs, triggering the fact that the VAT due is unknown at the time of issue of the voucher.

Registration procedures. 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 provided a complete VAT application file is sent and no further questions are raised.

The application will be available to submit authorities soon. *However, at the time of preparing this chapter, guidelines on the e-filing implementation are not yet known.*

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 tax to be refunded) or in a VAT debit position (net output tax 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 tax due on costs incurred after the date of the end of activity.

For a change in the VAT status and/or change of activities, a taxable person should complete form M4 and submit to the tax authorities accordingly.

D. 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: 20%
- Reduced rates: 2.1%, 5.5% and 10%
- 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.

Some supplies are classified as "exempt with credit" (i.e., zero-rated) which means that no VAT is chargeable, but the supplier may recover related input tax.

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.

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.

Examples of goods and services taxable at 0%
(i.e., exempt with credit)

• Specified financial transactions
• Exports of goods outside the EU and related services
• Intra-Community supplies of goods

Examples of goods and services taxable at 2.1%

• Pharmaceuticals (under conditions)

Examples of goods and services taxable at 5.5%
(2.1% in Corsica, Guadeloupe, Martinique and Réunion)

• Foodstuffs

Examples of goods and services taxable at 10%

• Accommodation

The term "exempt supplies" refers to supplies of goods and services that are within the scope of VAT and that do not qualify for input tax deduction.

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

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.

The following are examples of exempt supplies of goods and services, for which there is an option to tax available:
• Leasing of unfurnished buildings to professionals (who are VAT registered in France)
• Leasing of agricultural assets
• Specific public services provided by local public authorities
• Supplies of undeveloped lands , between taxable persons
• 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 supplied 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.

Deposits and 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.

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.

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.

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.

Reverse-charge services. 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.

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.

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.

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.

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.

F. Recovery of VAT by taxable persons

A taxable person may recover input tax charged on goods and services supplied to it for business purposes. A taxable person generally recovers input tax by offsetting it against output tax 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.

Nondeductible 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%)
- 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 tax 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.

Other pro rates are allowed to be used in France, but these are only based on turnover realized for both taxable and exempt activities. These special methods (and the calculation outline above) does not need to be approved or notified to the tax authorities.

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 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 tax, 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.

Pre-registration costs. Newly created companies may claim a refund of input tax 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 tax 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. Certain formalities are to be followed depending on the nature of the judgement which stated that the debts are unrecoverable. However, in principle, a duplicate invoice should be issued.

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.

Noneconomic activities. Noneconomic 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 tax, 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 tax 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 tax. Non-established businesses may claim French VAT to the same extent as VAT-registered businesses.

EU businesses. For businesses established in the EU, refund is made under the terms of EU Directive 2008/9/EC. 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.

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. If payment is made after the terms have expired, then interest for late payment may be granted.

Non-EU businesses. 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.

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

H. Invoicing

VAT invoices. 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.

Credit notes. AA VAT credit note may be used for transactions involving French customers 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. French VAT law permits electronic invoicing in line with EU Directive 2010/45/EU (see the chapter on the 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.

Electronic invoicing for B2B supplies will be mandatory for taxpayers from 1 January 2023 and at the latest by 1 January 2025.

Simplified VAT invoices. Invoices whose total amount excluding tax is less than or equal to EUR150 may not include the following information:
- The individual identification number allocated to the taxable person pursuant to Article 286b of the French Tax Code and under which they have carried out the supply of goods or services
- The reference to the relevant provision of the French Tax Code or to the corresponding provision of Council VAT Directive 2006/112/EC of 28 November 2006 or to any other statement indicating that the transaction benefits from a VAT exemption

However, that invoicing simplification rule does not apply to all transactions; a further analysis is necessary case by case.

Self-billing. Self-billing is allowed in France. Article 289, I§1 of the French Tax Code states that every taxable person must ensure that an invoice is issued by themselves or, in their name and on their behalf, by their client or by a third party for taxable transactions.

A written agreement between the supplier of goods/services and the issuer of the invoice, in principle, is not required. However, in the event that the French tax administration requested the proof of the self-billing, a written agreement is the best way to demonstrate that parties have agreed to self-bill the invoices.

Furthermore, even if a self-billing agreement has been subscribed, each party remains responsible of its declarative and invoicing obligations.

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 (it would be sufficient to include a statement why the transaction is exempt from VAT and no reference to the legal provision). 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 for which the place of supply is within France 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.

Supplies to nontaxable persons. 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 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.

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.

Records.

Record retention period. Record retention period is, in principle, six years. The six-year period shall run from the date of the last operation mentioned in the books or registers or from the date on which the documents or records were drawn up.

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.

The French tax administration authorize 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.

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.

I. Returns and payment

Periodic returns. The applicable VAT return period depends on the taxable person's turnover. 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 tax 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 tax due the previous year was less than EUR15,000
  - Companies whose turnover exceeds EUR789,000 (goods) or EUR238,000 (services) but whose total output tax 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.

Periodic payments. For French and non-EU companies, monthly VAT payment is due between the 15th and the 24th day of the month following the end of the return period. VAT payments must be made electronically (except small companies and auto-entrepreneurs under certain circumstances). For companies not established in France but VAT-registered in France, electronic payment is not required, and it can be carried out by a bank transfer within the deadline. See the subsection Electronic filing below for more detail.

Electronic filing. Businesses (including foreign businesses, but except small companies and auto-entrepreneurs under certain circumstances) must file their VAT returns electronically. For companies not established in France but VAT-registered in France, electronic filing is also required.

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 to be registered on a compulsory or voluntary basis.

Payments on account. Payments on account are not required in France. However, 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. See the subsection Special schemes below for more detail.

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.

The franchise regime is applicable to small French-established businesses following the below thresholds:
• Sales of goods: EUR 82,800
• Supplies of services: EUR 33,200

Special rules are also applicable for real estate operations or for agricultural activity.

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.

Supplementary 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).

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.

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.

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.

Digital reporting. Businesses (including foreign businesses, but except small companies and auto-entrepreneurs under certain circumstances) must file their VAT returns electronically. For companies not established in France but VAT-registered in France, electronic filing is also required.

Piste d'audit fiable (PAF). To prevent any risk of VAT fraud and to make the invoicing system more secure, European Directive 2010/45/EU introduced the PAF regulation. This obligation on companies was implemented in France on 1 January 2013 and it applied from 1 January 2014. Any entity, regardless of its form, must demonstrate that it has put in place a documented procedure to prove the reality of invoicing flows and to ensure the conformity of invoices.

SAFT. From 1 January 2014, all taxpayers who hold a computerized accounting system for accounting purposes must provide an electronic file detailing the accounting entries for the period subject to the tax audit.

J. Penalties

Penalties for late registration. 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.

Penalties for late payment and filings. 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 0.2% per month from 1 1January 2018 to 31 December 2020 for late payment interest and default interest).

In case electronic filing and payment obligations are not respected, a 0.2% penalty (assessed on the VAT due) is applicable.

For Intrastat, 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.

Penalties for errors. The following penalties are assessed for errors associated with electronic filing:
- Failure to declare VAT by electronic means: 0.2% of the VAT due (minimum EUR60)
- Failure to pay VAT by electronic means: 0.2% of the VAT due

For inaccurate invoices, the following penalty applies:
— EUR15 per missing mandatory information per invoice

Penalties for fraud. Any inaccuracies or omissions in a declaration or deed containing information to be withheld for the assessment or settlement of the tax, as well as the repayment of a tax claim that has been wrongly obtained from the tax authorities, shall give rise to the application of a surcharge of the following:
- 40% in the event of deliberate failure to comply
- 80% in the event of abuse of rights within the meaning of Article L. 64 of the LPF “Livre des procedures fiscales”
- 80% in the event of fraudulent practices or concealment of part of the price stipulated in a contract or in the event of the application of Article 792 bis of the FTC

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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	Zero-rated (0%) and exempt
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.

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

Voluntary registration and small businesses. 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.

Non-established businesses. 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.

Tax representatives. Tax representatives in Georgia are only required for VAT-registered businesses of EU Member States. Such taxpayers need to appoint an authorized representative, in order to obtain refund of VAT paid when purchasing goods and/or services in Georgia, or when importing goods to Georgia.

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.

Domestic reverse charge. A domestic reverse charge applies in Georgia to the transfer of collateral objects to the ownership of a creditor, within the measures to ensure fulfillment of contractual terms. In other words, it applies to the instances where items are pledged to guarantee the performance of contractual obligations, and then are transferred to the creditor, e.g., when a debtor fails to repay the loan and has to transfer their property to the creditor that was pledged as a collateral under the loan agreement.

Digital economy. In the case of business-to-business (B2B) 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 (B2C) transactions, reverse-charge VAT applies if the customer is an individual entrepreneur. Otherwise, no VAT applies.

Online marketplaces and platforms. No special rules exist for online marketplaces and platforms in Georgia.

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.

Deregistration. The VAT registration of a taxpayer, including a permanent establishment of a foreign entity, is canceled 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 canceled 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.

D. 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: 18%
- Reduced rates: 0.54%
- 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.

The VAT reduced 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%.

The term "exempt" refers to supplies of goods and services that are not liable to VAT and that do not qualify for input tax deduction.

Examples of goods and services taxable at 0%
(i.e., exempt 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
- Supply/import of e-books

Examples of exempt supplies of goods and services

- 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 tax against output tax.

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)

Deposits and prepayments. The time of supply in the case of prepayments is the date no later than the moment of such payment.

Continuous supplies of services. 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.

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. As such, the general time of supply rules apply.

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.

Leased assets. There are no special time of supply rules in Georgia for supplies of leased assets. As such, the general time of supply rules apply.

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.

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 tax 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

Examples of items for which input tax is nondeductible
- VAT paid on representative expenses (which refer to expenses incurred by a person within the scope of economic activity) including:
  - — Expenses (for juices, mineral waters, soft drinks, tea, coffee, breakfast, lunch, dinner, banquet) related to events (presentations, receptions) arranged on behalf of a person
  - — Expenses for excursions and cultural and entertainment events
  - — Souvenir expenses
  - — Guest service expenses
- VAT paid on expenses incurred for entertainment events

Examples of items for which input tax is deductible (if related to a taxable business use)
- Any item that is not specifically defined as nondeductible by the Tax Code of Georgia is deductible, if it is related to a taxable business use. Examples include:
  - Leased property
  - Fixed assets wholly used in VAT-taxable transactions
  - Office inventory

Partial exemption. 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 tax directly related to exempt supplies with the right to reclaim input tax is recoverable in full, while input tax directly related to exempt supplies without the right to reclaim input tax is not recoverable. Input tax 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 tax 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 tax cannot be directly attributed to either of these two types of exempt supplies. In these circumstances, the input tax 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 abovementioned 20% threshold is not met, the input tax 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 tax for capital goods:
- For a building, an adjustment of 1/10 of total input tax 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 tax applies annually for five calendar years from the year of bringing the asset into use.

Refunds. The excess of input tax over output tax 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, excess VAT may be refunded to a taxpayer automatically.

Pre-registration 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. Output tax accounted for on supplies that do not get paid by the recipient (i.e., bad debts) cannot be recovered in Georgia.

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 obtain a refund of VAT, EU VAT-registered businesses are required to appoint a tax representative for this purpose (see Section C *Who is liable*).

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 invoices. 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-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.

Credit notes. Corrected VAT invoices may be used to adjust VAT if a taxable transaction is canceled, 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.

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.

Electronic invoicing. VAT invoices and TDs may be issued and submitted in electronic form. A VAT invoice could be issued and submitted in electronic form. Such an electronic invoice is not a strict accounting document.

Simplified VAT invoices. Simplified VAT invoicing is not allowed in Georgia. As such, full VAT invoices are required.

Self-billing. Self-billing is not allowed in Georgia.

Proof of exports. 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.

Foreign currency invoices. No foreign currency invoices are allowed for VAT purposes. As noted above, VAT invoices shall be issued in Georgian Lari (GEL).

Supplies to nontaxable persons. 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.

Records. There are no specific requirements related to record keeping for indirect tax in Georgia.

Record retention period. Generally, all records relevant to indirect tax need to be kept for the statute of limitations period, which is three years.

Electronic archiving. Electronic archiving is allowed in Georgia. It is not mandatory, and as such physical archiving (i.e., paper) is also allowed. In practice, documents are archived and provided to tax authorities upon request in either form (i.e., electronic and paper).

I. Returns and payment

Periodic 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.

Periodic payments. The VAT amount payable to the budget is the difference between output and input tax. Payment in full is required by the due date for the VAT return, i.e., by the 15th day of the month following the reporting period. 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.

Electronic filing. VAT returns must be completed and filed electronically.

Payments on account. Payments on account are not required in Georgia.

Special schemes. No special schemes are available in Georgia.

Annual returns. Annual returns are not required in Georgia.

Supplementary filings. No supplementary filings are required in Georgia.

Digital reporting. Aside from VAT returns, which are submitted electronically through the Revenue Service web portal, there are no further digital reporting obligations in Georgia.

J. Penalties

Penalties for late registration. The penalty for late registration 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 does not accrue during this period.

Penalties for late payment and filings. 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. Late payment interest stops three years after the date it starts accruing.

If the submission of a tax return is delayed for up to two months, the penalty is 5% of the tax payable based on this tax return. If submission of a tax return is delayed for more than two months, the penalty is 10% of the tax payable based on this tax return.

Penalties for errors. If tax is understated tax does not exceed 5% of the reported tax, a penalty equaling 10% of the understated amount is imposed. The same penalty applies if the understatement results from a change of a tax point by the tax authorities. If understated tax amounts to 5%-20% of the reported tax, a penalty equaling 25% of the understated amount applies. In any other case, a penalty equaling 50% of the understated amount is imposed. Understatement of tax in excess of GEL100,000 is considered to be tax evasion, and criminal proceedings are instituted.

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.

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.

Penalties for fraud. If input tax credit is claimed based on bogus operations, fictitious agreements or fake documents, a penalty of 200% of the credited tax amount 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.

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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	Zero-rated (0%) and exempt
VAT number format	DE123456789 (DE+9 digits)
VAT return periods	Monthly, quarterly and annual returns
Thresholds	
Registration	
Established	None
Non-established	None
Distance selling	EUR100,000

Intra-Community acquisitions	EUR12,500
Electronically supplied services (MOSS)	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 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.

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.

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

Voluntary registration and small businesses. 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).

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 (natural person).

- 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. 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 services. 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. As such, no threshold applies for non-established businesses.

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 recipient is allowed to reclaim the reported VAT in the same preliminary VAT return as input tax to the extent they are allowed for input tax 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."

Domestic reverse charge. 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 and of gas and electricity certificates
- 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.

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 supply for digital services and the Mini One-Stop Shop scheme.

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 (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 in place for non-EU providers of electronic services. As such, a threshold of EUR10,000 for the preceding and for the current year exists for the MOSS.

Online marketplaces and platforms. From 1 January 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 providers can prevent the liability if they meet certain requirements.

Vouchers. In Germany, the rendering of a single-purpose voucher (SPV) is taxed at the VAT rate of the supply itself. In that case the actual supply/service is not taxed. The rendering of a multipurpose voucher (MPV) is not taxed. Instead the supply/service paid with that voucher is taxed regularly. The voucher classifies as SPV if the place of supply as well as the VAT amount are already certain upon issuing of the voucher.

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.

Deregistration. There is no special procedure or form required to deregister. The entrepreneur informs the tax office and states the reason for the deregistration.

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: 19%
- Reduced rate: 7%
- Zero-rate: 0%

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

Some supplies are classified as "exempt-with-credit" (i.e., zero-rated), 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.

Examples of goods and services taxable at 7%
- (e-)Books and (e-)newspapers
- Cultural services
- Food
- Passenger transport (under certain conditions)
- Agricultural products
- Hotel stays

The term "exempt supplies" refers to supplies of goods and services that are not liable to VAT and that do not qualify for input tax deduction.

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.

Deposits and prepayment. The tax point for an advance payment or prepayment is the end of the VAT return period in which payment is received.

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.

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 tax on the returned goods has to be repaid to the tax authorities accordingly.

Reverse-charge services. 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).

Leased assets. For the lease of assets, the supply is deemed to be rendered upon completion of delivery. If such supply 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.

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.

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.

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.

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 tax 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 tax 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 tax 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 tax recovery. Consequently, no output tax 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 either EUR35 or EUR60, depending on the recipient)
- 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 tax 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 tax, 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 tax 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 tax 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.

Pre-registration costs. Input tax on costs incurred before registration is deductible. Status as a taxable person does not depend on registration. However, recovery of input tax 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. Input tax incurred upon purchases that are used for noneconomic activities is not recoverable in Germany.

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 (based on the reciprocity requirement).

EU businesses. For businesses established in the EU, refund is made under the terms of the EU Directive 2008/9/EC; see below).

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.

Non-EU businesses. 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.

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

H. Invoicing

VAT invoices. 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.

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).

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.

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. German VAT law permits electronic invoicing in line with EU Directive 2010/45/EU (see the chapter on the EU).

Simplified VAT invoices. A Simplified VAT invoicing scheme is available in Germany for invoices with a gross amount not exceeding EUR250. For such invoices, reduced formal requirements apply. In general, only the name and address of supplier, date of invoice, description and quantity of rendered supply/service, gross amount and tax rate have to be stated.

Self-billing. Self-billing is allowed in Germany. A self-billed invoice must state "Gutschrift," "Self-billing" or the respective word in other languages as stated in the VAT Directive. Self-billing must be agreed in advance between the supplier and customer before the first self-billed invoice is issued. No special form for the agreement is required. Nonetheless, a written agreement is favorable. A self-billed invoice becomes invalid upon the supplier's veto.

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.

From 1 January 2020, proofs as stated in the VAT Directive as amended under the “Quick Fixes” scheme are recognized in addition to the proofs stipulated by national law.

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.

Supplies to nontaxable persons. Special rules apply to the place of supply for supplies of telecommunications, broadcasting and electronic services to non-VAT taxable customers.

Records.

Record retention period. 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.

Electronic archiving. Electronic archiving is allowed in Germany. It is mandatory for data received or produced electronically. Electronic archiving must meet the “GoBD”-standard. E.g., the VAT-taxable person must be able to provide electronic real-time access to all tax-relevant data with all functions of the system and for unrestricted processing, as well as providing such data on a data medium. Data must be stored in Germany. Exceptions are possible but must be granted by the competent tax authorities.

Archiving of documents on paper is also allowed but must meet certain requirements. For example, access to the original must be possible without delay.

I. Returns and payment

Periodic 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.

Periodic payments. VAT payment periods follow the period for the submission of the preliminary and annual VAT returns. Basically, a preliminary VAT return as well as any VAT payable must be submitted monthly or quarterly to and must be received by the tax authorities until the 10th day of the following month.

Electronic filing. 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).

Payments on account. Payments on account are not required in Germany. However, 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.

Special schemes.

Secondhand goods. A special scheme applies to supplies of secondhand 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.

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.

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.

Supplementary 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 is EUR800,000. The threshold for Intrastat Dispatches 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.

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.

Digital reporting. VAT returns and preliminary VAT returns, as well as almost all other returns and declarations, have to be filed electronically in Germany. The German tax authorities have forms for most of the declarations available on their websites ("ElsterOnline" and "BZStOnline" (Federal Central Tax Office (BZSt)). The required format is XML.

J. Penalties

Penalties for late registration. 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 for late payment and filings. 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.

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.

Penalties for errors. Apart from penalties for fraud, no specific penalties for errors within a filed return apply. Regular interest of 0.5% per month will accrue for any tax payable filed as late.

Penalties for fraud. 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

These penalties can be levied per natural person deemed to have acted fraudulently.

Furthermore, interest of 0.5% per month on any amount subject to such fraud will be levied. Alternatively, regular interest of 0.5% per month may accrue.

Ghana

ey.com/GlobalTaxGuides
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A. At a glance

Name of the tax	Value-added tax (VAT)
Local name	Value-added tax (VAT)
Date introduced	18 March 1998
Trading bloc membership	Economic Community of West African States
Administered by	Ghana Revenue Authority
VAT rates	
Standard	12.5%
Reduced	3%
Other	Zero% (0%) and 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 identification 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.

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

Voluntary registration and small businesses. 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

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.

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 imports services from a nonresident person is required to reverse-charge itself VAT at a rate of 12.5%. However, there is no requirement to reverse 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 tax on imported services is not claimable.

Domestic reverse charge. There are no domestic reverse charges in Ghana.

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.

Online marketplaces and platforms. A nonresident person who is not registered for VAT and supplies 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.

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

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.

D. 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: 12.5%
- Reduced rate: 3%
- 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.

Effective 1 August 2018, the NHIL has been separated from VAT and is a separate levy.

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

Examples of goods and services taxable at 3%

- 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.

The term "exempt" refers to supplies of goods and services that are not liable to VAT and that do not qualify for input tax deduction.

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. The option to tax exempt supplies is not available in Ghana. 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.

Continuous supplies of services. 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.

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

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.

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.

Imported goods. 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.

The input tax 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.

Capital goods. There are no special rules for the recovery of input tax on capital goods. As such, normal input tax recovery rules apply. The VAT law in Ghana does not define what capital goods are. Where goods are used for both taxable and exempt supplies, input tax deduction is allowed on the taxable purchases and imports that can be directly attributed only to the taxable supplies made. Where it is difficult to directly attribute taxable purchases and imports to taxable supplies made, an amount that bears the same ratio as the taxable supplies bear to the total supplies shall be allowed, using an apportionment formula.

Refunds. 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.

Pre-registration costs. Generally, a person cannot recover VAT that it incurs prior to registration. However, 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 tax 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.

Write-off of bad debts. A taxable person is allowed an input tax deduction for bad debt where the person issues a tax invoice for the supply of taxable goods or services and the whole or part of the consideration for the supply was not received by the taxable person and subsequently treated as a bad debt. The amount of the deduction allowed is the amount of the tax paid in respect of the taxable supply that corresponds to the amount of the debt treated as a bad debt. The amount of the deduction in respect of bad debts becomes due on the date on which the bad debt was written off in the accounts of the taxable person and is available only if the taxable person satisfies the Commissioner-General that reasonable efforts have been made to recover the amounts due and payable.

Noneconomic activities. A taxable person can only, among others, recover input tax on goods and services purchased in Ghana and goods imported by that person and used wholly, exclusively and necessarily in the course of the taxable activity of that person. Thus, input tax on nonbusiness/economic activities are not recoverable.

G. Recovery of VAT by non-established businesses

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 preprinted 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.

Credit notes. A VAT credit note may be issued where any of the following circumstances leads to the output tax actually accounted for exceed the output tax 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

Electronic invoicing. A taxable person may make an application to the Commissioner-General (CG) for their permission to use the business's 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.

Simplified VAT invoices. The Commissioner-General may authorize a taxable person who makes a taxable supply to issue a sales receipt instead of a tax invoice. The dispensation is available to taxpayers who make low-value, high-volume supplies; supplies are paid for in cash and taxable persons who use electronic devices approved by the Commissioner-General for the issue of the

sales receipt. The authorization shall be for a period determined by the Commissioner-General and may be renewed. A sales receipt does not qualify for input tax deduction.

Self-billing. Self-billing is not allowed in Ghana.

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.

Supplies to nontaxable persons. 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.

Records. In Ghana, a person is required to maintain all necessary records to provide information in respect of documents to be filed and for the determination of tax payable and for such other purposes that may be prescribed by regulations or by the Commissioner-General.

Record retention period. Generally, VAT documents are required to be retained for a period of at least six years from the relevant date or such other longer period up to the following:

- The determination of an objection to a decision or of an appeal against a tax decision by the taxpayer
- The determination of an application made by the taxpayer
- The refund of tax applied for by the taxpayer
- The date the Commissioner-General notifies the taxpayer that an investigation being conducted is completed

Electronic archiving. Records may be kept and archived electronically but are subject to rules prescribed by the Commissioner-General.

I. Returns and payment

Periodic 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.

Periodic payments. Payment of the VAT due must be made in full by the date on which the respective return is due, i.e., within 21 days after the end of the month in which the tax point occurred.

Electronic filing. 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.

Payments on account. Payments on account are not required in Ghana.

Special schemes. No special schemes are available in Ghana.

Annual returns. Annual returns are not required in Ghana.

Supplementary filings. No supplementary filings are required in Ghana.

Digital reporting. Aside from the e-filing pilot (as outlined above under the Electronic filing subsection), there are no digital reporting requirements that apply in Ghana.

J. Penalties

Penalties for late registration. 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.

Penalties for late payment and filings. A person who fails to submit tax returns to the Commissioner-General without justification by the due date is liable to a pecuniary penalty of GHS500 and a further penalty of GHS10 for each day after the due date that the return is not submitted.

A person who fails to pay tax by the due date on which the tax is payable is liable to pay interest for each month or part of a month for which any part of the tax is outstanding. The interest is calculated as 125% of the statutory rate, compounded monthly, applied to the amount outstanding at the start of the period.

Penalties for errors. Failure to issue a VAT invoice may result in a penalty not more than GHS1,440 or a term of imprisonment of not more than six months or both.

Penalties for fraud. 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, may result in a penalty 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 may result in a penalty 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 may result in a fine not exceeding three times the tax that is being evaded or imprisonment for a term not exceeding five years or both.

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	Zero-rated (0%) and exempt
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
Established	None
Non-established	None
Distance selling	EUR35,000
Intra-Community acquisitions	None
Electronically supplied services (MOSS)	EUR10,000
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.

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 and small businesses. The VAT law in Greece does not contain any specific provision for voluntary VAT registration.

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 busi-

ness's option, such VAT representative undertakes compliance procedures and may be held jointly liable for VAT debts of the foreign EU business.

Reverse charge. In general, VAT due on cross-border business-to-business (B2B) 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 tax on the VAT return.

For cross-border business-to-consumer (B2C) 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 B2C 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 B2C basis
- Telecommunication services or electronically supplied services or radio or television broadcasting services provided on a B2C basis
- Lease of movable goods provided on a B2C basis

In such cases, the place of taxation shifts back to Greece when the use and enjoyment of the services takes place in Greece.

In the case of short-term leasing of professional pleasure boats, which are made available to (taxable or nontaxable) customers in Greece, the place of taxation is outside the European Union, insofar as those pleasure boats are used outside the European Union. The relevant criteria of the "effective use and enjoyment" and the proof of their fulfillment will be determined by a decision still yet to be issued by the Greek VAT administration.

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 tax 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. As of 1 December 2019, the identity of the buyer as taxable person with the right to deduct input tax should be verified through a specific online process powered by the Independent Authority of Public Revenues.

Digital economy. The place of supply of telecommunication and broadcasting services to nontaxable persons (B2C) is where the customer is established, their permanent address or usually resides.

As of 1 January 2019, the place of supply of electronically supplied services is the place where the customer/nontaxable person resides, except if the following conditions are cumulatively met:
(a) The supplier is established or has his permanent address or usually resides only in one EU Member State.
(b) The e-services are supplied to nontaxable persons established or having their permanent address or usually reside in another EU Member State.
(c) The total net amount of the e-services (without VAT), within a calendar year or the previous one, do not exceed the amount of EUR10,000.

When the above conditions are cumulatively met, the place of supply is the place where the supplier is established, unless that supplier opts for his services to be subject to VAT at the place where the customer/nontaxable person is established.

The right to opt for the place of taxation can be exercised by submitting a declaration in the competent tax office. This option binds the supplier for at least two full calendar years.

Mini One-Stop Shop. The Mini One-Stop Shop (MOSS) scheme 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.

Online marketplaces and platforms. No special rules exist for online marketplaces and platforms in Greece. More specifically, the place of supply of goods (other than new means of transport, excisable goods and supply installation goods) is the place where the goods are located when the dispatch or transportation ends, if they are dispatched or transported directly or indirectly by the supplier either:
(a) From the territory of another Member State to a nontaxable person in Greece
(b) From Greece to a person in another Member State who is not registered for VAT in that Member State

Nontaxable persons include private persons, fully exempt persons and flat-rate farmers.

A foreign distance seller supplying goods in Greece must, therefore, register and account for VAT there, unless the total consideration for distance selling into Greece by the distance seller does not exceed EUR35,000 in the current calendar year or has not exceeded this threshold in the previous calendar year. The sales made to Greece that are below the threshold will consequently be taxed in the Member State of origin.

In relation to distance selling from Greece, the place of supply is in Greece where the total consideration for such supplies does not exceed or has not exceeded the relevant threshold limit set by the Member State concerned (i.e., the distance seller will not have to register for VAT purposes in that other Member State). The sales from Greece will be subject to VAT in Greece.

Excisable goods are not subject to the special “distance sales rules.” As a result, the intra-Community acquisition of excisable goods is always taxable in Greece, irrespective of whether the acquirer is a taxable, nontaxable or exempt person.

Vouchers. As of 1 January 2019, vouchers, which can have physical or electronic form, are acceptable as consideration in exchange for the supply of goods or services.

The goods or services to be supplied or the identities of their potential suppliers are either indicated on the instrument itself or in related documentation, including the terms and conditions of use of such instrument.

Vouchers are distinguished between “single-purpose vouchers,” 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 and “multi-purpose vouchers,” which are vouchers other than “single-purpose vouchers.”

The essential difference between the two categories of vouchers is their VAT treatment. In single-purpose vouchers, the taxable event is their distribution and not the subsequent supply of goods or services. In multi-purpose vouchers, VAT is due at the time of their redemption, when the goods or services to which the voucher relates are supplied, whereas any prior transfer of them should not be subject to VAT.

Intermediary services for the distribution of vouchers that are supplied by taxable persons should be subject to VAT.

Transport tickets, admission tickets to cinemas and museums, postage stamps and instruments entitling the holder to a discount upon purchase of goods or services but carrying no right to receive such goods or service should not be treated as vouchers.

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 MOSS scheme (see above).

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.

D. 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: 24%
- Reduced rates: 6% and 13%
- 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.

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 2019 to the islands of Lesvos, Chios, Samos, Kos and Leros, all affected by the refugee crisis.

Examples of goods and services taxable at 0% (i.e., exempt with credit)

- Exports of goods outside the EU and related services
- Intra-Community supplies of goods
- Services supplied to a taxable person established in and outside the EU under the B2B default rule in the provision of services

Examples of goods and services taxable at 6%

- Books
- Newspapers
- Magazines
- Theatre tickets
- Supply of electricity and gas, as well as district sales (in effect as of 20 May 2019)

Examples of goods and services taxable at 13%

- Hotel accommodation services
- Food services supplied by restaurants, grills, taverns, coffee shops, cafeterias, patisseries and other related businesses (other than entertainment centers)
- Provision of services for boarding schools, structures for disabled persons and structures providing accommodation to people with mental disabilities, mental disorders and use of drugs
- Oil types
- Meat and fish preparations
- Sugars and sugar confectionery
- Cocoa and cocoa preparations
- Miscellaneous edible preparations based on cereal, flour, starch or milk
- Preparations of vegetables, fruit, nuts, and fruit and vegetable juices
- Coffee, tea, preparations based on these products and coffee substitutes
- Pastes, preparations for sauces and sauces, preparations for soups and broths, ice creams, vinegar and salt

The term “exempt supplies” refers to supplies of goods and services that are not liable to VAT and that do not qualify for input tax deduction.

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."

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.

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.

Deposits and 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).

Continuous supplies of services. If services are provided continuously, the tax point is the time that any amount is considered as payable.

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.

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 installments 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 below.

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.

Imported goods. The time of supply for an importation is when the importation occurs or when the goods leave a duty suspension regime.

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.

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 affected.

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 tax 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:

- Buildings (in case of leased buildings, the adjustment period expands to 10 years at the level of the lessor)
- Other movable capital assets and certain intangible goods

In the tax period of first use, the input tax is deducted according to whether and to what extent the goods are used for taxable activities. One fifth of the total input tax is attributed to each year of the adjustment period. At the end of each year, an adjustment of the input tax 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 tax must be paid to or can be recovered from the authorities.

The final input tax adjustment is performed annually on the basis of the overall data of the tax year, derived from the respective VAT returns filed throughout the year.

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 tax credit, the amount may be carried forward to offset output tax payable in subsequent periods. Alternatively, the taxpayer may request for the VAT refund by completing the relevant tax box in the VAT return (no separate filing of an application is required in this respect).

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 being granted the refund, based on a risk analysis performed by the Directorate of the Ministry of Finance. Input tax 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 statute of limitation provisions.

Pre-registration costs. Input tax incurred on pre-registration costs in Greece is not recoverable.

Write-off of bad debts. Generally, 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 may be sought by taxable persons in case the customer has been subject to a special "rehabilitation" or "special liquidation" or "bankruptcy" procedures as provided by Greek Insolvency Code bankruptcy legislation and provided that a court order has been issued beforehand; however, this exception has rarely been applied in practice.

Noneconomic activities. Input tax incurred in relation to noneconomic activities is not recoverable in Greece.

G. Recovery of VAT by non-established businesses

EU 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 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 VAT, 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 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

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.

Non-EU businesses. 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.

H. Invoicing

VAT invoices. 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 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 to qualify as valid evidence to support input tax deductions.

Credit notes. 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.

Electronic invoicing. Greek accounting principles (law 4308/2014) law permits electronic invoicing in line with EU Directive 2010/45/EU (see the chapter on the EU). 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 an appropriate and reliable access mechanism of the electronic format is available during the retention period.

From the tax year 2020, Greek established that taxable businesses will become liable to use electronic maintenance of their accounting books.

At the time of preparing this chapter, no further official guidelines/information on this change has been published by the Greek VAT Administration.

Simplified invoices. Simplified invoices are allowed when either the amount of the invoice does not exceed EUR100 or the issued invoice is a document that modifies and refers specifically and indisputably to an original invoice. The main difference with the regular invoice is that the simplified invoice does not contain the recipient's/customer's data. Simplified invoices must contain at least 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 amount of VAT payable or the information needed to calculate it
- If the simplified invoice intends to amend an initial invoice, a reference to the initial invoice and the specific details that are amended must be made

Self-billing. The seller is allowed subject to prior (written or oral) agreement to ensure the issuance of an invoice from the recipient of the goods or services (self-billing) or by a third party on behalf and on behalf of the seller. The agreement to issue an invoice by the recipient of goods or services or from another third party does not exempt the taxable person from the legal obligation to ensure that an invoice is issued, as well as from any relevant liability.

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 at least in euros.

Supplies to nontaxable persons. Special 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 legislation provides for specific exemptions in this respect, for example, in cases of toll receipts or electricity and telephone bills, etc.

Records.

Record retention period. The records retention period is linked to the statute of limitations period, within which the tax authorities can lawfully impose taxes. Tax Procedures Code (law 4174/2013) sets out a five-year statute of limitation period, commencing from the end of the tax year in which the deadline to submit tax return expires.

Electronic archiving. Electronic archiving is permitted in Greece, as long as there is a system for searching, displaying and printing or reproducing the records, in order to assist a potential audit by the tax authorities. Records created in a printed format can be digitized and stored in the new format even during the current tax year. For each invoice, the data that ensures the authenticity and integrity of the content of the document must be safeguarded.

I. Returns and payment

Periodic returns. Greek periodic VAT returns are submitted electronically:
- Monthly, if the taxable person maintains double entry accounting books
- Quarterly, if the taxable person maintains single entry accounting books (this is also the case of foreign VAT-registered persons)

No VAT return is required if a taxable person has suspended its business activity and has declared such suspension with the appropriate tax office.

Periodic payments. 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 on 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. Payment of VAT must be made electronically (see *Electronic filing* sub-section below).

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, Greek-established companies and foreign VAT registered companies.

Payments on account. Payments on account are not required in Greece.

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 tax.

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.

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 tax shall become due upon collection of the consideration or part thereof.
- Input tax 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.

Annual returns. Annual returns are not required in Greece.

Supplementary 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 2019 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. It is not necessary to file nil Intrastat for a month in which no cross-border transfer take place.

EC Listings. EC Listings for cross-border supplies of both goods and services within the EU 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. 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.

Digital reporting. The Greek State will implement the mandatory e-book keeping obligation that will apply to all Greek established companies from 1 January 2020.

The majority of the Greek tax returns are filed electronically through TAXISnet (that is, the electronic application of the Greek Ministry of Finance).

SAF-T file is not required by the Greek tax authorities. However, specifically in case of the MOSS regime, all the accounting entries recorded under the supplier's accounting books shall be made according to SAF-T's standards or any other pre-agreed format.

J. Penalties

Penalties for late registration. 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.

Penalties for late payment and filings. 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 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 tax, a penalty equal to 50% of the unpaid VAT amount or of the relevant difference (i.e., additional input tax amount deducted or refunded) is imposed.

Finally, in cases of late payment, inaccurate underpayment or nonpayment 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%.

For Intrastat, a penalty amounting to EUR100 may be incurred for inaccurate or late or missing filings.

For EC listings, a penalty amounting to EUR100 may be incurred for inaccurate or late or missing filings.

Penalties for errors. 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 tax amount deducted) is imposed.

Penalties for fraud. Criminal sanctions may be imposed in cases where the crime of tax evasion is committed by persons who intentionally avoid the payment taxes by virtue of inaccurate payment or set-off or VAT. The respective punishment varies from 2 to 20 years depending on the amounts involved in the tax evasion. In particular:

- Imprisonment of at least two years and up to five years is imposed in case the annual non-paid VAT amount is up to EUR50,000
- Imprisonment for at least 5 years and up to 20 years is imposed in case the annual non-paid VAT amount exceeds EUR100,000.

In addition, the law states that any person who knowingly signs an inaccurate tax return as a proxy or any other person who knowingly contributes or provides direct support to the commission of tax evasion, is being punished as a direct accomplice.

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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	Free trade agreement between Central America (Guatemala) and Mexico
	Free trade agreement between El Salvador, Guatemala, Honduras and Colombia
	Free trade agreement between Central America (Guatemala) and Chile
	Free trade agreement between Central America (Guatemala) and Panama
	Free trade agreement between Central America (Guatemala), United States and Dominican Republic (CAFTA-DR)
	Free trade agreement between Guatemala and Taiwan
Administered by	Tax Administration Superintendence (SAT) (http://www.sat.gob.gt)
VAT rates	
Standard	12%
Reduced	5%
Other	Zero-rated (0%) and exempt
VAT number format	Tax identification number (NIT)

VAT return periods	Quarterly, monthly, biannual
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.

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 and small businesses. 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).

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 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.

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 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. 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

Tax representatives. To register for VAT, non-established businesses must appoint a tax representative.

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).

Domestic reverse charge. Taxpayers that acquire goods or services from local taxpayers who do not issue an invoice for such transactions (i.e., if the supplier is not registered for VAT, or by any other reason), are able to issue "special invoices" on behalf of said individuals in order to document the operations and should withhold the applicable VAT rate. The customer then self-accounts for the VAT.

Special invoices should not be issued when the local individuals are duly registered as Guatemalan taxpayers, nor in transactions of habitual nature that are performed between individuals. Notwithstanding, an exception exists over the aforementioned prohibition when the issuer of the "special invoice" determines in such document that the seller of goods or services refused to issue the corresponding invoice.

Additionally, such domestic reverse-charge mechanism should also apply in cases where taxpayers have been designated as VAT withholding agents in the local acquisition of goods and services, except in transactions between withholding agents.

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 electronically supplied services, supplied by a non-established business, for both B2B and B2C, place of supply would not be in Guatemala, and as such no obligation for the customer to account for VAT.

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. For both types of supply, there would be no VAT due on electronically supplied services in Guatemala.

Online marketplaces and platforms. The Guatemalan tax legislation does not provide specific provisions or rules regarding the application of VAT over online marketplaces and platforms. In any case, it should be understood that to the extent goods are located or services are rendered within Guatemala, VAT should apply.

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.

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.

D. 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: 12%

- 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 a reduced rate, the zero rate or 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 zero-rated.

In addition to supplies that are subject to tax, some supplies are exempt, which means input tax 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. The option to tax exempt supplies is not available in Guatemala.

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.

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.

Deposits and prepayments. There are no special time of supply rules for deposits and prepayments. As such, the general time of supply rules apply, and the time of supply is when any payment is made from the purchaser to the supplier.

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.

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 *Section C. Who is liable*) is when the invoice is issued by the local acquirer of goods or beneficiary of the services.

Leasing assets. For leased assets 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.

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.

Partial exemption. Special regulations regarding the treatment of overhead expenses are not provided by the VAT law. However, in cases where a business performs both taxable and exempt activities, input tax may be fully credited against output tax generated by taxable activities. Any remaining credit may be refundable if the legal conditions are met.

Capital goods. In Guatemala, there are no specific provisions regarding the definition of capital goods for indirect tax purposes. However, the VAT law determines that VAT credits generated by the acquisition, import or construction of fixed assets should be recognized and subject to compensation with VAT debits, to the extent that such assets (i.e., capital goods) are duly linked to the process of production or marketing of goods or services of the taxpayer.

In this sense, if capital goods will be used for both taxable and exempt activities, VAT credits should be recognized for both activities, and the taxpayer should submit VAT refund requests before the tax authorities over any excess VAT credits.

Refunds. If the amount of input tax recoverable in a month exceeds the amount of output tax payable, the taxpayer obtains an input tax 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.

Recently, the Guatemalan Congress has approved the amendments to the VAT law through Decree 4-2019. Such rules establish a new "electronic refund regime," which entails the presentation of monthly VAT refunds requests for 100% of the accrued VAT credit. It should be noted that this regime took effect as of 1 November 2019. The business should comply with the following requirements:
(i) carries out export activities
(ii) adhered to the electronic invoice regime (FEL)
(iii) transfers accounting information to the tax authorities regarding the 100% of its activities
(iv) obtains qualification to apply for this regime

Pre-registration costs. Input tax incurred in relation to pre-registration costs is not recoverable in Guatemala.

Write-off of bad debts. In Guatemala there are no specific provisions regarding the relief of VAT on bad debts. In any case, the 100% of the amount of bad debts may be deductible for income tax purposes, provided certain requirements are met.

Noneconomic activities. In accordance to the provisions determined in the VAT law, taxpayers are not allowed to recover VAT generated in the course of nonbusiness activities.

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. 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.

Credit notes. 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.

Electronic invoicing. 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.

Simplified VAT invoices. Simplified VAT invoicing is not allowed in Guatemala. As such, full VAT invoices are required.

Self-billing. Taxpayers that acquire goods or services from local individuals who do not issue an invoice for such transactions, are able to issue "special invoices" on behalf of said individuals to document the operations and should withhold the applicable VAT rate.

Special invoices should not be issued when the local individuals are duly registered as Guatemalan taxpayers, nor in transactions of a habitual nature that are performed between individuals. Notwithstanding, an exception exists over the aforementioned prohibition when the issuer of the

"special invoice" determines in such document that the seller of goods or services refused to issue the corresponding invoice.

Due to the nature of the operations subject to the issuance of "special invoices," it is not required to perform a written agreement between the seller and the buyer.

Proof of 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. The exchange rate to be used is the one that is issued on a daily basis by the Guatemalan Central Bank.

Supplies to nontaxable persons. The VAT law does not contain any provision for special VAT invoices for supplies with private customers.

Records. Taxpayers should keep a record of their transactions in the book of sales, book of purchases and other applicable accounting books. Also, taxpayers must file invoices and other tax documents through physical and electronic means (when applicable) to support their operations in case of audits by the tax authorities.

Record retention period. The Guatemalan Tax Code indicates that the tax authorities have a four-year period to make audits, adjustments and verifications over the operations of all taxpayers, which means they should keep records over such a period of time to be prepared for possible audits by the tax authorities. Furthermore, records should be kept for as long as they are having tax effects even when the four-year period has elapsed.

The Guatemalan Commerce Code also provides that traders/merchants should retain legal correspondence and records for a period of five years.

Electronic archiving. For VAT purposes, the book of purchases and book of sales may be kept and archived physically or electronically through the electronic system of the tax authorities "AsisteLibros." Also, tax documents (i.e., invoices) could be archived physically or by electronic means when applicable.

Under the new Online Electronic Invoice regime (FEL for its Spanish acronym), registered taxpayers will be obliged to use the electronic system for the registration of their accounting books, purchasing and sales books, and other auxiliary records determined by the tax administration for 100% of their operations. However, the authorities are currently working on the mechanisms and regulations to determine the requirements and procedures to keep the electronic accounting, and they will be progressively incorporating taxpayers to such e-accounting scheme.

I. Returns and payment

Periodic returns. VAT returns are generally submitted monthly.

Periodic payments. 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.

Electronic filing. Tax forms should be prepared and filed online (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.

Payments on account. Payments on account are not required in Guatemala.

Special schemes.

Small taxpayers. The Guatemalan legislation provides a special regime for "small taxpayers." In this sense, taxpayers with annual turnover of up to GTQ150,000 (approximately USD19,380) may apply for a simplified "small taxpayer regime," in which they pay tax at a rate of 5% based on their gross taxable sales without a right to credit or deduct input tax. 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.

Agricultural taxpayers. The Guatemalan Congress recently enacted several amendments to the VAT law, through the new Decree 7-2019. The new special regime for agricultural taxpayers and its specific regulations were created. This new regime applies to all taxpayers that develop production and commercialization activities in the agricultural sector, and whose annual income does not exceed GTQ 3 million within a fiscal year. For cattle breeders the tax rate of 5% is on gross sales; and for traders of cattle a 5% on profits, being in turn relieved from the payment of income tax.

Annual returns. Annual returns are not required in Guatemala.

Supplementary filings. In Guatemala, there are no supplementary filings that relate to indirect taxes.

Digital reporting. In Guatemala, the tax authorities recently enacted a new online electronic invoicing regime (FEL for its Spanish acronym) through Directorate Agreement 13-2018. The Agreement establishes the terms under which electronic invoices may be issued and received and provides that the taxpayers subject to VAT are required to issue the electronic tax documents according to the current legislation. It should be noticed that the application of the FEL regime has not been mandatory for all taxpayers; however, the tax authorities maintain the intention to progressively incorporate the remaining taxpayers into such regime.

Also, the new FEL regime establishes the obligation for registered taxpayers to use the electronic system for the registration of their accounting books, purchasing and sales books, and other auxiliary records determined by the tax administration for 100% of their operations. *At the time of preparing this chapter the tax authorities are currently working on the mechanisms and regulations to determine the requirements and procedures to keep the electronic accounting.*

J. Penalties

Penalties for late registration. 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.

Penalties for late payment and filings. 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%.

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.

Penalties for errors. If the tax authorities detect that the taxpayer made an error in the determination of its tax liability, they could summon such taxpayer to remedy the corresponding mistake

by paying the omitted tax plus interest at the maximum rate determined by the Monetary Board. The penalties for late payment should be calculated by applying the amount of tax to be paid, per the 0.0005 factor, per the days of delay. This is the formula used by the tax authorities, the factor of the tax due. Such penalties are for late payments of VAT, and any other errors at the time of reporting.

If the taxpayer accepts the calculation error, a 40% discount will apply over interest payments and an 80% discount will apply over the late payment penalty.

Penalties for 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.

Guinea

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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	28 December 1995
Trading bloc membership	Economic Community of West African States - ECOWAS (Communauté Economique des Etats d'Afrique de l'Ouest – CEDEAO)
Administered by	National Tax Office (Direction Nationale des Impôts)
VAT rates	
Standard	18%
Other	Zero-rated (0%) and exempt
VAT number format	987654321-4V
VAT return periods	Monthly
Thresholds	
Registration	
Mandatory	Annual turnover reaching GNF500 million
Recovery of VAT by non-established businesses	No

B. Scope of the tax

VAT applies to the following transactions:
- Deliveries or sales of goods
- Supplies of services or assimilated operations carried out or used in Guinea, even if the taxpayer is not located in Guinea
- Importations of goods in Guinea

C. Who is liable

Any individual or legal entity that usually or occasionally, realizes taxable operations with an annual turnover equal or superior to GNF500 million (approximatively USD100,000) for the

sales of goods and supplies of services is subject to VAT. A taxable person that reaches this threshold must register itself for VAT purposes.

Voluntary registration and small businesses. When companies' turnover does not reach the mandatory registration threshold, companies may, with the authorization of the Head of the Tax Office, place themselves in the scope of VAT if their annual turnover is between GNF150 million and GNF500 million.

Group registration. Group VAT registration is not allowed in Guinea.

Non-established businesses. A "non-established business" is a business that has no permanent establishment in the territory of Guinea. All the transactions performed in Guinea are subject to VAT, even if the taxpayer is not domiciled in Guinea. In this respect, transactions are deemed performed in Guinea as regard to services when it is carried out (performed) or used in Guinea even if the supplier does not have a permanent establishment in Guinea.

Tax representatives. Nonresident companies must appoint a Guinean tax representative. Failing that (meaning if no tax representative is appointed), it is the Guinean or local client that shall be considered as tax representative and shall be liable for the VAT and corresponding penalties.

Reverse charge. For services provided by non-established businesses, VAT is paid through the reverse-charge mechanism. The reverse-charge mechanism is only used if the supplier has no permanent establishment in Guinea.

The nonresident service provider will establish its invoices VAT excluded and it will be up to the tax representative or local client, to calculate the corresponding VAT amount and declare it on behalf of the service provider.

Domestic reverse charge. There are no domestic reverse charges in Guinea.

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

Online marketplaces and platforms. No special rules exist for online marketplaces and platforms in Guinea.

Registration procedures. The application for the VAT registration should be made by a written request accompanied by a copy of the following documents: company's articles of association, the last three monthly tax returns and corresponding receipts of payment, the tax registration certificate, the registration certificate with the Trade Register and the proof of the company's location or address.

Deregistration. Taxpayers must notify to the tax administration the termination of their activities and proceed with the cancellation of their tax registration number in the register of the tax office after compliance of the legal formalities.

D. 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: 18%
- 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

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.

Examples of exempt supplies of goods and services

- Sales and imports of stamps
- The following operations when they are subject to specific taxes exclusive of any tax on turnover: the interests, bank charges and any other products collected by banks and credit institutions
  - Operations relating to the transmission of real properties and tangible personal properties subject to registration fees, except from the operations of the same nature conducted by the merchants of goods or those of leasing
  - Operations rentals of undeveloped land and bare premises
- Sales, imports, prints and compositions of periodical publications printed whatever their names (newspaper or magazine) mainly composed of text relating to news and information of general interest excluding the advertising incomes
- Services or operations of a social, educational, sporting, cultural, philanthropic or religious character delivered by non-lucrative organizations of which the management is voluntary and selfless. However, the operations conducted by these organizations are taxable when they are in a competitive sector
- Certain foodstuffs:
  - Rice
  - Wheat
  - Flour and additives used in its production
  - Bread
  - Nutritious oils
  - Palm Oil
- Pharmaceuticals products
- Fertilizers and pesticides
- Books and school supplies
- Sales of used goods made by the people who have used them for the needs of their exploitation
- Mooring operations, towing, driving vessels for the goods to as well as the transit, boarding and shipment operations on goods for export

Option to tax for exempt supplies. The option to tax exempt supplies is not available in Guinea.

E. Time of supply

The time when VAT becomes due is called the "time of supply" or "tax point." As a general rule in Guinea, VAT tax point occurs for:

- Goods — at the delivery time for sales and deliveries
- Services and business carried out with the State or local authorities — at the time of payment of the price or installments
- Discount of a negotiable instrument/commercial bill — on the expiry date of the bill

Deposits and prepayments. For advance payments and deposits, the tax point is the date on which the advance payment is received for services.

Continuous supplies of services. No special time of supply rule applies for continuous supplies of services. As such, general time of supply rules apply.

Goods sent on approval for sale or return. No special time of supply rule applies for goods sent on approval for sale or return. As such, general time of supply rules apply.

Reverse-charge services. The time of supply for reverse-charge services is at the time of payment.

Leased assets. No special time of supply rule applies for leased assets. As such, general time of supply rules apply.

Imported goods. The time of supply for imported goods is at the time of release for consumption in Guinea.

F. Recovery of VAT by taxable persons

A taxable person may recover input tax incurred in relation to the acquisition of goods and services necessary for the business. In this respect, VAT amounts paid to suppliers (including under the reverse-charge mechanism) are deductible the month following their occurrence and are offset against output tax. So, a taxable person recovers input tax 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. The right to deduct arises when the tax becomes chargeable to the taxable person.

Nondeductible input tax. The Guinea tax code outlines the detail for what input tax is nondeductible in Guinea. Any of the VAT related to the expenses listed below cannot be recovered for VAT purposes.

Examples of items for which input tax is nondeductible

- Expenditure on housing, accommodation, catering, reception, entertainment, car rentals, passengers transport (except for the expenses incurred in respect of their taxable activity by the professionals in hotels, catering and entertainment)
- Imports of goods and merchandise shipped back to the state
- Goods transferred without compensation or which fees are lower than the normal price
- Services relating to goods excluded from the deduction right
- Petroleum products except for:
  - Those used by fixed appliances such as fuels or processing agents in industrial enterprises
  - VAT paid at the customs border charged on petroleum products imported by authorized distributors for resale
- Telephone and internet expenses, with the exception of businesses and companies whose purpose is directly related to telephone and internet services
- The tax charged on vehicles or machine whatever their nature, designed or adapted for the carriage of persons or for mixed uses, as well as the spare parts and accessories of such vehicles and equipment with the exception of:
  - Road vehicles, including also the driver’s seat, more than eight seats used by companies exclusively for the carriage of their staff
  - Fixed assets of companies performing vehicle rental or public transport of persons

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

- Cars intended for business use only (i.e., company cars)
- Office supplies or equipment
- Petroleum products used by fixed appliances such as fuels or processing agents in industrial enterprises
- Fixed assets of companies performing vehicle rental or public transport of persons

Partial exemption. Input tax directly related to supplies of goods or services not subject to VAT is not generally recoverable. If a Guinean taxable person makes both exempt and taxable supplies, it may not recover input tax in full. This situation is referred to as “partial exemption.” This fraction is determined via a pro rata method according to which VAT is only deductible in the same ratio as the total transactions subject to VAT (whether they are actually taxed or exported) vs. the total turnover realized by the company (composed by taxable and exempt operations).

The deduction percentage is as follows:
- 100% if the ratio is greater than 0.90
- 80% if the ratio is greater than 0.70 or equal to 0.90
- 60% if the ratio is greater than 0.50 or equal to 0.70
- 40% if the ratio is greater than 0.30 or equal to 0.50
- 0% if the ratio is less than 0.30

Capital goods. Capital goods for VAT purposes are defined under Guinean tax code as follows:
- The goods must be necessary for the exploitation and used exclusively for its needs
- The goods acquired must be allocated to operations subject to VAT (effectively taxed or exempted)

Failing this (if the goods are also used for operations that are outside the scope of VAT), the tax will not be recoverable or deductible. There is no specific time limit provided by the law for input tax recovery.

To monitor input tax recovery claims on capital goods, taxpayers are required to submit at the same time as the single monthly tax return, a VAT deduction summary table, which includes the following items:
- The date and reference of the capital goods and services invoices
- The identification of the suppliers
- The nature of the goods or services provided
- The following amounts: VAT excluded, VAT and VAT included
- And the payment date of the invoices

Refunds. When, for a given tax period, the input tax exceeds the output tax, it results in a VAT credit repayable by the tax authorities. However, currently in Guinea, VAT reimbursement is granted only to mining and exporting companies.

Pre-registration costs. Input tax incurred on pre-registration costs in Guinea, is not recoverable.

Write-off bad debts. There is no specific provision of the Guinean tax code that relates to write-off of bad debts. However, in practice, in the case of deliveries of goods (which the tax point is the time of delivery), some companies regularize the VAT amount declared and keep all the supporting documents justifying that the debt has not been recovered and the corresponding VAT amount has been already paid.

Noneconomic activities. In principle, VAT may only be recovered if incurred in the course of a taxable economic activity. If costs are incurred to acquire or maintain assets that are to be used for the purposes of a taxable economic activity, the costs are potentially deductible. If assets are not used for such a purpose (i.e., for business needs), the VAT will not be deductible.

G. Recovery of VAT by non-established businesses

Input tax incurred by non-established businesses in Guinea is not recoverable.

H. Invoicing

VAT invoices. It is a legal requirement for a taxable person to issue a VAT invoice for each sale or supply that he makes to a customer. The VAT invoice should be issued in duplicate. The original must be given to the recipient and a copy of the invoice retained by the supplier. In addition, the invoice must clearly state which items are taxed, the tax rate and the amount of tax being charged.

Credit notes. Credit note is sent by the supplier in order:
- To notify the customer that he has been credited a certain amount due to an error in the original invoice
- To decrease the agreed amount of the supply previously agreed

The information given on the credit note is the basis for establishing the adjusted VAT amount on the invoice. It also enables to adjust the figures for VAT which has been billed.

Electronic invoicing. There is no formal prohibition of electronic invoicing in Guinea. However, the Guinean tax law does not make any specific reference to the implementation rules of electronic invoicing. As such, generally only paper invoices are allowed in Guinea. However, in the event of a tax audit, Guinean tax authorities may exceptionally use electronic invoices (i.e., scanned copies in this instance) when the company carries out a very large number of transactions.

Simplified VAT invoices. Simplified VAT invoicing is not allowed in Guinea. As such, full VAT invoices are required.

Self-billing. Self-billing is not allowed in Guinea.

Proof of exports. VAT is not chargeable on exports of goods or services. To qualify as VAT-free, exports must be supported by evidence that the goods have left Guinea. However, the Guinean tax code does not describe the required document information.

Foreign currency supplies. With regard to the provision of services and the supply of goods on Guinean territory, a currency conversion requirement is in place in accordance with the local exchange regulations under which payments must be only made in Guinean Francs at the daily rate of the Guinean Central Bank.

When invoices are linked to transactions with foreign countries, payments in foreign currency are allowed subject to bringing proof of such transactions.

Supplies to nontaxable persons. No special rules for invoices for supplies to nontaxable persons. Full VAT invoices are required to be issued.

Records. There are no specific record keeping requirements for VAT in Guinea.

Record retention period. The accounting documents, as well as the supporting documents (notably, purchase invoices and customs documents), of the operations carried out by the taxpayer must be kept for a period of 10 years after the year in which the transactions were recorded in the books.

Electronic archiving. The law does not refer to specific record keeping requirements for VAT for Guinea. However, in practice, records can be kept and archived electronically or on paper.

I. Returns and payment

Periodic returns. VAT is reported on a monthly basis (by the 15th of the month following the transaction) via the single unified tax return (called Déclaration Unique des Impôts et Taxes).

Periodic payments. VAT amount due should be paid in local currency (Guinean Franc) via bank transfer and the payment proof lodged together with the monthly tax return, i.e., by the 15th of the month following the transaction.

Electronic filing. Electronic filing is not allowed in Guinea. The VAT return must be submitted in paper through the form "Single unified tax return." The taxpayer must complete the requested information related to the following sections: output tax, input tax, VAT credit of the previous month, third-party VAT (output and input) and the net VAT amount payable. Also, the recapitultive statement of the input tax must be joined to the tax return.

Payments on account. Payments on account are not required in Guinea.

Special schemes. No special schemes are available in Guinea.

Annual returns. Annual returns are not required in Guinea.

Supplementary filings. No supplementary filings are required in Guinea.

Digital reporting. No digital reporting requirements apply in Guinea.

J. Penalties

Penalties for late registration. The taxpayer must start accounting for VAT the first day of the month following the issuance date of tax registration number. Also, the VAT declaration must be filled within the 15 days of the following month. However, there are no penalties for late filling registration provided by the tax legislation in force.

Penalties for late payment and filings. VAT returns not submitted in time nor VAT payments made on time trigger penalties for late filings and late payment. The rate of such penalties is set at 2% per month. The penalty applies on the amount charged to the taxpayer or the amount which has been deferred.

Penalties for errors. The omissions or inaccuracies found in the VAT monthly tax return give rise to the application of a penalty of GNF50,000 for each return and an increase of 10% of the tax amount charged to the taxpayer or resulting from the declaration, with a minimum of GNF100,000. The increase will be 50% when the return has not been filled within 10 days following the reception of a formal notice.

Penalties for fraud. In the event of a repeated offense, a sentence of imprisonment of six months to one year may be applied. In addition, the courts may decide to prohibit offenders from practicing their trade or profession within the Guinean territory for at least one year and no more than five years. Failure to comply with this prohibition will result in a fine of GNF1 million to GNF5 million and imprisonment of one to two years.

Honduras

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A. At a glance

Name of the tax	Sales tax (ST)
Local name	Sales tax (ST)
Date introduced	1 January 1964
Trading bloc membership	None that relate to ST
Administered by	Finance Secretary (http://www.sar.gob.hn/)
ST rates	
Standard	15%
Other	18% and exempt
ST number format	National Tax Registry number (RTN)
ST return periods	Monthly ST return if taxable turnover exceeds HNL250,000 (approximately USD10,081); 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 ST filing	Annual taxable turnover below HNL250,000 (approximately USD10,081)

Recovery of ST by non-established businesses	No

B. Scope of the tax

ST 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 ST 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 ST. All businesses must register as taxpayers; no separate registry for ST taxpayers exists. The national tax registry number (RTN) is used for ST purposes.

Exemption from registration. Taxpayers under a special tax regime (e.g., Free Trade Zone Regime) could be exempt from ST registration.

Voluntary registration and small businesses. The ST law in Honduras does not contain any provision for voluntary ST registration.

Taxpayers whose annual turnover is less than HNL250,000 (approximately USD10,293) are not required to pay ST or file ST returns.

Group registration. ST grouping is not allowed under the Honduran ST law. Legal entities that are closely connected must register for ST as separate entities.

Non-established businesses. 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.

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 ST in Honduras.

Reverse charge. There is no reverse charge applicable for importation of services in Honduras. A non-established entity is required to register as a taxpayer if it engages in business activities within Honduras.

Domestic reverse charge. A domestic reverse charge is applicable for certain transportation services. Additionally, in the case of large taxpayers, they should act as withholding agents for ST purposes when the following payments are made: freight transport, cleaning and fumigation services, printing services, research services, security services; and the rental of offices, machinery and equipment.

Digital economy. There are no specific rules regarding the taxation of the digital economy for ST purposes. However, generally taxable events are treated the same whether or not they are trans-

acted by digital means. The normal ST registration rules apply for such supplies by non-established businesses.

Online marketplaces and platforms. No special rules exist for online marketplaces and platforms in Honduras.

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.

Deregistration. The taxpayer must notify the tax authorities about ceasing operations, and it must file its tax return within 30 days after that notification.

D. Rates

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

The ST rates are:
- Standard rate: 15%
- Reduced rate: 18%

The standard rate of ST applies to all supplies of goods or services unless a specific measure provides for a reduced rate, or an exemption.

A higher rate of 18% is imposed on supplies of alcoholic beverages and cigarettes and certain television and internet services.

Examples of goods and services taxable at 18%
- Alcoholic beverages
- Cigarettes
- Certain television services
- Certain internet services

The term "exempt supplies" refers to supplies of goods and services that are not subject to ST and that do not qualify for 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 agroindustrial 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. The option to tax exempt supplies is not available in Honduras.

E. Time of supply

The time when ST 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.

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, and the taxable event is the earlier of the issuance of the invoice and the performance of the services or delivery of goods.

Continuous supplies of services. There are no special time of supply rules in Honduras for continuous supplies. As such, the general time of supply rules apply, and the taxable event is the issuance of the invoice.

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, ST should not be due.

Reverse-charge services. The reverse charge is not applicable in Honduras, and as such there are no special time of supply rules.

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.

Imported goods. 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.

F. Recovery of ST by taxable persons

A taxpayer may recover input tax, which is ST 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 ST 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 ST charged on goods and services supplied in Honduras, ST paid on imports of goods and reverse-charge ST 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

- ST paid on items or services for personal consumption
- ST paid on gifts or presents

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

- ST paid on purchases of goods or fixed assets in order to produce sales subject to ST

- ST paid for services needed to produce goods or other services subject to ST and repair services

Partial exemption. Proportionality rules are applicable according to the Honduran legislation. In this sense, when individuals and entities sell both goods or services exempt and subject to ST, the ST paid in the acquisition of goods and services directly associated with the subject activity should give rise to the right of input tax. In the cases that the acquisition of goods and services cannot be directly linked only to a subject activity from the taxpayer, it should give right to input tax in the corresponding percentage of the subject activity.

Capital goods. The input tax incurred on the acquisition of a capital good should give rise to the right of input tax, as long as it is associated to an activity subject to ST for the taxpayer. If the capital good is used for both subject and exempt activities, the taxpayer should have the right of input tax in the percentage correspondent to subject activities. The Honduran legislation does not establish a definition of capital goods. If the ST paid on the acquisition of the capital good is used as input tax, such amount should not be included as part of the cost of the asset for depreciation.

Refunds. If the amount of input tax recoverable in a month exceeds the amount of output tax payable, the taxpayer obtains an input tax credit. The credit may be carried forward to offset output tax in subsequent ST periods, when claimed to be refunded.

Pre-registration costs. Taxpayers are not permitted to recover input ST paid on purchases made prior to ST registration.

Write-off of bad debts. The Honduran legislation does not establish a mechanism for claiming relief for the ST on bad debts. In this sense, upon the taxable event, ST should be declared and paid within 10 days of the following month in which the sale occurred, regardless if the customer paid or not.

Noneconomic activities. ST can be recovered if it is related to a taxable activity for the taxpayer. The input tax may be offset in the following three months. If the acquisition of goods and services is subject to ST but is not directly related to a subject activity for the taxpayer, it should be considered as a deductible expense. This is on the basis that the expense complies with the local requirements for deductibility set in Honduras.

A taxpayer may recover input tax, which is ST charged on goods and services supplied that are used to generate taxable income. Therefore, if input tax is incurred upon purchases that are used for noneconomic activities, it is not recoverable in Honduras.

G. Recovery of ST by non-established businesses

Honduras does not refund ST incurred by foreign or non-established businesses unless they are registered for ST in Honduras.

Diplomatic consular delegations, and international organizations and agencies are entitled to reimbursement for ST paid in Honduras. Depending on the claimant's status, the claimant may request a refund of the ST or exercise the right to offset the ST credit by making subsequent purchases subject to ST. If the credit has not been offset after six months, the amount may be applied against other taxes.

H. Invoicing

ST invoices. A taxpayer must generally provide an ST 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 ST 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.

Credit notes. An ST credit note may be used to reduce ST 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.

Electronic invoicing. Electronic invoicing is legally permitted for all ST taxpayers. However, tax authorities have not implemented electronic invoicing in practice and therefore it's not currently possible.

Simplified ST invoices. Simplified ST invoicing is not allowed in Honduras. As such, full ST invoices are required.

Self-billing. Self-billing is allowed only in operations with unskilled labor and it is required that the deductible expense does not exceed 5% of the total of deductible expenses of the gross taxable income, excluding financial expenses. Note that this invoice is not accepted as documentation to support input tax.

Proof of exports. ST does not apply on supplies of exported goods. However, to qualify as ST-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. ST invoices must be issued in Honduran lempira (HNL).

Supplies to nontaxable persons. There are no special rules for ST invoices issued for supplies made by taxable persons to private consumers. Full ST invoices are required to be issued.

Records. Taxpayers should keep the accounting books, invoices, daily purchases and selling records among others.

Record retention period. The records and accounting information should be kept for five years by the taxpayer which correspond to the statute of limitations in Honduras.

Electronic archiving. Electronic archiving is not allowed in Honduras. As such, physical archiving is mandatory.

I. Returns and payment

Periodic returns. ST returns are submitted monthly 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 ST 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 ST returns or pay ST.

Periodic payments. Payment in full is due on the same date as the return submission deadline, i.e., by the 10th day of the month following the end of the return period. Payment must be paid in Honduran lempira.

Large taxpayers as defined in the Official Gazette are required to withhold 15% ST 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 ST must be paid in full along with a separate monthly withholding return that, like the regular ST return, must be submitted by the 10th day of the month following the end of the return period.

Electronic filing. Electronic filing is regulated in the Honduran legislation, but in practice it is not applied by the tax authorities. However, in the case of ST returns filed by medium and large taxpayers, they are obliged to file such returns electronically. Medium and large taxpayers are those taxpayers that exceed a certain level of sales and gross income listed by the tax authorities.

Payments on account. Payments on account are not required in Honduras.

Special schemes. No special schemes are available in Honduras. However, note that taxpayers who sell used goods should only pay taxes upon importation and not ST.

Annual returns. Annual returns are not required in Honduras.

Supplementary filings. Monthly filings. 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.

Taxpayers subject to this new reporting obligation are those categorized as medium and large taxpayers, including those:
- Operating under special tax regimes
- Carrying out ST 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.

Digital reporting. No digital reporting requirements apply in Honduras.

J. Penalties

Penalties for late registration. A taxpayer that fails to register for ST 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.

Penalties for late payment and filings. The penalty assessed for the late submission of a ST 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 an ST 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.

Penalties for errors. 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.

Penalties for 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 USD4,032)
- Three to nine years of imprisonment if the amount does not exceed HNL500,000 (approximately USD20,161)
- Six to 12 years of imprisonment if the amount exceeds HNL500,000 (approximately USD20,161)

In addition, a fine equal to 50% of the underpaid ST applies. If the underpaid ST cannot be calculated, the applicable fine is calculated based on the assessment issued by the tax authorities.

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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% and 18%
Other	Zero-rated (0%) and 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	
Established	None
Non-established	None
Distance selling	EUR35,000 per year
Intra-Community acquisitions	EUR10,000 per year (for taxpayers with special taxable status)

Electronically supplied services (MOSS)	EUR 10,000 per 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 provided in Hungary by taxable persons
- The intra-Community acquisition of goods in Hungary for goods coming 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 for consideration 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 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 and small businesses. 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.

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 tax on its expenses and purchases. In addition, such businesses are generally not required to file any VAT returns.

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.

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. There is no limitation on the duration of a VAT group (and therefore no minimum duration); it exists until withdrawal, provided that the relevant conditions are continuously met by the members.

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.

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

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

Reverse charge. The reverse charge applies generally to supplies made by non-established businesses to businesses in Hungary (i.e., a business-to-business (B2B) supply). This also includes to installation supplies made in Hungary by non-established businesses. To fall under the reverse charge, the supplies must be made to taxable persons in Hungary 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.

Domestic reverse charge. The concept of a reverse charge also applies to the following transactions in Hungary, i.e., between businesses that are established in Hungary and registered for VAT in Hungary:
- 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

Digital economy. 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.

Online marketplaces and platforms. No special rules exist for online marketplaces and platforms in Hungary.

Vouchers. According to the Hungarian VAT Act, there are two types of vouchers (as of 1 January 2019).

There are “single-purpose vouchers” (SPV), issued when the place of supply of the goods and/or services to which these vouchers relate, and the VAT due on those goods and/or services, are known at the time of issuance of the voucher.

Beside the SPV the Hungarian Act on VAT determines "multi-purpose vouchers" (MPV), which are vouchers, other than a SPV.

For SPV, the tax point is the issuance date of the voucher — as it is already known by the issuance date, for which goods/services the vouchers can be applied, and as such the consideration paid at each transfer is VAT inclusive. Although for the MPV, the tax point is the date of redemption of the voucher, so the date, when the voucher is accepted by the supplier as consideration for the supplied goods/services.

The transfer of the different types of vouchers is also treated differently from a VAT point of view. Whereas each transfer made for consideration of an SPV made by a taxable person acting in their own name shall be regarded as a supply of the goods or services to which the voucher relates, the transfer of a MPV for consideration shall not be regarded as a supply of the goods and/or services.

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 following documents are required for the VAT registration application process:
- Copy of the passport of the person(s) authorized to sign documents on behalf of the taxpayer
- Up-to-date excerpt from the Court of Registry in the taxpayer's country of incorporation
- Original and stamped VAT registration certificate issued by the foreign tax authority justifying that the Company is registered for VAT purposes
- Original notarized specimen(s) of signature of the company's authorized representative(s)

Beside these required documents, the tax authority may also request additional proofs, depending on the quality of the documents and the legislation of the country where the taxpayer has its registered seat.

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.

D. 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: 27%
- Reduced rates: 5% and 18%
- 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.

Some supplies are classified as “exempt with credit,” (i.e.,. zero-rated) 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 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)
- Internet services
- Catered meals
- Nonalcoholic beverages made on the spot
- Hotel services

Examples of goods and services taxable at 18%

- Basic foodstuffs
- Entrance to certain open-air public music festivals

The term “exempt supplies” refers to supplies of goods and services that are not subject to VAT and that do not give rise to the right to deduct input tax.

Examples of exempt 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 services. Parties may agree that a supply of goods and services may be invoiced periodically or paid in installments.

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 12 months.

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.

Reverse-charge services. 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.

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).

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.

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.

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.

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 purpose. 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 tax is deductible from output tax charged in the same VAT period. If the amount of input tax exceeds the amount of output tax 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.

There is no requirement to report the pro rate to the tax authority. There is a "standard" method of calculation for the pro rate, but taxpayers can deviate from that if the deductible input tax can be determined more precisely by using another calculation method (this is strongly recommended to be discussed and approved by the tax authority up front). It is also possible to ask for a binding ruling on the calculation method.

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 tax, 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 tax 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 late payment interest, calculated from the due date of the repayment.

The late payment interest from 2019 equals the prime rate of the Hungarian National Bank plus five percentage points which should be prorated on a daily basis. The late payment interest applicable for the periods before 2019 equals the double of the prime rate prorated on a daily basis.

Pre-registration costs. Input tax on pre-registration 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. As a result of a legislative change, recovery of output tax related to bad debts becomes possible under certain conditions from 2020. This applies to B2B invoices which date of supply falls after 31 December 2015.

Noneconomic activities. A taxable person that carries out both taxable and noneconomic activities cannot deduct input tax 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.

EU businesses. 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.

Hungarian law provides that repayments must generally be made within four months of the date on which the claim is approved, in line with the provisions of the EU Directive 2008/9/EC. The refund cannot be made any longer than eight months.. If the VAT authorities do not repay the claim within this time limit, the claimant is entitled to interest. The late payment interest from 2019 equals the prime rate of the Hungarian National Bank plus five percentage points which should be prorated on a daily basis. The late payment interest applicable for the periods before 2019 equals the double of the prime rate prorated on a daily basis.

Non-EU businesses. Hungary applies the reciprocity principle to refunds. Under this principle, refunds are granted to businesses established in countries that refund VAT to Hungarian businesses. For non-EU businesses, refunds are currently allowed to businesses established in Liechtenstein, Switzerland, Norway, Serbia and (with certain restrictions) Turkey.

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

H. Invoicing

VAT invoices. 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.

Credit notes. 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. Hungarian VAT law permits electronic invoicing in line with EU Directive 2010/45/EU (see the chapter on the EU). However, local rules and practice of the Hungarian tax authority are very strict and formalistic.

Simplified VAT invoices. Simplified VAT invoicing is allowed in Hungary in the following cases:
a) When the customer is a taxable person or a nontaxable legal person, who makes advance payment (except for EU supplies of goods)
b) When the customer is a nontaxable person (other than in the above point), who makes advance payment and the payment exceeds HUF900,000, or not exceeds this threshold but the customer asks to issue an invoice (except for EU supplies of goods)

c) When the transaction is performed in an EU or third country supply of goods or services
d) When the total gross amount of the invoice does not exceed the equivalent of EUR100, provided that the underlying transaction is other than EU supply of goods or out-of-scope transaction

Self-billing. Self-billing is allowed in Hungary, either for one particular transaction or for issuing invoices on a general basis. In the case of self-billing:
- The parties (i.e., the supplier and the customer or a third-party agent who intends to issue the invoices) should conclude a written agreement in advance on the self-billing process that details the terms and conditions of the invoice issuance.
- If the customer issues the invoice; the word "önszámlázás" ("self-billing") has to be indicated in the invoice.
- The parties' liability is joint and several with respect to the compliance with the provisions relating to the invoice issuance.

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 (especially a CMR signed by the recipient) 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 to the extent the place of supply is Hungary. (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.

Supplies to nontaxable persons. Rules apply to the place of supply for supplies of telecommunications, broadcasting and electronically supplied services to non-VAT taxable customers.

Records.

Record retention period. Records (including invoices and the related supporting documentation based on which the VAT can be assessed) should be kept until the end of the statutory limitation period, which — from a tax perspective — is five years from the last day of the calendar year in which the VAT return related to the given invoice was due. The statutory limitation can rest or can be interrupted under certain conditions. For accounting purposes, the statutory limitation is eight years.

In the case of paper-based documents, the record keeping obligation applies to the copies of invoices in the case of the issuer, and to the original document in the case of the recipient, or in the absence of the original, to the authentic copies of the invoices.

Electronic archiving. Paper-based invoices may also be stored in electronic format. Electronically issued documents must be stored in electronic format. Decree nr. 1/2018 issued by the Ministry of Innovation and Technology determines the specific archiving rules that the taxpayer should

fulfill in this regard (image quality, metadata to be indicated in the copy to guarantee the authenticity of origin and the integrity of the content, etc.).

I. Returns and payment

Periodic returns. 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. If the taxable person meets the requirements to file VAT returns on an annual basis, the due date is by 15 February in the year following the tax year in question. Please note that annual returns are not to be filed in addition to the monthly/quarterly VAT returns. It is just an additional filing frequency option, based on certain criteria (see above).

Periodic payments. Payment of VAT due, is required in full on the same date as the VAT return submission deadline, i.e., by the 20th day of the month following the tax period. VAT liabilities must be paid in Hungarian forints.

Electronic filing. 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.

Payments on account. Payments on account are not required in Hungary.

Special schemes. There are special schemes for certain types of taxpayers in Hungary. Particular provisions are applicable to the following taxpayers/areas, in line with the provisions of Council Directive 2006/112/EC:
- Small enterprises (annual threshold is a turnover of less than HUF12 million)
- Flat-rate scheme for farmers, travel agents, secondhand goods, works of art, collector's items and antiques, taxable dealers
- Investment gold, sales by public auction
- Cash accounting (detail below)

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 tax when they receive the consideration, including the VAT for their supply
- Will be entitled to deduct input tax 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 tax 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.

Annual returns. Annual returns are not required in Hungary.

Supplementary filings.

Intrastat. A taxable person that trades with other EU countries must complete statistical reports, known as Intrastat.

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.

EU Sales Lists and EU Acquisitions Lists. A taxable person must also file EU Sales Lists and EU Acquisition Lists (i.e., recapitulative statements) for both goods and services.

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 tax 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 tax, provided the VAT amount of that invoice exceeds HUF100,000.

Electronic control system on the movement of goods on the road (EKAER). 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.

Digital reporting.

Live invoice data reporting. 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.

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.

As of 1 July 2018, taxpayers have to provide the tax authority with prescribed invoice data electronically and in real time, directly from their own invoicing system, provided that the invoice is issued on domestic B2B supplies and the VAT charged on the invoice is HUF100,000 (approx. EUR300) or above. This obligation is 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.) The abovementioned threshold will be decreased to zero as of 1 July 2020. After that, all Hungarian B2B supplies will have to be reported irrespective of whether the transaction triggers VAT or not.

J. Penalties

Penalties for late registration. 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.

Penalties for late payment and filings. 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.

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.

Penalties for errors.

Late payment interest. In the event of late payment of VAT or unlawful VAT deduction, late payment interest should be paid for the period between the due date of the respective return and the minutes issued by the tax authority closing the corresponding tax audit, but for a maximum of three years.

The late payment interest shall be calculated at a rate of 1/365 of the central bank daily base rate plus five percentage points for each calendar day of the above period.

Self-revision surcharge. If the taxpayer retroactively corrects its VAT liability by filing self-revision to the tax authority, it is subject to a self-revision surcharge, provided that the correction results in additional VAT liability. The self-revision surcharge should be paid at the time of filing and it should be calculated at a rate of 1/365 of the central bank daily base rate for the period between the original due date and the filing of the self-revised VAT return (except for certain special cases).

In the case of a repeated self-revision, the payable surcharge is 1.5 times the amount calculated according to the above detailed way.

Tax penalty. In the case of tax shortage, tax penalty should be paid which is 50% of the tax shortage.

Default penalty. Default (administrative) penalty up to HUF500,000 may be imposed in the case of taxable legal persons in the following situations (it is HUF200,000 in the case of taxable individuals):
- Improper document retention
- Late filing of (or missing to file) tax returns or reports
- Incorrect tax returns
- Missing registration or data providing obligations

Default penalty up to HUF1 million may be imposed in the following situations:
- The taxpayer fails to comply with its obligation to issue an invoice, simplified invoice or receipt, or the invoice, simplified invoice or receipt includes false value
- The taxpayer conducts business activity without having a valid VAT identification number

Default penalty up to HUF500,000 per invoice may be imposed in the case of missing or incorrect live invoice data report related to domestic B2B invoices where the VAT amount of the invoices is HUF100,000 or above.

Default penalty up to 40% of the net value of the goods may be imposed in the case of distribution uncertified origin of goods and for noncompliance with the EKAER reporting obligation.

Qualification of taxpayers. The tax authority qualifies taxpayers on a quarterly basis. There are three categories; reliable taxpayers, general taxpayers and risky taxpayers.

In case of reliable taxpayers, the upper limit of tax penalty and default penalty is 50% of the maximum tax penalty under the general rules (with a few exceptions).

Penalties for fraud. The tax penalty is 200% of the tax shortage if it relates to the concealment of revenues, production and the use of falsified documents, ledgers or records, or the falsification or destruction of documents, ledgers or records.

Iceland

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ey.com/TaxGuidesApp

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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%
Other	Zero-rated (0%) and exempt
VAT number format	12345
VAT return periods for persons subject to registration	Bimonthly Annual (turnover less than ISK4 million) (EUR29,300) Biannual (agriculture) Monthly (output tax habitually lower than input tax) Weekly (fish processing)
Thresholds	
Registration	ISK2 million (EUR14,650)
Established	ISK2 million (EUR14,650)
Non-established	ISK2 million (EUR14,650)
Distance selling	ISK2 million (EUR14,650)
Intra-Community acquisitions	ISK2 million (EUR14,650)
Electronically supplied services (MOSS)	ISK2 million (EUR14,650)
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 (EUR14,650) during a 12-month period. Persons can apply for an annual VAT return if the turnover is less than ISK4 million (EUR29,300) during a 12-month period.

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

Voluntary registration and small businesses. Icelandic VAT legislation provides an option for voluntary registration for VAT purposes.

Entities that are not required to register for VAT because their turnover does not exceed the threshold may choose to voluntarily register.

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. VAT grouping in Iceland is therefore optional and not mandatory. 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.

Tax representatives. If a non-established business is required to register for VAT in Iceland, it must appoint a resident tax representative (for VAT purposes only), unless it maintains a place of business or a registered office in Iceland.

Reverse charge. 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 tax. However, a VAT-taxable person shall always pay VAT if the services purchased from abroad are in relation to the import of goods. If an Icelandic entity imports goods than they are responsible for VAT at the time of import. If a nonresident entity imports the goods it must pay the VAT due at the time of import but can claim input tax upon registration for VAT.

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.

Domestic reverse charge. There are no domestic reverse charges in Iceland.

Digital economy. For business-to-business (B2B) 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-consumer (B2C) 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%.

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.

Online marketplaces and platforms. Online marketplaces and platforms fall under the scope of electronically supply services.

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., nonelectronic copies) to final consumers (B2C) can choose between a general registration (by submitting form RSK 5.02, see details below 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.

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.

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., nonelectronic 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 (EUR14,650) or more during a 12-month period.

A foreign company that chooses simplified registration cannot claim input tax.

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. There is no requirement to notify the tax authorities for change of address. The only time notification is required is for change of activities which influence the right of input tax deduction, e.g., where a taxable person takes over a VAT obligation when purchasing a property, which has been used for taxable activities but is no longer used for such activities.

D. 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: 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.

Examples of exempt supplies of goods and services

- 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.

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.

Continuous supplies of services. There are no special time of supply rules in Iceland for continuous supplies. As such, the general time of supply rules apply.

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 which may require corrective invoices to be issued once the final position is determined.

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.

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.

Imported goods. The time of supply is upon customs clearance.

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 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 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 tax before a VAT invoice is received. Input tax that is not properly documented may not be deducted. The input tax deduction must be reported in the VAT period in which the invoice is dated. As such, corrective VAT returns would need to be submitted and hence it is not allowed to report the deductible VAT in the upcoming period.

Nondeductible input tax. Input tax 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 tax may not be recovered for some items of business expenditure.

Examples of items for which input tax 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

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

- Hotel accommodation
- Computers
- Mobile phones
- Passenger cars
- Vans, lorries and buses that are solely used for the sale of taxable goods or services prior to a special registration of the vehicle

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. No other objective pro rates are allowed to be used in Iceland.

Capital goods. There are no special input tax recovery rules for capital goods. Input tax incurred on capital goods can be recovered, in line with the normal input tax recovery rules. It is worth noting that in Iceland, most capital goods, such as buildings and land are not subject to VAT. However, computer software and hardware are subject to VAT in Iceland.

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.

Pre-registration costs. VAT on costs incurred prior to VAT registration cannot be taken into account as input tax.

Write-off of bad debts. When calculating taxable turnover, the seller may deduct 80.65% of lost outstanding trade debt, provided that the lost amount has previously been counted as taxable turnover, or 90.09% in the case of sales according subject to 11% VAT. If the amount is later paid, 80.65% of it shall be included with taxable turnover during the period in which it is paid, or 90.09% in the case of sales subject to 11% VAT. There are no special formalities to be fulfilled to claim bad-debt relief, just the general one, i.e., supporting documents must be retained, made available to the tax authorities upon request and kept for seven years.

Noneconomic activities. Input tax incurred in relation to noneconomic activities is not recoverable in Iceland.

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 tax 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.

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

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. 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 VAT is included in its sum total or not. Furthermore, the amount of the VAT shall be stated separately, or that the VAT 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 VAT, appear separately for each tax rate.

The seller shall safeguard a copy of invoices and receipts.

Credit notes. 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.

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.

Simplified VAT invoices. Simplified VAT invoicing is not allowed in Iceland. As such, full VAT invoices are required.

Self-billing. Self-billing is not allowed in Iceland.

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 VAT 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.

Supplies to nontaxable persons. 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.

Records. Taxable persons shall manage their accounts and their settlement in such a manner that tax authorities can always verify VAT returns.

Record retention period. 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.

Electronic archiving. Special rules apply regarding electronic invoicing and electronic bookkeeping, etc. Invoices issued electronically shall be stored in an electronic database system and invoices shall be retrievable according to regulation no 50/2013 on electronic bookkeeping.

I. Returns and payment

Periodic 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 tax is habitually lower than their input tax may obtain permission to file monthly VAT returns.

The VAT statement is filed online at www.skattur.is. Login information is the Icelandic ID number (kennitala) and a password, issued by RSK. Required information are total value of goods and services sold (excluding VAT) in each tax rate and sales subject to the zero rate. Information on total output and input tax are also required. The currency is the Icelandic krona (ISK) both on the VAT return and the payment must be in ISK.

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 within one month and five days after the end of the VAT period.

Companies may apply for a different filing period, i.e., monthly, if input tax is generally higher than output tax because a major portion of the turnover is exempt. The same applies to companies selling goods and services at the reduced rate as the majority of their inputs into such production or as intermediate inputs are subject to the VAT at the standard rate. Application for a shorter settlement period must be filed at least one month before the beginning of the next period. Due date is one month and five days after the period has ended.

Parties subject to registration that are engaged in agriculture shall be entered into a special registry, the agricultural registry. Parties engaged in agriculture shall return to the tax collector of the Treasury a VAT return twice a year. The return for the first half of the year shall be returned along with the VAT no later than 1 September each year and for the second half of the year no later than 1 March each year. Activities that fall under category 1 in the economic classification of Statistics Iceland, other than farming services, are considered as agriculture.

Periodic payments. VAT due must be paid by the VAT return deadline, which varies depending on the filing frequency of the tax payer (see above). Return liabilities must be paid in Icelandic krona.

Electronic filing. 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.

Payments on account. Payments on account are not required in Iceland.

Special schemes. No special schemes are available in Iceland.

Annual returns. Taxable persons shall file annual VAT return RSK 10.25 along with the tax return if they have not filed tax return RSK 1.04.

Form RSK 10.25 is an annual comparison report that compares the VAT from the bookkeeping to the annual financial reports. Small companies with revenues from ISK1 million to 20 million

may submit a simpler operational report than form RSK 1.04. even though they are registered for VAT. In that case those companies need to file the comparison report RSK 10.25.

Supplementary filings. No supplementary filings are required in Iceland.

Digital reporting. No digital reporting requirements apply in Iceland.

J. Penalties

Penalties for late registration. 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.

Penalties for late payment and filings. 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.

Penalties for errors. The Director of Internal Revenue assesses the VAT of a registered party for each settlement period. They shall investigate VAT returns and correct them if individual items are inconsistent with law or instructions based thereon. The Director of Internal Revenue shall estimate tax of those parties that do not send in returns within a required deadline, send no returns or if a return or accompanying documents are incomplete. The estimate shall be so excessive that there is no danger that the tax amount is estimated as less than it actually is. The Director of Internal Revenue shall inform the tax collector and the taxpayer of estimates and corrections made. The Director of Internal Revenue shall nonetheless always correct obvious calculation errors without special notice to the taxpayer.

Should faults be found in a VAT return, before or after an assessment, or if the Director of Internal Revenue deems that further explanations are needed regarding a particular detail regarding the VAT payments of a party, he shall in writing request amends from that party within a fixed period and ask it to submit a written explanation along with the documents that the Director of Internal Revenue deems necessary. If the Director of Internal Revenue receives adequate explanations and documents within the time period, he shall assess or reassess the VAT according to the VAT return, taking into account the explanations and documents received. If the faults of the VAT return are not corrected, the reply of the party does not arrive within a specified time period, its explanations are insufficient or the documents requested are not sent, the Director of Internal Revenue may estimate the VAT of the party.

Penalties for fraud. If a taxable person discloses wrongfully or by gross negligence a material fact regarding its VAT or if he does not turn in a VAT return or the VAT it has collected or should have collected within a lawful deadline, he shall pay a fine of up to 10 times the tax amount evaded, or of which payment was neglected or if a reimbursement was excessive, and the fine shall never be lower than double the tax amount. The minimum fine does not apply if the violation is exclusively confined to not having paid the specific VAT according to the VAT return, provided a substantial share of the tax due has been paid and substantial other mitigating explanations are at hand. A penalty surcharge shall be subtracted from the fine. A gross violation against may result in imprisonment up to six years.

India

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A. At a glance

Names of the taxes	Goods and services tax (GST): consists of central tax, state tax or union territory tax, integrated tax and GST compensation cess
Local name	Maal aur Seva Kar
Date introduced	1 July 2017 (GST)
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.
Rates	0.25%, 3%, 5%, 12%, 18% and 28%

GST number format	The GSTIN is a PAN (Permanent Account Number) based 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 taxpayers)
Thresholds	
GST registration supply of goods	In specified special category states — INR1 million In some states who have not opted higher threshold limit — INR2 million In all other states — INR4 million Other suppliers — In specified special category states — INR1 million In all other states — INR2 million
Recovery of VAT by non-established businesses	No

B. Scope of the tax

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). Intrastate supply of goods and services attract CGST and SGST/UTGST in equal proportion.

Further, integrated tax (IGST) is levied by the Central Government on interstate 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 and petroleum products.

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.

C. Who is liable

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.

All suppliers whose aggregate turnover in a financial year exceeds the prescribed turnover threshold are required to register for GST.

In case of persons exclusively engaged in the supply of goods, the threshold limit is INR4 million. In some states that have not opted for higher threshold, the limit of INR2 million is applicable. Further, in specified special category states, the threshold limit is INR1 million.

In case of all other supplies, the threshold limit is INR2 million. However, in specified special category states, the threshold limit is INR1 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 interstate 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
- 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

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

Voluntary registration and small businesses. An entity that has turnover below the threshold may apply to register for GST voluntarily.

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. 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.

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.

Reverse charge. For certain supplies of goods and services, the tax due is payable by the recipient, instead of supplier, under the reverse-charge mechanism. In the case of import of services, the recipient importer is required to discharge the GST on reverse-charge basis.

Domestic reverse charge. The domestic reverse charge is applicable for prescribed domestic supplies. Examples of such supplies include services performed by a goods transport agency for the transportation of goods by road, services provided by an advocate, sponsorship services and renting of motor vehicle. There is also a provision requiring the recipient procuring goods or services from any unregistered person to pay tax under the reverse charge. At present, this provision has been made applicable for certain category of supplies in real estate sector.

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 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 such services, tax is payable by the GST registered recipient, under the reverse-charge mechanism.

Online marketplaces and platforms. Online marketplaces/platforms (referred in GST as e-commerce operators) are required to collect tax at source at 1% of value of taxable supplies made through it by other suppliers. The requirement to collect tax at source is applicable only in cases where the consideration with respect to such supplies is collected by the e-commerce operator.

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.

Deregistration. A GST registration can be canceled 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.

D. Rates

The term “taxable supplies” refers to supplies of goods and services that are liable to a rate of GST, including the zero rate.

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 3% and 0.25%, respectively. GST compensation cess at varying rates is levied on supplies of certain specified goods and services.

Examples of goods and services taxable at 0.25% and 3%

- Diamonds and other precious stones

- Gold
- Silver

Examples of goods and services taxable at 5%

- Branded cereals
- Air transport of passengers in economy class
- Restaurants
- Construction services of residential apartment

Examples of goods and services taxable at 12% and 18%

- Electrical apparatus for radio and television broadcasting
- Accommodation in hotels where value of supply is greater than INR1,000 per unit per day
- Intellectual property rights
- Construction services (other than residential apartments)
- Banking services

Examples of goods and services taxable at 28%

- Motor cars
- Air-conditioners
- Aerated drinks
- Access to race clubs and casinos

Examples of goods attracting compensation cess

- Tobacco and tobacco products
- Motor cars

The term “exempt supplies” refers to supplies of goods and services that are not liable to tax and do not qualify for input tax deduction.

Examples of exempt supplies of goods and services

- 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 and services taxable at 0%

- Exports
- Supplies to a special economic zone (SEZ) unit of SEZ developer

The tax rate of such supplies is not zero as such, but they are so termed because the net incidence of tax in such cases 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. 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.

Option to tax for exempt supplies. The option to tax exempt supplies is not available in India.

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.

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. Prepayment 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).

Continuous supplies of services. 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.

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).

Reverse-charge 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.

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 apply.

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.

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.

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 they are procured in the course or furtherance of business; this 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 taken needs to be reversed along with 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

Input tax credit for IGST should be first utilized to discharge output tax on account of IGST. The remaining IGST credit can be utilized towards payment of CGST and SGST, in any 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.

Nondeductible input tax. Input tax credit is not available for goods and services used for making exempt supplies or for a nonbusiness 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).

Further, the GST law specifies a list of goods and services for which no input tax credit is available.

Examples of items for which input tax is nondeductible

- Motor vehicles for transportation of persons with seating capacity up to 13 persons (except in specified circumstances)
- Membership of a club, health 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.

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

- Hotel accommodation of employees
- Lease rentals for office premises
- Motor vehicles for transportation of persons with seating capacity of more than 13 persons

At the time of booking the invoice, the taxpayer has to check whether the expense relates to the cases for which input tax is not deductible.

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 formula has been prescribed for apportioning the credit, based on turnover of taxable and exempt supplies. 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 as above or take 50% of the eligible input tax credit.

Capital goods. Goods, whose value is capitalized in the accounts of the business, are treated as capital goods for GST purpose.

Input tax credit on capital goods can be claimed fully once the goods are received by the recipient. However, credit is not available if the capital goods are used for nonbusiness purpose or for making exempt supplies. If the capital goods are used partly for taxable and partly for exempt supplies, the credit attributable to exempt supplies has to be reversed every month for a period of five years. A formula has been prescribed for determining such amount of reversal.

On sale of capital goods, the higher of the following amounts is payable:

- An amount equal to the input tax credit taken on the capital goods reduced by prescribed percentage points
- Tax on the transaction value of supply

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.

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.

Write-off of bad debts. Once a supply is made and invoice is raised, GST is payable by the supplier. No relief can be claimed with respect to bad debts. As such, input tax incurred in relation to bad debts is not recoverable in India.

Noneconomic activity. 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.

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

VAT invoices. 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.

Credit notes. 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.

Electronic invoicing. At present in India, electronic invoicing is not mandatory, but is optional.

In case of exhibition of cinematograph films in multiplex screens, it is mandatory to issue an electronic ticket (which will be considered as tax invoice).

Where invoices are generated and issued electronically, signature of supplier or its authorized representative is not required.

It is proposed to introduce a standardized system for generation of electronic invoice. This system will be introduced in a phased manner for B2B transactions. Phase 1 is proposed to be voluntary and shall be rolled out from January 2020.

Simplified VAT invoices. For insurance companies, banking or financial institutions, multiplexes and suppliers of passenger transport services, certain requirements for invoicing have been relaxed. The relaxation is mainly with respect to details of service recipient and serial number of documents.

Self-billing. Self-billing is not allowed in India. However, where tax is payable by recipient under the reverse charge and the supplier is not registered under GST, the recipient has to operate a type of self-billing, by issuing an invoice in respect of goods or services received from such unregistered supplier.

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.

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 Indirect Taxes 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.

Supplies to nontaxable persons. 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 to issue a document without the name and address of the recipient of the supply and the address of delivery.

Records. Every GST-registered person is required to maintain the prescribed accounts and records. These include details of inward and outward supplies, stock of goods, input tax credit availed, GST paid on outward supplies. Relevant documents like invoices, bills of supply, delivery challans, credit notes, debit notes, receipt vouchers, payment vouchers and refund vouchers are to be preserved.

Record retention period. The accounts and records are required to be retained for 72 months (i.e., 6 years) from the due date of furnishing of annual return for the year pertaining to such accounts and records.

Electronic archiving. The records can be kept and archived electronically, subject to certain conditions. However, invoices received from supplier in physical form need to be maintained in their original form if input tax credit is taken with respect to such invoices.

I. Returns and payment

Periodic returns. 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, a new simplified return filing process is proposed to be introduced from April 2020. 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.

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.

Periodic payments. The tax liability pertaining to a specific month has to be paid by 20th of the succeeding month.

Interest is levied with respect to nonpayments or late payments of tax. The rate of interest for a delay in payment of tax is 18% per annum.

Electronic filing. Periodic returns are mandatorily required to be filed electronically. 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.

Payments on account. Payments on account are not required in India.

Special schemes. The Government has devised a scheme (budgetary support) under GST for taxpayers who were availing incentives through area-based exemptions under the previous regime.

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 interstate supply of goods or the supply of goods through e-commerce operator. The manufacturer or trader opting for this composition scheme can provide services only up to the specified limit.

For other small businesses (with turnover up to INR5 million) who are not eligible to opt for composition scheme, there is a separate scheme that allows them to make payment of tax at flat rate of 6%. Persons opting for this scheme are also subject to similar conditions as applicable for composition scheme.

Annual returns. Every registered person must submit an annual GST return for each financial year by 31 December following the end of the financial year. This is in addition to the monthly/quarterly GST returns (see the periodic returns subsection above).

Supplementary filings. Registered persons with annual turnover exceeding INR20 million are required to get their accounts audited. A duly certified reconciliation statement (reconciling value of supplies as per audited financial statements and annual return) is required to be furnished along with the annual GST return.

Digital reporting. No digital reporting requirements apply in India for GST.

J. Penalties

Penalties for late registration. A penalty of INR20,000 may apply for failure to obtain a registration.

Penalties for late payment and filings. 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.

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).

Penalties for errors. A penalty is imposed on other offenses including the following: issuing incorrect or fake invoices, 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.

Penalties for fraud. If any offense is carried out with fraudulent intention, the penalty is INR20,000 or an amount equivalent to the tax due, whichever is higher.

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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 (0%) 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 tax 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.

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

Voluntary registration and small businesses. 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 tax on its purchases). The VAT law does not govern specific circumstances, as well as conditions or restrictions.

A business qualifies as a small entrepreneur if its gross annual turnover (from supplies of goods or services) does not exceed IDR4.8 billion.

Group registration. The VAT law in Indonesia does not allow group registration. Legal entities that are closely connected must register for VAT separately.

Non-established businesses. Non-established businesses cannot register for VAT in Indonesia. They must have a permanent establishment located in Indonesia in order to register for VAT.

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.

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. On 25 November 2019, the Indonesian Government issued Government Regulation Number 80/2019 ("GR-80") regarding trading through electronic system (e-commerce trading). Under this regulation, overseas business trading through electronic system who actively offer and/or conduct PMSE (Perdagangan Melalui Sistem Eletronik — trading through electronic system) to consumers domiciled in Indonesia who meet certain criteria are deemed to have

physical presence in Indonesia and carry out permanent business activities in Indonesia, thus, need to register, collect and pay tax as taxpayer. These criteria are:

- Number of transactions
- Transactions value
- Number of shipping packages
  And/or
- The amount of traffic or access

The tax principles and regulations based on the prevailing law and regulations are applicable for PMSE.

Online marketplaces and platforms. Import duty for shipment of goods is exempt if total import value is up to customs value of free-onboard USD3 per shipment. This regulation is in effect from 30 January 2020.

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.

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.

D. VAT rates

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

The VAT rates are:

- Standard rate: 10%
- 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 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 supplies" refers to supplies of goods and services that are not liable to VAT and that do not qualify for input tax deduction.

The VAT exemption also applies to supplies or importation of goods that fall under the category of "strategic goods."

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.

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

Option to tax for exempt supplies. The option to tax exempt supplies is not available in Indonesia.

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.

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 rules. 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.

Continuous supplies of services. For continuous supplies, the time of supply rules are the same as the normal time of supply rules. As such, 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 rules. 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.

Reverse-charge services. For reverse-charge services, the time of supply rules are the same as the normal time of supply rules. The supply of services is considered to take place when the invoice is issued.

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.

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.

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 tax exceeds output tax due, this excess tax can be claimed as a refund.

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 tax 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 tax credit is greater than the amount of output tax).

Nondeductible 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, except for input tax on capital goods that can still be claimed as a tax credit.

Input tax 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 nondeductible

- Purchases used for nonbusiness 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 deductible (if 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

Partial exemption. Where a business makes supplies of taxable and nontaxable goods and services, the input tax should be recalculated/proportionated to reflect the percentage of supplies that are taxable, at the latest at the third month after the end of a book year.

Capital goods. In Indonesia, capital goods are classified as tangible assets with a useful life of more than one year, including expenses relating to the acquisition of capital goods that are capitalized into the acquisition price of the capital goods. Input tax incurred on capital goods can be

recovered in line with the normal recovery rules (see above). There are no special rules in respect to timing and lifespan of the goods.

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%.

Pre-registration costs. Input tax paid prior to issuance of the VAT Registration Number is not creditable.

Write-off of bad debts. Output tax accounted for on supplies that do not get paid by recipient (i.e., a bad debt) cannot be recovered in Indonesia.

Noneconomic activities. Input tax incurred in relation to noneconomic activities is not recoverable in Indonesia.

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. 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.

Regarding the use of VAT invoice serial numbers and the procedure for issuing a VAT invoice, the rules are as follows:

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 canceled 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 input tax 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.

Credit notes. 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 canceled 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.

Electronic invoicing. All taxpayers nationwide are required to use electronic VAT invoices. The use of an electronic VAT invoice is mandatory, and noncompliance will result in a defective VAT invoice subject to a fine equaling 2% of the VAT base.

Simplified VAT invoices. A tax invoice without detailed information of a buyer is known as a simplified VAT invoice in Indonesia. These are permitted for retail business. Retail businesses are defined as taxable entrepreneurs that supply goods, as follows:
1. Through a retail sale place, such as stores and kiosks or direct visit to end consumers
2. By means of retail sales made directly to the end consumer, without being preceded by a written offer, a written booking, a contract, or an auction
3. In general, delivery of taxable goods or sale and purchase transactions is made in cash and the seller directly delivered the goods or the buyer directly carries the goods that he/she buys

Simplified VAT invoices should contain below:
- Name, address and taxpayer identification number (NPWP) of the seller
- Type of VAT-able goods delivered
- Selling prices that have factored VAT or VAT amount are recorded separately
- Sales tax on luxury goods (PPnBM) collected
- Code, serial number and invoice date

The code and serial number for a simplified VAT invoice are also different from VAT invoices. The code and serial number of a simple VAT invoice can be in the form of invoice numbers, invoice codes or determined by the taxable entrepreneur.

Self-billing. Self-billing is not allowed in Indonesia.

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.

Supplies to nontaxable persons. 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.

Records. In general, records are to be prepared in Indonesia rupiah and using Bahasa Indonesia language. English language and USD currency are permitted, provided approval from the DGT has been obtained.

Record retention period. 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 may request and check the hard copy documents.

Electronic archiving. Records can be kept and archived electronically. However, in the event of tax audit or other dispute process, the DGT may request the original hard copy of the records/ documents.

I. Returns and payment

Periodic returns. The due date for the submission of monthly VAT returns is the end of the following tax period. VAT returns should be submitted electronically.

Periodic payments. The VAT payable, if any, must be settled before the submission deadline of the monthly VAT returns, i.e., end of the following tax period.

VAT liabilities must be paid in Indonesian rupiah.

Electronic filing. The VAT return submission platform has been integrated with the electronic invoicing platform. The VAT return must be submitted 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 forwarded with a proof-of-delivery letter.

Payments on account. Payments on account are not required in Indonesia.

Special schemes. 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 tax can still be claimed as a tax credit.

Annual returns. Annual returns are not required in Indonesia.

Supplementary filings. No supplementary filings are required in Indonesia.

Digital reporting. It is compulsory for all invoices to be processed and issued electronically via the government hosted eFaktur platform. Detailed transaction listings for AP and AR must also be uploaded to the tax office as part of the normal filing process.

The VAT return must also be submitted electronically. The submission platform for the VAT return has been integrated with the electronic invoicing platform.

J. Penalties

Penalties for late registration. 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 tax incurred during the period before registration may not be claimed as a deduction against output tax due after the registration date.

Penalties for late payment and filings. 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.

Penalties for errors. A penalty, charged at a rate of 2% of the VAT base amount, 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).

Penalties for fraud. For severe evasion or fraud, criminal penalties apply.

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 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)
Local name	Value-added tax (VAT)
Date introduced	1 November 1972
Trading bloc membership	European Union (EU) Member State
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	
Established	
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
Electronically supplied services (MOSS)	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 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.

Exemption from registration. The VAT legislation in Ireland does not contain any provision for exemption from registration.

Voluntary registration and small businesses. 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 (e.g., services connected with immovable property or the admission to events that take place in Ireland)
- 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.

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. This measure applies only if the place of supply of the services is in Ireland.

Domestic reverse charge. The application of the domestic reverse charge in Ireland is limited to services connected with the following activities:
- Construction services subject to relevant contractors tax (RCT) in Ireland
- Certain property transactions
- Greenhouse gas emissions allowances
- Scrap metal dealers
- Wholesale supplies of electricity and gas
- Supply of electricity and gas certificates

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 the Mini One-Stop Shop (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 MOSS 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 Online 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.

Online marketplaces and platforms. No special rules exist for online marketplaces and platforms in Ireland.

Vouchers. Effective 1 January 2019, vouchers (for example prepaid telecom cards, gift cards, price discount coupons, etc., for the purchase of goods or services) will fall into two categories: single-purpose vouchers (SPV) and multipurpose vouchers (MPV).

An SPV is defined as a voucher where the place of supply of the goods/services to which the voucher relates and the VAT due on those goods or services is known at the time of the issue of the voucher (e.g., a voucher issued for specific use for hotel accommodation in Ireland).

An MPV is defined as a voucher other than an SPV. It includes vouchers that can be redeemed for goods/services that are subject to different VAT rates (e.g., a voucher that can be redeemed in multiple stores in a shopping center for items at a variety of VAT rates). VAT must be accounted for at the point of issue of an SPV (rather than at the point of redemption, which is the current practice) and at the time of redemption of an MPV.

Also, from 1 January 2019, persons that sell prepaid phone cards will no longer be eligible to recover VAT when these cards are used outside the European Union, which is linked to the voucher changes.

Registration procedures. Taxpayers apply for VAT registration through the submission of form TR2.A two-tier system exists such that companies can apply for a domestic only registration or an intra-EU registration. Obtaining VAT registration typically should take four to six weeks.

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.

D. 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.

The VAT rates are:
• Standard rate: 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 an 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"

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 VAT and that do not qualify for input tax deduction. However, as regards the latter, an exception applies to certain exempt services supplied outside the EU for which VAT recovery does exist.

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.

Deposits and prepayments. A prepayment is deemed to be consideration for 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.

Where there is a supply of goods, services or a prepayment, an invoice should be issued by 15 days after the end of the month in which the supply or prepayment is made.

Continuous supplies of services. The time of supply for continuously supplied services is the date of the tax invoice or when payment or prepayment is received.

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 time of supply of goods rules apply.

Reverse-charge services. The time of supply is either the date on which the service performed is completed or the date of the tax invoice, whichever is earlier.

Leased assets. A finance and operating lease are treated in the same fashion in Ireland. Basically, both are treated as a supply of a service subject to VAT. The time of supply in relation to the lease of assets is as outlined above for a continuous supply of services. VAT becomes due where an invoice issues in respect of the periodic leasing charges or payment is received in relation to the leased assets received.

The time of supply for assets sold under hire purchase agreements is when the goods have been handed over to the purchaser.

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.

Intra-Community acquisitions. 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.

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.

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. 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 CO2 emissions of less than 156g/km) 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%, where a turnover based method is applied.

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 and firstly used. The amount of input tax recovered depends on the accountable person's partial exemption recovery position in the VAT year of acquisition and first use. In Ireland, the only item defined as a capital good is immovable property.

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.

Pre-registration costs. VAT paid on costs incurred before registration is generally 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. Input tax incurred in relation to noneconomic activities is not recoverable in Ireland.

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.

EU businesses. For businesses established in the EU, applications for refunds are made electronically to the tax authority in their Member States.

For EU claimants, the deadline is 30 September of such year.

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.

Non-EU businesses. 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 non-EU claimants, the deadline for refund claims is 30 June of the year following the year in which the tax was incurred.

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

Claims are normally paid within three to six months after submission of the claim. 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. 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.

Credit notes. 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. Irish VAT law permits electronic invoicing in line with EU Directive 2010/45/EU (see the chapter on the EU).

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.

Simplified VAT invoices. A simplified invoice, credit note, settlement voucher or debit note may be issued if the following conditions are met:

- The amount of the invoice is not greater than EUR100
  Or
- When commercial, technical or administrative practices in a particular business sector make it difficult to comply with general invoicing requirements

A simplified invoice cannot be used in relation to an intra-Community supply of goods and or services.

Self-billing. In order for self-billing to apply, the following conditions should be met:

- There is prior agreement with the supplier that the customer may draw up and issue the invoice.
- All conditions relating to the content or issue of the invoice are met by the customer.
- Agreed procedures are in place for acceptance by the supplier of the validity of the invoice.
- The invoice is endorsed with “self-billing.”

An invoice issued under these arrangements is regarded as having been issued when the supplier accepts it in accordance with the procedures in place.

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.

Supplies to nontaxable persons. Certain rules apply to the place of supply for supplies of telecommunications, broadcasting and electronic services to non-VAT taxable customers.

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.

Records.

Record retention period. A VAT-registered entity should retain all books, records and documents relevant to its business for a period of six years.

A VAT registered entity should obtain written permission from the relevant Revenue office to be permitted retention of documents for a shorter period.

Electronic archiving. Should a VAT-registered entity issue invoices in paper form, it should be retained in paper form. Paper records must be stored within Ireland. Exceptions to this require Revenue agreement and are subject to conditions.

Electronic records must be recorded and stored in accordance with the electronic invoicing rules.

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.

I. Returns and payment

Periodic returns. Irish VAT returns are generally submitted electronically on a bimonthly basis. Returns must be made online and by the 23rd day of the month following the return period.

Biannual 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.

Periodic payments. Full payment of the VAT due must be made by the VAT return deadline, i.e., by the 23rd day of the month following the end of the return period. The VAT should be submitted electronically by direct debit payment linked to a taxpayer's account on Revenue's online platform "ROS."

Electronic filing. Electronic filing of payments and returns is mandatory in Ireland, using the ROS section in www.revenue.ie.

Payments on account. Payments on account are not required in Ireland.

Special schemes.

Farmers. 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.

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." 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.

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." 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.

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 annual accounting 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.

Annual returns. All accountable persons must submit an annual return (known as 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 2020 is due to file the return by 23 January 2021.

Supplementary filings.

Supplementary VAT return. A supplementary VAT return should be submitted when an additional liability is due on an original VAT return. This return should be clearly marked "Supplementary." The combination of the original return and the supplementary return should then represent the correct liability position for the period.

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 2020 is EUR500,000. The threshold for Intrastat Dispatches for 2020 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.

EU Sales Lists. 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 also known as "VAT Information Exchange System (VIES) statement" in Ireland.

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.

Digital reporting. Electronic filing of payments and returns is mandatory in Ireland, using the ROS section in www.revenue.ie.

J. Penalties

Penalties for late registration. A penalty of EUR4,000 can be assessed for a failure to register for VAT.

Penalties for late payment and filings. The basic penalty for the late submission of a VAT return is EUR4,000 per return.

Interest may also be levied on the amount of tax due at the rate of 0.0274% per day.

The penalty for a late or incorrect submission of an Intrastat return is EUR1,265 plus EUR60 per day that the return is outstanding.

The penalty for a late or incorrect submission of an ESL is EUR4,000.

Penalties for errors. 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, depending on the circumstances such as if a disclosure of the error is made to Revenue.

Penalties for fraud. The penalty for fraud is 100% of the VAT liability.

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)
Local name	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. *At the time of preparing this chapter, the UK is due to leave the European Union on 31 January 2020. After this date (subject to any transitional period) the Isle of Man will no longer be considered part of the EU, although it will remain a common area with the UK for VAT and customs purposes.*
Administered by	Isle of Man Customs and Excise Division (http://www.gov.im)
VAT rates	
Standard	20%
Reduced	5%
Other	Zero-rated (0%) 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	
Established	GBP85,000 (EUR98,600)
Non-established	None
Deregistration	GBP83,000 (EUR96,280)
Distance selling	GBP70,000 (EUR81,200)
Intra-Community acquisitions	GBP85,000 (EUR98,600)
Electronically supplied services (MOSS)	GBP8,818 (EUR10,000)

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

At the time of preparing this chapter, the UK is due to leave the European Union (EU) on 31 January 2020. 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 (although it is possible that Northern Ireland will have to follow different rules in respect of the EU VAT rules in relation to goods depending on any deal negotiated). However, the UK VAT system is expected to continue largely as before and CJEU case law should continue to apply where the UK legislation 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. As the Isle of Man is in a common area with the UK, the same treatment for the UK as the impact of Brexit, will also apply in the Isle of Man.

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 2020, 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 may request exemption from registration.

Voluntary registration and small businesses. 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. 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
- Services to which the 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

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.

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. 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.

Domestic reverse charge.

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 respon-

sibility 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. The implementation of a domestic reverse charge on certain building and construction services has been delayed by a year and will now come into effect on 1 October 2020. 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.

Digital economy. 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 was 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 deregister 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.

Online marketplaces and platforms. Sellers based in the Isle of Man must register for VAT if they are selling goods as a business activity in the UK/Isle of Man and their VAT taxable turnover exceeds the VAT registration threshold.

Overseas sellers must register for VAT if they meet all of the following conditions:
- They are selling, or will be selling taxable goods in the UK/Isle of Man as a business activity, or will be within the next 30 days — this includes selling goods:
  - In the UK/Isle of Man at the point of sale

— To a UK/Isle of Man consumer, and then imported into the UK/Isle of Man by the seller
- They do not have a business or other fixed establishment in the UK/Isle of Man relating to any business carried out
- They advertise or offer goods for sale on a website that will be supplied in the UK/Isle of Man

Legislation was introduced on 15 March 2018 holding the operator of an online markeplace, jointly and severally liable for unpaid VAT of overseas sellers operating on their marketplace where the overseas seller has not registered for UK/Isle of Man VAT and the operator of the online marketplace, knew or should have known the seller should be registered for UK/Isle of Man VAT.

Vouchers. Effective from 1 January 2019 the issue and any subsequent transfer of a voucher is treated for VAT purposes as a supply of the goods or services to which it relates. The place of supply is that of the underlying goods or services, not the place where the voucher is issued or transferred.

A single-purpose voucher (SPV) represents consideration for a supply of the underlying goods or services when the voucher is issued, and at the time it is subsequently transferred, but not when the voucher is redeemed. If a SPV is issued by one person ("the issuer") and redeemed by another ("the redeemer"), there is also a supply of the underlying goods or services by the redeemer to the issuer.

For a multi-purpose voucher (MPV), consideration is disregarded at issue and each single subsequent transfer of the voucher. Voucher represents consideration for the supply of goods and services when redeemed.

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.

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 2020) or if its taxable turnover is wholly or principally zero-rated. However, deregistration is not compulsory in these circumstances.

D. Rates

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.

The VAT rates are:
- 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.

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 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 VAT and that do not qualify for input tax deduction.

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.

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.

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.

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.

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.

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.

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.

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 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 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. 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 have nonbusiness activities when costs are incurred for the capital goods scheme (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. 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.
- The CGS also includes 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 VAT 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.

Pre-registration 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. Input tax incurred in relation to noneconomic activities is not recoverable in the Isle of Man.

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. 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. 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.

Credit notes. 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. Isle of Man VAT law permits electronic invoicing in line with EU Directive 2010/45/EU (see the chapter on the EU).

Simplified VAT invoices. A retailer does not have to issue a full VAT invoice unless a customer requests one. Retailers can issue simplified invoices for supplies under GBP250. For businesses that are not retailers, but the total value of their supply does not exceed GBP250, it can issue its customer with a simplified invoice.

Self-billing. Self-billing is allowed in the Isle of Man. However, a written agreement must be in place between the customer and supplier. The agreement must have an expiry date, it must allow the customer to issue invoices on the supplier's behalf and contain confirmation that the supplier won't issue VAT invoices for goods/services covered by the agreement.

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

Supplies to nontaxable persons. Special rules apply to the place of supply for supplies of telecommunications, broadcasting and electronic services to non-VAT taxable customers.

Aside from the above, invoices are not automatically required for supplies to nontaxable persons, such as retail transactions, unless requested by the customer.

Records. Taxpayers must retain a record of sales and purchases and maintain a separate summary of VAT known as a VAT account. Taxpayers must keep copies of all invoices that it issues and those that it receives, plus import and export documents and other general business records

Record retention period. Generally, business records for VAT purposes must be retained for at least six years.

Electronic archiving. Taxpayers can maintain its records on paper, electronically or as part of a software program. Electronic archiving is permitted with approval from Isle of Man Customs.

I. Returns and payment

Periodic 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.

Periodic payments. Payment of VAT due in full is also due by the same date as the VAT return, i.e., the last day of the month following the end of the return period. However, taxable persons

that pay their VAT return liabilities electronically have an additional seven 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.

Electronic filing. Although many businesses continue to submit their VAT and EU Sales Lists in paper format, online filing is permitted in the Isle of Man. To submit returns electronically, a taxpayer must first register to use online services via the Isle of Man Government online service website. A taxpayer must then select "Customs and Excise" from the available services and simply enroll following a few simple steps. An additional seven days are allowed for returns that are submitted online.

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.

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.

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 tax and reclaim input tax on the basis of cash received and paid, rather than on the basis of invoices issued and received.

Annual returns. Annual returns are not required in the Isle of Man.

Supplementary 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 2020 threshold for Intrastat Arrivals is GBP1.5 million. The 2020 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.

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.

Digital reporting. VAT returns can be filed electronically. *At the time of preparing this chapter, there are no plans to implement the Making Tax Digital regime, unlike the UK.*

J. Penalties

Penalties for late registration. A penalty is assessed for late VAT registration, which is calculated as a percentage of the VAT due (output tax less input tax).

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 for late payment and filings. 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 may be imposed if a taxable person's Intrastat and ESLs declarations are persistently late, missing or inaccurate.

Penalties for errors. 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.

Penalties for fraud. A new 30% penalty for participation in VAT fraud was introduced with effect from 1 March 2018. The new penalty applies to businesses where they knew or ought to have known their transactions were connected with VAT fraud.

The penalty is equal to 30% of the VAT lost through the fraud and can apply to company officers as well as businesses. The Isle of Man Treasury has the option to name those who are penalized, and no penalty reduction is given for prompted or unprompted disclosure.

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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	Ministry of Finance (Israeli Tax Authority) https://taxes.gov.il/English/Vat/Pages/VatLobby.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 NIS1.51 million
Monthly	General rule
Threshold	
Registration	Annual turnover of NIS100,187; 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 tax 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 NIS100,187 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 (in which the reverse charge applies):

- For supplies of services or intangible property by non-Israeli suppliers to Israeli customers
- For certain supplies of services made by individuals, that their main income is derived from salary, allowance or pension
- 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.

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 and small businesses. The VAT law in Israel does not contain any provision for voluntary VAT registration.

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 tax and input tax with respect to intragroup supplies and also the sum of output tax and input tax with respect to third parties. Invoices for intragroup supplies are not reported as part of the group's monthly/bimonthly report, 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. 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 residen."

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.

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.

Domestic reverse charge. The domestic reverse charge 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.

Online marketplaces and platforms. No special rules exist for online marketplaces and platforms in Israel.

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, among other things, 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.

Deregistration. Israel has no separate registration and deregistration thresholds. A business whose turnover falls below the registration threshold may be deregistered.

D. 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: 17%
- Zero-rate: 0%

The standard rate of VAT applies to supplies of goods and services unless a specific measure provides for the zero rate or an exemption.

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.

Examples of goods and services taxable at 0%

- 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)
  - 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.
- 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

The term “exempt supplies” refers to supplies of goods and services that are not liable to VAT and that do not qualify for input tax deduction.

Examples of exempt supplies of goods and services

- 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. The option to tax exempt supplies is not available in Israel.

E. Time of supply

For the supply of goods, generally speaking, the chargeable event takes place upon delivery — except for qualifying small manufacturers; these use the cash basis.

For the 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 NIS15 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.

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.

Continuous supplies of services. 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.

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.

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.

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.

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).

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.

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 tax 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. As mentioned above, input tax can only be deducted if purchases are used for taxable transactions, provided all technical requirements are fulfilled. Accordingly, nondeductible input tax includes among other things, certain types of business and staff entertainment, and input tax attributable to particular transactions such as costs related to share transactions, out-of-scope transactions, certain pre-registration costs (see below), etc.

Examples of items for which input tax is nondeductible

- Certain employee benefits, e.g., gifts to the employees
- Purchase/import of a private vehicle, with the exception of certain types of dealers
- Accommodation and hospitality expenses, excluding expenses related to the accommodation of persons from abroad
- Expenses relating to the sale or purchase of shares, subject to exceptions

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

- Vehicle maintenance expenses, if the vehicle does not leave the business premises
- Accommodation and hospitality expenses related to the accommodation of persons from abroad
- Petty cash and certain refreshments

Partial exemption. Rules related to partial exemption may apply to expenses used for both taxable and nontaxable transactions, e.g., business and private use, a business that makes both taxable and exempt supplies, etc. In such cases, the partial exemption percentage is generally calculated on a pro rata basis according to the nonbusiness use of the expense .Unless the taxable person's calculation is rebutted or otherwise determined by the VAT Director, it is presumed that where most of the input tax is used for making taxable supplies, two-thirds of the input tax is deductible; whereas, where most of the input tax is used for making nontaxable supplies, only one quarter of the input tax may be deductible.

Capital goods. Input tax incurred on the purchase of capital goods may be deductible subject to the general input tax deduction rules (see above). Accordingly, if the goods are used for taxable supplies input tax may be fully deducted, subject to the general VAT rules. If the goods are used for both taxable and nontaxable or exempt transactions, a partial deduction may apply.

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.

Pre-registration costs. Input tax on such costs is generally nondeductible. However, on application by a taxpayer, the tax authorities may allow input tax incurred before registration to be deducted, where the authorities are satisfied that the relevant inputs are setup costs, i.e., inputs bought at a time when the business was being set up and used for that purpose.

Write-off of bad debts. VAT paid by a taxpayer in connection with bad debts (i.e., if a supply was made and the VAT was declared, but the customer did not pay the consideration agreed) may be recoverable by issuing a credit note, provided all conditions and requirements stipulated in the VAT regulations as well as in the VAT authorities' guidelines are met.

The main conditions for issuing a credit note and reclaiming VAT paid on bad debts includes insolvency or liquidation of the customer, as well as proof of reasonable collection efforts. Such a reclaim requires notice to the authorities. Such a reclaim may be submitted not earlier than six months from the date on which a tax invoice was issued and not later than three years from that date (however, an extension is available under certain conditions).

Noneconomic activities. Input tax incurred in relation to noneconomic activities is not recoverable in Israel.

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

VAT invoices. 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. The invoice must be issued within 14 days.

The authorities intend to assign invoice numbers to each VAT-registered entity.

Credit notes. 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, an agreed reduction in the value of the original supply or cancellation of the transaction. 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.

Electronic invoicing. 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, record keeping, etc.

Simplified VAT invoices. In general, simplified tax invoices are not permitted. However, for retail supplies, the cashier slip might be used as an invoice, subject to certain conditions.

Self-billing. Self-billing is not allowed. Special exceptions may be obtained from the tax authorities.

Proof of exports. The export declaration issued by Israeli Customs and the commercial invoice are generally sufficient evidence for export.

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.

Supplies to nontaxable persons. There are no special rules regarding invoices issued for supplies made by taxable persons to private consumers.

Records.

Record retention period. Records should be kept in Israel unless a special exemption is obtained by the tax authorities. VAT invoices and other bookkeeping records must be kept for a period of seven years from the end of the year, to which the records relate or six years from the day on which the tax return for the relevant year was submitted, whichever is later.

Electronic archiving. Records may be stored electronically and must be updated quarterly. Please note that there are specific requirements in this regard.

I. Returns and payments

Periodic returns. VAT reports must be submitted on a monthly basis if annual turnover exceeds NIS1.51 million or on a bimonthly basis if annual turnover does not exceed NIS1.51 million. Reports must be submitted by the 15th day of the month following the end of the reporting period.

Periodic payments. Payment of VAT due in full is also due by the same date as the VAT return submission deadline, i.e.,. by the 15th/19th/23rd day of the month following the end of the reporting period (depends on the reporting date). Payment can be made using an Israeli bank account.

Electronic filing. VAT reports are generally filled electronically via the Israeli tax authority's website. The reports are due by the 15th/19th/23rd day of the month following the end of the reporting period (depends on the taxpayer's turnover and reporting obligations).

Payments on account. Payments on account are not required in Israel.

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. Annual returns are not required in Israel. That said, VAT group members must file a certain type of annual return as to taxable persons in the Eilat free trade zone.

Supplementary filings.

Yearly VAT group report. This is only relevant for taxpayers who report in a VAT group (see above). It should be noted that if the VAT report is a return, additional information (e.g., copies of invoices) might be required.

Digital reporting. Certain taxpayers are required to provide a detailed electronic report, including all invoices issued and received in the relevant period including the following: dealers with an annual turnover over NIS2.5 million, nonprofit organizations with an annual turnover over NIS20 million and financial institutions with an annual turnover above NIS4 million, taxable persons

required to keep their books in accordance with the dual accounting system. In addition, a non-profit organization or a financial institution should submit an online digital report as well.

As outlined above, an online detailed digital report is required if a taxpayer's annual turnover exceeds NIS2.5 million or if the taxable person is required to keep its 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.

J. Penalties

Penalties for late registration. For the late registration of VAT, penalties may be up 1% of the taxable turnover, on top of the VAT itself, plus interest, and adjusted for inflation.

Penalties for late payment and filings. A VAT-registered entity that fails to submit a report when required is liable to pay a fine of NIS214 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 for errors. If there is an error in recording any amount required in the report, it is possible to file a corrective report to state the correct details. The corrective report must be submitted only to the regional VAT office where the file is being handled. As a result, the taxpayer may be charged with interest, linkage differences and fines.

Penalties for fraud. There are various offenses stipulated in the VAT law, such as making false statements submitted knowingly, or under circumstances amounting to gross negligence, omission of reporting, assistance in unlawful deduction of VAT, forgery, concealment or destruction of documents, the use of fictitious invoices, etc. These offenses may result in additional payment of interest, linkage differences and fines, including double tax, and may even result in imprisonment if the offense is characterized as criminal.

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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	Zero-rated (0%) and exempt
VAT number format	IT 0 4 1 9 6 7 6 0 0 1 3
VAT returns	Annual (all businesses)
Thresholds	
Registration	None
Established	None
Non-established	None
Intra-Community acquisitions	None
Electronically supplied services (MOSS)	EUR10,000
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.

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

Voluntary registration and small businesses. 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).

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.

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.

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.

Domestic reverse charge. 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)
- The provision of services performed through contract work, subcontracts, assignment to consortium or through other types of contract, if such services are carried out through the prevalent use of labor (so-called labor intensive) at the premises of the customer with the use of capital goods owned by the customer or connected to him in any form. The effectiveness of this provision is subject to specific approval by the Council of the European Union

Under the reverse charge mechanism, the supplier must issue an invoice without VAT, and the recipient 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.

The 2020 Budget Law introduces a new tax applicable to the provision of digital services (Italian digital services tax or Italian DST) by partially amending the old measure introduced by the 2019 Budget Law (the "web tax"), which never entered into force. According to the new rules, effective 1 January 2020, the Italian DST shall be due by businesses (both resident or nonresident in Italy) carrying on 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 supply of digital services and shall be paid on an annual basis by February 16 of the year following the one of reference. By 31 March of the same year, the taxable person shall file the annual return reporting the digital services subject to the tax.

Mini One-Stop Shop. The place of supply for 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 nonbusiness customers in another Member State will have to charge and account for VAT according to the VAT rules of the customer's Member State.

Businesses established in Italy and non-EU businesses can register for the Mini One-Stop Shop (MOSS) scheme through the Italian Revenue's website.

Online marketplaces and platforms. In light of the explosive growth of e-commerce sales, the EU Directive no. 2017/2455 has introduced, from 1 January 2021, the responsibility for the payment of VAT by "marketplace" operators. Particularly, reference is made to taxable persons who facilitate (under certain circumstances) distance sales of goods through an electronic interface, such as a marketplace, a platform, a portal or similar means.

The Law Decree no. 135/2018 anticipated such responsibility principle for certain goods (i.e., mobile phones, game consoles, tablets, PCs and laptops) as of 13 February 2019; however, the following Law Decree no. 34/2019 postponed the effects of such rule to 2021 (in line with the Directive), but at the same time introduced a communication obligation for these transactions up to the end of 2020.

The communication obligation applies to all taxable persons who facilitate certain distance sales through the use of an electronic interface (marketplace). This obligation also applies to nonresident taxable persons, who, if they do not have a fixed establishment in Italy, must appoint a VAT representative or identify themselves directly for VAT purposes in order to comply with their obligations in this area.

Objective requirement: reports communicating details of distance sales of goods imported from third countries and distance sales of goods within the European Union.

These communications are due by the month following the reference quarter. This requirement should expire on 31 December 2020, since the new EU VAT responsibility principle will become effective as from 1 January 2021.

Vouchers. Effective 1 January 2019, Italy has implemented provisions of the Council Directive (EU) 2016/1065. Changes in the local legislation defined single-purpose vouchers (SPV) and multi-purpose vouchers (MPV) and set the VAT rules for taxation in both cases. SPVs are payments instruments for which the VAT treatment of the supply of goods/services for which the voucher has been issued is already known at the time it is issued. Any transfer of ownership of the voucher occurring before the supply of goods/services is carried out triggers the tax point, and the voucher is considered as used. MPVs are payment instruments for which the VAT treatment of the supply of goods/services is not known at the time it is issued. MPVs are only subject to VAT when the voucher is redeemed, i.e., no VAT is due when the voucher is transferred through the supply chain.

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.

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.

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.

D. 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: 22%
• Reduced rates: 4%, 5% and 10%
• Zero-rated: 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.

In addition, some supplies are "exempt-with-credit" (i.e., zero-rated), which means that VAT is charged at 0%, and the supplier may recover related input tax. The 2020 Budget Law foresees new VAT rate increases for 2021, as follows:
• The standard rate to increase from 22% to 25%, from 1 January 2021 and to 26.5% from 1 January 2022
• The reduced rate to increase from 10% to 12%, from 1 January 2021
• No changes to the super-reduced rate of 4% and 5%

Examples of goods and services taxable at 0%

• Intra-EU supplies of goods
• International transportation services
• Export supplies
• Bunkering to high sea vessels

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

Examples of goods and services taxable at 5%

- 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

The term "exempt supplies" refers to supplies of goods and services that are not liable to VAT and that do not qualify for input tax deduction.

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.

Continuous supplies of services. For services under Article 44 of the EU VAT Directive (implemented by Article 7-quater 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.

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.

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).

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.

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

Intra-Community acquisitions. The time of supply for intra-Community 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 acquisitions of goods lasting for periods longer than one calendar month shall be regarded as being completed at the end of each calendar month.

Intra-Community supplies of goods. The time-of-supply rules for intra-Community supplies of goods are the same as those for domestic 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. 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.

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

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. 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 tax, 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. 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 tax credit may be carried forward to offset output tax 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:
- 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.

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. 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.

Pre-registration costs. Italian VAT law does not specifically provide for the recoverability of the VAT on pre-registration costs. However, the Italian Revenue clarified that the input tax 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.

Noneconomic 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.

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.

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.

EU businesses. For businesses established in the EU, a refund is made under the terms of the EU 8th Directive.

Non-EU businesses. 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.

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. 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.

Invoices can be issued within 12 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.

Credit notes. 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. Italian VAT law permits electronic invoicing in line with EU Directive 2010/45/EU (see the chapter on the EU.

A general B2B and B2C electronic invoicing obligation applies (from 1 January 2019). The electronic invoicing obligation only applies to transactions between established/resident persons.

For import and export transactions where a customs bill is issued and for cross-border transactions where the supplier opted for electronic invoicing, there is no obligation to include it in the communication of invoices issued and received to/from non-established persons (so called “Esterometro).

Simplified VAT invoices. A simplified invoice may be issued with respect to supplies for which the taxable basis is not higher than EUR400.

Also, a simplified credit note can be issued. For simplified invoices issued for adjustments (credit note or debit note), it is mandatory to mention the reference to the initial invoice issued and adjusted, as well as the date of the data adjusted as for the correction made.

Simplified invoices cannot be issued for intra-EU supplies and for any transaction made to a person liable for VAT in another EU Member State.

Self-billing. 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).

Even though the supplier normally has the obligation to issue the invoice , the Italian VAT law provides the opportunity for the invoice to be issued directly by the customer ("self-invoice") or by a third party ("outsourced invoice") on behalf of the supplier who, in any case, remains liable for obligations to the Italian tax authorities (art. 21 of Presidential decree n. 633/1972). Based on the common commercial practice, the parties involved (supplier and third party issuing the invoice) agree their intention in a written contract (written agreement is not mandatory but strongly recommended) according to which the supplier grants to the third party a specific authorization to issue invoices on his behalf. In addition, both parties must expressly acknowledge the specific procedure to be adopted and their reciprocal rights and obligations.

To coordinate the e-invoicing obligation and the self-billing agreement, the technical specifications released by the Italian tax authorities for the filing of the XML file provide for specific rules.

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-EU supplies, at the time of preparing this chapter the new EU rules concerning the proof of intra-EU supplies (the EU quick fixes) has not been implemented yet in the Italian VAT law, but should be deemed directly applicable*

Invoices for exports, intra-Community supplies of goods and exempt supplies must mention "zero-rated 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.

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 booked 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.

Foreign currency invoices. 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.

Supplies to nontaxable persons. Rules apply to the place of supply for supplies of telecommunications, broadcasting and electronic services to non-VAT taxable customers.

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

Records.

Record retention period. According to Italian law, invoices issued and received, credit notes and all the documents relevant for VAT purposes (e.g., documents of transport, etc.) must be kept for VAT purposes up to the end of the statute of limitation period, i.e.:
- 31 December of the fifth year following the one of filing of the annual VAT return; (for years prior to 2016, the term was the fourth year)
- 31 December of the seventh year following the one in which the (omitted) annual VAT return should have been filed (for years prior to 2016, the term was the fifth year)

For civil law purposes, all the VAT relevant documents (books, ledgers, invoices, correspondence, etc.) must be kept for 10 years.

Electronic archiving. Electronic invoices must be archived electronically according to the requirements of Italian law. The Italian Revenue Agency offers a free-of-charge archiving service. In particular, the e-invoice files will be kept by the Italian tax authority's e-invoicing platform, "Sistema di Interscambio" (SDI) until 31 December of the eighth year following the one of submission of the related return or until the definition of eventual court trials. The same files could be used by the tax police in the performance of the economic and financial police tasks and by the tax authorities and by the tax police for risk analysis and the checks carried out for tax purposes.

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.

I. Returns and payment

Periodic 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.

Periodic payments. Italian taxable persons calculate VAT payments on a monthly or quarterly basis, depending on turnover, and pay the VAT. 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. 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).

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.

Electronic filing. 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.

Payments on account. Payments on account are required in Italy. 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).

The balancing payment of the VAT due for the month of December is due by the 16th of January.

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. Output tax 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 tax charged on such travel services and goods.

Margin scheme for secondhand goods, works of art, antiques or collectibles. Output tax 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 tax on purchases of goods.

VAT scheme for publishers. For sale of daily newspapers, periodicals, books, and the related additional media and catalogs, 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.

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.

Other special schemes. 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

Annual 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.

Supplementary filings.

Communication of transactions with foreign counterparties. Established taxable persons must file a communication 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 on a quarterly basis starting from 1 January 2020 (cross-border transactions carried out up to 31 December 2019 are still subject to the monthly communication) and it is known as a "Esterometro."

The following transactions do not fall within the scope of the 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 Communication is due on a quarterly 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.

Frequent exporters. Frequent exporters must file declarations of intent with the Italian Revenue.

Suppliers can issue zero-rated VAT invoices to frequent exporters only upon checking that the declaration has been electronically filed with the Italian Revenue. Law Decree no. 34/2019 introduced relevant changes in the discipline regarding the declaration of intent effective as of 1 January 2020. The main changes are:
• Frequent exporters are no longer obliged to provide their suppliers or customs offices the declaration of intent and related filing receipt (the supplier is obliged to verify using the Revenue Agency's electronic services that the declaration of intent has been filed). In the absence of providing this check, penalties from 100% to 200% of the VAT not charged could apply.
• Frequent exporter and the supplier are no longer required to proceed with the progressive numbering of the declaration of intent or the annotation in a specific VAT book.
• The supplier must quote the protocol number attesting the receipt of the declaration on the invoice issued.
• The Section "VI" of the annual VAT return (for declaring the data of the declarations of intent received) is repealed.

If no declaration of intent is received, fines ranging between 100% and 200% of the VAT not charged could apply.

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).

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).

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.

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).

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.

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).

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

Digital reporting. Any form or return to be filed with the tax authorities must be filed electronically. Moreover, as from 1 January 2020, the electronic memorization and submission of fiscal receipts and cash receipts for retail trade taxpayers is mandatory.

The obligation is 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"*).

J. Penalties

Penalties for late registration. 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.

Penalties for late payment and filings. 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.

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.

Penalties for errors. 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.

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 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

If the annual VAT return is submitted with incorrect data, the penalty ranges from 90% to 180% of the amount of output tax 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.

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.

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.

Penalties for fraud. Pursuant to Legislative Decree no. 742000, the penalties for fraud are as follows:
- Omitted VAT return, when the amount of VAT evaded is higher than EUR50,000, is punished with detention from two to five years.
- Unfaithful return is punished with detention from two to four years and six months of detention with specific punishment thresholds (i.e., when the amount of evaded VAT is higher than EUR100,000; when the amount corresponding to the positive elements detracted from taxation is higher than EUR2 million).
- Omitted VAT payment based on the annual VAT return is punished with detention from six months to two years when the amount of omitted VAT is higher than EUR250,000.
- Tax consulting could expose tax advisors to the risk of participation in an offense performed by their client; nevertheless, it is not always easy to define the perimeters of the respective responsibilities also in light of Italian case law.

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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	10%
Reduced	8% (implemented from 1 October 2019)
Other	Exempt-with-credit and exempt
Consumption tax return periods	Monthly, quarterly, biannually and annually
Consumption tax number format	Not required. (However, a registration number system is expected to be introduced from 1 October 2023 together with new invoicing rules.)
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 on the first time taxable turnover is 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 corporations. 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 and small businesses. A business falling under the small business exemption may elect for taxable person status (see detail above).

Group registration. There is no group registration system under the CT law.

Non-established businesses. Non-established businesses that become or elect to become a taxable person should appoint a tax representative (see 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
- 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 is not a CT taxable person

Domestic reverse charge. There are no domestic reverse charges in Japan.

Digital economy. 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 lessons, 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 business-to-business (B2B) and business-to-consumer (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 would 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 is applicable.
- B2C digital services: the supplier is required to charge CT, file CT returns and pay the CT to the tax office unless the supplier can benefit from the exemption for small businesses. Currently, Japanese businesses cannot credit input tax 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).

Online marketplaces and platforms. No special rules exist for online marketplaces and platforms in Japan. Even if digital content is listed on the platform, the supply of digital services should take place between the content provider and the customer if the contractual relationship indicates so.

On the other hand, the services provided by the platform to the content provider (listing the digital content) would fall under B2B digital services. If such service is provided by nonresident platforms to resident content providers, the reverse-charge mechanism would be applicable.

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.

When a taxable person ceases its business, a certain form needs to be filed to the tax office promptly.

D. Rates

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

The CT rates are:

- Standard: 10% (7.8% national tax and 2.2% local tax)
- Reduced: 8% (6.24% national tax and 1.76% local tax)

The standard rate was increased from 8% to 10% from 1 October 2019. At the same time, the reduced rate of 8% was introduced.

Examples of goods and services taxable at 8%

- 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)

The previous standard rate of 8% continues to apply to certain supplies such as construction contracts and property leases, based on engagements that were enacted before the tax rate change.

The term "exempt-with-credit supplies" refers to supplies of goods and services that are not taxed but does give rise to a right of input tax deduction.

Examples of exempt-with-credit 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 "exempt 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 exempt supplies of goods and services

- Bank interest
- Insurance
- Educational services
- Sales and leases of land
- Social welfare services

Option to tax for exempt supplies. The option to tax exempt supplies is not available in Japan.

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 is subject to CT depending on the type of the original transaction.

Continuous supplies of services. The time of supply rules for continuous supplies is when all the supplies have been delivered or completed.

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.

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.

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.

Imported goods. For import CT, the time of supply for imported goods is the time when the goods are removed from bonded areas. For the domestic CT, there are no special time of supply rules in Japan for supplies of imported goods. As such, the general time of supply rules apply.

F. Recovery of CT by taxable persons

A taxable person may have the right to recover input tax on imports and taxable supplies of goods and services made to it. Input tax is recovered by way of deduction from output tax. In order to be able to deduct input tax, 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 require-

ments were introduced on 1 October 2019 (new invoicing rules will be introduced on 1 October 2023). The right to recover input tax may be limited for businesses carrying out nontaxable activities.

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

- Purchase of B2C digital services from a foreign supplier 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. A taxable person carrying out nontaxable activities is subject to a limitation of the amount to deduct CT if:

- Its taxable sales ratio is below 95%
  Or
- 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. Taxable persons can apply an alternative ratio based on reasonable factors, subject to prior authorization from the tax authorities.

Simplified credit. A taxable person 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.

Capital goods. There is no definition or special treatment for "capital goods" in Japan. As such input tax recovery on capital goods (i.e., the sale and lease of property, large equipment and computers) are computed in accordance with the normal input tax recovery rules (as outlined above). Certain types of capital goods (e.g., the sale and lease of land) is exempt and no CT is charged.

Refunds. If the amount of input tax creditable in a taxable period exceeds the amount of output tax, the excess is refundable. In this case, an additional form that indicates certain transactions should be filed together with the tax return. The tax refund is made to the bank account stated on the tax return.

Pre-registration costs. Input tax incurred on pre-registration costs in Japan, is not recoverable.

Write-off of bad debts. In the case of write-offs of bad debts due to the Confirmation of Rehabilitation Plans and other certain reasons, CT on such bad debts are deductible in the taxable period in which such event occurs. Documentary evidence should be maintained.

Noneconomic activities. Only the input tax incurred in the course of business activities are creditable. Input tax on purchases of goods and services that are used for nonbusiness purposes is not deductible.

G. Recovery of CT by non-established businesses

Japan refunds CT incurred by businesses that are not established in Japan or nonresident sole proprietors if creditable CT exceeds output tax in the tax period. To obtain a refund, a non-established business and nonresident must appoint a resident tax representative, qualify or elect to be treated as a taxable person, and file a tax return in due course.

H. Invoicing

CT invoices. 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 tax, the recipient must hold an invoice containing certain mandatory information. The CT amount must not be mentioned separately. In addition, purchase statements and purchase calculation statements that were prepared by a business making taxable purchases and include certain information (applicable to documents confirmed by suppliers of the taxable purchases) can be used as a record required for input tax credit purposes.

Because of the introduction of multiple rates from 1 October 2019, new invoicing requirements were implemented. This covers where the transaction includes items being subject to the reduced tax rate (8%), the invoice should indicate which item is subject to the reduced rate and should have tax inclusive subtotal amounts for the standard 10% rate and the reduced 8% rate. 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, taxable persons 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.

Credit notes. CT law does not explicitly require a taxable person to issue a credit note for adjustments. However, retention of books that covers name of the supplier and description of transaction, etc., is necessary.

Electronic invoicing. A foreign business providing B2C digital services is allowed to issue electronic invoices. In other cases, electronic invoices are not permitted in Japan.

Simplified CT invoices. The name of the recipient does not need to be included on invoices issued by businesses that transfer taxable assets to an unspecified person, such as retail business, restaurant business and taxi business, etc.

Self-billing. Self-billing is not allowed in Japan.

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.

Supplies to nontaxable persons. There are no special invoicing rules for supplies to nontaxable persons in Japan.

Records. As a result of the introduction of the multiple rates system, new bookkeeping and invoicing requirements were implemented and are expected to be reformed from 1 October 2023 accordingly when the new invoicing rule is implemented.

Record retention period. Records (i.e., books and invoices) must be kept for seven years in principle. This means that if the business retains one of them for seven years, the retention period of the other one will be shortened to five years.

Electronic archiving. Invoices received from foreign businesses can be kept in electronic form rather than in paper form. However, generally invoices need to be kept in paper form in principle. Keeping them in electronic form or in scanned copies is acceptable if the taxable person obtained an approval from thesur relevant tax office regarding electronic book/record retention.

I. Returns and payment

Periodic returns. Taxable persons must file CT returns annually. An individual entrepreneur must file its CT return by 31 March of the year following the end of the calendar year. A corporation must file its annual CT return within two months after its fiscal year-end. A taxable person may opt to file tax returns monthly or quarterly instead of annually. Tax authorities do not grant an extension of the filing/payment deadline.

Periodic payments. An individual entrepreneur must pay the CT due by the same date as the CT return submission deadline, i.e., by 31 March of the year following the end of the calendar year. A corporation must pay the CT due by the same date as the annual CT return, i.e., within two months after its fiscal year-end. Tax authorities do not grant an extension of the filing/payment deadline.

Electronic filing. Electronic filing is available under certain conditions, such as obtaining an ID number. From the fiscal year that starts on or after 1 April 2020, Japanese corporations whose amount of capital exceeds JPY100 million, insurance companies or other certain corporations are required to file the tax return electronically.

Payments on account. 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. No special schemes are available in Japan.

Annual 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.

Supplementary filings. No supplementary filings are required in Japan.

Digital reporting. There is no requirement of digital reporting such as live/real-time invoice reporting. However, electronic of CT returns From the fiscal year that starts on or after 1 April 2020, Japanese corporations whose amount of capital exceeds JPY100 million, insurance companies or other certain corporations are required to file the tax return electronically.

J. Penalties

Penalties for late registration. There is no penalties applicable for late registration. Penalties apply for late filing/payment.

Penalties for late payment and filings. In cases of late payment of CT, late-payment interest is imposed, calculated at the following rates:

- 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 2020 is 1.6%.

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
- Furthermore, 10% will be added to non-reporting (late filing) penalties, if the taxable person that has been subject to penalties for non-reporting or fraud within the last five years due to a correction initiated by tax audit

Penalties for errors. 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

Penalties for fraud. In addition to the penalties outlined above, if any such errors are related to fraudulent activity, a further 10% will be added if the taxable person has been subject to penalties for non-reporting or fraud within the last five years due to a correction initiated by tax audit.

Jersey, Channel Islands

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A. At a glance

Name of the tax	Goods and services tax (GST)
Local name	Goods and services tax (GST)
Date introduced	6 May 2008
Trading bloc membership	Jersey has a special relationship European Union (EU). In simple terms, the island is treated as part of the EU for the purposes of free trade in goods, but otherwise it is not part of the EU. *At the time of preparing this chapter, this position is not expected to change when the (UK) leaves the EU. However, this situation is not yet finalized and may be subject to change.*
Administered by	Comptroller of Taxes (http://www.gov.je/taxesmoney)
GST rates	
Standard	5%
Other	Zero-rated (0%) 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 (EUR338,520)
Established	JEP300,000 (EUR338,520)
Non-established	JEP300,000 (EUR338,520)
Distance selling	JEP300,000 (EUR338,520)
Intra-Community acquisitions	JEP300,000 (EUR338,520)

Electronically supplied services	JEP300,000 (EUR338,520)
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).

As outlined above, Jersey has a special relationship with the EU. In simple terms, the island is treated as part of the EU for the purposes of free trade in goods, but otherwise it is not part of the EU. *At the time of preparing this chapter, this position is not expected to change when the UK leaves the EU. However, this situation is not yet finalized and may be subject to change.*

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.

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 2019 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

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

Voluntary registration and small businesses. 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.

Non-established businesses. There is no distinction between established and non-established businesses for the purposes of Jersey goods and services tax. As such, a non-established business has a requirement to register for GST, to the same extent as an established business does.

Tax representatives. There is no option for a non-established business that registers for GST in Jersey to appoint a tax representative.

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.

Domestic reverse charge. There are no domestic reverse charges in Jersey.

Digital economy. For business-to-business (B2B) 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 (B2C) 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.

Online marketplaces and platforms. No special rules exist for online marketplaces and platforms in Jersey.

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).

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.

D. Rates

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

The GST rates are:
- Standard rate: 5%
- Zero-rated: 0%

Examples of goods and services taxable at 0%

- Supplies of dwellings
- Prescription medicines
- Exported services and related services
- Services performed outside Jersey

The term "exempt supplies" refers to supplies of goods and services that are not liable to GST and that do not qualify for input tax deduction.

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. The option to tax exempt supplies is not available in Jersey.

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.

Deposits and 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.

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.

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 months after the day when the removal occurred.

Reverse-charge services. The time of supply is the date the supply of services takes place.

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.

Imported goods. The time of supply is the date the goods are imported.

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.

Capital goods. There are no special rules in Jersey for the input tax recovery for capital goods. Input tax deduction relating to capital goods that are used for making both taxable and exempt supplies should be calculated in the same way as described above.

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.

Pre-registration costs. Input tax incurred on pre-registration costs in Jersey, is not recoverable.

Write-off of bad debts. GST shall be refunded to a person if the following conditions are satisfied at the time that a claim for the refund is made to the Comptroller:

- A person has supplied goods or services for a consideration in money and has accounted for and paid GST on the supply.
- All or part of the consideration for the supply has been written in the person's accounts as a debt.
- A period of at least six months has elapsed since the supply.
- The value of the supply did not exceed its open-market value.
- In the case of a supply of goods, the property in the goods has passed to the recipient, whether or not the recipient still has property in the goods.
- The claim is person who made the supply.
- The claim is made within the approved time or, if no time has been approved, within 12 months after the day when the last writing-off (as referred to above) occurred in respect of the consideration for the supply.
- The claim is in the approved form, or if no form has been approved, in any form sufficient to show that the set out in this paragraph (other than in this subparagraph)

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.

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

GST invoices. 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.

Credit notes. A credit note must indicate the reason why it was issued and must refer to both the GST originally charged and the corrected amount.

Electronic invoicing. Electronic invoicing is not allowed in Jersey.

Simplified VAT invoices. Retailers (i.e., those making the majority of their sales to the general public) can provide simplified invoices, unless a full GST invoice is requested by the customer.

Self-billing. Self-billing can be used by any GST-registered business subject to the following conditions:

- The business must obtain written approval from the Comptroller of Taxes to use self-billing.
- If the supplier is registered for GST, the invoice must show the tax chargeable on the value of the supply and the supplier's GST number. The invoice must also meet all requirements of a tax invoice.
- The business must obtain the written agreement of the supplier to use self-billing, informing it that it must not issue the business with a tax invoice that it has written itself and must advise the business within 30 days if it ceases to be registered for GST.

Proof of exports. There is no specific legislation in Jersey regarding proof of exports. In practice, delivery notes or proof of postage should suffice.

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.

Supplies to nontaxable persons. Retailers (i.e., those making the majority of their sales to the general public) can provide simplified invoices, unless a full GST invoice is requested by the customer.

Records. A taxable person must keep accounts and records to substantiate amounts declared in GST returns.

Record retention period. The retention period is not specified in the legislation, however, in practice it is common to retain records for a period of seven years, which is in line with other taxes record retention periods in Jersey.

Electronic archiving. Electronic archiving is not specifically covered by the Jersey GST legislation. However, provided that accounts and records can be provided to substantiate the amounts declared in GST returns, electronic archiving is permitted.

I. Returns and payment

Periodic 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 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.

Periodic payments. Payment of any GST due must be paid by the GST return deadline, i.e.,. by the last business day of the month following the end of the return period. GST return periods are usually submitted per quarter. GST payments can be made by BACS, by check, online via the gov.je website or in person at the Jersey Taxes Office.

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.

Payments on account. The Comptroller may by direction require a taxable person to pay amounts of GST due, on account of any GST that the person may become liable to pay in respect of a prescribed accounting period. A person who without reasonable excuse fails to comply with a direction shall be guilty of an offense and liable to a fine of level three on the standard scale.

Special schemes.

Annual accounting. 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.

Cash accounting. 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.

Retail scheme. The GST retail scheme enables businesses to account for their total quarterly sales instead of individual sales, thereby reducing accounting and bookkeeping costs. To be eligible, 50% or more of total sales must be made to the general public.

Annual returns. Annual returns are not required in Jersey.

Supplementary filings. No supplementary filings are required in Jersey.

Digital reporting. In Jersey, there is the option for GST returns to be filed online. Returns 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.

J. Penalties

Penalties for late registration. A penalty is assessed for the late registration of VAT for the higher of JEP200 or 10% of the relevant GST (if any).

Penalties for late payment and filings. 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.

Penalties for errors. There are no specific penalties in relation to errors. If a taxable person makes inadequate returns for two consecutive accounting periods, the Comptroller may assess an amount of JEP200 by way of a surcharge.

Penalties for fraud. There are no specific penalties in relation to fraud. If a taxable person makes inadequate returns for two consecutive accounting periods, the Comptroller may assess an amount of JEP200 by way of a surcharge.

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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])
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 (0%) and exempt
ST rates	Various (20 types of goods and one type of service are subject to percentage rates or fixed amounts)
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.

The GT on the supply of goods and services includes a distinction between the two types of supply for goods and services, as different VAT treatments may apply.

In terms of imported goods and services, the reverse charge is the amount of VAT you would have paid on that service if you had bought it in Jordan. However, since this also includes goods and not just services – there are rules for time of supply set by the ISTD, outlined below in Section E for tax payments on imported goods and services including a 16% VAT, 10% WHT and 0.5% national contribution.

As for local goods and services, where the place of supply is Jordan and it is made by a taxable person, 16% is paid on goods and services and a 5% WHT is paid on services.

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.

Exemption from registration. A taxable person whose entire turnover is zero-rated may request exemption from registration.

Voluntary registration and small businesses. 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.

Group registration. GST grouping is not allowed. Legal entities that are closely connected must register for GST separately.

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.

Domestic reverse charge. There are no domestic reverse charges in Jordan.

Digital economy. For business-to-business (B2B) 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.

For business-to-consumer (B2C) 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.

Online marketplaces and platforms. No special rules exist for online marketplaces and platforms in Jordan.

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.

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. Rates

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

The GT rates are:
• 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.

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)

The term "exempt supplies" 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.

Exempted goods are goods and services listed in Schedule 2 annex. 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. The option to tax exempt supplies is not available in Jordan.

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.

Deposits and prepayments. There are no special time of supply rules in Jordan for deposits and prepayments. The general time of supply rules apply.

Continuous supplies of services. There are no special time of supply rules in Jordan for continuous supplies. The general time of supply rules apply.

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 apply.

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 apply.

However, importers of goods and 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 goods (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

Leased assets. There are no special time of supply rules in Jordan for supplies of leased assets. The general time of supply rules apply.

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.

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, and is generally not recoverable except in the case where the good subject to ST is used to produce another good 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 formula is not possible, the tax is calculated based on the proportion of the nontaxable supplies to the total supplies.

Capital goods. In general, all GST paid on capital goods is refundable — with the exception of the goods listed in schedule (4).These are listed above under *"Examples of items for which input tax is nondeductible."* Capital goods are defined in Jordan as all fixed assets tangible or nontangible used to produce the good or service subject to GST and this is refundable if they are related to the subject activity. The recovery of input tax on capital goods is the same as the recovery of inputs mentioned in Section F.

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 cannot 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).

Pre-registration 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, or 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. Input tax incurred in relation to noneconomic activities is not recoverable in Jordan.

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

GST invoices. 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.

Credit notes. Credit notes are used when a customer asks to return purchased goods or services, and the supplier accepts the return. If the original sale was made on credit, then the return will create a respective debtor account to reduce the original accounting entry, in order to credit the related customer's account.

Credit notes are required when an invoice issued is canceled, and hence to reverse the transaction.

In order to accept credit notes provided for purchase and sales, the information that should be included should be the same as the information provided in the matching invoice that is being reversed.

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 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.

Simplified VAT invoices. Simplified VAT invoicing is not allowed in Jordan. As such, full VAT invoices are required.

Self-billing. Self-billing is not allowed in Jordan.

Proof of 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.

Supplies to nontaxable persons. 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.

Records.

Record retention period. Company records must be kept for a period of 10 years. GST records must be kept for a period of four years from the date of submission of the GST return.

Electronic archiving. Electronic archiving is allowed in Jordan. There are special rules for electronic archiving other than original documents (in physical format) must be provided to the tax authority during a tax audit upon request. Other than that, electronic archiving is required when filing tax returns on the governmental website with a deadline for filing for the bimonthly VAT return. These returns are not required to be handed in physically, only upon tax audits.

I. Returns and payments

Periodic returns. 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.

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.

Periodic payments. VAT payments should be made by taxpayers within one month after their tax period. For example, if a taxpayer's tax period is January and February 2020, the periodic tax payment should be made by the end of March 2020 at the latest. If payment is received late by the tax authority, then late payment penalties will be imposed upon the taxpayer. This is paid via bank transfer as a reference number. It is extracted from the governmental website as a payment voucher and is made before the end of the month it is due. If a firm is late to pay, a late penalty fee is prevalent.

VAT payments in excess of JOD5,000 will be accepted if made via the electronic payment system (www.efawateer.com).

Electronic filing. The Income and Sales Tax Department (ISTD) has issued instructions related to the submission of the tax returns, with 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.

Payments on account. Payments on account are not required in Jordan.

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.

Annual returns. Annual returns are not required in Jordan.

Supplementary filings. No supplementary filings are required in Jordan.

Digital reporting. No digital reporting requirements apply in Jordan. However, the tax authority has recently moved to using a digital platform used to file all GST returns, payments, and other requirements. Therefore, the ISTD has provided all entities liable to GST filing their own user names and passwords to enter the online website.

J. Penalties

Penalties for late registration. 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.

Penalties for late payment and filings. Late filing of a GST or SST Return to the ISTD will incur a penalty of JOD100 upon the first late filing. It will increase by 100 for every late filing after which and will cap at JOD500.

Late payment of GST or SST due will incur a late payment penalty equal to 0.4% of the tax due for each late week or part of the week.

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 canceled except for any amendment notices submitted afterward.

Penalties for errors. If a registered person realizes that it has made an error, such as incorrect entry of tax amount or purchase/sales amount 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 under declared amount of tax, together with the late payment penalty imposed (0.4%) for that error, calculated for every week or any part thereof.

Penalties for fraud. 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.

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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
Trading bloc	Customs Union member with Russia and Belarus, Eurasian Economic Union (EAEU) between Kazakhstan, Belarus, Kyrgyz Republic, Russian Federation and Armenia, Enhanced Partnership and Cooperation Agreement (EPCA) which governs trade and economic relations between the EU and Kazakhstan
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 from 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 USD211,000 for 2020

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 example maintenance and software updates
- 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 nonresident legal entities, having registered a presence in Kazakhstan (e.g., a branch), that are registered for VAT purposes as well as importers of goods into Kazakhstan.

Exemption from registration. Kazakhstan tax legislation does not contain any provisions for exemption from VAT registration.

Voluntary registration and small businesses. 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 (e.g., through a branch) and gambling businesses do not have the right to voluntarily register for VAT purposes.

Group registration. Group VAT registration is not allowed in Kazakhstan.

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 business-to-business (B2B) and business-to-consumer (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 USD211,000 for 2020). 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. Tax representatives are not envisaged in Kazakhstan.

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.

Domestic reverse charge. There are no domestic reverse charges in Kazakhstan.

Digital economy. Starting from 1 January 2018, the provision of access to online resources was added to the services for which the place of supply is deemed to be in Kazakhstan. There are no other special rules that apply to the digital economy from a VAT perspective.

Online marketplaces and platforms. The State Revenue Committee of Kazakhstan is proposing the introduction of new rules for a nonresident legal entity providing services in electronic form to individuals (tentatively from 1 January 2021). According to the planned changes, a nonresident legal entity, when providing services to individuals (B2C) in electronic form, will be required to register as a VAT payer and calculate VAT based on the turnover of services rendered if the place of supply of such services is Kazakhstan (regardless of whether they have established a registered presence).

Registration procedures. VAT registration, a process separate from tax registration, is either compulsory or voluntary.

Resident legal entities, branches or representative offices of nonresident legal entities and private entrepreneurs must register for VAT if their turnover during the calendar year exceeds 30,000 times the MCI. The threshold is approximately USD211,000 for 2020. The MCI is established by the state budget law for each year. For 2020, the MCI is KZT2,651 (approximately USD7). 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.

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 USD211,000.
- 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 USD211,000.

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 in abeyance
- The registration of the legal entity is recognized to be invalid based on a court decision that has taken effect

D. 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, or services unless a specific measure provides for the zero rate or an exemption.

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

The term "exempt supplies" refers to supplies of goods, work and services not liable to VAT and that do not qualify for 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 (subject to certain limitations)
- Turnovers related to international transportation services
- Import of goods from the territory of a Eurasian Economic Union member country within the same legal entity (e.g., intra-entity transaction)

Option to tax for exempt supplies. The option to tax exempt supplies is not available in Kazakhstan.

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. The general time of supply rules apply.

Continuous supplies of services. 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.

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. The general time of supply rules apply.

Reverse-charge services. The reverse-charge mechanism is triggered by the purchase of certain services from a nonresident entity based on 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.

Leased assets. There are no special time of supply rules for operational leases. As such, the general time of supply rules apply. 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

Imported goods. The time of supply is the date of importation of goods on to Kazakhstan.

F. Recovery of VAT by taxable persons

The VAT liability of a taxpayer equals output tax (VAT charged by a taxpayer) less input tax (VAT paid by a taxpayer to its suppliers) in a reporting period.

VAT paid on services and goods purchased by a VAT payer (input tax) 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, offsetting 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 tax over output tax may generally be carried forward for offset against future VAT liabilities.

Nondeductible input tax. Input tax is not allowed for offset if purchased goods, works, services are used for nontaxable supplies. In such cases the respective input tax is not deductible for VAT, but could be considered for deduction for corporate income tax purposes.

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
- The VAT invoice does not meet the set requirements of the Tax Code
- Goods and services purchased in cash for an 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

Partial exemption. Input tax directly related to a taxable person's taxable supplies, is recoverable in full, whereas input tax directly related to exempt supplies is not recoverable at all and must be expensed for corporate income tax purposes.

Where a taxable person makes both taxable and exempt supplies, the input tax incurred in relation to both supplies (i.e., overheads, like office rent expenses) must be apportioned accordingly to the extent the input tax incurred relates to the taxable and exempt supplies made. The statutory method of appointment is a pro rata calculation, based on the value of taxable supplies made in the total turnover of the business. The pro rate calculation can be calculated by using either the proportional or separate method. The method that the taxpayer uses should be chosen based upon the tax accounting policy of the taxpayer.

Capital goods. There are no special input tax rules for capital goods. As such, normal input tax rules apply (as outlined above).

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 tax 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 tax 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 taxpayer 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

With effect from 1 January 2019, certain taxpayers, being members of the official online system of the tax authorities, which has been designed specifically for the receiving and processing of electronic VAT invoices, may open a control account on a voluntary basis. The control account is a bank account at a commercial Kazakhstani bank for VAT transactions (e.g., payment to the state budget, payment to suppliers).

The following taxpayers may claim VAT refunds 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 goods are fully consumed for the purposes of activities that meet the objectives of such Special Economic Zones

Pre-registration costs. Input tax incurred on pre-registration costs in Kazakhstan, is not recoverable.

Write-off of bad debts. If part or all of the amount of the claim for realized goods, works, services is considered a doubtful claim, the taxpayer has the right to reduce the amount of its taxable turnover on such a claim after three years from the beginning of the tax period, which is as follows:
- A period of fulfillment of the requirement for the realized goods, works, services, if such term is defined
- The day of transfer of the goods, performance of work, rendering of services, term of execution of the requirement which is not defined

Noneconomic activities. Input tax incurred upon purchases that are used for noneconomic activities, is not recoverable in Kazakhstan.

G. Recovery of VAT by non-established businesses

Non-established businesses cannot recover input tax incurred in Kazakhstan.

H. Invoicing

VAT invoices. In general, the VAT invoice is a compulsory document for all taxpayers. No input tax deduction 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 a receipt of a cash register (which 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.

Electronic invoicing. With effect from 1 January 2019, all taxpayers 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.

Simplified VAT invoices. Simplified VAT invoicing is not allowed in Kazakhstan. Full VAT invoices are required. This requirement also applies for supplies made by retailers to consumers. Full VAT invoices must be used for all supplies in Kazakhstan.

Self-billing. Self-billing is not allowed in Kazakhstan.

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.

Supplies to nontaxable persons. There are no special rules for VAT invoices issued to private consumers, and as such, full VAT invoices must be issued for all supplies.

Records. Records that must be kept in Kazakhstan include: VAT returns, VAT invoices supplies and received, contracts and acts of acceptances.

Record retention period. The statute of limitation for 2019 and prior years is five years. For liabilities incurred after 1 January 2020, the statute of limitation for such records is three years.

Electronic archiving. All VAT returns and VAT invoices must kept and archived electronically, within the online system for electronic VAT return filing, and have their own status (draft, filed, received). Other original support documents should be stored in paper (e.g., contracts, invoices, acts of acceptance). During the statute of limitations period.

I. Returns and payments

Periodic returns. Taxpayers 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).

A VAT return for the import of goods into Kazakhstan from other EAEU member countries must be filed with the tax authorities by the 20th day of the month following the tax period (month).

Periodic payments. The VAT due for the VAT return must be paid to the budget by the 25th day of the second month following the reporting tax period.

The VAT due for the import of goods into Kazakhstan from other EAEU member countries, must be 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.

Electronic filing. Electronic filing of VAT returns is optional in Kazakhstan. There is a special online system designated for electronic filing of VAT returns (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).

Payments on account. Payments on account are not required in Kazakhstan.

Special schemes. Taxpayers may pay a remaining amount of import VAT on certain goods by the offset method or take the amount of import VAT already paid.

Annual returns. Annual returns are not required in Kazakhstan.

Supplementary filings. The Tax Code includes certain procedures and monthly compliance requirements for exports and imports of goods to and from Kazakhstan from and to countries in the EAEU (Belarus, Kazakhstan, Russian Federation, Armenia and Kyrgyzstan). An application (form 328.00) and VAT return (form 320.00) for the import of goods into Kazakhstan from other EAEU member states must be filed with the tax authorities within the established deadlines.

Digital reporting. Electronic filing of VAT returns is optional in Kazakhstan. There is a special online system designated for electronic filing for VAT returns (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).

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" was 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.

With effect from 1 April 2020, inventory handling procedures should be maintained through the "virtual warehouse" only for certain categories of goods (e.g., alcohol, tobacco product, oil products). Before this date, reporting through the "virtual warehouse" was obligatory only for goods that were included into the list of exemptions (based on the reduced rates envisaged by WTO).

J. Penalties

Penalties for late registration. The penalty for late registration is 50 MCI (approximately USD352 for 2020).

Penalties for late payment and filings. The penalty for failure to file a tax return: penalty up to 70 MCI (approximately USD493 in 2020).

The penalty for understatement of tax payments: penalty up to 50%-80% (depending on the size of the taxpayer) of the underpaid tax.

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 official refinancing rate is 9.25%, so the late payment interest rate is 11.6% per annum.

Penalties for errors. The penalty for the issue of fictitious invoice: penalty up to 200%-300% (depending on the size of the taxpayer) of the input tax included in the invoice.

The penalty for nonpayment of tax for export and import of goods, work and services in the Eurasian Economic Union: penalty up to MCI50 (approximately USD352 for 2020).

The penalty for non-issuance of electronic VAT invoice: for a first time leads to a warning, committed repeatedly within a year penalty up to MCI40 to MCI150 (approximately USD282 to USD1,056 in 2020).

Penalties for fraud. 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.

Kenya

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A. At a glance

Name of the tax	Value-added tax (VAT)
Local name	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 (0%) 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.

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

Voluntary registration and small businesses. 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.

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

Reverse charge. Reverse-charge VAT is applicable on importation of taxable services to the extent it relates to the provision of exempt supplies. Effective 7 November 2019, the liability to account for VAT on imported services applies to any importer, irrespective of their VAT registration status. The reverse-charge VAT should be accounted by any person to the extent they are not entitled to input tax credit payable on the imported taxable services.

Domestic reverse charge. There are no domestic reverse charges in Kenya.

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.

Online marketplaces and platforms. No special rules exist for online marketplaces and platforms in Kenya. However, at the time of preparing this chapter, the draft Finance Bill 2019 proposes to introduce special tax rules for supplies made through a digital marketplace.

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.

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

D. 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: 16%
- Special rate: 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 taxable at 0%
- 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)
- Supplies to the Commonwealth
- Supplies to other governments
- Supplies to diplomats

Examples of goods and services taxable at 8%
- Motor fuel (regular and premium gasoline)
- Aviation fuel
- Gas oil
- Natural gas

The term "exempt supplies" refers to supplies of goods and services that are not liable to VAT and that do not qualify for input tax deduction.

Examples of exempt supplies of goods and services
- 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
- 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. The option to tax exempt supplies is not available in Kenya.

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.

Deposits and prepayments. VAT is due on deposits and prepayments provided one is able to determine the type of payments the supply relates to.

Continuous supplies of services. For continuous supplies, the time of each successive supply is the earlier of the date on which payment for the successive supply is due or received.

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.

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.

Leased assets. VAT is due on lease rentals at the earlier of when the invoice is raised or when the payment is made.

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.

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.

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.

Examples of items for which input tax is nondeductible

- 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

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

- Professional fees
- Utility costs

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 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 supplies 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.

Capital goods. "Capital goods" is not defined under the provisions of the VAT Act in Kenya, and there are no specific rules that outline input tax recovery on capital goods. General rules are applied for deduction of input tax. Specifically, deduction of input tax on passenger vehicles is restricted. In all other cases, deduction of input tax on capital goods depends on whether the business is dealing with exempt or taxable supplies. Where capital goods are used for both taxable and exempt supplies, the input tax should be claimed to the extent it relates to provision of 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.

Pre-registration costs. On the date a person is registered, and for the next three months, the taxable person may recover pre-registration input tax 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.

Write-off of bad debts. Where a registered person does not receive payment from a customer, it may, after a period of three years from the date of supply or where the person has become legally insolvent, apply to the commissioner for a refund of the tax involved. The refund should be lodged before expiry of five years from the period of supply.

Noneconomic activities. Input tax incurred in relation to noneconomic activities is not recoverable in Kenya.

G. Recovery of VAT by non-established businesses

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. A supplier of taxable goods and services must issue a tax invoice to the purchaser at the time of supply.

Credit notes. 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.

Electronic invoicing. An invoice may be generated electronically or manually, provided it meets the prescribed conditions of a valid tax invoice.

Simplified VAT invoices. Simplified tax invoices are allowed for supplies made within the retail sector in Kenya. There is no threshold in terms of the amounts invoiced. A registered person may provide an electronically generated fiscal receipt as a simplified tax invoice for cash sales made from retail premises.

Self-billing. Self-billing is allowed for registered persons liable to tax for imported services and is entitled to a credit for part of the amount of input tax payable. They must prepare a tax invoice containing the following information:
- The name, address, and PIN of the recipient
- The name and address of the supplier
- The individualized serial number of the tax invoice and the date on which the tax invoice is prepared
- A description of the services supplied and the date of the supply
- The extent to which the supply has been applied other than to make taxable supplies
- The consideration for the supply and the amount of tax charged

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.

Supplies to nontaxable persons. There are no special rules for invoices issued for supplies made by taxable persons to private consumers.

Records.

Record retention period. Every registered person is required to keep records either electronically or otherwise for a period of five years.

Electronic archiving. Registered persons must keep records, including copies of tax invoices in an electronic manner or otherwise.

I. Returns and payment

Periodic returns. The VAT tax period is one month. Returns must be filed by the 20th day after the end of the tax period.

A "nil" return must be filed in instances where the taxable person has not made any supplies.

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.

A person may apply to the commissioner before the due date for submission of return for an extension of time to submit a return.

Periodic payments. Payment of VAT is due in full by the same date as the VAT return submission deadline, i.e., by the 20th day after the end of the tax period.

Electronic filing. All returns must be filed electronically via the Kenya Revenue Authority (KRA) i-Tax portal.

Payments on account. Payments on account are not required in Kenya.

Special schemes. No special schemes are available in Kenya.

However, there are special rules for withholding VAT. 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.

Annual returns. Annual returns are not required in Kenya.

Supplementary filings. No supplementary filings are required in Kenya.

Digital reporting. No digital reporting requirements apply in Kenya. However, all returns must be filed electronically via i-Tax portal.

J. Penalties

Penalties for late registration. 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 for late payment and filings. Late submission of a return is subject to a penalty of KES10,000 or 5% of tax due, whichever is higher. Late payment attracts interest at a rate of 1% per month, simple interest.

Penalties for errors. There are no penalties for errors provided by the VAT Act. The Act provides for specific and general penalties for noncompliance offenses. The general penalty is a fine not exceeding one million shillings or imprisonment for a term not exceeding three years or both.

The failure to keep, retain or maintain documents without reasonable cause for a reporting period is subject to a 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.

The failure to display registration certificate is subject to a penalty of up to KES200,000 or a maximum sentence of two years' imprisonment, or both.

Penalties for fraud. Making a fraudulent claim for a refund of tax is subject to a penalty of two times the amount of claim.

Unauthorized access to or improper use of tax computerized system is subject to a penalty of a maximum of KES400,000 or a maximum sentence of two years' imprisonment, or both.

Interference with tax computerized system is subject to a penalty of a maximum of KES800,000 or a maximum sentence of three years' imprisonment, or both.

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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 (0%) 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.

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

Voluntary registration and small businesses. 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).

Group registration. Group VAT registration is not allowed in Korea.

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.

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.

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

Domestic reverse charge. From 1 January 2019, if the following companies supply taxable goods or services and receive payments through credit cards, the credit card company will be subject to domestic reverse-charge obligations:
- General entertainment and drinking establishments
- Dancing and drinking halls

Digital economy. 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 (B2B) transactions).

Online marketplaces and platforms. Where a foreign corporation provides electronic services through an online marketplace or platform, that marketplace or platform company is considered to provide electronic services in Korea, i.e., not the foreign corporation. The platform/marketplace is therefore responsible to account for the VAT on the supplies made.

The foreign corporation providing the electronic services through the online marketplace or platform in Korea, doesn't need to register or account for VAT. However, it would largely depend on facts of the case and should be examined on case-by-case basis.

However, if the online marketplaces and platforms are foreign corporations they would need to register for VAT (as outlined under the Digital economy subsection above) and account for VAT locally.

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.

Deregistration. A registered business that ceases to operate is required to deregister by returning its business registration certificate to the tax office.

D. 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 rates are:
- Standard rate: 10%
- 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

The term "exempt supplies" refers to supplies of goods and services that are not liable to VAT and that do not qualify for input tax deduction.

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 to the tax authorities, to waive the 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: subject to the principle rules of supply of goods, the time of supply is the above bullet points, i.e., 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.

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 tax. 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.

Continuous supplies of services. 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 a 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

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.

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 business.

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.

Imported goods. The time of importation for goods shall be the time when an import declaration under the Customs Act is accepted.

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 documents such as contracts, remittance certificates, etc.

Nondeductible 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 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

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

- The VAT amount on goods or services that are used by taxpayers for their own business
- The VAT 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.

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 sales (the sale of taxable business supplies, divided by total sales) multiplied by the input tax incurred that relates to both taxable and exempt supplies. In this case, the input tax is partially recovered. In general, the input tax multiplied by the above ratio is recovered.

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.

Pre-registration costs. Input tax incurred on pre-registration costs in Korea, is not recoverable.

Write-off of bad debts. If a bad debt arises for reasons stipulated in the corporate tax law, the already paid VAT can be recovered. A taxpayer must apply for this by the VAT period reporting deadline. This can be done from five years after the originally supplied VAT period. In this case, the relevant documents must be prepared and submitted to the tax authority (e.g., rulings related to bankruptcy).

Noneconomic activities. Input tax incurred in relation to noneconomic activities is not recoverable in Korea.

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

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

VAT invoices. 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

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

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.

Credit notes. 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.

Electronic invoicing. 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.

Simplified VAT 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.

Self-billing. 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.

Proof of exports. A detailed statement is required for a supply to be qualified as an export. This document must be prepared by the taxpayer.

Foreign currency invoices. 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).

Supplies to nontaxable persons. 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 a tax invoice:
- Simplified taxpayer
- A taxpayer supplying goods or services to nonbusiness entity

Records.

Record retention period. 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.

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.

Please note that while Korean tax law does not explicitly state the position of the state for if records can be kept overseas, it is generally interpreted that data should be kept at a business site in Korea, based on the regulation that backup files of electronic files must be kept in Korea.

Electronic archiving. A taxpayer may archive data electronically, except for important documents, including contracts. In this case, however, the backup file should be kept physically in Korea, and a label indicating the type of data, fiscal year, person in charge and date should be attached.

I. Returns and payment

Periodic returns. 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.

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.

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.

Periodic payments. A taxpayer must pay the tax amount payable for the preliminary return period when the return is filed. A taxpayer must also pay the tax amount payable for the final return period at the time of filing the return. Both payments are due within 25 days following the last day of each preliminary return period.

VAT returns must be completed in Korean won (KRW), and VAT liabilities must be paid in Korean won.

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.

Electronic filing. 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. VAT return filing can also still be submitted in paper form. In this case, the printed NTS form and related documents (contracts, etc.) are submitted to the tax office and the taxpayer receives a receipt confirming the submission.

Payments on account. Payments on account are not required in Korea.

Special schemes. There are special rules that apply only to individual businesses with revenue less than KRW48 million. However, corporate entities do not have these special provisions. Individual businesses with revenue less than KRW48 million are subject to special rules, including that they are not obliged to issue tax invoices. Such businesses pay VAT every six months instead of quarterly.

Annual returns. Annual returns are not required in Korea.

Supplementary filings. In addition to the usual NTS form, a taxpayer is required to keep documentation (contract, etc.) to verify each transaction. In addition, when a taxpayer reports any transaction subject to VAT at the zero rate, a foreign currency deposit must be submitted with it.

Digital reporting. Corporations (and individual business owners with turnover of over KRW300 million) must issue electronic tax invoices and submit them electronically to the tax authority within one business day after the issuance date.

Taxpayers file a VAT return to show the calculation of the amount of VAT due on sales by net of the amount of VAT reclaimable on purchases. This can be done electronically, through the information network of the NTS.

An import and export declaration can be made by E-clearance system named "UNI-PASS" or by paper.

J. Penalties

Penalties for late registration. 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.

Penalties for late payment and filings. Failure to file a tax return may result in a penalty of 10% to 40% of the underpaid tax amount (overpaid tax refund).

For underpayment and nonpayment of taxes or overestimated refund, a penalty of the underpaid tax amount (or overpaid tax refund) at a rate of 10.95% annually may be imposed.

Failure to comply with the requirement to make a proxy payment (reverse charge) may result in a penalty of 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%.

Penalties for errors. Failure to issue a correct tax invoice (including ETI) or to submit a correct list of tax invoices issued may result in a penalty of 0.5%, 1%, 2% or 3% of the value of supply. If a tax invoice is issued without the supply of goods or services, a penalty of 3% of the supply value is imposed on both the seller and the buyer. If there is a supply of goods or services and no tax invoice is issued, a penalty of 2% of the value of the supply is imposed. If a corporation (and individual business owners with turnover of over KRW300 million issues a paper tax invoice

instead of an electronic tax invoice, a penalty of 1% of the supply price is imposed. If a list of tax invoices is not submitted by the day following the date of issue, a penalty of 0.3% or 0.5% will be charged.

Penalties for fraud. If the reason for reporting fewer tax bases is related to fraud, the penalty increases significantly. If not related to fraud, 10% or 20% of the tax amount will apply, but if it is related to fraud, it will increase to 40% of the tax amount. In particular, if it relates to international transactions, a penalty of 60% of the tax amount applies.

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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 EU market 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	Zero-rated (0%) 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 nontaxable 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.

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

Voluntary registration and small businesses. 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.

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

Tax 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.

If the recipient of the services supplied in Kosovo, is a nontaxable person or a taxable non-registered person, the supplier of the service should also appoint a VAT representative to pay VAT in Kosovo.

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.

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.

Domestic reverse charge. A domestic reverse charge applies in Kosovo for supplies of construction works (including repair, cleaning, maintenance, alteration and demolition services in relation to the immovable property). Effectively, any supplies that are in line with the Law on Construction in Kosovo and are equipped with the relevant construction permits by the competent bodies are covered by this provision.

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 nontaxable persons is the place where the nontaxable person is established or where he has his permanent address or usually resides. Therefore, 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.

Online marketplaces and platforms. The same rules as the above apply for online marketplaces and platforms, i.e., the place of supply for services supplied by electronic means is the place where the nontaxable person is established or where he has his permanent address or usually resides. Services supplied electronically are considered those services that do not correspond either to the supply of movable tangible goods or to the supply of "traditional" services or telecommunications services.

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 is available online (http://www.atk-ks.org/wp-content/uploads/2017/10/FRTVSH_en-US.pdf). The application 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.

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. Deregistration enters into force two months after the date of the deregistration request.

D. 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: 18%
- Reduced rate: 8%
- Zero-rate: 0%

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.

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 nonbusiness 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.

Some supplies are treated as "exempt-with-credit," which means that no VAT is chargeable, but the supplier may recover the input tax.

Examples of goods and services taxable at 0%
(i.e., exempt with 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

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
- 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
- Textbooks and serial publications
- 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 supply with children's vehicle seats

The term "exempt supplies" refers to supplies of goods and services that are not liable to VAT and that do not qualify for input tax deduction.

Examples of exempt supplies of goods and services

- 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 or land on which a building or house stands
- The supply of houses, apartments or other accommodations used for residential purpose, including garages and basements
- Leasing of immovable property

Option to tax for exempt supplies. The option to tax exempt supplies is not available in Kosovo.

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 contracts and long-term installation contracts shall be regarded as completed at regular intervals but at least at the end of each calendar year.

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.

Continuous supplies of services. 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.

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.

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.

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.

Imported goods. In the case of imported machinery and equipment, either new or secondhand that is used for business purposes and that fall under the Kosovo "Harmonized Nomenclature of Goods System," the VAT is due at the time of import. However, payment of the VAT due may be postponed for a period of a maximum of 12 months from date of the import, provided that the VAT is declared as postponed import VAT in the VAT return and several conditions are met from the taxpayer.

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.

Nondeductible 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 nondeductible

- 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 tax 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 nonbusiness purposes, with the right to deduct the VAT only to the extent this property is used for business purposes of the taxable person

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

- Employee expenses
- Business use of phones
- Hotel accommodation

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:

$$\text{Amount of relevant input tax x } \frac{\text{turnover enabling VAT credit}}{\text{total annual turnover}}$$

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 tax amount.

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
• 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.
• 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.

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-day 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.

Pre-registration costs. A taxable person cannot recover any input tax incurred on goods or services supplied to it before the registration for VAT purposes.

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. 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.

Noneconomic activities. Input tax incurred in relation to noneconomic activities is not recoverable in Kosovo.

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. 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. 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).

Credit notes. 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 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.

Simplified VAT invoices. 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.

Simplified VAT invoices can only be issued where the supply is equal to or less than EUR500 and is made to nontaxable persons. The Tax Procedures Instruction stipulates that a taxable person must issue an invoice to a nontaxable person before the 15th day of the month following the month in which any of the following chargeable event occurs:

- The supply of goods or services to another taxable person takes place.
- The payment is performed before the goods or services are supplied.
- A continuous supply of goods (such as electricity) or service (such as a fixed telephone line) takes place, in which case the continuous supply is considered to take place in monthly intervals.

The businesses that are neither registered for VAT, nor required to be registered for VAT issue an invoice without VAT and have no right to benefit from VAT or charge VAT.

Self-billing. The customer can bill themselves on behalf of the supplier for supplies of goods or services received by a taxable person if a previous agreement is in place between both parties and provided that the goods/service provider accepts the invoice issued on his behalf.

Proof of exports. 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.

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.

Supplies to nontaxable persons. 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.

Records. A taxable person must retain all the information contained in invoices, coupons, debit or credit notes or in other documents serving the same purposes, issued by the taxpayer. Such information must be recorded in the books and records to be kept by the taxpayer. All documents must be kept in chronological order and must be cross-referenced to each other if they refer to the same taxable event.

Every taxable person that has the obligations and rights imposed by the VAT law, may decide on the place of storage of all his documents but he must inform TAK of that place.

TAK must have access to that place and all documents must also be made available to TAK at the place where the taxable person has his business or has his fixed establishment, or, in the absence of such a place, the place where he has his permanent address or usually resides in Kosovo, without undue delay whenever TAK so requests.

Record retention period. A taxable person must keep his books required by the law for a period of at least six years, which starts on 1 January of the year after the year when the taxable event took place. The retaining of documentation related to immovable property for 20 years is an exception to this general rule. The same rules are valid in respect of electronic storage of such documents, books, records and registers.

Electronic archiving. The taxpayer should retain copies of the information technology programs that are used for the administration of the accounting and tax records, books and all other related documents and provide paper copies of these programs that allow them to be read. Producing and storing invoices and all other tax documents, books and records referred to in the VAT law in a suitable electronic format or similar system such as microfilms, microfiches and scanned formats, can only be authorized by the General Director of TAK after receiving a written request from the taxable person. This request must be accompanied by a detailed description of the system and must contain the necessary evidence that all security in respect of producing and storage requirements for invoices, books and recordkeeping are met.

I. Returns and payments

Periodic returns. The tax period is a calendar month. The taxable persons must submit the VAT returns 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.

Periodic payments. The taxable persons must submit the VAT due by the same time as the VAT return submission deadline, i.e.,. by the 20th of the calendar month following the end of each tax period. All VAT payments must be made through the electronic declaration system (see *Electronic filing* subsection below).

Electronic filing. 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.

Payments on account. Payments on account are not required in Kosovo.

Special schemes.

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.

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.

Electronically supplied services. The Minister of Finance may permit by sub-legal act the use of this scheme by any non-established taxable person in Kosovo supplying electronic services to a nontaxable 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.

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 tax 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.

Annual returns. Annual returns are not required in Kosovo.

Supplementary filings. Taxpayers registered for VAT should declare on a monthly basis the VAT ledgers and VAT return. However, there are no penalties imposed for not declaring the VAT ledgers. Recently the tax authorities have notified that if the taxpayer opts not to declare the VAT ledgers, then he should declare on a yearly basis not later than 31 March of the following year the list of purchases if his purchases are equal to or greater than EUR500.

Digital reporting. No digital reporting requirements apply in Kosovo.

J. Penalties

Penalties for late registration. 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.

Penalties for late payment and filings. 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.

Penalties for errors. 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.

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.

Penalties for fraud. 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). The GCC consists of Bahrain, the Kingdom of Saudi Arabia, Kuwait, Oman, Qatar and the United Arab Emirates. 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. The Kuwait Cabinet has approved a bill that approves the GCC Unified VAT Framework Agreement and the GCC Unified Selective Tax Agreement. The bills are submitted for the approval from the National Assembly.

The GCC Common VAT Agreement 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 Common VAT Agreement, then each Member State may determine individually.

At the time of preparing this chapter, the GCC Common VAT Agreement has no direct effect in the GCC Member States, except if the respective Member States' domestic VAT law specifically refer to the provisions in the Common Agreement.

The summary set out below is based on the GCC Common VAT Agreement.

At a glance

Name of the tax	Value-added tax (VAT)
Local name	Value-added tax (VAT)
Date introduced	Expected to be implemented by April 2021
Trading bloc membership	Gulf Cooperation Council (GCC)
Administered by	To be confirmed
VAT rates	
Standard	5%
Other	Zero-rated (0%) and exempt
VAT number format	To be confirmed based on the local VAT legislation

VAT return	Monthly/quarterly — to be confirmed based on the local VAT legislation.
Thresholds	
Registration	
Mandatory	USD100,000 (KWD30,409)
Voluntary	USD50,000 (KWD15,204.50)
VAT return period	Monthly/quarterly — to be confirmed based on the local VAT legislation
Recovery of VAT by non-established businesses	There are provisions under the GCC VAT Framework Agreement that allow VAT refund for nonresidents, subject to the satisfaction of the stipulated conditions.

Transitional provisions

Each Member State shall outline in their domestic VAT law the transitional provisions, which include the following:

- VAT due on the supplies of goods and services and the import and 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.
- For continuous supplies that are carried out partially ahead of the date of enforcement of the domestic 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.

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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 (0%) and exempt
VAT number format	LV12345678901
VAT return periods	Monthly and quarterly
Thresholds	
Registration	
Established	EUR40,000
Non-established	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)
Electronically supplied services (MOSS)	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, including the supply of goods within the EU and exports of goods

- The supply of services in Latvia
- 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-supply (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 acquisitions (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.

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 (i.e., a registered taxable person which on the basis of a written contract, assumes VAT liabilities, pays tax into the State budget and represents a taxable person of another Member State or of a third country/territory. The fiscal representative status is only with respect to VAT.) 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 and small businesses. 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.

Group registration. A group registration for VAT purposes is possible in Latvia. Legal entities that are closely connected (through capital or management) may choose to 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 Latvia may be part of a VAT group. As a result, any establishments (seat or fixed establishment) of such persons outside Latvia may not be part of a VAT group. The group members share a single VAT number and submit a single VAT return.

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 documents can be submitted via the following methods:
- Paper form by submitting them in person to the office of the State Revenue Service
- Online via the Electronic Declaration System of the State Revenue Service (if the taxpayer has an account there)
- Sending the necessary documents to the State Revenue Service by mail (subject to rules of secure electronic signatures). 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.

Reverse charge. 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 Latvia, provided that 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 Latvia. The reverse charge does not apply to supplies made to private persons.

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 products, 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.

The domestic supply of construction products is subject to the reverse-charge mechanism if supplier and customer are taxable persons. The domestic reverse-charge mechanism is applicable to construction products from 1 January 2018 but will end on 1 January 2020.

Mobile phones, tablets, laptops 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 is applicable also to supplies of game consoles.

Grain crops and industrial crops. The domestic supply of grain and industrial crops is subject to the reverse-charge mechanism if the supplier and customer are registered taxable persons.

Precious metals and semi-finished products of precious metals. The domestic supply of 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. The domestic reverse-charge mechanism is applicable to grain crops since 1 July 2016.

Plated metals, scrap and waste. The domestic supply of semi-finished goods of precious metal, plated metal, scrap and waste are subject to the reverse-charge mechanism if the supplier and customer are registered taxable persons. The domestic reverse-charge mechanism is applicable to plated metals, scrap and waste since 1 January 2017.

Metal products, semi-finished metal products and related services. Effective from 1 January 2018, the domestic supply of metal products, semi-finished metal products and related services are subject to the reverse-charge mechanism if the supplier and customer are registered taxable persons.

Electronic and electric household appliances. 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. The domestic reverse-charge mechanism is applicable to electronic and electric household appliances from 1 January 2018 but will end on 1 January 2020.

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, without regard to 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. The Mini One-Stop Shop (MOSS) scheme allows all taxable persons supplying telecommunications services, broadcasting services and electronically (TBE) supplied 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. 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.

The registration threshold for non-established businesses providing electronically supplied services to private consumers in Latvia is EUR10,000. This is based on the total value (excluding VAT) of the electronic communications, broadcasting and electronically supplied services in the preceding or the current calendar year.

Online marketplaces and platforms. No special rules exist for online marketplaces and platforms in Latvia.

Vouchers. Latvia has implemented Council Directive (EU) 2016/1065), applicable from 1 July 2019.In Latvia the "single-purpose voucher" and "multi-purpose voucher" are defined as follows:

- "Single-purpose voucher" is a voucher where the place of supply of the goods or services to which the voucher is related to, and the VAT due on those goods or services, are known at the time of issue of the voucher.
- "Multi-purpose voucher" is a voucher with respect to which none of the features that defines a single-purpose voucher are known at the moment of issue of the voucher.

Any transfer of a single-purpose voucher by a taxable person acting in his own name shall be treated as a supply of goods or services covered by the voucher. The actual delivery of goods or the provision of actual services in exchange for a single-purpose voucher accepted by the supplier or provider as full or partial consideration shall not be considered as an independent transaction.

The transfer of a "multi-purpose voucher" shall not be regarded as a supply of the goods or services. The actual supply of goods or provision of services in exchange for a multi-purpose voucher accepted by the supplier or service provider as a full or partial consideration shall be deemed to be an independent taxable transaction.

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 email, 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.

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.

Persons that are registered in the register of taxable persons must notify the State Revenue Service in case of any changes in company requisites (e.g., legal address, name, etc.) or legal status of company.

D. 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: 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.

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 5%

• 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 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

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 tax deduction.

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.

Deposits and 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 prepayment is received before the supply is performed, VAT is due at the end of the filing period in which the advanced consideration is received.

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.

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.

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 subject to the domestic reverse charge.

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.

Imported goods. 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 tax 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 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.

Intra-Community acquisitions. The acquisition of goods in the territory of the European Union has taken place at the time when the acquisition of goods has been physically carried out, but not later than the time when the goods are received.

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.

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.

The time of supply of goods shall be the time when the supply of goods is physically carried out, but not later than the time when the goods are received by the recipient of goods. Where the supply of goods within the territory of the European Union takes place permanently over a continuous time period and exceeds one calendar month, it shall be deemed that the transaction has occurred in the end of each calendar month until the time when the supply of goods is completely finished.

Supply of goods with assembly or installation shall be deemed as taken place when the assembly or installation is finished.

F. Recovery of VAT by taxable persons

A taxable person may deduct input tax, which is the 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 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 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 the private use of 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

- Hotel accommodation (if nonbusiness expenditure)
- Business gifts (except representation gifts with the company logo for which 40% of the input tax is deductible)
- Taxi services (if nonbusiness expenditure)
- Business and employee entertainment

**Examples of items for which input tax 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:
  - — 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 tax 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 tax in full. This situation is referred to as "partial exemption."

The amount of input tax 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 taxis 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 tax in full (without applying the partial-exemption calculation) on a monthly basis. A taxable person that is in this position must adjust its input tax 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. The calculation of pro rata is at the discretion of the taxpayer and must reflect the economic reality of the transactions conducted by the taxpayer. The taxpayer is not obliged to notify the State Revenue Service of the pro rata calculation used, however, they must have supporting evidence upholding the calculated pro rata, which can be used if the State Revenue Service would perform tax review activities (e.g., a tax audit) with respect to the pro rata calculation.

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 tax 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.

Pre-registration costs. Input tax 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.

Write-off of bad debts. Taxable persons who supply goods or provide services may recover VAT related to their bad debts if all the following specific conditions are met:

- The bad debt amount is less than EUR430 or there is a court judgement on recovery of debt from the recipient of goods or services and a statement of a bailiff concerning the impossibility of the recovery
- An invoice or tax invoice has been issued for the goods or services supplied
- The debt has arisen during the last three taxation years
- Tax has been calculated for the transaction performed and it is included in the tax return of the relevant taxation period
- The bad debt amount has been written off from the special provision amounts for bad debts or directly as losses (expanses) in the accounting of the registered taxable person in the current taxation period or in any of the previous taxation periods
- The recipient of goods or services and the supplier of goods or services are not mutually related persons
- The supply of goods or services to the relevant recipient of goods and services has been ceased at least six months before and has not been renewed
- A registered taxable person has not transferred their right to claim to another person
- A registered taxable person can prove that they have taken measures for the recovery of bad debt
- The supplier of goods or services has sent information to the recipient of goods and services, who is or was a registered taxable person at the time of supply of goods or services, by 1 March of the post-taxation year that the relevant debt is considered as bad debt

VAT recovery can be performed on an annual basis and additional bad debt recovery rules may apply, depending on specific situations, e.g., partial bad debt recovery options if not all, but specific selected activities from mentioned list are performed, recovery in case of bankruptcy, etc.

Noneconomic activities. Input tax incurred in relation to noneconomic activities is not recoverable in Latvia.

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.

EU businesses. For businesses established in the EU, refund is made under the terms of EU Directive 2008/9/EC.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 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. The State Revenue Service shall transfer the approved tax amount within 30 days after adopting a positive decision. No interest is paid upon refund.

Non-EU businesses. 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 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 a 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. The approved amount of tax shall be refunded within 10 working days after the State Revenue Service has made a decision to refund the tax completely or partially, but no later than within four months after receipt of the application. No interest is paid upon refund.

H. Invoicing

VAT invoices. 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.

Credit notes. 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. Latvian VAT law permits electronic invoicing in line with EU Directive 2010/45/EU (see the chapter on the EU).

Simplified VAT invoices. A registered taxable person has the right to issue a simplified tax invoice in the following cases:

- For an inland transaction the value of which excluding tax is less than EUR150
- In case it uses a document that amends the initial tax invoice or especially and clearly indicates to it, indicating the date of issue of the initial tax invoice and identification number, as well as the particular data to be amended, in the additional simplified tax invoice

A cashier's check or another document may also be used as a simplified tax invoice, where the requirements outlined above are not met, only where it is accompanied by a source document in which the date and number of the cashier's check or another document and the information required for a normal tax invoice is indicated.

In addition, a cashier's check or another document, which does not meet the requirements outlined above, may also be used as a simplified tax invoice if it is issued for a transaction where the value of which (excluding tax) is less than EUR30.

Self-billing. A recipient of goods or services is entitled to issue a tax invoice for themselves on behalf and interests of the supplier of goods or services for the goods or services supplied to them by a registered taxable person or a taxable person of another Member State, if there is a prior agreement between the parties and if the supplier of goods or services applies the mutual recognition procedure of invoices to each invoice.

Proof of exports and intra-Community supplies. 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.

Foreign currency invoices. If an invoice is issued in a currency other than the euro, the amount of the VAT must be converted to euros if the place of supply is Latvia. 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.

Supplies to nontaxable persons. Invoices for supplies to nontaxable persons 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.

Records. A taxable person shall ensure that tax invoices are stored with them or a third person on their behalf, or the recipient of goods or services has issued, as well as tax invoices that are received by a taxable person shall be kept.

Record retention period. 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.

Electronic archiving. The duplicates of the invoices should be stored in Latvia, except when they are stored by electronic means and full online access to the data concerned is guaranteed to State Revenue Service representatives.

I. Returns and payment

Periodic 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.

Periodic payments. The time limit for the submission of a tax return and transferring the VAT due shall be 20 days after the end of the taxation period. The VAT due shall be transferred to a specifically indicated state budget account. Taxation period can be either a month or a quarter. Payments are made directly through the internet bank online to the account of Valsts Kase (State Treasury of the Republic of Latvia) who is the receiver of the payment.

Electronic filing. Tax returns must be filed via the Electronic Declaration System. The Electronic Declaration System is an e-filing system of the SRS where taxpayers prepare and submit periodic VAT returns and their appendices. It is also used by the SRS to communicate with taxpayers, for example, to request additional information and supporting documents with respect to reported transactions with a right to deduct VAT.

The taxpayers registered in Latvia are obliged to use the Electronic Declaration System of the SRS. Generally, when registering for VAT purposes in Latvia, the taxpayer is automatically registered in EDS. However, in order to define the list of users that will be granted rights to work on behalf of the taxpayer in EDS, a separate document has to be submitted.

Payments on account. Payments on account are not required in Latvia.

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 tax 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 tax. They are also not allowed to charge VAT on their agricultural outputs. Input tax 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 tax.

Farmers subject to the flat-rate scheme are indirectly compensated by their customers for their input tax. To avoid the accumulation of VAT, the customer is entitled to deduct the average input tax 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 tax 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 tax.

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 tax 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 tax. 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.

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 tax 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.

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.

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.

Supplementary filings. In addition to VAT returns, taxpayers are required to submit Intrastat reports and ESL, EPL as well as local sales lists (LSL), local purchases lists (LPL) and other information (see below).

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 (no changes for 2020):

- EUR220,000 for intra-Community acquisitions (if this threshold is met, Intrastat 1A must be submitted)
- EUR3.5 million for intra-Community acquisitions (if this threshold is met, Intrastat 1B must be submitted)
- EUR120,000 for intra-Community supplies (if this threshold is met, Intrastat 2A must be submitted)
- EUR5 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.

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.

Local sales lists and local purchases lists. Local sales lists (LSL) and local purchases lists (LPL) and other information regarding the application of specific VAT schemes, such as, capital goods scheme and fiscal representative transactions, are submitted in a form of appendix to the VAT return.

Digital reporting. VAT returns, and Intrastat reports must be submitted electronically. Together with VAT returns, taxpayers are liable to submit transaction ledgers, which include detailed information on transactions performed within the taxation period (i.e., LPS, LSL, EUPL).

J. Penalties

Penalties for late registration. 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.

Penalties for late payment and filings. Late payment charge is an interest payment imposed for late payment of taxes and duties.

Additionally, to late payment charge:

- In the case of submitting a tax declaration, violating the deadline specified in the regulatory enactments regarding tax by up to 15 calendar days — a fine shall be imposed on natural and legal persons in an amount up to EUR70.

- In the case of submitting a tax declaration, violating the deadline specified in the regulatory enactments regarding tax from 16 up to 30 calendar days — a fine shall be imposed on natural and legal persons in an amount from EUR71 up to EUR280.
- In the case of submitting a tax declaration, violating the deadline specified in the regulatory enactments regarding tax by more than 30 calendar days — a fine shall be imposed on natural and legal persons in an amount from EUR281 up to EUR700.

Penalties for errors. 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.

Penalities for fraud. Tax infringement is an unlawful, chargeable (deliberate or negligent) act or omission that results in the violation of the legal norms of the law, specific tax laws, and other laws and regulations governing taxes, and legal norms of the European Union and for which liability is provided for.

In the case of evasion of taxes and payments imposed together therewith, as well as the concealment (reduction) of income, profit or other object to which taxes may be applied — a fine shall be imposed on natural persons or board members in an amount from EUR140 up to EUR2,100, with or without depriving a board member of the right to hold certain in the company.

If a taxable person fails to register and carries out taxable transactions, he is liable for VAT without the right to deduct input tax from the day on which he should have registered.

If a taxable person unlawfully issues tax invoices and receives VAT to which he is not entitled, the tax administration may collect the tax unlawfully received and impose a penalty equal to 100% of the tax.

A failure to account for output tax on assets to which postponed accounting applies gives rise to a penalty of 10% of the VAT due.

A failure to account for output tax on reverse-charge services received from abroad, on intra-Community acquisitions or on certain intra-Community services, gives rise to a penalty of 10% of the VAT due.

The penalty for a repeated tax infringement shall be the double amount of the fine.

With respect to a failure to provide necessary information to the tax authorities, a penalty of no more than EUR700 is imposed on a natural person or a board member, with or without depriving the board member of the right to hold certain positions in the company.

For providing false information, a penalty of no more than EUR700 is imposed on a natural person or a board member, with or without depriving the board member of the right to hold certain positions in the company.

For refusal to allow tax officers to enter premises where they have a legal right to enter, natural and legal persons face a penalty up to EUR210. There is no specific penalty here in respect of personal/director's liability. However, personal/director's liability may occur due to a failure to provide necessary information to the tax authorities or providing false information to the authorities.

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A. At a glance

Name of the tax	Value-added tax (VAT)
Local name	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
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, subject to 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 taxable 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 taxable 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.

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

Voluntary registration and small businesses. Any taxable person performing taxable 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.

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 consumed in Lebanon 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 tax 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 in Lebanon 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.

Domestic reverse charge. There are no domestic reverse charges in Lebanon.

Digital economy. No special rules apply. However, where a non-established business is selling digital services to a Lebanon resident (i.e., B2C), the non-established business is not considered to be performing services in Lebanon. As such, this means that the non-established business is not required to appoint a tax representative in Lebanon, and not required to register for VAT in Lebanon. Subsequently, no VAT is accounted for on the supply of digital services. The customer cannot self-account for the VAT due, because it is a consumer not a business (i.e., B2C not B2B). Therefore, no VAT is accounted for digital services.

This is a scenario that the Lebanese tax authorities have not yet addressed, and as such, there is no mechanism to declare VAT on supplies of digital services.

Online marketplaces and platforms. No special rules exist for online marketplaces and platforms in Lebanon.

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.

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.

D. 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: 11%
- 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 that are not liable to VAT and that do not qualify for input tax deduction.

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. The option to tax exempt supplies is not available in Lebanon.

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 tax 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.

Continuous supplies of services. VAT is due on the earliest of either the invoice issuance, installment payment or installment due date.

Goods sent on approval for sale or return. In the case of a sale return, in order to be able to recover the output tax 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 note is required to be issued where the goods are returned.

Reverse-charge services. There is no special time of supply rule for reverse-charge services. As such, the normal time of supply rules apply (see above).

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 buy out)
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.

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 tax, 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.

Capital goods. No specific treatment applies for input tax recovery on capital goods, except for cars that have a special treatment. If the input tax can be allocated to taxable supplies, it could be deducted from the output tax. However, if the input tax could not be allocated to taxable or nontaxable activities, it should be apportioned as mentioned above.

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 tax 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 should not exceed 9%.

Pre-registration 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.

Write-off of bad debts. Output tax accounted for on supplies that do not get paid by the recipient (i.e., a bad debt) cannot be recovered in Lebanon.

Noneconomic activities. Input tax incurred in relation to noneconomic activities is not recoverable in Lebanon.

G. Recovery of VAT by non-established businesses

The Lebanese tax authorities may refund the VAT incurred by businesses that are neither established nor registered for VAT in Lebanon under certain conditions.

Nonresidents are defined to be foreign or Lebanese businesses and corporations residing outside Lebanon who do not have a permanent place of business nor a place of residence in Lebanon and whose visits to Lebanon are limited to providing/participating in conferences, lectures or exhibitions.

If the above individuals or corporations wish to benefit from the VAT refund, they should be:
1. Registered with the related tax authorities or commercial register in their countries of residence or in the place their business is conducted
2. Not performing any taxable/nontaxable activities in Lebanon

The VAT paid by the latter for the purchased services or goods in Lebanon should exceed LBP1 million (USD664) during a single or multiple visits per year. The input tax to be refunded should be specifically related to expenses resulted from commercial activities in Lebanon (i.e., the conferences, lectures and exhibitions attended or provided should be business related).

H. Invoicing

VAT invoices. 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 tax authorities' preapproval.

Credit notes. 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 canceled, 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.

Electronic invoices. Electronic invoicing is allowed in Lebanon. However, the stamp duty on the invoice should be settled in advance in such case.

Simplified VAT invoices. Simplified invoices can only be issued when issuing a regular invoice is impractical, e.g., in case for most retailers, noting that prior approval from the Ministry of Finance should be obtained beforehand and a regular formal invoice should always be prepared based on the client's request.

Self-billing. Self-billing is not allowed in Lebanon.

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.

Foreign currency invoices. When the value of goods or services is set in a foreign currency, the taxpayer should calculate in their books of accounts 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.

Supplies to nontaxable persons. No special treatment applies to invoices for supplies to nontaxable persons. Normal invoicing rules apply.

Records.

Record retention period. The taxable person shall retain the records, invoices and other accounting documents for a 10-year period.

Electronic archiving. Companies can maintain their records electronically, but if requested by the tax authorities in paper form at a later stage and in case of tax inspection, then they will have to provide them in the mentioned form.

I. Returns and payment

Periodic returns. Lebanese VAT returns are submitted for quarterly periods. VAT returns must be filed within 20 days after the end of each quarter.

Periodic payments. Payment of VAT due, is required in full is required by the same deadline as the VAT return, i.e., within 20 days after the end of each quarter VAT liabilities must be paid in Lebanese pounds.

Electronic filing. All taxpayers registered with the directorate of VAT should submit their quarterly declarations electronically. In order to do so, the taxpayer should register online and create an account with the Directorate of VAT through the Ministry of Finance's website (www.finance.gov.lb).

Payments on account. Payments on account are not required in Lebanon.

Special schemes. No special schemes are available in Lebanon.

Annual returns. Annual returns are not required in Lebanon.

Supplementary filings. No supplementary filings are required in Lebanon.

Digital reporting. No digital reporting requirements apply in Lebanon.

J. Penalties

Penalties for late registration. Late registration for VAT triggers the following penalties:
- LBP2 million for joint stock companies
- LBP1 million for limited liability companies
- LBP300,000 for sole proprietorships and other taxpayers

Penalties for late payment and filings. 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 for errors. Penalties apply to a range of 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).

Penalties for fraud. The tax procedures law does not address specifically the penalties imposed in cases of fraud. However, the below governs the penalties imposed in case of obstruction of the tax control measures.

For each taxable person who refrains from presenting the accounting records and supporting documents for the submitted returns, or refrains from booking certain accounting transactions, a penalty of 50% from the tax due is imposed. The minimum penalty is LBP750,000 for joint stock companies, LBP500,000 for limited liability companies and LBP100,000 for other taxpayers.

In order for the tax authorities to collect their taxes, they have the privilege to access the taxpayers' funds. The privilege also encompasses the funds of the persons held responsible at the company.

Under certain conditions, the tax authorities have the right to issue a decision to withhold the taxpayers' funds in case the latter declines to settle their taxes.

Liechtenstein, Principality of

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Please direct all queries regarding the Principality of Liechtenstein to the following persons in the Zurich, Switzerland, office.

A legal agreement between Switzerland and the Principality of Liechtenstein, states that the Principality of Liechtenstein incorporates the substantive provisions of the Swiss VAT 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.

In addition, last resort decisions taken by a Liechtenstein court regarding substantive law provisions governing VAT may be subjected to a public law appeal before the Swiss Federal Supreme Court. The procedure is ruled by Swiss law.

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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 (EU) 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
Quarterly	For non-EU persons who supply electronic services to nontaxable persons 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	
Established	EUR45,000
Non-established	None
Distance selling	EUR35,000
Intra-Community acquisitions	EUR14,000

Electronically supplied services (MOSS)	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 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 farmers engaged in respective activities under a special scheme, legal nontaxable persons and taxable persons who are not eligible for input tax deduction is the amount of intra-EU acquisitions of goods exceeding EUR14,000 in the preceding 12 months (i.e., no threshold for taxable persons). Special rules apply to foreign or "non-established" businesses that have no fixed establishment in Lithuania.

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 per-

sons established in Lithuania must register for VAT (that is, if the service provider is not yet registered in another EU Member State).

Voluntary registration and small businesses. 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.

Non-established businesses. 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.

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.

Tax representatives. A non-established business must register for VAT through a fixed establishment in Lithuania or appoint a fiscal representative.

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.

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.

Domestic reverse charge. Under the domestic 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 goods:
• 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 timber
• Supplies of construction services as detailed in the law on construction and supplies of certain construction materials

- Supplies of hard drives, provided that the customer is registered for VAT in Lithuania (effective 1 August 2019 until 28 February 2022)
- Supplies of mobile phones, tablets and laptops (classified under CN code 8471 30 00), provided that the customer is registered for VAT in Lithuania (effective 1 August 2019 until 30 June 2022)

Digital economy. For digital services, telecommunication services or broadcasting services supplied business-to-business (B2B), 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 business-to-consumer (B2C) context, 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.

Online marketplaces and platforms. No special rules exist for online marketplaces and platforms in Lithuania.

Vouchers. Effective 1 January 2019, Lithuania adopted provisions of the Council Directive (EU) 2016/1065. Changes in the local legislation defined single-purpose vouchers (SPV) and multi-purpose vouchers (MPV) 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.

SPVs 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. An MPV is any voucher that is not a single-purpose voucher.

A transfer of an SPV 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. MPVs 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.

Registration procedures. Applications for registration as a Lithuanian taxpayer and as a taxable person 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 taxable person takes up to three working days.

Deregistration. A Lithuanian person who is a taxable person has the right to deregister voluntarily if:
- The taxable person'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 taxable person finishes its activities due to liquidation or reorganization.
- The taxable person terminates its taxable activities.

A foreign person who is a Lithuanian taxable person has the right to deregister voluntarily if:
- The taxable person 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 taxable person finishes its activities due to liquidation or reorganization.

Lithuanian taxable persons may be deregistered on the initiative of the tax administrator as well if:
- The taxable person does not perform economic activities or intra-EU acquisitions (e.g., the Lithuanian taxable person does not submit the VAT returns or does not report taxable supplies), for two months in a row.
- The taxable person finishes its activities due to liquidation or reorganization.
- The taxable person (natural person) is dead.

D. 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: 21%
- Reduced rates: 5%, 9%
- 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 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

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 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)

The term "exempt supplies" refers to supplies of goods and services that are not liable to VAT and that do not qualify for input tax deduction.

Examples of exempt supplies of goods and services

- Health care services and goods
- Real estate rent and disposals
- Insurance and reinsurance services
- Certain financial services
- Cultural and sporting activities
- Educational services
- Betting and gaming services
- Universal postal 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 taxable person 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 taxable person. The tax authorities should be formally notified about the decision. A taxable person 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.

Deposits and 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.

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.

Goods sent on approval for sale or return. Lithuania has no separate time of supply rule for goods sent on approval for 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.

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.

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.

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 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.

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.

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.

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.

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.

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 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
- 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 advisors such as accountants, lawyers and tax advisors
- 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 exemption. 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 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.
- 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 tax, 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.

Pre-registration costs. Input tax may be subject to VAT recovery in those cases where VAT was paid on goods or services acquired before an entity was registered as taxable person. Special rules and procedures apply.

Write-off of bad debts. Suppliers may be able to reduce the calculated payable VAT with the output tax 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 tax), 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 tax amount was calculated and declared.

Noneconomic 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 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.

EU businesses. For businesses established in the EU, a refund is made under the terms of the EU Directive 2008/9/EC.

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.

Non-EU businesses. 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.

H. Invoicing

VAT invoices. 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.

Credit notes. 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. Lithuanian VAT law permits electronic invoicing in line with EU Directive 2010/45/EU (see the chapter on the EU).

Electronic invoices that are received in electronic means are acceptable for the deduction of input tax, 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.

Simplified VAT invoices. With certain exceptions, simplified invoices are permitted where the total value of goods or services supplied does not exceed EUR100 (including VAT). Simplified VAT invoices cannot be issued in the following cases:
- Distance selling
- Intra-EU supply of goods taxed with 0% VAT rate (under Article 49 of the Lithuanian Law on VAT)
- Supply of a new vehicle to another EU Member State
- Supply of services by a taxable person who is not established in an EU Member State in which the services are deemed to be supplied and the customer of the services is liable to account the VAT reverse charge for the services supplied

Simplified VAT invoices may also be issued in the below cases regardless of the value of the invoice:
- Supply of goods or services for private use
- Self-manufacture of assets
- Special cases indicated in Article 9 of the Lithuanian Law on VAT (e.g., transfer of property where it is transferred as a contribution in kind, improvement of the building)

Self-billing. Self-billing is allowed in Lithuania. The customer may issue a VAT invoice on behalf of the supplier provided that both parties agreed on this in advance (a formal written agreement is not required, but is recommended, i.e., the agreement may be made verbally). A reference to self-billing must also be indicated on the invoice (*Lith. "Sąskaitų faktūrų išsirašymas"*).

Proof of exports and intra-Community 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, in order to apply 0% VAT rate on intra-EU supplies, a supplier must possess either documents, specified in Article 45a of the updated Council Implementation Regulation (EU) 282/2011 or other documents, such as transportation documents (e.g., CMR, air waybill, bill of lading) substantiating that the goods were transported outside the territory of

Lithuania, sales-purchases agreements, purchase orders, VAT invoices, etc. 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.

Besides, as a part of the European Commission's action plan on VAT, effective from 1 January 2020 to apply VAT at the zero-rate for intra-EU supplies, two additional mandatory obligations arise. These are as follows:

- Indicating on the invoice a valid customer's VAT identification number, obtained from the customer and issued to them by an EU Member State other than the one from which the goods were dispatched
- Reporting the respective supplies in the EC Sales List (form FR0564 in Lithuania).

Foreign currency invoices. 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.

Supplies to nontaxable persons. Taxable persons must issue VAT invoices for supplies made to nontaxable 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)
- 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.

Records. Taxable persons must keep their accounts according to the procedure prescribed by legal acts in such a way that the accounting information enables a correct determination of the taxable person's obligations with respect to VAT. Taxpayers must also keep registers of VAT invoices received and issued by them. Specific requirements apply for certain transactions (e.g., call-off stock transactions), also for taxable persons engaged in both VAT taxable and exempt activities (partial deduction).

Record retention period. Taxable persons must ensure that VAT invoices issued by them (or by customers or third parties on their behalf), as well as VAT invoices received by taxable persons established in Lithuania shall be retained for 10 years from the date of the issue.

Electronic archiving. Taxable persons shall retain the documents in the same format (hard copy or electronic) in which they were sent or submitted. Taxable persons must archive documents in the territory of Lithuania, unless the documents are stored electronically. Taxable persons that keep invoices by using electronic means, must ensure full access to the documents for the tax authorities for supervisory purposes.

I. Returns and payment

Periodic 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 taxable persons 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).

Periodic payments. Payment of VAT due is required in full by the same date as the VAT return deadline, i.e., by the 25th day of the month following the end of the tax period. VAT return liabilities must be paid in euros.

Electronic filing. 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.

Payments on account. Payments on account are not required in Lithuania.

Special schemes.

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 tax 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 tax 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 tax 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 tax. However, a seller (taxable person) has the right to calculate VAT on the total value of goods, in which case the seller has the right to deduct input tax paid, but not earlier than the date the goods are sold.

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.

Call-off stock simplification. As of 1 January 2020, Lithuania is implementing simplification measures regarding the supply of goods under a call-off stock regime. The call-off stock arrangements shall be deemed to exist where all of the five following conditions are met:
- Goods are dispatched or transported by a taxable person, or by a third party on his behalf, to another EU Member State with a view to those goods being supplied there, at a later stage and after arrival, to another taxable person who is entitled to take ownership of those goods in accordance with an existing agreement between both taxable persons. The agreement must be in a written form.
- The taxable person dispatching or transporting the goods has not established his business nor has a fixed establishment in the EU Member State to which the goods are dispatched or transported.
- The taxable person to whom the goods are intended to be supplied is identified for the VAT purposes in the EU Member State to which the goods are dispatched or transported and both his identity and the VAT identification number assigned to him by that EU Member State are known to the taxable person dispatching or transporting the goods at the time when the dispatch or transport begins.
- The taxable person dispatching or transporting the goods records the transfer of the goods in the goods register or in other appropriate register established by another EU Member State and includes the identity of the taxable person acquiring the goods and the VAT identification number assigned to him by the EU Member State to which the goods are dispatched or transported in the report of the supply of goods and/or services to other EU Member States or other appropriate report established by another EU Member State.
- The taxable person dispatching or transporting the goods shall transfer the right to dispose of the goods as owner to the taxable person who acquires the goods no later than 12 months after their arrival in another EU Member State.

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. Otherwise, annual returns are not required in Lithuania.

Supplementary filings. A taxable person that trades with other EU countries must complete statistical reports, known as Intrastat, and EU Sales Lists (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.

Intrastat. For the year 2020 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.

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.

Electronic VAT ledgers (i.SAF). Taxable persons registered for VAT must also submit monthly data on sales and purchases invoices to the Lithuanian tax authorities by electronic means (i.SAF data file) until the 20th of the month following the reporting period (please refer to *Digital reporting* subsection below for more details).

Digital reporting.

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.

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 a company's net sales revenue exceeds EUR300,000 in 2017.
- From 1 January 2020 and later periods when a company's net sales revenue exceeds EUR300,000 in the year before the 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.

SAF-T consists of four parts:
- Header (basic information about the entity)
- Master data file (general ledger accounts, information about customers, suppliers, assets, owners, physical stock, products, etc.)
- GL entries
- Data of the initial documents (information about sales invoices, purchase invoices, payments, movement of goods and asset transactions)

Taxpayers may be imposed with penalties for failing to submit the SAF-T file upon the request of the authorities.

Electronic VAT ledgers (i.SAF). 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.

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.

Please note that i.SAF and SAF-T are different reporting requirements. i.SAF is for invoice registers, whereas SAF-T contains a significant amount of data registered in the ERP of the taxpayer (including the invoice data). i.SAF is filed on a monthly basis, whereas, SAF-T is on an on-demand basis (requested from the tax authorities, and other government bodies, such as the one responsible for financial crime investigation), depending on the annual sales revenue. SAF-T contains much more information.

Transport data reporting (i.VAZ). i.VAZ contains online data on transport documents. The i.VAZ system shall only be applied for goods that are loaded and carried by road transport within the territory of Lithuania. The transport document data has to be reported to the i.VAZ subsystem before the dispatch occurs.

Remote accounting services (i.APS). i.APS is a subsystem of remote accounting services developed for small businesses. Applicable from 2019, i.APS allows self-employed persons and small businesses to manage income-expenditure accounting by electronic means, using data, accumulated in other i.MAS subsystems.

J. Penalties

Penalties for late registration. In practice, penalties and interest are not assessed for late registration or failure to register for VAT. However, based on the Lithuanian Code of Administrative Offenses, failure to register for VAT may cause a warning or a penalty ranging from EUR390 to EUR1,100.

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.

Penalties for late payment and filings. 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. Voluntary disclosure of the tax underpayment shall not result in penalty assessment, i.e., penalty may be imposed by the tax authorities in case late payments are discovered during a tax audit.

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 Offenses, 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 penalties ranging from EUR200 to EUR390.

Penalties for errors.

Error results in tax underpayment. Penalties and late payment interest for errors resulting in tax underpayment are the same as penalties for late payment and filing (please refer to the section above). Moreover, based on the Lithuanian Code of Administrative Offenses, reporting of incorrect data may cause a warning notice from the Lithuanian tax authorities or penalties ranging from EUR200 to EUR390.

Filing amended returns voluntarily does not result in penalties for the taxes unpaid, however, the taxpayer shall be subject to late payment interest and might still be imposed with a fine based on the Lithuanian Code of Administrative Offenses.

Error does not result in tax underpayment. If the error does not result in tax underpayment, the taxpayer may be imposed with an administrative fine. Based on the Lithuanian Code of Administrative Offenses, reporting of incorrect data may cause a warning notice from the Lithuanian tax authorities or penalties ranging from EUR200 to EUR390.

Unreliable taxpayers' status. 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 EUR15EUR15,000 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 Offenses and the fine is no less than EUR1,500 or a taxpayer is imposed with a fine repeatedly for the indicated violaton. A taxpayermay also lose the status of a reliable taxpayer due to other certain violations (e.g., illegal work, fraud, financial crimes).

Penalties for fraud. Based on the Lithuanian Code of Administrative Offenses, fraudulent activity may result in penalties of up to EUR6,000, depending on the amount of taxes underpaid. Moreover, based on the Criminal Code of the Republic of Lithuania, in certain cases a person might be punished by community service or by a fine or even by imprisonment of up to eight years (a legal entity shall also be held liable for the act and criminal liability shall be imposed on the persons liable for the fraud). In addition, taxpayers shall be recognized as unreliable.

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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
Trading bloc	European Union (EU) Member State
Administered by	Ministry of Finance (http://www.aed.public.lu)
VAT rates	
Standard	17%
Reduced	3%, 8% or 14%
Other	Exempt-with-credit and exempt-without-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	
Established	EUR30,000
Non-established	None
Distance selling	EUR100,000
Intra-Community acquisitions	EUR10,000
Electronically supplied services (MOSS)	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.

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

Voluntary registration and small businesses. 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.

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

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.

Domestic reverse charge. A domestic reverse charge applies in Luxembourg for the transfer of allowances to emit greenhouse gases.

Digital economy. Electronically supplied services are deemed to take place where the customer is established. If the customer is a nontaxable 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 scheme.

Mini One-Stop Shop. By using the Mini One-Stop Shop (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.

Online marketplaces and platforms. No special rules exist for online marketplaces and platforms in Luxembourg.

Vouchers. The VAT treatment of vouchers depends on whether they qualify as "single-purpose" (SPV) or "multi-purpose" (MPV) voucher.

An SPV is a voucher where the place of supply of the goods or services to which the voucher relates and the VAT due on the supply is known at the time of the voucher's issue. Each transfer of an SPV qualifies as a supply of goods or services.

An MPV is any voucher other than an SPV. VAT will be due at the time the MPV is used.

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.

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.

D. 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: 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 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 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 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 are not liable to VAT and that do not qualify for input tax deduction. However, in Luxembourg 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 (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 tax. 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).

Deposits and 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.

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.

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.

Reverse-charge services. For supplies of services subject to VAT in the recipient country, the chargeable event occurs when the supply is completed.

Leased assets. There is no special time of supply rule for leased assets in Luxembourg. As such, the normal time of supply rules apply.

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.

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.

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.

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 tax 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 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 tax, 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 tax, 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.

Pre-registration costs. Input tax incurred on pre-registration 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. Input tax incurred in relation to noneconomic activities is not recoverable in Luxembourg.

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 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.

EU businesses. For businesses established in the EU, a refund is made under the terms of EU Directive 2008/9/EC.

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.

Non-EU businesses. 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).

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

The Luxembourg VAT authorities do not pay interest on late refunds of VAT made under the EU 13th Directive scheme.

H. Invoicing

VAT invoices. 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).

Credit notes. 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. Luxembourg VAT law permits electronic invoicing in line with EU Directive 2010/45/EU (see the chapter on the EU).

Simplified VAT invoices. Simplified VAT invoices are allowed in Luxembourg, if the amount of the invoice, VAT included, does not exceed EUR100. There are some exceptions to this rule, where the issuance of simplified invoices is not allowed, for instance in case of self-billing.

Self-billing. Self-billing by the acquiror or recipient of a supply of goods or services is allowed, only where there is agreement between both parties and each invoice is subject to an acceptance procedure by the supplier.

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.

Supplies to nontaxable persons. Special 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.

Records.

Record retention period. All books, documents and information required by the VAT law should be stored for 10 years from the date of the issuance (in case of invoices issued or received) and from the date of closing (in case of accounts) or their date (in case of other documents).

Electronic archiving. 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.

I. Returns and payment

Periodic 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.

A Luxembourg taxable person, who only performs transactions, which do not entitle the right to recover input tax should not register for VAT, except if it would be liable to self-assess Luxembourg VAT on services received from non-Luxembourg suppliers or perform intra-Community acquisitions of goods transported from other EU Member States into Luxembourg. In case a company should be registered for VAT, it is in principle liable only to file annual returns. The due date of filing these returns is 1 March (with an automatic extension of eight months).

Periodic payments. Luxembourg VAT-payable amounts, resulting from periodic VAT returns, should be paid at the latest when the returns are filed. If the annual returns result in an additional VAT-payable amount, it should be paid at the latest when the annual returns are filed.

Electronic filing. 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).

Payments on account. Payments on account are not required in Luxembourg.

Special schemes. Businesses with an annual taxable turnover (excluding VAT) of less than EUR500,000 are eligible to use the cash accounting scheme that 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 EUR500,000, they must stop using the scheme. Other special accounting schemes exist in Luxembourg for travel agencies, businesses trading in secondhand goods and artwork (known as the margin scheme) and supplies of investment gold.

Annual returns. Annual returns are required in Luxembourg in addition to periodic returns. However, the authorities can allow taxable persons whose annual turnover does not exceed a certain amount (see *Periodic returns*) to file only a single annual return for the calendar year. In principle, the annual returns should be the sum of the periodic returns. However, if adjustments or regularizations should be done (e.g., when calculating the definitive deductible prorate), it should occur in the annual returns.

Supplementary 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 16th working day of the month following the period.

EU Sales Lists. If a Luxembourg 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.

Digital reporting. The OECD has developed a standard audit file for tax audits (SAF-T) and a standard set of tests to be performed by the local tax authorities during an audit. Luxembourg has adopted the SAF-T. Ficher d'Audit Informatisé AED (FAIA is the name of the file to be provided to the Luxembourg tax authorities, and the Luxembourg law allows the tax authorities to carry out electronic VAT audits. The intention of the authorities is to perform all VAT audits paperless. The law outlines that each taxable person (with some exceptions) using an electronic accounting system is obliged to be able to provide the data in a "FAIA" format on request of the tax authorities. In principle, FAIA (which is a file structured under the XML format) has to include all the information and data concerning the business activity of the taxable person.

J. Penalties

Penalties for late registration. A penalty of between EUR250 and EUR10,000 may be assessed for late VAT registration.

Penalties for late payment and filings. 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.

For Intrastat, 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).

For ESLs, a penalty may be imposed for late, missing or inaccurate ESLs. The penalty may vary from EUR250 to EUR10,000.

Penalties for errors. Infringements against VAT compliance obligations, such as the obligation to issue compliant invoices and the timely filing of returns, wherein the correct amounts are reported, can be penalized by a fine, which may vary from EUR250 to EUR10,000.

Some infringements, such as the obligation to provide a FAIA file if requested by the authorities can be penalized by a fine of (maximum) EUR25,000 per day.

Penalties for fraud. In case the taxable person fails to fulfill its VAT obligations, the manager(s) will be considered personally and severally liable for the payment of the VAT owned by the company to the VAT authorities. The liability of the manager(s) is strictly limited to: (i) the delegated administrators of public limited companies, (ii) the managers of limited liability companies, and (iii) ipso jure or de facto managers taking care of the day-to-day management of the company. The manager(s) can only be held liable in the case of blameworthy failure to fulfill their legal requirements.

In the case of fraudulent actions to avoid payment or to illegally obtain the reimbursement of VAT, penalties up to 50% of the evaded VAT can be assessed.

Madagascar

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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	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%
Other	Zero-rated (0%), and exempt
VAT number format	Monthly filings only
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.

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.

Exemption from registration. Persons with a total annual turnover less than MGA200 million are exempted from registering for VAT in Madagascar.

Voluntary registration and small businesses. As of January 2019, taxpayers with an 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.

Group registration. Group registration is not allowed 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 shift to the recipient of the service.

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 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.

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.

Domestic reverse charge. There are no domestic reverse charges in Madagascar.

Digital economy. Business-to-business (B2B) 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 tax in its own VAT filing to the extent a full right of deduction applies.

For business-to-consumer (B2C) 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.

Online marketplaces and platforms. No special rules exist for online marketplaces and platforms in Madagascar.

Registration procedures. For companies subject to the CIT actual regime (turnover more than MGA200 million), 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.

For companies/individuals which are not subject to the CIT actual regime (turnover less than MGA200 million), 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.

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.

D. 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: 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.

All exports of goods or services are taxed at the zero rate, and those are the only zero-rated supplies.

The term "exempt" refers to supplies of goods and services that are not liable to VAT and that do not qualify for input tax deduction.

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 sale of contraceptives and condoms
- 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 sale of breeding animals, agricultural materials and equipment, materials and equipment for the food industry, public sports equipment 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 sale of milk and supplements dietetics for infants and young children
- 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

- The supply of goods, services and works carried out by a holder of public procurement contracts on behalf of public persons

Option to tax for exempt supplies. The option to tax exempt supplies is not available 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.

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.

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.

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.

Leased assets. In the case of leasing, the lessor is able to deduct input tax applied on the acquisition of any kind of assets dedicated to leasing. In principle, input tax 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 tax 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)

F. Recovery of VAT by taxable persons

Input tax may be recovered in the usual way by deducting it from output tax due, or in limited cases, by refund.

When offsetting input tax against output tax, the following requirements should be respected:

- Input tax must be clearly labeled on the invoices and linked to the company business
- Input tax paid on imported goods linked to the company business
- Input tax relating to the acquisition of goods in respect of leasing clearly identified
- Input tax 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 tax is higher than the output tax 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 nonamortized machines and materials for newly taxable persons

Partial exemption. Where input tax 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 tax incurred on capital goods dedicated to the normal business of the company is accepted as deductible.

If the company subject to VAT carries out exclusively taxable transactions giving rise to the right to deduct, VAT on these goods is fully deductible.

For a company that does not perform exclusively taxable operations, goods constituting capital goods are considered to be mixed-use. Therefore, the amount of the input tax is computed on the basis of the ratio between the annual amount of taxable transactions and the annual amount of turnover related to all transactions made. The turnover to be used includes all fees and taxes except VAT. The pro rata defined is computed provisionally according to the turnover of the previous exercise.

For a newly registered company or newly subject to VAT, the ratio is provisionally calculated on the basis of forecast turnover for the current financial year.

The amount of input tax is finalized no later than the expiry of the VAT return that follows the four months of the end of the financial year.

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.

Pre-registration costs. Input tax incurred on pre-registration costs in Madagascar, is not recoverable. 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. There is no special VAT invoice format in Madagascar. However, there are mandatory pieces of information that must be included on VAT invoices, which are as follows:

- Date and signature of the issuer.
- Chronological sequence number and, for both the provider and the customer:
  — The commercial name
  — The statistical number
  — The tax identification number
- Quantity and price of the delivered goods or services
- Settlement date
- Payment method
- Amount and VAT rate

The invoice should comply with these mandatory requirements to be considered as regular invoice for both VAT and CIT purpose.

Credit notes. The same rules for VAT invoices apply to credit notes. 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.

Electronic invoicing. Electronic invoicing is available in Madagascar, but it is not mandatory. Electronic invoices should comply with the same requirements as regular nonelectronic invoices above.

Simplified VAT invoices. Simplified VAT invoicing is not allowed in Madagascar. As such, full VAT invoices are required.

Self-billing. Self-billing is not allowed in Madagascar.

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.

Supplies to nontaxable persons. 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.

Records. Regarding indirect tax, regular accounting is mandatory for taxpayers. This regular accounting is done manually or by means of computer systems in accordance with the local GAAP, the "Plan Comptable Général 2005" established by the Decree n° 2004-272 of 18 February 2004.

The accounting must include the regulatory books provided by the abovementioned Decree. These books, on numbered pages, are quoted and initialed before being put into service by the authorities provided for in the Madagascar Commercial Code or by the tax authorities with territorial jurisdiction.

The operations are written in French or Malagasy, day by day, without white or erasure.

In the event of a failure to keep regular accounting, the taxpayer is liable to automatic taxation or an automatic tax assessment.

Record retention period. 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.

Electronic archiving. Electronic archiving is allowed in Madagascar, however, it is not mandatory. Physical archiving (i.e., by paper) is also allowed.

I. VAT returns and payment

Periodic returns. VAT returns 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 tax, the registered person is allowed to make an adjustment in any of the VAT returns in the subsequent three months.

Periodic payments. VAT due must be paid by the same date as the VAT return deadline, i.e., .the due date is the 15th of the month following the taxable month.

Electronic filing. 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.

Payments on account. Payments on account are not required in Madagascar.

Special schemes.

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.

Annual returns. Annual returns are not required in Madagascar.

Supplementary filings. The following documents must also be filed to the tax authority at the same time as the VAT return:
• Ventilation sheet
• Debit advice
• Deposit slip

Digital reporting. Digital reporting is mandatory for both large companies (the NIFONLINE platform) managed by the large-scale investment Directorate (Direction des Grandes Enterprises) and for small businesses (the E-Hetra platform).These systems allow taxpayers to pay the monthly tax returns, as well as the annual returns: filing and payment of the corporate income tax, synthetical income tax, VAT and payroll tax.

J. Penalties

Penalties for late registration. Penalties in case of late registration are the following:
• Fine for default of submission of the return:
 — MGA100,000
 — MGA200,000: for taxpayers subject to the actual taxation regime
 — MGA100,000: For taxpayers subject whose turnover is between MGA50 million and MGA200 million
 — MGA20,000 for taxpayers whose turnover is less than MGA50 million
• Delay interest penalty: 1% of the tax due per month

Penalties for late payment and filings. In case of late payment, the following penalties apply:
• Fine for default of submission of the return:
 — MGA200,000 for taxpayers subject to the actual taxation regime
 — MGA100,000 for taxpayers subject whose turnover is between MGA50 million and MGA200 million

— MGA20,000 for taxpayers whose turnover is less than MGA50 million
- Delay penalty interest: 1% of the tax due per month

The abovementioned 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.

Penalties for errors. Proportional fines have been introduced for errors relating to the VAT annexures. These fines are 0.5% of the following:
- The amount declared, including tax of omitted or inaccurate transactions
- The actual amount declared, including tax of the error declared
- The amount declared, including tax of the transaction in case of error on the information relating to the transaction

Penalties for fraud. 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%.

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A. At a glance

Name of the tax	Value-added tax (VAT)
Local name	Value-added tax (VAT)
Date introduced	1989
Trading bloc membership	African Free Trade Zone Common Market for Eastern and Southern Africa (COMESA) Southern Africa Development Community (SADC)
Administered by	Malawi Revenue Authority (www.mra.mw)
VAT rates	
Standard	16.5%
Other	Zero rated (0%) and exempt
VAT number format	2 0 0 0 0 0 0 0
VAT return periods	Monthly
Thresholds	
Registration	MWK10,000,000 per annum
Recovery of VAT by non-established businesses	No

B. Scope of the taxes

VAT is charged on the following:
- Every supply of goods and services made in Malawi
- Every importation of goods
- The supply of any imported service, other than exempt goods and services

A taxable supply is a supply of goods or services made by a taxable person for consideration in the course of, or as a part of his or her business activities and includes:
- The processing of data or supply of information or similar service

- The supply of staff
- The making of gifts or loans of goods
- The appropriation of goods for personal use or consumption by the taxable person or by any other person
- The sale, transfer, assignment or licensing of patents, copyrights, trademarks, computer software and other proprietary information
- Exports

A supply is made as part of the business activities of a person if a supply is made by them as part of or incidental to any economic activity they conduct. Where a person produces goods by processing or treating the goods of another person, the supply of goods shall be regarded as supply of goods. The supply of any form of power, heat, refrigeration or ventilation shall be regarded as supply of goods.

A supply is made for consideration, if the supplier, directly or indirectly, receives payment wholly or partly in money or in kind from the person supplied or any other person.

C. Who is liable

VAT is due on the following:

- In the case of a taxable supply, by the taxable person making the supply
- In the case of imported goods, by the importer
- In the case of imported services, by the receiver of the services

Voluntary registration and small businesses. A person may voluntarily register for VAT if he qualifies as a taxable person or has grounds to believe that he will qualify as a taxable person by applying voluntarily to the Commissioner General within 30 days of qualifying or having grounds to believe that he will qualify as a taxable person.

Group registration. Two or more corporate bodies may apply to be registered as members of a VAT group if each body is a registered as a corporate body in Malawi and has an established place of business in Malawi. One of the corporate bodies should have control of the other or other members of the group or one corporate body controls all the members of the group.

For purposes of payment of VAT, the group is registered as one designated taxable person.

Non-established businesses. The Commissioner General may refuse to register the applicant if he is satisfied that the taxable person has no fixed place of abode or business.

Tax representatives. A tax representative (normally referred to as the public officer) may be appointed by the taxpayer if the taxpayer operates offshore and has no physical presence nor has employees in Malawi. The taxpayer is required to notify the tax authority of the appointed tax representative who fulfills the relevant tax obligations on behalf of the taxpayer.

Reverse charge. The reverse-charge mechanism is applicable in Malawi on importation of services by the recipient of the services.

Domestic reverse charge. There are no domestic reverse charges in Malawi.

Digital economy. There are no provisions in the VAT Act on digital economy. As such, normal VAT rules apply.

Online marketplaces and platforms. No special rules exist for online marketplaces and platforms in Malawi.

Registration procedures. After submission of the application form and upon successful consideration of the application by the Malawi Revenue Authority, the applicant is issued with the registration certificate, which includes the trading name, taxpayer identification number, place of

business and the effective date of registration. The certificate is displayed at the principal place of business of the taxpayer.

Deregistration. Upon cessation of carrying on business, the taxable person shall notify the Commissioner General in writing within 30 days from ceasing operations for cancellation of registration.

D. 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: 16.5%
- 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 taxable at 0%
- Exports of goods and services
- Laundry soap
- Exercise books
- Goods shipped as stores on aircraft and vessels leaving the territory of Malawi
- Fertilizers
- Sheath contraceptives (condoms)
- Salt
- Motor vehicles for transport of goods
- Pharmaceutical products
- Buses
- Military equipment
- Building materials for factories and warehouses
- Goods for use in tourism industry
- Miscellaneous chemical products
- Cycle ambulances
- Motorcycle ambulances
- Syringes with or without needles
- Mosquito and sand fly nets
- Poultry or chicken feed
- Liquified petroleum gas (LPG)
- Gas cylinders
- Wood cook stoves
- Solar products
- Energy efficient bulbs

The term "exempt" refers to supplies of goods and services that are not liable to VAT and that do not qualify for input tax deduction.

Examples of exempt supplies of goods and services
- Banking and life assurance services
- Live animals
- Postal services
- Transport of exports
- Educational services
- Medical equipment
- Animal products

- Vegetable products in raw state
- Printed matter
- Petroleum products
- Vehicles other than railway and train way rolling-stock
- Industrial machinery and construction machinery
- Coin
- Banking and life insurance services
- Funeral service
- Medical services
- Rentals and sale of properties used for residential purposes
- Betting and gaming including lotteries
- Rail locomotives and parts
- Medical surgical or laboratory sterilizers

Option to tax for exempt supplies. Exemption of VAT is applicable where certain projects are agreed with the Government of Malawi by privileged organizations.

E. Time of supply

The general time of supply rule in Malawi is considered the earliest of the following:
- The goods are removed from the premises, or from other premises of the taxable person where the goods are under the control of the taxable person
- The goods are made available to the person to whom they are supplied
- The services are supplied or rendered
- Payment is received for all or part of the supply
- A tax invoice is issued

Deposits and prepayments. Any deposit or prepayment, whether refundable or not, given in respect of supply of goods or services, shall not be regarded as a payment for the supply of goods or services, or a taxable transaction unless the supplier applies the deposit as payment or part-payment for the supply.

Where the deposit or prepayment is paid in the expectation that it will form part of the total payment for a particular supply, the time of supply is the receipt of the deposit or prepayment.

Continuous supplies of services. VAT applies, provided there is:
- The performance of services for another person
- The making available of any facility or advantage
- Toleration of any situation or refraining from the doing of any activity

In light of the above, 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.

Goods sent on approval for sale or return. When goods have been supplied on sale or return, the tax point shall be the earliest of:
- The date when the purchaser chooses to keep the goods
- The issue of the tax invoice by the seller
- The receipt of payment by the seller
- The expiry of the period within which the customer may return the goods

Reverse-charge services. The beneficiary of imported services is responsible for payment of VAT. They self-declare output tax by declaring the VAT on the imported services. The tax point for reverse-charge services is when the service is performed.

Leased assets. The supply of leased assets occurs on the date the leased assets are made available under the lease agreement.

Imported goods. The time of supply for imported goods is the date of importation.

F. Recovery of VAT by taxable persons

A taxable person may seek a refund of the excess VAT if the input tax is more than the output tax due.

A taxable person that is in a refundable position for a continuous three months may apply for a VAT refund. Evidence in form of supplier fiscalized invoices that are VAT allowable, are required for a pre-refund audit before MRA issues out a refund check. The Commissioner General is supposed to give the refund within 30 days of the application being submitted, but MRA usually delays refunds due to lack of funding.

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). Input tax cannot be recovered on invoices that are more than 12 months from the date of issue and also cannot be recovered from invoices that are not supported by the mandatory fiscal slips.

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

- Repairs, hiring and maintenance of motor vehicles and purchase of spare parts, unless the taxpayer is engaged in the business of hiring motor vehicles or selling motor vehicle spare parts
- Entertainment, hotel expenses, restaurant and meals, unless the taxpayer is in the business of providing entertainment

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

- Communication costs
- Office rentals
- Stationery
- Utilities, e.g., electricity and water
- Office furniture

Partial exemption. A taxable person is considered partially exempt if they make both taxable and exempt supplies of goods and services. They can only claim input tax that is directly attributable to the taxable supplies. An apportionment formula is used to determine the deductible input tax.

A refund of VAT is possible where the amount of input tax exceeds the amount of output tax and the excess credit remains outstanding for a continuous period of three months or more.

Capital goods. Input tax incurred on capital goods acquired for the business is claimable, except for motor vehicles as indicated above. A taxable person who is registered from a specified effective date, and has in stock capital goods that have been held for a period not exceeding a period of six months, from the date of their registration, may claim credit or refund of VAT. There are no further special input tax recovery rules for capital goods. Normal input tax recovery rules apply.

The input tax on capital goods at hand on the date of registration acquired six months prior to the effective date of VAT registration is claimable and the deduction has to occur within 12 months from the effective date of registration.

Refunds. Where the amount of input tax which is deductible exceeds the amount of output tax due in respect of the accounting period, the excess amount shall be credited by the Commissioner

General to the taxable person. Where the taxable person remains in an excess VAT position for a continuous period of three consecutive months or more, a refund shall be made.

Pre-registration costs. A taxable person may recover the VAT on stocks purchased prior to registration if the goods are still in possession of the taxable person at the time of registration and if the purchase or importation of stocks occurred not more than four months prior to the date of registration.

Write-off bad debts. VAT on sales that are declared bad is supposed to reduce the output tax payable by making the necessary adjustments on the VAT return.

Noneconomic activities. The VAT Act does not define noneconomic activities. However, the basic rule for claiming input tax is that the VAT should be wholly, exclusively and necessarily in the course of their business.

G. Recovery of VAT by non-established businesses

Malawi does not refund VAT to businesses that are not established in Malawi.

H. Invoicing

VAT invoices. A taxable person shall, on supply of taxable goods or services to a customer, issue to the customer a tax invoice prescribed by the Commissioner General.

Credit notes. Where a tax invoice has been issued and the amount shown as VAT on the tax invoice exceeds the VAT properly chargeable in respect of the supply, the taxable person making the supply shall issue a credit note to the recipient of the supply.

Electronic invoicing. Every VAT-registered operator is required by law to issue electronic tax invoices as prescribed by the law and be in possession of the mandatory electronic fiscal device (EFD). In circumstances where the EFD is not working, an authorization letter from the tax authority should be obtained to permit the VAT operator to issue non-fiscalized invoices up until the machine starts functioning.

A taxable person who does not receive a fiscal invoice may request the taxable person who supplied the goods or services to him to provide a tax invoice in respect of the supply. The maximum retention period for the tax invoices received from suppliers is six years and input tax is claimable only if the fiscal invoices are available as basis for claiming input tax.

Simplified VAT invoices. Simplified VAT invoicing is not allowed in Malawi. As such, full VAT invoices are required.

Self-billing. Self-billing is not allowed in Malawi.

Proof of exports. Exports of goods and services are zero-rated. For proof of exports, the following are mandatory export documents:
- Customs Declaration Form 12
- Supplier's commercial invoice
- Currency Declaration Form CD1
- Carrier's Cargo manifest
- Certificate of Origin

Foreign currency invoices. Invoices in a foreign currency but relating to the supplies made in Malawi should be converted in the local currency, Malawian Kwacha (MWK) for purposes of claiming input tax where VAT is explicitly shown on the invoice.

The exchange rates to use for such conversions are the Reserve Bank of Malawi's exchange rate at the date of the time of supply.

Supplies to nontaxable persons. A tax invoice is supposed to be issued for any supply of goods or services, even if the supply is made to nontaxable persons. There are penalties for not issuing fiscal invoices.

Records.

Record retention period. Records, as prescribed by the Minister or directed by the Commissioner General must be kept for a minimum of six years at such a place and time as gazetted. Written permission of the Commissioner General to destroy any book, document, account or record which is less than six years old, should be obtained. The permission granted shall specify the book, document, account or records to which the permission relates.

Electronic archiving. Archiving must be made in paper form only.

I. Returns and payment

Periodic returns. VAT returns are due on the 25th of the following month to which the VAT return relates. VAT returns are submitted physically to the tax offices.

Periodic payments. Payment of VAT due must accompany the filing of the VAT return, i.e., by the 25th of the following month to which the VAT return relates. Payment of VAT can be made through the ePayment platform.

Electronic filing. Electronic filing is not allowed in Malawi. All returns must be physically filed to the relevant tax office in Malawi.

Payments on account. Payments on account are not required in Malawi.

Special schemes. No special schemes are available in Malawi.

Annual returns. Annual returns are not required in Malawi.

Supplementary filings. No supplementary filings are required in Malawi.

Digital reporting. No digital reporting requirements apply in Malawi.

J. Penalties

Penalties for late registration. The penalty for late registration for VAT in Malawi is MWK100,000.

Penalties for late payment and filings. The penalty for late payment of VAT is an additional sum of 15% of the amount of VAT involved, plus a further additional sum of 5% per month or part thereof for the period during which the VAT remains unpaid.

Interest is charged on the unpaid amount at the prevailing bank lending rate plus 5% per annum.

Penalties for errors. Fine of MWK200,000, plus imprisonment for 10 years for falsification and alteration of documents. The goods involved are confiscated.

Penalties for fraud. The penalty for VAT fraud is a fine not exceeding 20 times the amount of VAT involved and imprisonment for 5 years.

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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).
Recovery of SST by non-established businesses	No

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 the process of refining that includes the separation, conversion, purification and blending of refinery streams or petrochemical streams.

Service tax. Service tax shall be charged and levied on any taxable services provided in Malaysia by a registered person in carrying on his business or self-assessed on any imported taxable services. It is applicable to specific taxable services prescribed under the First Schedule of the Service Tax Regulations 2018. 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.).

Effective 1 January 2020, foreign service providers will be required to register and charge 6% service tax on digital services (SToDS) that they provide to consumers (B2B or B2C) in Malaysia where the services exceed a threshold of RM500,000.

There were changes being proposed in the 2020 budget, as follows:
- Introduction of an Approved Major Exporter Scheme has been proposed where full tax exemptions are to be granted to traders and manufacturers of exempted goods upon importation/purchase, without the requirement to reconcile the importation/purchase with the quantity of goods to be exported. This initiative has been set out in the Finance Bill 2019.

The following changes were also proposed as part of the 2020 Budget Announcement speech but are pending further details:

- The conditions for the intragroup exemption (see Section D. Rates, Service tax below for detail on the current exemption) will be relaxed effective 1 January 2020 by allowing taxpayers to provide a certain minimal amount of professional taxable services to third parties. This is provided that income from the third parties does not exceed 5% of the total value of services provided and a threshold of RM500,000.
- A deferred payment facility will be introduced by the Royal Malaysian Customs Department to expediate the clearance process for the cross-border movement of goods.
- From a dispute resolution perspective, the Government will merge the Special Commissioner of Income Tax and the Customs Appeal Tribunal into one combined Tax Appeal Tribunal, which will commence operation in 2021.

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 (RM500,000)
- Subcontractor manufacturer below threshold (RM500,000)
- 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.

Mandatory registration is required where:
- The historical taxable annual turnover is more than the prescribed threshold (RM500,000).
- There are reasonable grounds that the future taxable annual turnover will be more than the prescribed threshold (RM500,000).

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

Voluntary registration and small businesses. If the value of taxable supplies made by a business is below the registration threshold, the business may apply to register for SST voluntarily.

Group 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.

Non-established businesses. With effect from 1 January 2020, a foreign service provider who provides digital services to consumers in Malaysia (i.e., individuals or businesses) is liable to be registered for service tax on digital service (SToDS) when the total value of digital services provided to a consumer in Malaysia exceeds RM500,000 per year. Foreign service providers who are liable to register for SToDS shall apply for registration not later than the last day of the month following the month in which they exceed the threshold. Foreign service providers may register from 1 October 2019 by completing and submitting the DST-01 form online via the SToDS portal.

Aside from the SToDS, there are no additional special rules for non-established businesses.

Tax representatives. Tax representatives are not required in Malaysia.

Reverse charge. Service tax at a rate of 6% shall be charged and levied on any imported taxable services acquired on or after 1 January 2019 by any person carrying on a business in Malaysia. The recipient of imported taxable services is required to self-account and pay 6% service tax based on the actual value of the imported taxable services. There is no input tax recovery.

Domestic reverse charge. There are no domestic reverse charges in Malaysia.

Digital economy. With effect from 1 January 2020, service tax at the rate of 6% shall be charged and levied on any qualifying digital service provided by a foreign registered person to consumers (i.e., businesses or individuals) in Malaysia. A foreign service provider who provides digital services to consumers in Malaysia, where the value of these services during a period of 12 months or less exceeds the threshold of RM500,000, will be required to register for service tax on digital service (SToDS). The value of the digital services can be determined based on either the historical or future method.

Online marketplaces and platforms. In Malaysia an online marketplace and platform is defined as any person outside Malaysia operating an online platform (for buying and selling goods or providing services), and who supplies the provision of digital services on behalf of any person (would be considered as a foreign service provider). Example of online platforms include offering online advertising space on an intangible media platform and offering platform to trade products or services.

To the extent that the value of the digital services provided by the online platform operator to consumers (B2B or B2C) in Malaysia exceeds the prescribed threshold for registration, the operator would be liable to be register for SToDS.

Registration procedures. For sales tax and service tax, businesses may apply for registration by completing and submitting the form SST-01 electronically via the MySST portal not later than the last day of the month following the month in which the business is liable to be registered. Foreign service providers who are liable to be registered for SToDS shall apply for registration via the DST-01 Form electronically via the SToDS portal not later than the last day of the month following the month in which the threshold has been exceeded.

Once the application has been approved, the businesses will be notified in writing and assigned a registration number by the Malaysian tax authorities (RMCD).

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.

For SToDs, a foreign-registered person may apply to cancel its registration if his liability to be registered has ceased or the Director General (DG) determines that the person is not liable to be registered. The foreign-registered person shall notify the DG in writing of that fact and the date of cessation within 30 days from the date of cessation. This can be done by completing the DST-Adm1 online.

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 currently refer specifically to the islands of Labuan, Langkawi and 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.

At the time of preparing this chapter, the Government has submitted an application to gazette Pangkor Island as a DA. However, no further information has yet been published.

D. 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. 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.

The term “taxable goods” refers to goods that are of locally manufactured, as well as imported goods, both of which that are not exempt under the sales tax law.

The sales tax rates are:
- Standard rate: 10%
- Reduced rates: 5% and specific rates (imposed on certain petroleum products)
- Zero-rate: 0%

The standard rate of sales tax applies to all supplies of goods unless a specific measure provides for a reduced rate, the zero rate or an exemption.

Example of goods and services taxable at 5%

- Nonessential goods (including among others, foodstuffs and building materials)

The term “exempt” refers to supplies of goods that are not liable to tax.

Nevertheless, the Minister of Finance has the power to exempt the following:
- Any goods or class of goods from the whole or any part of the sales tax, subject to conditions as he deems fit.
- Any person or class of persons from payment of the whole or any part of the sales tax which may be charged and levied on any taxable goods manufactured or imported.

Example of exempt supplies of goods

- Raw food (e.g., meat, vegetables, seafood)
- Bricks, blocks, tiles
- Bicycles and other cycles (including delivery tricycles), not motorized
- Trucks, motorcycles

Option to tax for exempt supplies. The option to tax exempt supplies is not available in Malaysia.

Service tax. Service tax is imposed at a rate of 6% on the price, charge or premium for the taxable service. A specific rate of RM25 applies per year for each principal and supplementary card upon activation and subsequent years on the provision of credit card or charge card services by banks and financial service providers regulated by the Bank Negara Malaysia.

Specific exemptions are available for service tax registered persons, as follows:

- Intragroup exemption may apply when a company in a group of companies provides services to a related party company, provided all the following conditions under Regulations 3 to 8, First Schedule of the Service Tax Regulations 2018, as amended, are met:
  - i. Taxable services fall under items (a) to (i), Group G, First Schedule of the STR 2018. The underlying services in question can be classified under one of the following taxable services:
    - — Legal services
    - — Accounting, auditing, bookkeeping and other services by public accountants
    - — Surveying services, including valuation, appraisal and estate agency services
    - — Engineering services
    - — Architectural services
    - — Consultancy services
    - — Information technology services
    - — Management services
  - ii. Control requirement:
    - Two or more companies are eligible to be treated as companies within a group of companies if one company controls each of the other companies.
    - A company shall be taken to control another company if the first mentioned company holds directly, indirectly through subsidiaries, or together directly or indirectly through/from subsidiaries:
      - — More than 50% of the issued share capital of the second mentioned company
        Or
      - — From 20% to 50% of the issued share capital of the second mentioned company and the first mentioned company has exercisable power to appoint or remove all or a majority of directors in the board of directors in the second mentioned company.
  - iii. Exclusivity requirement — services only provided within the group:
    - Where a company provides any such specified Group G taxable services to another person outside the group of companies, all such taxable services (whether provided to a company within or outside the group of companies) shall be taxable services.
    - Where a company in a group of companies acquires the abovementioned professional services from any company within the same group of companies outside Malaysia, such service shall not be an imported taxable service, with effect from 1 September 2019.
    - Business-to-business (B2B) exemption is applicable to a service tax-registered person who acquires the same taxable services as provided by him, from another service tax-registered person. Specifically, the B2B exemption will only apply to certain specific professional services as follows:
      - — Legal services
      - — Legal services on Islamic matters
      - — Accounting, auditing, bookkeeping and other services by public accountants
      - — Surveying services, including valuation, appraisal and estate agency services
      - — Engineering services
      - — Architectural services
      - — Consultancy services
      - — Information technology services
      - — Management services
      - — Advertising services

E. Time of supply

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.

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.

Deposits and prepayments. There are no special time of supply rules for deposits and prepayments for sales tax in Malaysia. As such, the normal time of supply rules apply.

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.

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. As such, the normal time of supply rules apply.

Reverse-charge services. Service tax in respect of imported taxable services shall be due and payable at the time when the payment is made, or invoice is received for the service, whichever is earlier.

Leased assets. Lease or rental of assets is not a taxable service under the First Schedule of the Service Tax Regulations 2018.

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.

F. Recovery of SST by taxable persons

SST is a single stage tax that is a cost to businesses. It is not passed onto businesses and customers within the supply chain.

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. Service tax is charged and levied on any taxable services provided in Malaysia by a registered person in carrying on their business or self-assessed on any imported taxable services.

There are only certain specific exemptions or the drawback facility under the sales tax regime. The following persons are exempted from sales tax:
- Schedule A: Class of person, e.g., ruler of states, federal or state government department, local authority, inland clearance depot, duty-free shop
- Schedule B: Manufacturer of specific nontaxable goods — raw materials, components, packaging to be used in manufacturing activities
- Schedule C: Registered manufacturer — exemption of tax on acquisition of raw materials, components, packaging to be used in manufacturing of taxable goods

Nondeductible input tax. Input tax incurred in Malaysia is generally not recoverable.

Partial exemption. Deduction of input tax is not allowed in Malaysia.

Capital goods. Input tax incurred on capital goods in Malaysia is not recoverable.

Refunds. There are several credit facilities and refunds available for sales tax and service tax, as follows:

Sales tax

- Drawback – Drawback of sales tax may be allowable to any person on which sales tax has been paid, if the taxable goods have been exported within six months from the date sales tax was imposed, subject to conditions.
- Deduction of sales tax – A registered manufacturer is eligible to make a deduction of sales tax paid, at the rate of 2% or 4% of the total value of taxable goods purchased (i.e., raw materials, components or packaging materials) used solely in the manufacturing of taxable goods, from a person other than a registered manufacturer, subject to certain conditions.
- Refund of erroneously paid or overpaid tax — Any person who has overpaid or erroneously paid any sales tax, surcharge, penalty, fee or other money shall make a claim for refund in the prescribed form (i.e., JKDM Form No. 2), subject to conditions.

Service tax

- Contra system — It is a facility that allows any registered person to deduct his return the amount of service tax paid but subsequently refunded to his customer because of either cancellation or termination for taxable services. An application can be made to the Director General of RMCD, subject to conditions.
- Refund of erroneously paid or overpaid tax — Any person who has overpaid or erroneously paid any sales tax, surcharge, penalty, fee or other money shall make a claim for refund in the prescribed form (i.e., JKDM Form No. 2), subject to certain conditions.

Pre-registration costs. Input tax incurred on pre-registration costs in Malaysia is not recoverable.

Write-off of bad debts. Claiming for bad debt is allowed for any person who is or has ceased to be a registered manufacturer or person provided that the SST has been paid, the whole or any part of the tax payable has been written off as bad debt. The claim for a refund on the whole or any part of the service tax paid shall be made within six years from the date the service tax is paid by the business.

Noneconomic activities. Input tax incurred in relation to noneconomic activities is not recoverable in Malaysia.

G. Recovery of SST by non-established businesses

Input tax incurred by non-established businesses in Malaysia is not recoverable. This is because under the SST legislation, there is no input tax mechanism/ability to claim tax under the sales tax or service tax regime.

H. Invoicing

SST invoices. 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.

Credit notes. 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.

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.

Simplified SST invoices. Under the current SST regime, the document to support the SST-relevant transaction is referred only as an "invoice." However, the DG may allow any particulars specified in the SST regulation not to be stated on an invoice issued, upon request in writing.

Self-billing. Self-billing is not allowed in Malaysia. However, the Director General has the power to reconsider these rules for certain exceptions.

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.

Foreign currency invoices. If an invoice is issued in foreign currency, the total amount payable before SST, the total SST chargeable and the total amount payable (including SST) must be converted to Malaysian Ringgit by using the selling rate of exchange prevailing in Malaysia at the time of sale of taxable goods or when the taxable services are provided. In the case of SST levied on the importation of goods, the exchange rates published by RMCD that are updated every week, would be applied.

Supplies to nontaxable persons. There are no special invoicing rules for supplies to nontaxable persons in Malaysia. As such, full VAT invoices are required.

Records.

Record retention period. Taxable persons are required to maintain their SST records for seven years and the records must be in English or in the national language (Bahasa Melayu) Any records shall be kept in Malaysia, except as otherwise approved by the Director General.

For digital services, a foreign-registered person can keep their documents or records related to service tax on digital services outside Malaysia as long as the records are readily accessible when required.

Electronic archiving. Records can be kept electronically, where they shall be kept in such manner as to enable the record to be readily accessible and convertible into writing. If the record is originally in a manual form and is subsequently converted into an electronic form, the record shall be retained in its original form prior to the conversion.

I. Returns and payment

Periodic 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 DG, upon receiving any application in writing, may reassign the taxable period other than the period previously assigned to them, as they deem fit.

Periodic payments. 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, i.e., by no later than the last day of the 30-day period from the end of the varied taxable period. Payment must be made by way of electronic fund transfer, checks, bank draft, money order or postal order.

Electronic filing. For SST-02 and SST-02A returns, the taxable persons may submit the SST return in one of three ways:
• Electronically
• By posting to the Customs Processing Center
• By couriering it to the Customs Processing Center

For SToDS, a foreign service provider needs to submit the DST-02 returns and make payments electronically via the SToDS portal.

Payments on account. Payments on account are not required in Malaysia.

Special schemes. No special schemes are available in Malaysia.

Annual returns. Annual returns are not required in Malaysia. However, the DG, subject to their approval, may vary the length of the taxable period or the date on which the taxable period begins or ends, upon receiving application in writing.

Supplementary filings. No supplementary filings are required in Malaysia. However, taxpayers are allowed to submit supplementary SST returns, provided that they have additional tax amounts to be reported to RMCD, via the MySST portal.

Digital reporting. No digital reporting requirements apply in Malaysia.

J. Penalties

Penalties for late registration. 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.

Penalties for late payment and filings. 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.

Penalties for errors. Any person who makes an error in any return furnished, i.e., 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.

Penalties for fraud. Any person who with the intent to evade or assist any other person to evade sales and service tax by making, using or authorizing the use of any fraud will be imposed penalties.

For the first offense, the person will be liable to a fine of not less than 10 times and not more than 20 times the amount of SST or to a term of 5 years or to both.

For the second or subsequent offense, the person will be liable to a fine of not less than 20 times and not more than 40 times the amount of SST or to imprisonment for a term not exceeding 7 years or to both.

K. 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 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).

Notwithstanding the above, RMCD has allowed a GST-registered person to make any adjustments in the final GST return until 31 August 2020. This is to cover cases after 29 December 2018 where there are GST credit or debit notes issued due to a change in consideration for the taxable supplies in relation to the goods sold or services rendered during GST era.

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. GST closure audit will continue until the end of 2020. Further updates are expected to be published by the DG.

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A. At a glance

Names of the taxes	Goods and services tax (GST) Tourism goods and services tax (TGST)
Local name	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 (0%) and 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 the following:
- Goods and services supplied by tourist resorts, tourist hotels, guest houses, picnic islands, tourist vessels and yacht marinas authorized by the Tourism Ministry
- Goods and services supplied by shops, diving schools, spas, water sports facilities and other such places in establishments specified in the law (subsection (a)(1)), excluding shops operating exclusively for the employees of such establishments
- Goods and services supplied by travel agency service providers authorized by the tourism ministry
- Goods and services supplied to foreign tourist vessels entering the Maldives by their agents
- Goods and services provided by domestic air transportation service providers to persons other than Maldivian citizens

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 must register for GST in the Maldives (it is mandatory) and must apply to register with the MIRA within 30 days from the date of commencement of import activity. Please note that there is no separate import GST in the Maldives.

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.

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. Importers of goods to the Maldives and suppliers of tourism goods and services are required to register even if the value of their supplies do not exceed the MVR1 million threshold.

Voluntary registration and small businesses. A person conducting an authorized trade or providing an authorized service may request permission of the Commissioner General to register with the MIRA.

Group registration. Group VAT registration is not allowed in the Maldives.

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.

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. The obligation of the tax agent is to review or file tax returns on behalf of the taxpayer, but all payment obligations, fines and compliance obligations would still fall upon the taxpayer.

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.

Reverse-charge services. There is no reverse-charge mechanism in the Maldives. 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.

The only scenario where the reverse-charge mechanism would apply, is for business-to-business (B2B) digital transactions, the customer is expected to self-assess GST and TGST on the payment to the nonresident business. See the *Digital economy* sub-section below for more detail.

Domestic reverse charge. There are no domestic reverse charge in the Maldives.

Digital economy. For B2B 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 tax credits.

GST/TGST does not apply to business-to-consumer (B2C) digital transactions.

Online marketplaces and platforms. No special rules exist for online marketplaces and platforms in the Maldives. If the registration rules are met, the service provider must register and declare GST on the services provided. Registration is only compulsory for local online marketplaces/platforms.

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.

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 canceled 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.

D. Rates

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

The GST rates are:
- Standard GST rate: 6%
- Standard TGST rate: 12%
- Zero-rate: 0%

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

All services provided by a business registered with the tourism ministry of the Maldives (unless otherwise exempted) is subject to the standard rate of 12% TGST.

Examples of goods and services taxable at 0%

- Essential goods specified in the GST Act, such as:
  - Rice
  - Sugar
  - Flour

Note: Rice, sugar and flour refer to such goods imported by the State Trading Organization at any given time and sold at controlled prices.
- 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)
- Carrots, cabbage, beans and tomatoes among vegetables
- All kinds of fruits
- Bread, buns and faaroshi (rusk)
- Baby diapers
- Baby food
- Cooking gas
- Diesel
- Petrol

- Adult diapers
- Sanitary napkins, tampons, menstrual cups and other such products
- 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.

The term "exempt supplies" refers to supplies of goods and services that are not liable to GST and do not qualify for input tax deduction.

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
- Day care services provided by day care centers registered with the relevant Government authority or State institution
- Flats, land and buildings sold by the Government or by the Government through a third party under social housing schemes in which the Government has the discretion to control the price of the property being sold

Option to tax for exempt supplies. The option to tax-exempt supplies is not available in the Maldives.

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 amount received.

The tax declaration point will be identified based on the time-of-supply rules described above.

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.

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.

Reverse-charge services. There is no reverse-charge mechanism in the Maldives.

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).

Imported goods. The time of supply of imported goods or services is identified based on the time-of-supply rules described above.

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.

For a company to claim GST, a tax invoice has to be obtained for the purchases from a supplier registered for GST. If a supplier is not registered for GST in Maldives, or if it is an offshore supplier, GST input cannot be claimed for the purchases.

Nondeductible input tax. Expenses that are not related to the business or purchase of goods that are exempt from GST cannot be used to claim against output GST. A taxpayer is only required to declare the purchases of goods and services subject to GST when filing the tax return.

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. VAT directly related to making exempt supplies is not recoverable. A registered person who makes both exempt and taxable supplies cannot recover input tax in full.

VAT that relates to making both taxable and exempt 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.

Capital goods. 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

Refunds. Excess payments made to the MIRA shall be refunded when the taxpayer terminates all the taxable activities in the Maldives.

Pre-registration costs. Input tax incurred on pre-registration costs in the Maldives, is not recoverable.

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 nonbusiness 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. 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.

Credit notes. 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.

Simplified VAT invoices. 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.

Self-billing. Self-billing is not allowed 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.

Supplies to nontaxable persons. 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

Records.

Record retention period. Records should be kept for a minimum of five years in the Maldives. There are no special rules in addition to this.

Electronic archiving. Records can be kept archived electronically. There is no restriction on this matter.

I. Returns and payment

Periodic 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.

Taxpayers registered for general sector goods and services (GGST) are required to file a GST return (MIRA 205). Taxpayers registered for tourism sector goods and services (TGST) are required to file a TGST return (MIRA 206).

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.

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.

Periodic payments. 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. Any business with an annual income of less than MVR5 million is allowed to file manual (i.e., paper) returns with the MIRA.

Payments on account. Payments on account are not required in the Maldives.

Special schemes. No special schemes are available in the Maldives.

Annual returns. Annual returns are not required in the Maldives.

Supplementary filings. No supplementary filings are required in the Maldives.

Digital reporting. No digital reporting requirements apply in the Maldives.

J. Penalties

Penalties for late registration. 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).

Penalties for late payment and filings. Penalties apply as follows:
- Nonpayment 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, both MVR50 per day of delay is due as well as 0.5% of the tax payable is due
- 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, both MVR50 per day of delay is due, as well as 0.5% of amount of the tax payable is due

Penalties for errors. If an error has been detected during a MIRA audit, fines will be applicable from the required date of filing on the excess amount of tax that has been assessed by MIRA. Any errors made with an intention to evade tax shall incur penalties as described above. 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.

Penalties for fraud. Fines are applicable on filing and payment, calculated from the date of the filing requirement. If a company fails to file or pay as per the deadline, fines shall be applicable on an accumulating basis.

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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 (0%) and exempt without credit
VAT number format	MT12345678
VAT return periods	Quarterly (Commissioner for Revenue may prescribe longer or shorter periods)
Thresholds	
Registration	None
Established	EUR20,000-EUR35,000 (certain conditions apply)
Non-established	None
Distance selling	EUR35,000
Intra-Community acquisitions	EUR10,000
Electronically supplied supplies (MOSS)	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 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.

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 and small businesses. 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 tax 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.

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. 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.

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 repre-

sentative. 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

Domestic reverse charge. There is a domestic reverse charge in Malta for certain construction-related services. However, there are special rules in place for this domestic reverse charge. The use of the domestic reverse charge must be approved in writing by the Maltese VAT Department on a case-by-case basis subject to the satisfaction of certain conditions upon a request to be submitted in writing.

Digital economy. Special rules apply 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, came into effect from 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 (MOSS) 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.

Online marketplaces and platforms. No special rules exist for online marketplaces and platforms in Malta.

Vouchers. The provisions of Council Directive (EU) 2016/1065 of 27 June 2016 amending Council Directive 2006/112/EC as regards the treatment of vouchers were transposed into local Maltese legislation as from 1 January 2019.

Single-purpose voucher (SPV) means 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. Multi-purpose voucher (MPV) means a voucher, other than a single-purpose voucher.

Each transfer of a SPV made by a taxable person acting in their own name shall be 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 SPV accepted as consideration or part consideration by the supplier shall not be regarded as an independent transaction.

The actual handing over of the goods or the actual provision of the services in return for a MPV accepted as consideration or part consideration by the supplier shall be subject to VAT pursuant to Article 4 of the VAT Act, whereas each preceding transfer of that MPV shall not be subject to VAT.

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 tax 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.

Deregistration. An online VAT deregistration form needs to be filed whenever a VAT-registered person wants to deregister for VAT purposes. This includes listing among other things the reason for deregistration, whether the business will be transferred or not and details pertaining to any assets held.

D. 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: 18%
• Reduced rates: 5% and 7%
• 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.

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 goods and services taxable at 0% (i.e., exempt with credit)

• Food, excluding catering
• Pharmaceutical goods
• International transport
• Exports of goods and related services (to territories outside the EU)
• Supplies to ships
• Supply of gold to the Central Bank of Malta

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

The term “exempt supplies” refers to supplies of goods and services not liable to tax and that do not qualify for input tax deduction.

Examples of exempt supplies of goods and services

• 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. The option to tax exempt supplies is not available in Malta.

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.

Deposits and 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.

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.

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.

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.

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.

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.

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.

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 provide 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

- Nonbusiness 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

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

- Business expenditure (excluding blocked deductions)
- Mobile phones
- Hotel accommodation (purely for business purposes)

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 a change in the circumstances of the business or a change 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.

Pre-registration 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 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).

EU businesses. For businesses established in the EU, refund is made under the terms of Council Directive 2008/9/EC.

Claims for refunds by persons established in other EU Member States must be made online in accordance with Council Directive 2008/09/EC.

Non-EU businesses. For businesses established outside the EU, refund is made under the terms of the EU 13th Directive.

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. 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.

Credit notes. 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. Maltese VAT law permits electronic invoicing in line with EU Directive 2010/45/EU (see the chapter on the EU).

Simplified VAT invoices. For amounts not exceeding EUR100, a simplified invoice can be issued, which contains less details compared to a normal tax invoice.

Self-billing. Tax invoices may be drawn up by the customer in respect of supplies of goods or services made to them by a taxable person. A prior agreement between the two parties must be in place, along with an agreed procedure for the acceptance of each tax invoice by the taxable person supplying the goods or services. The Commissioner may require that such invoices be issued in the name and on behalf of the taxable person.

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 and other conditions as stipulated in the EU VAT Quick Fixes 2020 (see the European Union chapter).

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.

Supplies to nontaxable persons. 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.

Maltese suppliers of these services to nontaxable persons 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 shall not be required to issue fiscal receipts for such B2C services.

Records. Every registered taxable person established in Malta must keep full and proper records of all transactions carried out in the course or furtherance of their economic activity. Every person who is liable to tax on any transaction or who identifies as a person registered under the Maltese VAT Act for the purpose of any transaction shall keep full and proper records of any such transaction.

Record retention period. As a general rule, the records shall be kept and stored in a manner that contains details that can be supported by such information, documents and accounts as set out in the 11th Schedule to the Maltese VAT Act. Such records, information, documents and accounts shall be retained for a period of at least six years from the end of the year to which they relate, or such other period or periods as the Minister may, in special cases, by regulations prescribe. Certain exceptions may apply in case of capital goods, adjustment forms, appeals, etc.

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.

I. Returns and payment

Periodic 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.

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.

Periodic payments. Payment of the VAT due is required in full on the same date as the VAT return submission deadline, i.e., within one-and-a-half months after the end of the tax period to which they relate. Return liabilities must be paid in euro.

Electronic filing. 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.

Payments on account. Payments on account are not required in Malta.

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 MOSS for EU and non-EU established service providers of telecommunication, broadcasting and electronically supplied services
- *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.

Annual returns. Annual returns are not required in Malta.

Supplementary 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). The 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.

Digital reporting. There are no digital reporting requirements that apply in Malta.

J. Penalties

Penalties for late registration. 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.

Penalties for late payment and filings. 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

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.

Penalties for errors. 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.

Penalties for fraud. On conviction of certain irregularities in records, fraud, false representations, etc., a person shall be liable to the following penalties:
(i) To a fine of not less than EUR6,000 and not exceeding EUR10,000 for certain offenses committed
(ii) To a fine of not less than EUR700 and not exceeding EUR3,500 for certain offenses committed

In addition, where tax amounting to more than EUR100 would be endangered, to a further fine equal to two times the endangered tax or to imprisonment of not more than six months or to both such fines and imprisonment:

Provided that, the two times fine for the endangered tax shall in no case be less than EUR1,000.

In addition, on a request by the prosecution, the court shall order the offender to comply with the law within a time sufficient for the purpose, but in any case not exceeding one month, and, in default, the offender shall be liable to the payment of a further fine of EUR5 for every day on which the default continues after the lapse of the time fixed by the court.

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A. At a glance

Name of the tax	Value-added tax (VAT)
Local name	Value-added tax (VAT) and/Taxe sur la valeur ajoutée (TVA)
Date introduced	7 September 1998
Trading bloc membership	Common Market for Eastern and Southern Africa (COMESA) Member, Southern African Development Community (SADC) Member
Administered by	Mauritius Revenue Authority (MRA)
VAT rates	
Standard	15%
Other	Zero-rated (0%) 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
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
- Advisors
- 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 and small businesses. 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. Group VAT registration is not allowed in Mauritius.

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 resident and nonresident businesses. A nonresident business cannot register on a voluntary basis so that it can recover any VAT incurred in Mauritius.

Tax representatives. Tax representatives are not required in Mauritius.

Reverse charge. If a nonresident person supplies services that are performed or used in Mauritius to a VAT-registered person, the VAT-registered person 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. 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.*

Domestic reverse charge. There are no domestic reverse charges in Mauritius.

Digital economy. For business-to-consumer (B2C) 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 (B2B) transactions and B2C transactions.

Online marketplaces and platforms. No special rules exist for online marketplaces and platforms in Mauritius.

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.

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. 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
- Bread
- Cooking gas in cylinders of up to 12kg for domestic use
- Transport of passengers by light rail

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

Examples of exempt supplies of goods and services

- 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. The option to tax exempt supplies is 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.

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.

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.

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.

Imported goods. The time of supply for imported goods is the time when the goods are removed from customs.

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 motor vehicles, that are used for the transport of goods

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 tax 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. Capital goods for VAT purposes in Mauritius are any building or structure, plant, machinery or equipment. The qualifying input tax is determined in accordance with the tax point: the input tax is apportioned where the person has mixed supplies. No subsequent adjustment is made where the proportion of the recoverable VAT changes, except for the yearly adjustment that applies to any input tax used to make taxable and exempt supplies.

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 tax 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 and certain intangible assets of a capital nature, 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.

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

A VAT refund scheme exists for selected industries, and does not have any time limit. 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

Pre-registration 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.

Write-off of bad debts. Relief is available for any output tax accounted on any supplies that is subsequently written off. The debt should be written off for accounting purposes. No detailed guidance is provided on the conditions that should be satisfied for the output tax to be deductible.

Noneconomic activities. Input tax incurred in relation to noneconomic activities is not recoverable in Mauritius.

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. 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.

Credit notes. 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.

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.

Simplified VAT invoices. Simplified VAT invoicing is not allowed in Mauritius. Simplified invoicing rules do, however, apply for supplies made by non-VAT registered persons (where no VAT is charged), and a receipt is allowed to be issued.

Self-billing. Self-billing is not allowed in Mauritius.

Proof of exports. In connection with the export of goods, documentary evidence regarding customs control should be kept.

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.

Supplies to nontaxable persons. Full VAT invoices must be issued to any person, such that the same invoicing requirements apply for supplies to registered and non-registered persons.

Records. Every taxable person is required by the VAT law to keep in the course or furtherance of their business a full and true written record in English or French language of every transaction made.

Record retention period. A taxable person is not allowed to furnish any information and/or produce any books and records after five years immediately following the last day of the taxable period in which the transaction occurs. The time limit of five years does not apply in the case of willful neglect, evasion or fraud.

Electronic archiving. Records may be kept electronically in Mauritius, but it is not mandatory, and therefore physical records (i.e., paper) can also be used. The manner the electronic records should be kept is not specified in the law.

I. Returns and payment

Periodic 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. 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 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.

Periodic payments. VAT payments must also be made within 20 days after the tax period. Like the return date, 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 month. The last date to pay the tax for the month of November is two days, excluding Saturdays and public holidays, before the end of December.

Electronic filing. Where the VAT return is submitted electronically, the submission date and payment of the tax is a month within the taxable period.

Payments on account. Payments on account are not required in Mauritius.

Special schemes. VAT annual accounting scheme is allowed for small enterprises. A small enterprise is defined as a person with an annual turnover that does not exceed MUR10 million. The scheme only applies if the person is also taxed under a cash basis for income tax purposes: to date the manner in which the cash basis applies has not yet been determined.

Annual returns. Annual returns are not required in Mauritius.

Supplementary filings. No supplementary filings are required in Mauritius.

Digital reporting. The MRA may require any person to use an electronic fiscal device to record any matter or transaction that impacts the VAT liability to tax that person. *However, at the time of preparing this chapter, the regulations on the type, description and application of this provision has not yet been issued.*

J. Penalties

Penalties for late registration. 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.

Penalties for late payment and filings. 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.

Penalties for errors. A penalty of 20% applies to any excess claim for repayment. The penalty is limited to MUR200,000. Otherwise, there is no specific penalty for errors made by a registered person.

Penalties for fraud. Any person who commits an offense for the purposes of the VAT law may be liable to a fine not exceeding MUR50,000 and to imprisonment for a term not exceeding three years. A principal officer of a private company may be personally liable for the VAT liability of a company. A principal officer for this purpose means an executive director or any other person who exercises control or who is entitled to exercise control of powers that would fail to be exercised by the board of directors.

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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%
Reduced	8%
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.

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
- Companies that receive outsourcing services

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.

The only exception for creating a permanent establishment is for provision of digital services. If foreign companies carry out other business activities in Mexico, such as selling goods on an ordinary basis, they may create a permanent establishment and as such be subject to complying to the VAT rules in the same way as any other Mexican company.

Voluntary registration and small businesses. 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).

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.

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.

Tax representatives. Powers of attorney can be granted by the taxpayer and they must be for general administrative purposes.

In Mexico, it is not possible to register for VAT alone. A registration applies for all taxes. To incorporate a company in Mexico or in the case of the creation of a permanent establishment it is necessary to appoint a legal representative. The only case when a foreign entity without a permanent establishment needs to appoint a legal representative is if it provides digital services. Please see the *Digital economy* subsection below.

Reverse charge. Taxpayers who import intangible goods or services are subject to VAT at 16% rate, which can be credited in the same monthly return pursuant to the VAT law.

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.

There are no domestic reverse charges in Mexico.

Digital economy. The reform to the VAT law for 2020 includes the taxation of certain digital services, at the 16% VAT rate, when they are provided by foreign business to Mexican individuals. The rules will enter into force on 1 June 2020.

The tax reform does not distinguish between business-to-business (B2B) and business-to-consumer (B2C) transactions. Therefore, the rule would apply to all suppliers. However, the provisions appear to focus on B2C transactions. The following providers are subject to the rules and responsible for the collection, reporting and payment of VAT:
- Category 1: Those that provide for the download/access to images, movies, music, text, information, video, gaming, ring tones, news online, traffic, weather, online clubs, dating sites and other multimedia content, online learning, tests and exercises
- Category 2: Those that perform intermediation services between potential sellers and buyers of products and services

Providers of financial services, payment services, data storage and the use or sale of software would not be subject to the new requirements.

Digital services are deemed to be rendered in Mexico when the recipient of the services:
- Has declared a domicile in Mexico
- The consideration of the digital services is paid through an intermediary (for instance, a financial institution) located in Mexico
- The IP address used corresponds to Mexico
  Or
- Has provided a phone number with a Mexican country code

Obligations of foreign entities providing digital services in Mexico are as follows:
- Register in the Mexican Federal Taxpayers Registry (RFC)
- Break down VAT from the prices of digital services offered
- Keep records of digital services provided monthly and report them to the MTA on a quarterly basis
- Compute monthly VAT collected for digital services and submit the VAT return through the MTA's website
- Issue and deliver the corresponding invoices (simplified invoices)
- Appoint a legal representative and provide a tax domicile in Mexico
- Obtain the electronic signature from the MTA

The fulfillment of these requirements does not constitute the creation of a permanent establishment (PE) in Mexico. The recipients of services will be entitled to credit the VAT paid in terms of the VAT law.

Noncompliance with obligations to register, appointment of a legal representative and tax domiciles, or else failure to file three returns will grant the tax authorities the right to block the internet webpage.

Non-Mexican residents acting as intermediaries will be also obliged to:
1. Publish on their website, application, platform or in any other similar media the applicable VAT on goods and services offered by them as intermediaries
2. When the intermediary makes collections on behalf of third parties, they should:
   (i) Withhold from individuals 50% of the VAT collected (100% if no RFC is provided)
   (ii) Pay withholding by the 17th day of the following month
   (iii) Issue withholding e-invoices within the following five days*
   (iv) Register in the RFC as a withholding agent

3. Report to the MTA information about clients, no later than on the 10th day of the following month

* Beginning 2021, providers of Category 2 intermediation services will have to issue formal withholding VAT electronic invoices.

Online marketplaces and platforms. See detail above under the *Digital economy* subsection.

Registration procedures. The taxpayer must 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.

Deregistration. Through a liquidation process, the taxpayers can cancel the tax identification provided by the tax authorities.

D. 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: 16%
- Reduced rate: 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.

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

Examples of goods and services taxable at 8%
- Supply of goods and services, use or enjoyment of goods in locals or establishments located in the cross-border zone.

The term "exempt supplies" refers to supplies of goods and services that are not liable to VAT. Exempt supplies do not give rise to a right of input tax deduction.

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. The option to tax exempt supplies is not available in Mexico.

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.

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.

Continuous supplies of services. There are no special time of supply rules for continuous sup plies. 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).

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.

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 (cash-flow basis).

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.

Imported goods. The time of supply for imported goods is when the goods clear all customs procedures.

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 tax 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.

Nondeductible input tax. When taxpayers carry out activities that are not related to their business or when such activities are not subject to VAT (exempt activities), the input tax generated for these transactions is not recoverable.

Likewise, when the transaction does not comply with the creditable requirements set forth in the VAT law, the input tax is not recoverable. In general terms, such requirements are the following:
- Strictly indispensable expenses for engaging in taxable activities
- That the VAT has been expressly notified to the taxpayer and verified separately in the tax receipts
- That the VAT charged to the taxpayer is effectively paid in the month in question
- That in the case of charged VAT, withheld pursuant to article 1-A of this law, such withholding is paid over on the terms and within the periods established therein

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.

Capital goods. There are no special rules for the recovery of input tax incurred on the acquisition of capital goods.

Refunds. If the amount of input tax (credit VAT) in a month exceeds the amount of output tax (debit VAT), the excess credit may be carried forward to crediting output tax in the following tax periods, or it may be refunded upon 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.

Pre-registration costs. Input tax incurred on pre-registration costs in Mexico, is not recoverable.

Write-off of bad debts. Output tax accounted for on supplies that do not get paid by the recipient (i.e., a bad debt) cannot be recovered in Mexico.

Noneconomic activities. The VAT law provides that taxpayers can only recover the VAT paid in the same proportion in respect to the taxable activities that they perform. It means that if a business carries out activities that are not taxable for VAT purposes, input tax paid will not be creditable.

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.

H. Invoicing

VAT invoices. 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.

Credit notes. 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.

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 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.

Simplified VAT invoices. Simplified invoicing is permitted by the VAT law for those issued by foreign entities (i.e., non-established businesses).

Self-billing. Self-billing is not allowed in Mexico.

Proof of 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).

Supplies to nontaxable persons. 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.

Records.

Record retention period. Accounting records and supporting documentation must be kept for a period of five years.

Electronic archiving. Electronic archiving is allowed in Mexico. Physical archiving (i.e., paper) is also allowed.

I. Returns and payment

Periodic returns. VAT returns are filed electronically and must be submitted monthly. VAT returns are due no later than the 17th day of the immediately following month. In addition, monthly information of transactions with suppliers must be submitted electronically during the following month through an informative tax return known as DIOT.

Periodic payments. Returns must be paid in Mexican pesos, through a wire transfer.

Electronic filing. 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 A, 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.

Taxpayers are obliged to file electronic accounting that includes a chart of accounts, trial balance and journal entries.

Payments on account. Payments on account are not required in Mexico.

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.

Tax authorities provide administrative facilities to automatically recover favorable VAT for a maximum amount of MXN1 million. Some compliance requirements must be filled to access this benefit.

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.

Supplementary filings. Monthly returns of transactions with third parties must be filed. Such returns must include information regarding the supplies and suppliers.

In addition, intermediary digital service providers must also file returns. Please see the *Digital economy* subsection above.

Digital reporting. Mexico has an almost 100% electronic tax compliance environment that includes electronic filing of returns and tax payments.

Also, taxpayers have to issue their invoices electronically. These invoices must include a specific code provided by certain suppliers who are authorized by the Mexican tax authorities.

However, the accounting records (e.g., journal entries, trial balance, accounting records, etc.) must be generated in an xml format and be submitted to the Mexican tax authorities website.

J. Penalties

Penalties for late registration. The penalties related to late or extemporary registration include the following:
- Register could lead to an extension of the period of review by the tax authorities up to 10 days
- Not submitting registration when it is obligatory and/or failure to submit a registration application in the name of a third party when legally bound or doing so extemporary — from MXN2,740 to MXN8,230
- Not submitting notices or extemporary — from MXN3,420 to MXN6,830
- In case of digital services, noncompliance with obligations to register grants the authorities the right to block the internet webpage

Penalties for late payment and filings. 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%.

Penalties for errors. There are penalties imposed on taxpayers if they do not submit returns on time or if submitted returns contain errors. Examples of errors include following:
- In VAT return, incorrect tax domicile, a penalty — from MXN1,430 to MXN28,490, per error
- In summary of clients and suppliers return, missing data or incorrect data, a penalty— from MXN30 to MXN90, per each one
- When taxpayers do not pay their taxes within the specified time frame — from MXN1,400 to MXN34,730, per omission

Penalties for fraud. 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.

The purpose of the Federal Law against Organized Crime is to establish rules for the investigation, prosecution, punishment and penalties for crimes committed by someone who is part of organized crime. Its provisions are public order and applicable throughout the national territory.

The Reform to the Federal Law against Organized Crime includes, as part of the activities considered as a crime, the following:
- Contraband
- Tax fraud
- When the figures, quantity or value of the tax receipts that cover nonexistent operations, false or simulated legal acts, exceed three times the amount established in the federal Tax Code, which is approximately MXN7.8 million.

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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	Zero-rated (0%) and exempt
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.

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

Voluntary registration and small businesses. Voluntary VAT registration is allowed for persons planning to perform taxable supplies of goods and services, irrespective of their turnover value.

Group registration. VAT grouping is not allowed in Moldova. 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.

Tax representatives. Tax representatives are not required in Moldova.

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 by 25th of the month following the month in which the service was imported or paid, whichever is the earlier. VAT paid for imported services is eligible for input tax recovery.

The information relating to VAT on imported services is declared to the tax authorities in a separate box of the VAT return.

Domestic reverse charge. The domestic reverse-charge mechanism was introduced in the local tax legislation as of 1 January 2020. It is applicable to business entities that procure on Moldovan territory the property of other business entities registered as VAT payers, declared in the insolvency process (according to the provisions of the Insolvency Law). In the case of goods sold by the insolvent business entity (seller) to another business entity (buyer), the latter calculates and pays the VAT amount to the budget, subsequently having the right to deduction. The taxable object constitutes the value of the acquired property of the insolvent entity.

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.

Online marketplaces and platforms. From 1 April 2020, nonresidents that provide services through electronic networks (i.e., digital services) to Moldovan resident individuals, as well as nonresident intermediaries who receive payments from Moldovan resident individuals for the services

provided through electronic networks, for which the place of supply is considered in Moldova, are subject to VAT. The respective mechanism applies to B2C supplies only.

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 the 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.

Referring to the nonresidents that provide services through electronic networks (i.e., digital services) to Moldovan resident individuals, as well as to the nonresident intermediaries who receive payments from Moldovan resident individuals for the services provided through electronic networks, for which place of supply is considered Moldova, they are not required to register for VAT in Moldova under the general registration procedure. They are subject to a simplified registration scheme.

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:
- The VAT taxpayer has failed to file the VAT tax return for a certain amount of tax periods (arguably for at least 12 months)
- The VAT taxpayer has presented untruthful information with regard to its headquarter registration address

D. Rates

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

The VAT rates are:
- Standard rate: 20%
- Reduced rates: 8%, 10%
- 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.

Some supplies are classified as exempt from VAT with the right to deduction (i.e., zero-rated), which means that no VAT is chargeable, but the supplier may recover the related input tax.

Examples of goods and services taxable at 0%
(i.e., exempt with credit)

- Exports of goods and related services
- International transport of persons and freight
- Electric and thermal power

- Supplies of water to the public

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

The term "exempt supplies" refers to supplies of goods and services that are not liable to VAT and that do not qualify for input tax deduction.

Examples of exempt supplies of goods and services

- 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

Option to tax for exempt supplies. The option to tax exempt supplies is not available in Moldova.

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.

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.

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.

Continuous supplies of services. 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.

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, general time of supply rules apply.

Reverse-charge services. Tax is payable on reverse-charge services by 25th of the month following the month in which the service was imported or paid, whichever is the earlier.

Leased assets. If the assets are supplied under a leasing contract (financial or operational), the time of supply is considered the date of the lease payment specified in the contract. In cases of receiving the lease payment in advance, the time of supply is considered the date of this advance payment.

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.

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.

Capital goods. Capital goods are items of capital expenditure related to fixed tangible and intangible assets subject to depreciation. Input tax incurred on capital goods that are used wholly for taxable supplies, can be recovered in line with normal input tax recovery rules. Input tax is deducted in the month in which the goods are acquired.

If the capital goods are used for both taxable and exempt supplies, the partial exemption rules described above shall apply. Where the use of the capital good changes from taxable to exempt, the input tax related to the net book value of the capital good is not allowed for deduction and is reported to costs or expenses.

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 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.

Pre-registration costs. Input tax incurred on pre-registration costs in Moldova is not recoverable.

Write-off of bad debts. If the output tax related to a supply in the VAT return, is all or part of it is considered, according to the legislation, as a bad debt, the taxable person has the right to adjust the amount of VAT calculated starting with the fiscal period in which the bad debt was detected.

The tax code allows the recovery of VAT on bad debts, subject to the following conditions:

a) The liquidated entity has no successor of rights.b)The business entity declared insolvent does not have any goods.

b) The individual who does not perform any business activity and the farmer, or the individual entrepreneur does not have, within two years from the day of the appearance of the debt, goods or is in insufficient of goods that could be collected in order to extinguish this debt.
c) The individual has died and there are no more persons obliged by law to honor his obligations.
d) The individual, including the farmers' household members or the individual entrepreneur, who left his residence, cannot be found during the limitation period established by the civil legislation.
e) There is a respective act of the court or of the executor (decision, conclusion or other document provided by the legislation in force) according to which debt collection is not possible.
f) The debt is up to MDL1,000 with an expired limitation period.

Noneconomic activities. 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).

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

VAT invoices. 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 tax deduction.

Credit notes. No laws exist with respect to credit notes. The taxable amount of the taxable supply of goods and services, after their supply or payment, can be adjusted, if there are supporting documents providing the following conditions are met:
a) The amount of the taxable supply, agreed initially, has changed as a result of changing prices.
b) The taxable supply was returned to the seller, either partially or in the full amount.
c) The taxable amount of the taxable supply was reduced due to a discount provided.

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.

Simplified VAT invoices. Simplified VAT invoicing is not allowed in Moldova. Full VAT invoices are required.

Self-billing. Self-billing is not allowed in Moldova.

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.

Supplies to nontaxable persons. 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.

Records. Each taxable person is obliged to keep track of the entire volume of goods and services delivered, as well as of all the goods and services purchased. The fiscal invoices related to purchases/deliveries are recorded in the respective ledgers in the order of their receipt/release. Damaged or canceled fiscal invoices shall be also kept by the business entity. The purchases and sales ledgers shall be prepared and filled within one month from the end of the reporting month. The accounting documents are kept by the entity on paper or in electronic form.

For each reporting month, a generalized record must be kept, which includes the following:
a) Input tax amount on acquired goods and services
b) Output tax amount on delivered goods and services
c) Adjustments that impact the VAT amount
d) The VAT amount to be paid to the budget or the input tax amount to be carried forward
e) VAT amount paid to the budget
f) The VAT amount to be carried forward to the next fiscal period
g) VAT amount subject to be refunded from the budget

Record retention period. According to the local legislation, the fiscal invoices, as well as the accounting ledgers must be kept for six years.

Electronic archiving. 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.

I. Returns and payment

Periodic returns. VAT return periods are generally monthly. The VAT return periods for the provision of digital services by nonresidents to Moldovan individuals are quarterly.

Returns must be filed by the 25th day of the month following the end of the return period.

Periodic payments. Payment in full must be made by the same date as the VAT return deadline, i.e., by the 25th of the month following the end of the return period. However, VAT with respect to reverse-charge services must be paid to the tax authorities when the recipient pays for the services.

Electronic filing. VAT payers are obliged to file the VAT returns by using a specific online electronic program provided by the local tax authority.

Payments on account. Payments on account are not required in Moldova.

Special schemes. A special scheme applies to nonresidents who provide services through electronic networks (i.e., digital services) to Moldovan resident individuals, as well as nonresident intermediaries who receive payments from Moldovan resident individuals for the services provided through electronic networks, for which place of supply is considered Moldova. The respective mechanism applies to B2C supplies only. The nonresident should register on its own name with the local tax authority, under a simplified procedure, within three days after the services are supplied.

Annual returns. Annual returns are not available nor required in Moldova.

Supplementary filings. Generally, no supplementary filings are required in Moldova. However, where a voluntary disclosure is required to be submitted to the tax authority for the underpayment of VAT, the taxpayer should file an amended VAT return for the respective period.

Digital reporting. The VAT return must be submitted electronically in 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.

J. Penalties

Penalties for late registration. 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.

Penalties for late payment and filings. Failure to comply with the tax reports preparation and filing rules (including non-filing, late filing or filing of untruthful information) will be penalized with a fine, from MDL500 to MDL1,000 for each tax report, but no more than MDL10,000 for all tax reports subject of tax infringement, applied to business entities.

A penalty/interest for delay in payment of the understated taxes, is calculated for the period starting with the due date until the day (including) of effective transfer to the budget (the rate varies from year to year based on the refinancing basic rate, provided by the National Bank of Moldova plus five points). For example, the annual interest rate for 2020 year is equal to 13%.

Penalties for errors. The understatement of VAT by submitting to the tax authorities a VAT return with invalid information or data is sanctioned with a fine from 20% to 30% of the understated VAT amount.

Failure to issue in time the tax invoice, as well as failure to register the tax invoice in the general electronic register of the fiscal invoices will be penalized with a fine from MDL3,000 to MDL3,600 per each fiscal invoice but not more than MDL72,000.

Penalties for fraud. Evasion from calculation and payment of VAT will be penalized with a fine from 80% to 100% of the respective VAT amount.

If the infringement is qualified as a tax evasion and the income tax exceeds in total 50 average forecasted salaries (approximately MDL397,650), criminal investigations could be initiated (both for the company and its responsible person), subject to a list of financial and other type of sanctions to be imposed based on the decision taken by the court.

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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 (0%) 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.

Taxpayers must be registered for VAT when taxable turnover exceeds MNT50 million in a given financial year (subject to certain anti-avoidance measures).

Exemption from registration. If a taxpayer has not reached the registration threshold of MNT50 million within a given financial year, the taxpayer is exempted from VAT.

Voluntary registration and small businesses. Taxpayers can voluntarily register for VAT when taxable turnover reaches MNT10 million. Supporting documents are required to prove the expected sales reach MNT50 million in the next 12 months, such as contracts and sales orders, etc.

Group registration. Group VAT registration is not allowed in Mongolia.

Non-established businesses. 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.

Tax representatives. Tax representatives are not required in Mongolia.

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.

However, input tax incurred on reverse-charge VAT paid on services provided by nonresidents is non-recoverable in Mongolia. See *Section F. Recovery of VAT by taxpayers* for more detail.

Domestic reverse charge. There are no domestic reverse charges in Mongolia.

Digital economy. There are no specific rules relating to the taxation of the digital economy. Normal VAT rules apply.

Online marketplaces and platforms. No special rules exist for online marketplaces and platforms in Mongolia.

Registration procedures. Individuals and legal entities shall submit a request letter to register and application form ТТБ-01-А for VAT registration, to the relevant tax office within 10 business days from the date the documents proving the threshold has been met. Non-exhaustive proof of documents include bank statements, cash receipt orders, sales contracts, company certificates and electronic invoices.

Deregistration. An individual or legal person registered for VAT shall be excluded from the taxpayers' registry and their certificate shall be canceled 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. 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 term "services" include any activity.

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: 10%
- Zero-rate: 0%

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)

The term "exempt" refers to supplies of goods and services that are not liable to VAT and that do not qualify for input tax deduction.

Examples of exempt supplies of goods and services
- 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 nontraditional 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
- 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 for exempt supplies. The option to tax exempt supplies is 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.

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 apply.

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 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.

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.

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.

Imported goods. Imported goods are subject to customs VAT at the time of customs clearance. Payment of import VAT is required for imported goods to enter into Mongolian territory The time of supply for imported goods shall be at the earliest date of the following operation:
- The day when the vendor receives a sales revenue
- The day when payment receipt invoiced for goods and services sold
- The day when goods and services purchased

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 incurred on mineral exploration and pre-mining operations
- VAT incurred for the purpose of tax-exempt supplies

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

- Inventory
- Utility bills

Partial exemption. If a Mongolian taxpayer makes both exempt supplies and taxable supplies, the taxpayer must account for them separately. Input tax directly related to taxable supplies is recoverable in full, while input tax directly related to exempt supplies is not recoverable and must be

expensed for Mongolian profit tax purposes. Input tax 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 tax incurred on capital goods of businesses shall not be allowed for input credit or refunds. The law stipulates that input tax 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.

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.

Pre-registration costs. Input tax 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. Output tax accounted for supplies that do not get paid by the recipient (i.e., a bad debt) cannot be recovered in Mongolia.

Noneconomic activities. Input tax incurred in relation to noneconomic activities is not recoverable in Mongolia.

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. 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.

Credit notes. Credit notes are not allowed in Mongolia. A separate document is not issued for discounts, refunds and agreed price changes, etc. In practice, taxpayers must cancel the previous VAT invoice issued, and then reissue it with the different (agreed) amount. Also, if necessary, the submitted VAT return must also be amended.

Electronic invoicing. Electronic invoicing in Mongolia is allowed. Mongolia uses an electronic VAT system 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.

Simplified VAT invoices. Simplified VAT invoicing is not allowed in Mongolia. As such, full VAT invoices are required.

Self-billing. Self-billing is not allowed in Mongolia.

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.

Supplies to nontaxable persons. 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.

Records.

Record retention period. All tax records must be held for Maximum of four years. for tax records according to statute of limitations of four years.

Electronic archiving. Electronic archiving is not allowed in Mongolia. All records must be held in physical (i.e., paper) form.

While in practice, taxpayers aren't required to keep their VAT receipts in paper form because they are already in the VAT system, it is recommended to keep paper copies, because electronic archiving is not legally accepted in Mongolia.

I. Returns and payment

Periodic returns. Taxpayers must file VAT returns on a monthly basis. The submission process is online. Taxpayers fill in lines with amount of sales and expenses. The purchases and sales must match the electronic invoice system for taxpayer to be able to submit.

Periodic payments. 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. 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. Payments on account are not required in Mongolia.

Special schemes. Mongolian VAT returns are universal, and as such, there are no special schemes available for taxpayers in different industries/operations, etc.

Annual return. Annual returns are not required in Mongolia.

Supplementary filings. No supplementary filings are required in Mongolia.

Digital reporting. No digital reporting requirements apply in Mongolia.

J. Penalties

Penalties for late registration. 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.

Penalties for late payment and filings. Failure to remit tax to the tax authority is subject to a daily late payment penalty of 0.1% of the due tax. Late payment shall start from due date of 10th of the following month.

Penalties for errors. Failure to charge tax on taxable goods and service is subject to penalty equal to 30% of the due tax. Errors include the failure to register as VAT agent when threshold is met and failing to impose VAT on supplies, when registered for VAT.

Penalties for fraud. A penalty for tax evasion is due tax and additional 30% of due tax as penalty. Types of tax evasion are: concealed taxable income, understated taxable income or overstated expenses in the accounting records and destroyed/omitted accounting records on purpose. The penalty for a tax advisor is USD150 for an individual, USD1,500 for an entity, if guilty for assisting any fraudulent activity.

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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	Zero-rated (0%) and 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.

Exemption from registration. Morocco does not have a VAT registration threshold, and as such all businesses must register for VAT.

However, agricultural products (non-transformed), noncommercial activities, nonindustrial activities and civil acts are outside the scope of VAT. Therefore, a VAT registration is not required for individuals/entities exercising these activities.

Voluntary registration and small businesses. There is no threshold for VAT registration in Morocco, and as such VAT registration is mandatory. However, for certain businesses, VAT registration is not mandatory and voluntary VAT registration is allowed for the following. 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 MAD500,000
- Traders who sell without transformation, product and foodstuffs other than those that are exempted without the right to deduct the input tax
- Persons who affect premises for professional use intended for rental (other than furnished premises for professional use located in commercial complexes).

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 after the expiry of thirty (30) days following the date of the notification.

Group registration. Group VAT registration is not allowed in Morocco.

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 (autoliquidation).

Reverse charge. 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.

Domestic reverse charge. There are no domestic reverse charges in Morocco.

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 taxable activities 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.

Online marketplaces and platforms. No special rules exist for online marketplaces and platforms in Morocco.

Registration procedures. When taxpayers apply for a registration, they must provide the following documents:
- "Declaration d'existence" a printed form delivered by the tax administration that includes, in addition to the corporate name of the nonresident company, the following information:
  Information regarding the nonresident company:
  — Name and place of the company's registered office
  — Phone number of the registered office and, where applicable, that of the company's main office in Morocco
  — The professions and activities carried on in each establishment and branch mentioned in the declaration
  — The location of all the company's establishments and branches located in Morocco
  — Names, professions or activities and addresses of the natural or legal person resident in Morocco, accredited by the tax authorities
  — The indication, where applicable, of the option for flat-rate taxation in respect of corporate income tax
  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 the registration process of a company in Morocco.

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 tax authorities in which the nonresident entity requests to be deregistered from VAT.

The tax authorities do not provide a deregistration certificate.

D. 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: 20%
- Reduced rates: 7%, 10% and 14%
- 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 taxable at 0%
(i.e., exempt with credit)

- Exported goods/services
- Goods placed under customs suspensive regime
- Fertilizers
- Machinery for exclusively agricultural use
- Investment goods recorded as fixed assets, acquired by taxpayers, for a period of 36 months as from the start of the activity, excluding vehicles acquired by car rental agencies

Examples of goods and services taxable at 7%

- Water
- Rental of water and electricity meters
- Pharmaceutical products and non-recoverable packaging of pharmaceutical products

Examples of goods and services taxable at 10%

- Petroleum products
- Banking transactions
- Hotel operations
- Restaurant operations
- Sales and delivery operations relating to art objects
- Edible fluid oils
- Solar water heaters

Examples of goods and services taxable at 14%

- Transport services (excluding rail transport of passengers and goods)
- Butter, excluding homemade butter
- Electricity
- Services rendered by any direct selling agent or insurance broker in respect of contracts brought by him to an insurance company (without the possibility to offset input tax)

The term “exempt” refers to supplies of goods and services that are not liable to VAT and that do not qualify for input tax deduction.

Examples of exempt supplies of goods and services
(i.e., exempt without credit)

- Sales, other than for consumption on the spot, of goods including fresh, frozen, whole or cut fish products
- Sales of recovered metals and water pumps that use solar energy or any other renewable energy used in the agricultural sector
- Services provided by insurance and reinsurance companies

Option to tax for exempt supplies. The option to tax exempt supplies is not available in Morocco.

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 to 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.

Deposits and 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 the "debit system" is opted for (see the *Leased assets* subsection below for more detail) or a VAT invoice is issued, whichever is earlier. No specific regulation provides for the VAT treatment of continuous services.

Goods sent on approval for sale or return. The tax point for goods sent on approval is when the customer accepts the goods and a supply is made.

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.

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

Imported goods. VAT on imported goods is due at the time of customs clearance.

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.

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 by 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 of 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 without credit, it may recover only the input tax related to supplies that are taxable or exempt with a right to deduct.

The portion of deductible input tax is calculated as follows:
—In the numerator, the amount of turnover taxable and exempt with credit
—In the denominator, the numerator amount increased by the amount of turnover from transactions exempt without credit or transactions out of VAT scope

Capital goods. Companies may offset input tax incurred on purchases of fixed assets (non-capital expenses) against output tax on the same month's VAT return.

No specific rules apply for the input tax recovery for capital goods. In cases when capital goods are used for both taxable and nontaxable activities, the portion of VAT which can be offset is determined as detailed in the previous section.

Capital goods are defined as production tools which aim to create wealth within the company for a period of use of more than one year.

The basis of input tax calculation is the acquisition cost which is calculated as follows:
— The purchase price plus customs duties and other non-recoverable taxes and duties, less trade discounts obtained and taxes legally recoverable
— Related ancillary purchasing expenses such as transports, transit costs, hospitality expenses, insurance — transport excluding legally recoverable taxes

Refunds. If the amount of input tax recoverable in a period exceeds the amount of output tax 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)
- VAT incurred on purchases of other assets except office equipment and certain passenger transport vehicles
- VAT incurred on financial leasing activities

Pre-registration costs. Input tax incurred on pre-registration costs in Morocco, is not recoverable.

Write-off of bad debts. Output tax accounted for on supplies that do not get paid by the recipient (i.e., a bad debt) can be recovered in Morocco, when the client is defaulting, except when the loss is justified through a complete judicial remedy.

Noneconomic activities. Input tax incurred in relation to noneconomic activities is not recoverable in Morocco.

G. Recovery of VAT by non-established businesses

Nonresident entities conducting taxable activities in Morocco are not eligible for VAT refunds. Nevertheless, input tax incurred in Morocco by nonresident entities may be offset against output tax.

H. Invoicing

VAT invoices. Moroccan taxable persons must provide VAT invoices for taxable supplies, including exports, made to other taxable persons. Recipients of supplies must maintain copies of invoices.

Credit notes. Credit notes must be issued with VAT included. These are generally issued in cases of return of goods or products to the supplier; additional commercial/financial discounts; billing error to the advantage of the customer, etc. No specific conditions apply in Morocco to credit notes.

Electronic invoicing. In Morocco, electronic invoicing is not mandatory, but it is allowed. 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.

Simplified VAT invoices. Simplified invoices are not allowed in Morocco. As such, full VAT invoices are required. However, see the *Supplies to nontaxable persons* subsection for more detail.

Self-billing. Self-billing is not allowed in Morocco.

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. It is possible to issue a VAT invoice in a foreign currency. This is, however, not allowed for supplies made to a resident business, (generally, VAT is invoiced in foreign currency if it is invoiced to a non-resident business).

Supplies to nontaxable persons. For supplies to nontaxable persons (i.e., private individuals), the receipt may be used as an invoice.

Such receipt must include at least the following information:
(a) The date of the operation
(b) The identification of the seller or service provider
(c) The description of the product or service
(d) The quantity and selling price, with an indication, where applicable, of the value added tax

Records.

Record retention period. Accounting records must be kept for no less than 10 years. This fine is issued by roll without any procedure.

Electronic archiving. Electronic archiving is optional in Morocco.

I. Returns and payment

Periodic 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 within one month after the end of the relevant month or quarter.

Other taxpayers must file their VAT returns before the 20th day of the month following the relevant month or quarter.

Periodic payments. Taxpayers under the tele-declaration and tele-payment system must make VAT payments within one month after the end of the relevant month or quarter.

Other taxpayers must pay VAT due before the 20th day of the month following the relevant month or quarter.

Electronic payment is mandatory for all companies, regardless of the turnover performed.

Electronic filing. Electronic filing is mandatory for all companies, regardless of the turnover performed, through the tax administration's platform ("SIMPL").

Payments on account. Payments on account are not required in Morocco.

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

Annual returns. Annual returns are not required in Morocco.

Supplementary filings. Input tax incurred on petroleum products, which is claimed by a taxpayer, must be reported in a special VAT return. Such supplies must be reported:
- Gasoline used for the operating requirements of vehicles of collective road transport of persons and goods and road transport of goods carried out by taxable persons on their behalf and by their own means
- Gasoline used for the operating needs of rail transport of persons and goods
- Gasoline and kerosene used for air transport purposes

Digital reporting. All VAT returns must be filed electronically on the Moroccan tax administration's platform ("SIMPL").

J. Penalties

Penalties for late registration. 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.

Penalties for late payment and filings. In case of late filing of the VAT return 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 late payment of VAT due:
• 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.

Penalties for errors. When the tax administration identifies material errors in submitted returns, it will notify the taxpayer by way of a letter, inviting the taxpayer to submit a corrective return within 30 days as of the date of receipt of the said letter.

For late submission of a VAT return, a 5% surcharge applies. In case the rectification gives rise to payment of a supplementary tax, the additional penalties/surcharges apply:
• A 10% penalty
• A 5% surcharge for the first month of delay
• A 0.50% for each additional month or fraction of a month of delay

In the event of adjustment of the turnover for a fiscal year in the frame of a tax audit, a 30% surcharge is applicable, in addition to the abovementioned penalties and surcharges for late payment. The 30% surcharge is increased to 100% when the taxpayer's bad faith is revealed.

As such, a fine equal to MAD50,000 per financial year is applicable to taxpayers who do not keep their accounting documents or copies thereof in electronic form for 10 years or failing that, in paper form.

Penalties for fraud. A fine equal to 100% of the amount of tax evaded shall be applicable to any person who has participated in maneuvers designed to evade the payment of tax or assisted or advised a taxpayer in the execution of such maneuvers, regardless of disciplinary action if he/she performs a public function.

No implications are foreseen for tax advisors, unless their direct involvement in the fraud is demonstrated.

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A. At a glance

Name of the tax	Commercial tax (CT)
Local name	Commercial tax (CT)
Date introduced	31 March 1990
Trading bloc membership	Association of Southeast Asian Nations (ASEAN)
Administered by	Myanmar Internal Revenue Department (MIRD) (www.ird.gov.mm)
Rates	
Standard	5%
Other	8%, 3%, 1%, zero-rated (0%) and exempt
CT number	Changes yearly for the taxpayers assessed under the Official Assessment System (as CT registrations are renewed annually). For the taxpayers assessed under the Self-Assessment System, CT number is same as the tax identification number and company registration number (i.e., 9-digit number).
Return periods	Quarterly and yearly
Threshold	
Registration	None
Recovery of CT by non-established businesses	No (unless the non-established business is registered for CT in Myanmar)

B. Scope of the tax

CT applies on the following transactions in Myanmar:
- Sale of goods/special goods produced domestically
- Examples of special goods subject to CT are tobacco, liquor, wine, beer, timber logs and wood cuting, raw/finished gemstones, petrol, diesel, kerosene and natural gas, among others
- 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

The following are subject to register for CT:
- 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 must be made one month before the commencement of business. There is no registration threshold applicable for CT registration in Myanmar.

The MIRD must be notified of the commencement of business within 10 days after commencement.

The taxpayer is required to notify the MIRD of any changes to its name, including the company name, address, or the nature of the business on which the tax is being levied within 15 days after the change.

Exemption from registration. A business may be exempt from CT registration if its transactions are not subject to CT.

Voluntary registration and small businesses. A business may voluntarily register for CT in Myanmar so that its input CT can be used as credit against its output CT incurred.

Group registration. Group CT registration is not allowed in Myanmar.

Non-established businesses. Non-established businesses must register and pay CT if they have any transactions subject to CT in Myanmar. Typically, non-established businesses must appoint a local representative (e.g., Myanmar customer) to comply with their CT obligations.

Tax representatives. A non-established business must appoint a local tax representative to comply with CT obligations in Myanmar.

Reverse charge. The reverse-charge mechanism is not available in Myanmar. The obligation to collect CT solely lies with the service provider. Typically, overseas service providers may request the recipient or appoint a local representative (e.g., Myanmar customer) to comply with their CT obligations. This means the local company may be requested to act as a representative by the overseas company to comply with its CT obligations.

Domestic reverse charge. There are no domestic reverse charges in Myanmar.

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.

Online marketplaces and platforms. No special rules exist for online marketplaces and platforms in Myanmar.

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
- Corporate documents, such as the company registration certificate, company/overseas corporation extract from the Directorate of Investment and Company Administration (DICA) and two photographs of any of the company's authorized managing director/directors

There is no online registration system. Foreign entities who do not have branches in Myanmar must appoint a local representative in Myanmar to register as a CT operator in Myanmar.

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.

D. Rates

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

The CT rates are:

- Standard rate: 5%
- Other rates: 8%, 3% and 1%
- Zero-rate: 0%

The standard rate of CT 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 taxable at 0%

- Exports

However, the export of certain items, such as crude oil (5% CT) and electric power (8% CT), is subject to CT upon export.

Examples of goods and services taxable at 8%

- Export of electricity

Examples of goods and services taxable at 3%

- Buildings developed and sold in Myanmar

Examples of goods and services taxable at 1%

- Sale and importation of gold jewelry

The term "exempt supplies" refers to supplies of goods and services that are not liable to CT and do not qualify for input tax deduction.

Examples of exempt supplies of goods and services

- 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, meat, seedless corn, milk, dairy products and yogurt)
- Agriculture and livestock (e.g., fertilizers, insecticides, fungicides and pesticides, farm equipment, machines, spare parts, tractors and raw cotton plant)
- 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 (i.e., including goods listed for tax exemption with an approval of Union Hluttaw and notifications issued by Union Government)
- Defense-related goods
- 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
- 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; toll fees collection services, mail and courier delivery service operated by Union Government)
- Education and information services (e.g., license fees paid to government organizations)
- Health care services (excluding cosmetic surger)
- 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. The option to tax exempt supplies is not available in Myanmar.

E. Time of supply

The time of supply for output CT is the earlier date of invoice date and payment receipt date from the customers.

The time of supply for input CT is the time of payment to suppliers with the prescribed Form 31.

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 apply.

Continuous supplies of services. There are no special time of supply rules in Myanmar for continuous supplies. As such, the general time of supply rules 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 apply.

Reverse-charge services. Myanmar currently does not have CT reverse-charge/self-assessment mechanism. The obligation to collect CT solely lies with the service provider. Typically, overseas service providers may request the service recipient or appoint a local representative (e.g., Myanmar customer) to comply with their CT obligations. This means the local company may be requested to act as a representative by the overseas company to comply with its CT obligations.

Leased assets. There is no special time of supply rules in Myanmar for supplies of leased assets. As such, the general time of supply rules apply.

Imported goods. The time of supply rules for imported goods is at the time of customs clearance, which is borne by the importer. 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.

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.

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. There are no specific rules that input tax incurred for both taxable and exempt supplies require apportionment. In practice, the input tax paid on general business overheads should be able to offset against the output tax when it obtains the prescribed "CT Form 31" and copy of valid commercial tax registration certificate for each relevant fiscal year from their suppliers or service providers.

Excess input tax will not be refunded but it may be carried forward to the next period in certain conditions (e.g., for the advance rental payment). Otherwise, excess input tax will be treated as a deductible expense for corporate income tax calculation purposes within the same financial year.

If a business makes purely CT exempt supplies, the input tax incurred on purchases, can be treated as a deductible expense for corporate income tax calculations.

Capital goods. Input tax incurred on capital goods in Myanmar is not recoverable.

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 may be carried forward to the next period in certain conditions (e.g., advance rental payment) 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.

Pre-registration costs. Input tax incurred on pre-registration costs in Myanmar, is not recoverable.

Write-off of bad debts. Output tax in relation to bad debts is not recoverable in Myanmar, but it should be treated as deductible expense for corporate income tax calculation purposes within the same financial year provided that the bad debt is trade related and there is a proper documentation providing proof of the efforts made to collect the debt in place.

Noneconomic activities. Input tax incurred in relation to noneconomic activities is not recoverable in Myanmar.

G. Recovery of CT by non-established businesses

There is no CT recovery allowed by non-established businesses (unless the non-established business is registered for CT in Myanmar.).

H. Invoicing

CT invoices. There is no specific timing requirements for the issuance of tax invoices in the Myanmar CT Law. However, in practice, the invoice should be issued upon the supply of goods and services. There is no prescribed form for invoices, but CT Regulations define the mandatory data to be stated in each invoice for manufacturing and trading businesses 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

Credit notes. There are no specific CT rules in Myanmar for credit notes. As there is no guidance on the conditions and criteria for issuing a credit note, in practice it is accepted that the credit notes are issued within the framework of the basic accounting principles.

Electronic invoicing. Electronic invoicing must contain the mandatory data.

Simplified CT invoices. Simplified CT invoicing is not allowed Myanmar. As such, full CT invoices are required.

Self-billing. Self-billing is not allowed in Myanmar.

Proof of exports. Taxpayer must present the completed export declaration form issued by customs.

Foreign currency invoices. Invoices can be issued in a foreign currency or MMK, but CT shall be paid in local Myanmar kyats (MMK). Income in foreign currency shall be converted from the foreign currency to MMK based on the official rate of Central Bank of Myanmar.

Supplies to nontaxable persons. For business-to-consumer (B2C) transactions, there are no special rules for CT invoices issued by taxable persons to private consumers.

Records. All accounts and records are required to be kept and maintained in Myanmar. They cannot be stored overseas.

Record retention period. All records must be kept for a period of seven years from the date of the original transactions in Myanmar.

Electronic archiving. Records may be archived electronically or physically with the approval from MIRD.

I. Returns and payment

Periodic 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). All taxpayers in Myanmar are required to file quarterly and annual commercial tax returns based on revenue declared in its accounts.

Periodic payments. A supplier of goods and services must collect CT from the purchaser of the goods or service and remit it to the MIRD by the 10th day of the month following the month in which the tax point is triggered.

Electronic filing. Electronic filing is not allowed in Myanmar. CT returns must be physically submitted within one month after the end of the respective quarter and within three months after the end of the respective year.

Payments on account. Payments on account are not required in Myanmar.

Special schemes. No special schemes are available in Myanmar.

Annual returns. Annual return must be submitted to the MIRD within three months after the end of respective year. It is mandatory to file an annual return within the prescribed period.

Supplementary filings. Before filing the CT return, a taxpayer must ensure that the declaration of the paid preparer and declaration of the taxpayer/representative have been signed.

Digital reporting. No digital reporting requirements apply in Myanmar.

J. Penalties

Penalties for late registration. Failure to register for CT or notify about changes regarding taxpayer information (including failure to apply for cancellation of tax registration) results in a penalty of 10% of the CT payable in the relevant assessment year.

Penalties for late payment and filings. Failure to pay the monthly tax within the stipulated time results in a penalty of 10% of the additional CT payable in the relevant assessment year.

Failure to file tax returns in accordance with the prescribed timelines results in a penalty at higher of:
1) 5% of the tax due and an additional 1% of the tax due for each month (or the proportionate amount if less than a month) from the due date of the return until the date of the IRD assessment
   Or
2) MMK100,000

The penalty for failure to provide correct disclosures (such as using fraudulent or incorrect TINs, issuing incorrect invoices or receipts, issuing incorrect receivables or payable records, and providing invoices, receipts receivables and payables not according to tax laws or failure to provide, is MMK250,000.

Penalties for failure to provide the documents or records as requested by the tax officer, comply with a notice requesting personal attendance for an examination relating to the assessment results. The penalty shall be as follows:
1) MMK250,000
2) One-year imprisonment
3) Both 1 and 2

Penalties for errors. The penalty for failure to maintain records depends on the amount of tax payable as follows:
1. MMK5,000 per day of failure for taxpayers with tax payable up to MMK500,000
2. MMK50,000 per day of failure for taxpayers with tax payable up to MMK5 million
3. MMK100,000 per day of failure for taxpayers with tax payable in excess of MMK5 million

*The Director General may grant relief from penalty up to (30) days.

Penalties for fraud. For fraudulent activity resulting in underpayment CT:
- If underpayment is not more than MMK100 million or underpayment of tax does not account for more than 50% of actual tax due, the penalty is 25% of the deficient tax.
- If the underpayment exceeds MMK100 million or the underpayment of tax accounts to more than 50% of the actual tax due, the penalty is 75% of the deficient tax.

The penalty for disclosure of inaccurate or misleading information to the tax officer. shall be MMK150,000 and in addition higher penalty of the following:

1) The difference between the tax liability that should have been paid and the actual tax paid
   Or
2) The difference between the tax refund that should have been claimed and the actual tax refunded

The penalty for to provide the requested information by the Director General of the MIRD shall be MMK500,000.

Namibia

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A. At a glance

Name of the tax	Value-added tax (VAT)
Local name	Value-added tax (VAT)
Date introduced	27 November 2000
Trading bloc membership	Southern African Customs Union Member, Southern African Development Community Member
Administered by	Commissioner of Inland Revenue
VAT rates	
Standard	15%
Other	Zero-rated (0%) and exempt
VAT number format	123 4567-01-5/01234567 (format on ITAS)
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 (subject to certain conditions)

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, Eswatini, Lesotho, Namibia and South Africa) 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.

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 insurance indemnity payments
- Change in use
- Acquisition of used goods (excluding immovable property) from a person not registered for VAT

Goods imported into 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.

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.

Voluntary registration and small businesses. 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 sevices

continuously or regularly in Namibia must appoint a tax representative and open a Namibian bank account to register for VAT.

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.

Domestic reverse charge. There are no domestic reverse charges in Namibia.

Digital economy. There are no special rules for the taxation of the digital economy in Namibia. For business-to-business (B2B) and business-to-consumer (B2C) 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 non-resident 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.

Online marketplaces and platforms. No special rules exist for online marketplaces and platforms in Namibia.

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.

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.

D. 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: 15%
• 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 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 liable to VAT and that do not qualify for input tax deduction.

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. The option to tax exempt supplies is not available in Namibia.

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.

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). Deposits will only be subject to VAT once it is applied as a consideration for a supply.

Continuous supplies of services. 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.

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).

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.

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.

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

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 deed's registry
- The date on which any payment in respect of selling price is received (excluding deposits)

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 consigned or delivered. The tax point for services supplied to a branch or main business outside Namibia is when the services are performed.

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

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 tax deduction may be claimed and there will be no requirement to apportion the input tax claim.

Capital goods. Capital assets are defined in the VAT Act as any asset, or a component of any asset, which is subject to the deduction of capital allowances in terms of the Income Tax Act. The normal input tax recovery rules apply in respect of the acquisition of capital goods. Only the portion of capital goods used to make taxable supplies can be claimed as an input tax deduction. The normal timing rules apply.

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.

Pre-registration 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.

Write-off of bad debts. A registered person will be entitled to claim the VAT as an input tax deduction where bad debts have been written off. There should be proof that the registered person did in fact try to recover the bad debts before the VAT can be claimed back. The tax fraction will be applied to the total debt amount to the extent it includes VAT.

Noneconomic activities. Input tax incurred in relation to noneconomic activities is not recoverable in Namibia.

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

VAT invoices. 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.

In order to claim input tax, the claimant must be in possession of a valid tax invoice for each supply including periodic supplies.

Credit notes. 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.

Electronic invoicing. Electronic invoicing is not allowed in Namibia. The Namibian VAT Act requires that all tax invoices be issued in hard-copy.

Simplified VAT invoices. Simplified invoices are permitted in Namibia. There is no requirement to issue a tax invoice if the supply is for less than NAD100. A receipt is sufficient.

Self-billing. Self-billing is permitted, provided the Commissioner has provided prior written approval for the issue of tax invoices by a recipient. The recipient and the supplier must agree in advance that the supplier shall not issue any tax invoices where the recipient has issued a tax invoice in this regard. Then the tax invoice is provided to the supplier, and a copy thereof retained by the recipient.

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.

Supplies to nontaxable persons. 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.

Records.

Record retention period. All records should be retained for a period of five years after the end of the tax period to which it relates.

Electronic archiving. The original tax invoices, tax credit notes and tax debit notes received, and copies issued, should be kept physically in Namibia. Accounting records can be kept outside Namibia but should be maintained on a centralized computer system that is linked to the registered person's place of business in Namibia.

I. Returns and payment

Periodic 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. 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.

Periodic payments. Payment of VAT is due in full by the same date as the VAT return submission deadline, i.e., by the 25th day after the end of the tax period.

Payment of import VAT is due in full by the same date as the import VAT return, i.e., by the 20th day of the month following the month of import. If the payment date falls on a Saturday, Sunday or a public holiday, the due date is the next business day.

Electronic filing. Electronic filing is allowed in Namibia. Inland Revenue's new electronic system, Integrated Tax Administration System (ITAS), became operational from 1 January 2019. Tax return submissions can be made online through ITAS.

Payments on account. Payments on account are not required in Namibia.

Special schemes. No special schemes are available in Namibia.

Annual returns. Annual returns are not required in Namibia.

Supplementary filings. No supplementary filings are required in Namibia.

Digital reporting. No digital reporting requirements apply in Namibia.

J. Penalties

Penalties for late registration. 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.

Penalties for late payment and filings. 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.

Interest is charged at 20% per annum on late payments of the VAT liability or import VAT liability.

Penalties for errors. A person who fails to maintain proper records in respect of any tax period, will be liable for the payment of a penalty of NAD3,000 for each day during which the failure continues.

Penalties for fraud. Additional tax not exceeding double the value of the VAT due may be levied in the case of evasion and where any person knowingly or recklessly makes a false or misleading statement.

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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% previously
Other	Zero-rated (0%) 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
Thresholds	
Registration	None
Established	None
Non-established	None
Distance selling	EUR100,000
Intra-Community acquisitions	EUR10,000 (for exempt taxable persons and nontaxable legal persons)
Electronically supplied services (MOSS)	None
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 goods and services received by a taxable person and nontaxable legal entities in the Netherlands (that is, goods and 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.

Exemption from registration. VAT law in the Netherlands does not contain a provision for exemption from registration, but from 1 January 2020, businesses of which the global turnover does not exceed EUR20,000 per year can apply a special scheme. Under this scheme, these small and medium enterprises (SMEs) will have to register for VAT, but they will not have to issue invoices or file VAT returns. This means that they also cannot deduct any input tax. Businesses that decide to opt out of this scheme cannot re-apply for a three-year period.

Voluntary registration and small businesses. VAT law in the Netherlands does not contain any provision for voluntary VAT registration.

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." 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 the respective person was a member of the VAT group.

Non-established businesses. A "non-established business" is a business that has no fixed establishment in the Netherlands. 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.

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 Nonresident Businesses in Heerlen, at the following address:

Belastingdienst/kantoor Buitenland
Postbus 4486
6401 DJ Heerlen
Netherlands

Reverse charge. The "reverse charge" provision applies generally to supplies of goods and services made by non-established businesses to taxable persons and to 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.

Domestic reverse charge. 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 (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: https://www.belastingdienst.nl/wps/wcm/connect/bldcontentnl/belastingdienst/zakelijk/internationaal/btw_voor_buitenlandse_ondernemers/digitale_diensten_door_ondernemers_uit_niet-eu-landen/eu-btw-melding_met_moss_voor+ondernemers_uit_niet-eu-landen/.

Online marketplaces and platforms. No special rules exist for online marketplaces and platforms in the Netherlands. As a result of new EU rules, this will change from 1 January 2021.

Vouchers. The Dutch VAT treatment of vouchers mirrors the EU VAT rules. With regard to face-value vouchers, a distinction is made between single-purpose vouchers (SPVs) and multi-purpose vouchers. A voucher qualifies as an SPV if, at the time of issuing or transferring the voucher, the place of supply of and the VAT amount due regarding the underlying transaction are known. If this is not the case, the voucher qualifies as an MPV. Issuing and transferring SPVs is treated as performing the taxable transaction for which the voucher can be redeemed. The actual redemption is not subject to VAT. This is the other way around for MPVs: issuing and transferring them is not subject to VAT and VAT will become due upon redemption. Other specific VAT rules exist in the Netherlands for transactions involving different types of "vouchers," such as tokens, coupons and discount vouchers.

Registration procedures. The easiest way to register is to register online with 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 online http://www.belastingdienst.nl/rekenhulpen/registratie_buitenlandse_ondernemers/en/. Registration usually takes two to six weeks.

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.

D. 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% previously
- 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.

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 goods and services taxable at 0%

- Exports of goods
- Intra-Community supplies of goods
- Supplies to ships and aircraft used for international transportation

Examples of goods and services taxable at 9%

- Foodstuffs
- Books (hard copy as well as electronic publications)
- Paintings and other "cultural goods"
- Entrance to museums, concerts and similar events
- Passenger transport
- Hotel accommodation

The term "exempt supplies" refers to supplies of goods and services that are not liable to VAT and that do not qualify for input tax deduction.

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 must be met. The most important condition is that the customer use the property for purposes that allow them to 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.

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.

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.

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.

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).

Imported goods. 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 VAT recovery status, e.g., partially exempt).

A non-established business must appoint a tax representative resident in the Netherlands to use the postponed accounting facility.

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).

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).

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.

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 by a business for private use). 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 business is deemed to make a supply of goods or services and output tax is due.

Examples of items for which input tax is nondeductible

- Private expenditure
- Business gifts (if the value exceeds EUR227 per recipient per year and the recipient cannot recover the input tax in his own right)
- Restaurant drinks and meals
- Home telephone costs

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 tax in their 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 tax 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. Costs regarding company cars put at the disposal of employees are excluded from this adjustment method and therefore also from the calculation of the EUR227 threshold.

The employer may recover input tax 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).

As mentioned, the EUR227 threshold does not apply to cars that are put at the disposal of staff. For these transactions, the input tax 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 tax that may be directly allocated to taxable and to exempt supplies. Input tax directly allocated to taxable supplies is 100% 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. This takes place via the "pro rata" calculation. The pro rata calculation is a calculation that is normally based on the percentage of the values of taxable and total supplies made in the period of a financial year. 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, based on the actual use of goods and services.

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 tax, 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 previously 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.

Pre-registration costs. Input tax on pre-registration 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 as, the noneconomic activity is subservient to the taxpayer's (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 Dutch VAT to the same extent as a VAT-registered business.

For the general VAT refund rules contained in EU Directive 2008/9/EG and the EU 13th Directive, see the chapter on the EU.

EU businesses. For businesses established in the EU, refunds are made under the terms of EU Directive 2008/9/EG. Under EU Directive 2008/9/EG, the formal deadline for refund claims to 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.

Under EU Directive 2008/9/EG, the Dutch VAT authorities must make refunds of Dutch VAT within four months and 10 days after the date on which the refund claim has been 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.

Non-EU businesses. For businesses established outside the EU, refunds are made under the terms of the EU 13th Directive. The Netherlands does not exclude any non-EU country from the refund scheme.

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 Dutch VAT must be sent to the following address:

Belastingdienst/kantoor Buitenland
Postbus 2865
6401 DJ Heerlen
Netherlands

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. 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.

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).

Credit notes. 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.

Simplified VAT invoices. Invoices are not automatically required for retail transactions, unless requested by the customer. However, the issuance of invoices for wholesalers is required.

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).

Self-billing. The Netherlands allows self-billing. Both parties involved have to agree to self-billing (there is no prescribed confirmation for this, but it is recommended to do this in writing). If the supplier on behalf of which the invoice was issued, does not want to accept the invoice issued on his behalf, he must inform the recipient (the issuer) of his objections. In that case, the invoice loses its status of VAT invoice. The supplier will have to issue an invoice himself, unless parties can agree on a way of adjusting the original self-invoice. Beside the standard invoicing requirements, the following applies: each self-invoice must contain a sequential number that uniquely identifies the invoice and in addition, the self-invoice must contain the references "Self-billing" and "Issued in the name and on behalf of the supplier."

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, in order 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) as well as a timely filing of the European Sales Listing that includes the transaction.

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.

Supplies to nontaxable persons. It is not required that VAT invoices are issued to private individuals.

Records.

Record retention period. Taxable persons must retain invoices and all other documents/records that are relevant for VAT for a period of at least for seven years. For invoices and other records/documents related to real estate, a taxable person must retain these for a period of 10 years.

Electronic archiving. Documents that are not originally in electronic form may be converted to a digital format, as long as the business can guarantee the authenticity, the integrity and the legibility of the documents. Businesses have to decide for themselves how they do this. In practice, the Dutch tax authorities do not issue written approval of a system used by a business for this purpose. Also note that businesses will have to keep certain documents in their original form, such

as documents that determine the amount of duties due upon importation or exportation, e.g., certificates of origin of goods.

I. Returns and payment

Periodic 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 return filing periods can be used in exceptional situations, but no longer for periods as of 2020 and beyond.

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. 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 before the last business day of the second month after the reporting period.

Periodic payments. The VAT due must be paid by the same date as the VAT return submission deadline, i.e., the last day of the month following the end of the reporting period.

Non-established businesses registered for VAT in Heerlen must pay the 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).

Electronic filing. Electronic filing 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. 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.

Payments on account. Payments on account are not required in the Netherlands.

Special schemes. In the Netherlands, special VAT schemes exist for the following:
- *Small and medium enterprises.* Such businesses can apply to be exempt from filing VAT returns and issuing invoices if their annual turnover is less than EUR20,000.
- *Cash accounting.* Certain types of businesses, such as retailers and other businesses can, upon request, account for VAT based on the payments received for their supplies instead of the invoices issued.
- *Supplies of art, antiques and secondhand or used goods.* Such businesses that trade in these goods on a regular basis account for VAT on the margin instead of the full sales price, where they cannot deduct VAT included in their purchase price and where special invoicing rules apply.
- *Investment gold.* Special VAT rules apply to transactions regarding investment gold.
- *Tour operators.* Special VAT scheme applies to tour operators (the "Tour Operator Margin Scheme" or "reisbureauregeling," which resembles the margin scheme for used goods, art and antiques but also has special rules for determining the place of supply and some other specifics.
- *Fish.* In the Netherlands, the importation of fish, shellfish, crustaceans and mollusks that are brought in by ships returning from fishing, as well as the supply of these animals to auctions are VAT exempt with credit.
- *Telecommunications, broadcasting and electronic services.* Such supplies are subject to special rules (see the *Mini One-Stop Shop* subsection above).

Cash accounting. The Netherlands operates a cash accounting scheme, for retailers and comparable businesses. Under this system, an input tax deduction is allowed, even before the effective payment of the consideration.

Annual returns. Annual returns are not required in the Netherlands and do no longer exist as of 1 January 2020.

Supplementary filings. Dutch law requires businesses to file a supplementary VAT return as soon as they establish that an original VAT return was filed incorrectly (i.e., VAT was either underpaid or overpaid). This supplementary VAT return must be filed electronically using a specific electronic form. If the underpaid or overpaid VAT amount is less than EUR1,000, businesses are allowed to include the adjustment in the current VAT return.

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. *At the time of preparing this chapter, the Intrastat thresholds for 2020 for the Netherlands are not yet known*.

The Intrastat return period is monthly. The submission deadline is the 10th day following the return period. Intrastat declarations must be completed in euros.

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.

Digital reporting. The Netherlands uses a standardized electronic form for the filing of VAT returns and EU Transaction Lists. These lists are filed electronically.

J. Penalties

Penalties for late registration. 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.

Penalties for late payment and filings. 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 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.

For Intrastat, a penalty up to a maximum amount of EUR16,000 may be imposed for (structural) failure to comply with Intrastat filing and reporting obligations.

For ESLs, 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 penalties apply:
- 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.

Penalties for errors. Penalties in the following amounts are assessed for VAT errors:
- For errors in the payment of VAT, the maximum fine is 10% of the VAT due, up to a maximum amount of EUR5,278.

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.

Penalties for fraud. Penalties for gross negligence, intent and fraud, are assessed for the following:
- If a taxable person knows that errors were made in the payment of VAT and did not notify the tax authorities accordingly, a penalty may be imposed up to 100% 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.

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A. At a glance

Name of the tax	Goods and services tax (GST)
Local name	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%
Reduced	9% (effective rate based on GST valuation rules)
Other	Zero-rated (0%) and exempt
GST return periods	
One month	Taxable turnover exceeds NZD24 million (optional for other registered persons)
Bimonthly	Taxable turnover between NZD500,000 and NZD24 million)
Biannually	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
Quarterly	Nonresident suppliers of remote services or (from 1 December 2019) low-value goods are required to file quarterly GST returns
GST registration number format	Taxable persons use tax registration numbers for GST purposes in the format xxx-xxx-xxx (IRD number)
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. From 1 December 2019, offshore suppliers are required to register, collect and return GST on supplies of "distantly taxable goods" to New Zealand non-registered customers, if the volume of such supplies (and any other taxable supplies) exceeds the GST registration threshold of NZD60,000 per annum. Distantly taxable goods (also known as "low-value goods") are defined as goods that:
- Individually have a value of NZD1,000 of less
- Are outside New Zealand at the time of supply
- Are supplied by a nonresident
- Are delivered to New Zealand

For low-value goods, New Zealand Customs Service (NZCS) will not be collecting GST/duty at the border when the goods are imported. This is with the exception of fine metal, alcohol and tobacco products, which are subject to GST, excise taxes or customs duties at the border regardless of the value.

For imported goods valued more than NZD1,000 ("high-value goods"), no GST will be required to be charged by the offshore supplier. NZCS. will continue to collect duty and/or GST on the import. To minimize the compliance costs of identifying high-value goods, the offshore supplier can elect to charge GST on such goods, provided the total high-value goods are less than 25% of the total goods supplied to NZ customers. Once GST is charged, certain documentation is required to be provided to NZCS, so that no GST would be required to be paid on these goods at the border. NZ GST does not apply to supplies of low-value goods where the recipient identified themselves as a GST-registered business or provided their GST registration number or New Zealand Business Number. However, to minimize the compliance costs of identifying business-to-business (B2B) supplies, the offshore supplier may choose to charge GST on B2B supplies if such supplies are less than 50% of their total supplies to NZ customers.

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.

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

Voluntary registration and small businesses. A small business with taxable turnover of less than NZD60,000 a year may voluntarily apply to become a registered person.

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. 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. 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.

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 the following 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 NZD500 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.

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.

Domestic reverse charge. There is no domestic reverse charge in New Zealand.

Digital economy. Nonresident suppliers of "remote services," and from 1 December 2019, low-value goods must register and account for GST in New Zealand if the annual value of those goods and services supplied to non-GST-registered New Zealand consumers exceeds NZD60,000 (approximately EUR35,000 or USD40,000).

Online marketplaces and platforms. Suppliers who only supply remote services and or low-value goods 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 supplier agrees to the GST obligation, the operator does not authorize the charge or delivery of the goods or services and various steps are taken to ensure the operator is not seen to be the supplier.

From 1 December 2019, a re-deliverer of low-value goods who arranges or assists a non-GST registered NZ customer in the purchase of goods outside of New Zealand could be held responsible for collecting GST on the low-value goods if neither the supplier nor an operator of a marketplace delivers or assists in delivering the goods to New Zealand. 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.

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 or low-value goods has been simplified, and the registration form can be submitted through email or posted to Inland Revenue, or by registering online.

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.

D. Rates

The term "taxable supplies" refers to supplies of goods and services that are liable to GST, including the zero rate.
The GST rates are:
- Standard rate: 15%
- Reduced rate: 9%
- Zero-rate: 0%

The standard rate of GST 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 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

Some specific supplies have an effective rate of 9% through the GST valuation rules.

Examples of goods and services taxable at 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

The term “exempt supplies” refers to supplies of goods and services that are not liable to GST and that do not qualify for input tax deduction.

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.

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 canceled), 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.

Continuous supplies of services. 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

Goods sent on approval for sale or return. There is no special time of supply rule for goods sent on approval for sale or return. As such, the normal time of supply rules apply.

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

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.

Imported goods. Not applicable, no separate time of supply treatment for imported goods.

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. 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.

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 tax is not recoverable to the extent that the capital goods are purchased by a business for private use. Similarly input tax 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 land, 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 tax recoverable in a period exceeds the amount of output tax 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.

Pre-registration 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 pre-registration 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.

Write-off of bad debts. The GST on bad debts may be recoverable provided the debts are both bad and written off.

Noneconomic activities. A registered nonprofit body resident in New Zealand may recover input tax on expenses to the extent that the acquired goods and services are not used for making exempt supplies.

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

GST invoices. 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).

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.

Offshore suppliers of low-value goods are not required to issue tax invoices to New Zealand customers. However, the supplier can choose to issue a tax invoice if the NZ customer is registered for GST and the supplier elects to treat their B2B supplies as being subject to GST (see section B above). Alternatively, a tax invoice may be issued where GST is charged on a B2B supply of low-value goods by mistake. This allows the customer to submit a GST claim to Inland Revenue for the GST they incorrectly paid to the supplier.

Offshore suppliers are required to issue receipts to the customers for the supplies of low-value goods if GST is charged on the supply. The customer can then provide the receipt to NZCS as evidence that GST was charged at the point of sale, so that NZCS does not collect GST again when the goods are imported into New Zealand.

Credit notes. 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.

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.

Simplified GST invoices. A simplified GST invoice is allowed when the supply is less than NZD1,000. A simplified invoice means the name and address of the recipient and the quantity

or volume of the goods and services supplied are not required to be shown on the invoice, but the invoice should include the consideration for the supply and a statement that GST is charged.

Self-billing. A buyer created tax invoice (BCTI) can be issued by a recipient of a taxable supply. A BCTI is required to include the same information as a standard tax invoice. In addition, the supplier and the recipient must agree that the supplier will not issue a tax invoice for the same supply. The recipient must obtain approval from Inland Revenue to issue the buyer created tax invoice. If approval is granted, the invoice must contain the words "buyer created tax invoice — IRD approved" in a prominent place, and the document must be provided to the supplier, with a copy to be retained by the recipient.

Proof of exports. 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.

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.

Supplies to nontaxable persons. 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 NZD50. In other cases, the general tax invoicing requirements apply.

Records.

Record retention period. Records must be kept for seven years.

Electronic archiving. Records may be kept in a manual or electronic format. It is a requirement to store the records in New Zealand, unless approval is obtained for offshore storage. Suppliers of remote services or low-value goods can store records outside of New Zealand without approval from Inland Revenue.

I. Returns and payment

Periodic returns. 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 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.

Periodic payments. GST 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.

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. 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.

Payments on account. 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.

Special schemes. Nonresident suppliers of remote services or low-value goods 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.

Annual returns. Annual returns are not required in New Zealand. No supplementary filings are required in New Zealand.

Digital reporting. 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. The threshold has not yet been determined and will be set by Order in Council following appropriate consultation. No other digital reporting requirements apply in New Zealand.

J. Penalties

Penalties for late registration. There are no penalties specifically imposed for late GST registration in New Zealand.

Penalties for late payment and filings. 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 of NZD250 if the registered person accounts for GST payable on an invoice basis or NZD50 if the registered person is using the payments basis.

A penalty of NZD250 will apply for taxpayers that are required to file their GST return electronically but fail to do so.

Penalties for errors. 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 by the tax authorities 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 29 August 2019, the rate of interest is 8.35% for underpayments and 0.81% for overpayments. Interest rates are subject to change.

Penalties for fraud. A shortfall penalty can be imposed for "tax evasion" or "adopting an abusive tax position." See the detail above for more information.

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 relate to VAT
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.

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 and small businesses. The VAT law in Nicaragua does not contain any provision for voluntary VAT registration.

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. 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.

Tax representatives. It is not mandatory to appoint a tax representative in Nicaragua, however, it is permitted. A tax representative can be appointed through a tax power of attorney. A permanent power of attorney can be registered with the tax administration.

Reverse charge. Nicaraguan tax legislation does permit the reverse charge. There is no registration threshold in Nicaragua and as such non-established businesses that make supplies to domestic business customers in Nicaragua, must register for VAT.

For imported services there is no VAT due on such supplies. This means that if Nicaraguan businesses buys services from a non-established business, the recipient doesn't self-account for VAT, and the supplier doesn't have to register and charge VAT either. As such, no VAT is accounted on the supply.

Domestic reverse charge. There are no domestic reverse charges in Nicaragua.

Digital economy. There are no specific rules regarding the taxation of the digital economy for VAT purposes. However, the general taxable events 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.

Online marketplaces and platforms. Services provided from outside Nicaragua (i.e., abroad) through online marketplaces and platforms to be consumed/used in Nicaragua are not subject to VAT.

Services provided from a local Nicaragua supplier (taxpayer) through online marketplaces and platforms to be consumed/used in Nicaragua are subject to VAT. VAT applied on services ren-

dered by a foreign supplier to a local taxpayer should be incorporated as part of the acquisition cost.

Sales of goods from outside Nicaragua (i.e., abroad) through online marketplaces and platforms to be consumed/used in Nicaragua are not subject to VAT. However, the importations of such goods must comply with the importations VAT rules.

Sales of goods from a local Nicaragua supplier (taxpayer) through online marketplaces and platforms to be consumed/used in Nicaragua are subject to VAT.

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.

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)

D. 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: 15%
- Zero-rate: 0%

The standard rate of VAT applies to all supplies of goods or services, unless a specific measure provides for as the zero rate or an exemption.

Examples of goods and services taxable at 0%

- Exports

The term “exempt supplies” refers to supplies of goods and services that are not liable to VAT and that do not qualify for input tax deduction.

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

Option to tax for exempt supplies. The option to tax exempt supplies is not available in Nicaragua.

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.

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.

The time of supply for the rendering of services is when the purchaser becomes legally liable for payment.

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.

Continuous supplies of services. In Nicaragua, there are no special time of supply rules for continuous supplies. As such, the general time of supply rules apply, and the taxable event is the issuance of the invoice.

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 apply; VAT would be due when the goods are sold.

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.

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.

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.

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 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 nondeductible

- Any item acquired that is not directly linked to the taxpayer's economic activity is not creditable for VAT purposes.

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

Partial exemption. Generally, taxpayers may recover VAT paid for the purchase of goods and services used to generate other goods and services subject to VAT (i.e., taxable supplies). This is known in Nicaragua as VAT liquidation, which is determined by subtracting VAT credits paid on transactions needed to generate taxable income for VAT purposes (input tax) from VAT collected on the sales of goods or the rendering of services (output tax). VAT paid on transactions to generate nontaxable income for VAT purposes (exempt goods *bienes exentos*) are not allowed as VAT credits.

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.

Capital goods. Capital goods are not defined in the local legislation, however, they are generally understood as the goods necessary for the generation of income. There are no special input tax recovery rules for capital goods. The normal input tax recovery rules, as outlined above, apply. As such, when a taxpayer purchases a capital good that is used exclusively for taxable activities, the input tax incurred gives rise to the right of tax credit in the same month of acquisition.

When a taxpayer purchases a capital good that is used for both taxable and exempt activities, the input tax incurred must be apportioned based on the percentage of taxable activities over the total activities made by the taxpayer, as per the Partial exemption subsection above.

Refunds. If the amount of input tax recoverable in a month exceeds the amount of output tax 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.

Pre-registration costs. Input tax incurred on pre-registration costs is not recoverable in Nicaragua.

Write-off of bad debts. Output tax accounted for on supplies that do not get paid by the recipient (i.e., bad debts) cannot be recovered in Nicaragua.

Noneconomic activities. VAT incurred in the course of nonbusiness/economic actiivities cannot be recovered in Nicaragua. As a general rule, taxpayers may recover VAT paid for the purchase of goods and services used to generate other goods and services subject to VAT (i.e., taxable supplies).

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.

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. 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.

Credit notes. 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.

Electronic invoicing. Electronic invoicing is currently not allowed in Nicaragua.

Simplified VAT invoices. Simplified VAT invoicing is currently not allowed in Nicaragua. As such, full VAT invoices are required.

However, there are special tickets issued by retailers (i.e., supermarkets) to final consumers. But these are not authorized to be used as support for input tax recovery. If the taxpayer requires the invoice to support input tax recovery, they should request a full VAT invoice instead.

Self-billing. Self-billing is not allowed in Nicaragua.

Proof of exports. Invoice and declaration of exportation. A Nicaraguan exporter must issue an export invoice on a free on board (FOB) basis. Once the goods pass the flange in the local port, they should be considered as exported. An “export invoice” is the same general invoice but used for exportation purposes. Therefore, there is no difference between a general invoice and an invoice for exportation purposes.

Foreign currency invoices. All invoices must be made in Nicaraguan córdobas (NIO).

Supplies to nontaxable persons. In Nicaragua, there are no special rules for invoices issued to private consumers. Full VAT invoices must be issued for all supplies.

Records.

Record retention period. As a general rule, the statute of limitations is four years. Therefore, the record retention period should be at least four years. However, there are some cases, as for example the acquisitions of certain goods, that the retention period should be longer, for example, for depreciation purposes, for machinery. The records should be kept for the period of depreciation (i.e., 10 years for machinery), even though the statute of limitations corresponds to 4 years.

Electronic archiving. Electronic archiving is allowed in Nicaraguan, as an additional proof. However, a physical record is mandatory in Nicaragua.

I. Returns and payment

Periodic 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.

Periodic payments. Return liabilities must be paid in Nicaraguan córdobas. VAT returns must be filed on a monthly basis by the 15th day of the following month (submitted using form 124). Taxpayers registered as large taxpayers (in Spanish "*grandes contribuyentes*") (defined as those with an annual income greater than NIO160 million) must present an advanced biweekly VAT return in the first 5 business days after the 15th day of each month and a definitive return in the first 15 days of the following month.

Electronic filing. In Nicaragua, electronic filing is allowed for all VAT taxpayers. The VAT return (form 124) should be filed through the Tributary Electronic Window (in Spanish "*Ventanilla Electrónica Tributaria*") attaching a spreadsheet table describing the invoices issued, sales prices and VAT credit (output tax). The Tributary Electronic Window issues automatically a Tax Information summary (in Spanish "*Boleta de Información Tributaria* (BIT)") indicating the amount of tax to be paid. The BIT should be paid immediately (on the same day as it is issued) to avoid fines and other charges.

Payments on account. 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.

Special schemes. No special schemes apply in Nicaragua.

Annual returns. Annual returns are not required in Nicaragua.

Supplementary filings. In Nicaragua, for the electronic filing of the VAT return, a supporting spreadsheet table must be filed with the VAT return, describing the invoices issued, sales prices and output tax.

In addition, it is possible to make a supplementary filing/rectify a VAT return in case of excess payments to the tax authorities. An amended VAT return should be filed through the Tributary Electronic Window (in Spanish "*Ventanilla Electrónica Tributaria*") attaching a spreadsheet table describing the invoices issued, sales prices and output tax (credit). The tax administration may request more information from the taxpayer regarding this amendment. A new BIT/information indicating the amount to be paid or considered as credit should be issued by the Tributary Electronic Window.

Digital reporting. In Nicaragua, electronic filing is allowed for all VAT taxpayers. In addition, for the electronic filing of the VAT return, a supporting spreadsheet table must be filed with the VAT return, describing the invoices issued, sales prices and output tax. See the Supplementary filings subsection above for more detail.

J. Penalties

Penalties for late registration. In case of late registration, a penalty of between 30 and 50 penalty units may be assessed. A penalty unit equals approximately USD1.

Penalties for late payment and filings. In the case of late registration, a penalty of between 30 and 50 penalty units may be assessed. 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.

Penalties for errors. In the case of supplementary fillings for any errors, a penalty of between 30 and 50 penalty units may be assessed. A penalty unit equals approximately USD1. Also, 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.

Penalties for fraud. 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 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)
Local name	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	7.5%
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 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

Voluntary registration and small businesses. 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).

Group registration. Group VAT registration is not allowed 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.

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.

Domestic reverse charge. There are no domestic reverse charges in Nigeria.

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.

Online marketplaces and platforms. No special rules exist for online marketplaces and platforms in Nigeria.

Registration procedures. To register for VAT in Nigeria, the taxpayer is required to complete the VAT registration forms and provide its company registration documents to the tax authority. Upon completion, a tax identification number is assigned to the taxpayer.

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.

D. 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: 7.5% (with effect from 1 February 2020)
- 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%

- 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

The term "exempt supplies" refers to supplies of goods and services that are not liable to VAT and that do not qualify for input tax deduction.

Examples of exempt supplies of goods and services

- All exported goods and services (aside from non-oil exports)
- Medical goods and services and pharmaceutical products
- Basic food items
- Locally produced sanitary napkins
- 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

Option to tax for exempt supplies. The option to tax exempt supplies is not available in Nigeria.

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.

Continuous supplies of services. There are no special time of supply rules in Nigeria for continuous supplies. As such, the general time of supply rules apply.

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.

Reverse-charge services. The VAT Act does not provide for reverse charge.

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.

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 tax that is charged on taxable supplies. If the input tax exceeds the output tax, the taxable person is allowed to claim a refund of the excess input tax. An input tax 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 tax against the output tax in the subsequent month.

Input tax is deductible from output tax 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 tax 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 tax incurred on the purchase of fixed assets and expenses such as general administration and overhead costs, cannot be recovered from output tax.

Recovery of input tax 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.

Examples of items for which input tax is nondeductible

- Supply of services
- Plant and machineries
- Rent

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

- Raw materials used in production of a taxable good
- Taxable goods purchased for resale

Partial exemption. There are no specific provisions in the Nigerian VAT Act with respect to partial exemption. However, based on the law, input tax is recoverable on supply of taxable goods. Hence, in this instance where the supply consists of both taxable and exempt supplies, there is a need for a mechanism to be put in place to apportion the input tax between the taxable and exempt supplies in order to determine the recoverable input tax.

Capital goods. Based on the provisions of the VAT Act input tax on capital expenditure/fixed assets should be capitalized along with the cost of the asset. For capital assets, the input tax should be capitalized along with the cost of the asset. As such, no input tax deduction is allowed for such assets (depreciable), sold or used in the production of the goods.

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.

Pre-registration costs. Input tax incurred on pre-registration costs in Nigeria, is not recoverable.

Write-off of bad debts. Output tax accounted for on supplies that do not get paid by the recipient (i.e., a bad debt) can be recovered in Nigeria. However, based on accounting principles, there should be appropriate supporting documentation and approval(s) available to support the write-off of such bad debts to avoid this treatment being challenged in the event of a tax audit.

Noneconomic activities. Input tax incurred in relation to noneconomic activities is not recoverable in Nigeria.

G. Recovery of VAT by non-established businesses

Nonresident, unregistered businesses may not recover input tax in Nigeria.

H. Invoicing

VAT invoices. A taxable person that makes a taxable supply is required to furnish the purchaser with a tax invoice for that supply. 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.

Credit notes. 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.

Electronic invoicing. 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.

Simplified VAT invoices. Simplified VAT invoicing is not allowed in Nigeria. As such, full VAT invoices are required.

Self-billing. Self-billing is not allowed in Nigeria.

Proof of exports. 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.

Foreign currency invoices. There is a specific provision to remit the tax on a foreign currency denominated transaction in the currency of the transaction.

Supplies to nontaxable persons. 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.

Records.

Record retention period. The statute of limitation for document retention is six years. Furthermore, the tax provisions provide that tax audits may be conducted on accounts dating as far back as six years. As such, tax documentation should be retained for at least six years.

Electronic archiving. There are no specific provisions with respect to the form in which records should be archived in Nigeria. This would depend solely on the policy of the organization. In practice, electronic archiving is not allowed in Nigeria. Archiving must be made in paper form only.

I. Returns and payments

Periodic 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.

Periodic payments. A taxable person must pay the tax due by the due date when filing the VAT returns, i.e., by the 21st day of the month following the month in which supplies are made. 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.

Electronic filing. Both paper and electronic filing are available, but the electronic method is still in transition. As such, paper manual method is still the predominant method. Electronic filing is available, but taxpayers find it difficult to use, due to network issues. *At the time of preparing the chapter, the tax authorities are looking into resolving the network issues, for the storage of the cloud capacity.*

Payments on account. Payments on account are not required in Nigeria.

Special schemes. No special schemes are available in Nigeria.

Annual returns. Annual returns are not required in Nigeria. However, it is recommended that such annual returns (true-up filing) for reconciliation purposes are done at the end of the reporting period, ahead of desk examination review or tax audit conducted by the FIRS, to avoid additional tax liabilities being imposed.

Supplementary filings. The VAT return must be accompanied by a schedule containing details of the supplies made and received within the tax period. For VAT deducted at the source by tax agents, there is a need to attach the schedule containing the details of the related transactions to the VAT return.

Digital reporting. No digital reporting requirements apply in Nigeria.

J. Penalties

Penalties for late registration. 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.

Penalties for late payment and filings. 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%.

The failure to submit returns results in a fine of NGN5,000 for every month in which the failure continues.

The failure to remit VAT results in a fine of 5% per year of the amount of tax not remitted, plus interest at the bank lending rate.

The failure to collect tax results in a penalty of 150% of the amount not collected, plus 5% interest above the Central Bank of Nigeria's "rediscount" rate (monetary policy rate).

Penalties for errors. The failure to issue tax invoice results in, on conviction, a fine of 50% of the cost of the goods or services for which a tax invoice was not issued.

The failure to maintain proper records results in a fine of NGN2,000 for every month in which the failure continues.

Penalties for fraud. Furnishing a false document results on conviction to a fine of twice the amount underdeclared. There are no specific provisions on the implication of such action for the tax advisors.

North Macedonia

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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	Stabilization and Association Agreement with the European Union (SAA) European Free Trade Association (EFTA) Central European Free Trade Agreement (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	MKD2 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 North Macedonia by a taxpayer within the scope of its business activity
- The importation of goods into North Macedonia (other than exempt importations)
- Reverse-charge supplies by foreign legal entities to North 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 MKD2 million. Also, they must register if, at the beginning of a business activity, they project the making of total annual supplies exceeding MKD2 million. Taxpayers may voluntarily register for VAT at the beginning of each calendar year or at the beginning of their business activity.

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

Voluntary registration and small businesses. 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.

Group registration. North 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. There is no prescribed limit for the duration of the VAT group. 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.

In case of a VAT debt from any member of the VAT group, all members of the VAT group shall bear the liability for the debt. Also, any VAT debt and interest prior to the registration as a member of the VAT group, the representative and any person in the VAT group will assume the responsibility for paying the VAT debt.

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 North Macedonia, the VAT reverse-charge mechanism applies.

Tax representatives. Tax representatives are not required in North Macedonia. There is no possibility to appoint a fiscal representative or tax agent. in Macedonia.

Reverse charge. In North Macedonia, the reverse charge applies to the supply of goods and services by foreign non-established legal entities to North Macedonian established taxpayers. 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.

Domestic reverse charge. In North Macedonia, the reverse charge applies to the following:
- Supply of construction services by a domestic constructor to an investor
- Supply of construction services by a domestic subcontractor to principal constructor
- Supply of waste and scrap

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 North Macedonia if the place of supply is deemed to be in North 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.

Online marketplaces and platforms. No special rules exist for online marketplaces and platforms in North Macedonia.

Registration procedures. Taxpayers apply for VAT registration by filing a hard copy form (DDV-01) with the tax authorities the Public Revenue Office (Regional Directorate Office; 11th October St. 27, Skopje 1000, North Macedonia) or electronically through the e-tax system (www.etax-fl.ujp.gov.mk). The electronic VAT registration can be submitted by an authorized accountant. 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.

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 MKD2 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 tax.
• During two calendar years the taxpayer submits tax returns with no supplies, zero VAT supplies or input tax 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.

The related party may decide to terminate the group registration by applying for de-registration. The tax office shall accept or reject the application within 90 days from its filing.

D. Rates

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

The VAT rates are:
• Standard rate: 18%
• 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 a reduced rate, the zero rate or an exemption.

Some supplies are classified as "exempt-with-credit" (i.e., zero-rated (0%)), which means that no VAT is due, but the supplier may recover related input tax.

Examples of supplies of goods and services taxable at 0%
(i.e., exempt-with-credit)

• International air transport of passengers
• Supply of precious metals for the central bank
• Supply, repair and maintenance, chartering and leasing of aircraft

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. 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

- Rental of residential buildings and apartments that are used for housing
- Banking and financial services
- Insurance and reinsurance
- Games of chance
- Educational services

Option to tax for exempt supplies. The option to tax exempt supplies is not available in North Macedonia.

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.

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.

Continuous supplies of services. 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.

Goods sent on approval for sale or return. The VAT law in North 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.

Reverse-charge services. Reverse-charge VAT applies to amounts charged for goods or services supplied by foreign legal entities to North 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.

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.

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.

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 tax. The difference between the output and input tax 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 North 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 tax and exempt supplies without the right to deduct input tax, such person may deduct only the portion of the input tax corresponding on a pro rata basis to the supplies giving rise to an input tax deduction.

There is no requirement for the taxpayer to notify the tax authorities (or obtain approval) in advance to use the above calculation. No special methods are allowed in North Macedonia.

Capital goods. There are no special input tax recovery rules for capital goods. As such, normal input tax recovery rules (as outlined above) apply.

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.

Pre-registration costs. Input tax incurred on pre-registration costs in North Macedonia is not recoverable.

Write-off of bad debts. Output tax accounted for on supplies that do not get paid by the recipient (i.e., a bad debt) cannot be recovered in North Macedonia.

Noneconomic activities. Input tax incurred in relation to noneconomic activities is not recoverable in North Macedonia.

G. Recovery of VAT by non-established businesses

On the condition of reciprocity North 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.

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 North 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 North Macedonia.

One of the mandatory conditions is the business must have an opened nonresident bank account prior to the submission of the application for the VAT refund. The applicant should meet the following conditions:
- Reciprocity
- Has not performed any trading activities in the country except for services related to import, export and transit

- Has performed business activity in the country for which the recipient of the goods or the purchaser of the services shall bear the tax in accordance with the law on VAT
- The amount of the tax return to be at least equal to the minimum threshold of MKD30,000 (approximately EUR500,00)

H. Invoicing

VAT invoices. A North 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 North 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.

Credit notes. 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.

Electronic invoicing. Electronic invoicing is permitted for North 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.

Simplified VAT invoices. Simplified VAT invoicing is not allowed in North Macedonia. As such, full VAT invoices are required.

Self-billing. Self-billing is not allowed in North Macedonia.

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.

Foreign currency invoices. In general, VAT invoices must be issued in domestic currency (denars (MKD) if the place of supply is North Macedonia. 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 North Macedonia on the date of the invoice.

Supplies to nontaxable persons. 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.

Records.

Record retention period. Taxpayers should keep records of all documents (invoices, supporting documentation, etc.) for a minimum of five years. Considering that the status of limitation is 10 years in case of fraud, taxpayers must keep their records for the period of 10 years.

Electronic archiving. Electronic archiving of the submitted tax returns and any related supporting documentation is permissible.

I. Returns and payment

Periodic 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 MKD2 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.

Periodic payments. For monthly filing, provided that the amount of the total turnover of the taxpayer in the preceding year is at least MKD25 million, the taxpayer is obliged to file a monthly VAT return. The filing and the payment are performed no later than the 25th of the month following the reporting month.

For quarterly filing, provided that the amount of the total turnover of the taxpayer in the preceding year is below MKD25 million, the taxpayer is obliged to file a VAT return on quarterly basis. The filing and the payment are performed no later than the 25th of the month following the month when the respective reporting period ends.

Electronic filing. 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.

Payments on account. Payments on account are not required in North Macedonia.

Special schemes. No special schemes are available in North Macedonia.

Annual returns. Annual returns are not required in North Macedonia.

Supplementary filings. No supplementary filings are required in North Macedonia.

Digital reporting. The reporting with the tax authorities is performed electronically. The VAT returns are submitted with the tax authorities through the E-tax system. Every taxpayer has its own profile on the E-tax system and may authorize someone to prepare and submit the return on its behalf.

J. Penalties

Penalties for late registration. 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.

Penalties for late payment and filings. A legal entity is fined the MKD equivalent of EUR1,500 for a late VAT return filing.

Failure to 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.

Penalties for errors. For invoices, they should be issued in a period of five days, as of the day when the supply of goods/services was made. A legal entity is fined the MKD equivalent of EUR1,500 for a late issuance of an invoice.

A penalty in the amount of EUR2,500 is imposed to taxpayers that issue invoices that do not contain the mandatory information as prescribed with the law. Separate fines apply to the legal representative of the company, i.e., 30% of the penalty imposed to the taxpayer.

For taxpayers that do not keep their records in accordance with the requirements determined under the law, they may be imposed with a penalty in amount of EUR2,500. Separate fines apply to the legal representative of the company, i.e., 30% of the imposed penalty.

Penalties for fraud. Taxpayers that present inaccurate/false information in the tax returns and in that manner make misrepresentation of their tax position may be imposed with a fine in the amount of EUR5,000. In addition to this, the taxpayer may be penalized with prohibition for performing business activity for a period up to 30 days. Separate fines apply to the legal representative of the company, i.e., 30% of the imposed penalty. There is also potential criminal liability that can be imposed to the legal entity and the responsible person for the tax frauds as regulated with the Criminal Code. This may also apply for director's personal liability.

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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% and 15%
Other	Zero-rated (0%) 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 (EUR5,000) for all taxpayers, aside from charitable and nonprofit organizations (which is NOK140,000 (EUR14,000))
Established	NOK140,000 (EUR14,000)
Non-established	NOK140,000 (EUR14,000)
Distance selling	NOK140,000 (EUR14,000)
Intra-Community acquisitions	NOK140,000 (EUR14,000)
Electronically supplied services	NOK140,000 (EUR14,000)

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 Norway by a taxable person
- Withdrawals of goods from a registered enterprise or an enterprise with a registration obligation for use outside the scope of the VAT Act and withdrawals of services from a registered enterprise or an enterprise with a registration obligation for private use or for purposes not regarding the enterprise.
- 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 of 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 NOK50,000 (EUR5,000) during a 12-month period. However, for charitable bodies and some nonprofit organizations, the 12-month threshold is NOK140,000 (EUR14,000). Special rules also apply to certain partnerships, trading companies and corporations.

The one that is acting as the importer of records (recipient of goods) in the customs declaration is liable to pay import VAT.

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 tax through their VAT returns or remaining not registered and applying for VAT refunds through the refund regime.

Voluntary registration and small businesses. 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.

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 apply for refunds of input tax on VAT returns or remain unregistered and apply for VAT refunds through the refund regime.

Tax 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 Austria, Belgium, Bulgaria, Czech Republic, Croatia, Cyprus, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Iceland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, United Kingdom, Faroe Islands and Greenland.

Reverse charge. The reverse-charge mechanism in Norway applies when an entity purchases services that are capable of delivery in Norway from a remote location. Examples include electronically provided services, consultancy, etc. The entity that purchases the service has an obligation to calculate and pay the VAT in Norway.

Domestic reverse charge. The domestic reverse charge must be calculated by the buyer of climate credits and gold with a purity of at least 325 thousandths (of gold in an alloy).

Examples of climate credits can be carbon credits. Businesses or public companies that are not subject to the VAT regulations shall also calculate VAT on the purchase of climate credits. However, this obligation only arises if the total purchase in a term exceeds NOK2,000 (EUR200) excluding. VAT.

Examples of gold can be gold bars, gold dust, etc. The reverse-charge duty does not apply to the sale of gold where the price is based on function, design, etc., and not fineness and weight. Examples can be watches, etc.

Digital economy. 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.

Online marketplaces and platforms. If electronic services are supplied through a mediator (i.e., an online marketplace or platform), the supplier is considered to sell services to the intermediary and the intermediary, in turn, is considered to transfer services to the buyer (two transactions).

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 advisor are entitled to apply for registration. It is preferable to register the business online.

Deregistration. Different rules apply to deregistration and closures of different types of entities and enterprises, but all deregistrations 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.

D. 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: 25%
- Reduced rates: 12% and 15%
- 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.

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 tax related to the supplies.

Examples of goods and services taxable at 0%
(i.e., exempt-with-credit)
- Exports
- Supplies to foreign ships, and aircraft and ships involved in foreign trade
- Books and newspapers (including 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)

The terms "exempt supplies" refers to supplies of goods and services that are not liable to VAT and that do not qualify for input tax deduction.

Examples of exempt supplies of goods and services
- 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 dekar (1 dekar is 1,000 m^2) and agricultural land without buildings
- Associations of which the 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 make railway installations available against consideration 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.

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.

Continuous supplies of services. 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.

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.

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.

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.

Imported goods. The time of supply for imported goods is the official date of importation.

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 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 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 tax before a VAT invoice is received. Input tax that is not properly documented may not be deducted. The input tax deduction must be reported in the VAT period in which the invoice is dated.

Effective 1 January 2011, a deduction of input tax 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 (EUR1,000).

Nondeductible input tax. Input tax 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 tax may not be recovered for some items of business expenditure.

Examples of items for which input tax 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 (EUR10) inclusive of VAT

Examples of items for which input tax 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 tax 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 tax in full. This situation is referred to as “partial exemption.” Exempt with credit supplies are treated as taxable supplies for these purposes.

Input tax 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.

Capital goods. Capital goods are those assets that are procured with a certain value and duration in a business. In Norway capital goods are the following:

- Machinery, inventory and other fixed assets where the value of input tax of the capital good is higher than NOK50,000 (EUR5,000)
  Or
- Real estate that has been subject of new, extension or redevelopment where input tax amounts to NOK100,000 (EUR10,000) or higher.

Input tax incurred on the capital goods is deducted when the capital goods are acquired. However, the amount of input tax on capital goods depends on the use of the capital good in a 10-year period for real estate and 5-year period for other capital goods. The use of the capital good must therefore be assessed each year in the adjustment period. The initial deducted input tax is adjusted if the use of the capital good changes from VAT deductible to nondeductible purposes (or vice versa).

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.

Pre-registration costs. A VAT-registered entity is entitled to deduct input tax 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."

Write-off of bad debts. The taxable person can reverse the calculated output tax if it must be regarded as indefinitely unrecoverable from the recipient of the supply. The debtor (i.e., the recipient of the supply) must not have the ability to pay off the supplier's receivable and the claim must be regarded as indefinitely unrecoverable. It is not enough that the debtor lacks the willingness to settle the receivable. There are strict conditions that need to be met for the VAT to be defined as indefinitely unrecoverable, and therefore reimbursed by the tax authorities as a "bad debt."

Noneconomic activities. Input tax incurred in relation to noneconomic activities is not recoverable in Norway.

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 tax 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, 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.

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 September 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 NOK5,000 (EUR500) for a quarter and NOK500 (EUR50) for an annual claim.

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

Skatteetaten
Postboks 103
N-1501 Moss
Norway

Claims for VAT refunds are generally paid within six months. Interest is not paid on late refunds.

H. Invoicing

VAT invoices. 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.

Credit notes. 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.

Electronic invoicing. Electronic invoicing is not mandatory. However, electronic invoicing is permitted provided that the electronic invoice is in a non-editable format.

Simplified VAT invoices. Simplified VAT invoicing can be used by retailers in Norway, for supplies made cash sale to private consumers (for private use). Such supplies can be documented without specification of the buyer, and rather by the receipt from the cash register. The purchase amount must not exceed NOK40,000 (EUR4,000) including VAT, and the payment must not be in cash. When the payment exceeds the above amount or is paid in cash, the vendor's name and address must appear on the invoice.

Self-billing. Self-billing is allowed in Norway for certain supplies. For example, an entity that has a bookkeeping obligation in Norway can issue an invoice for the purchase of goods or services from a seller that does not have a bookkeeping obligation.

Further, when a sale is completed with a part exchange, the invoice can be issued by one of the parties. A joint-number series can be used for such sale documents.

Additionally, there are specific regular invoicing exemptions for the agriculture industry, handicrafts and for purchase where the buyers themselves dispose of information only on the scale, volume, weight, quality, etc.

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.

Supplies to nontaxable persons. No special rules apply for invoicing of supplies to private customers.

Records. Compulsory record reporting must be kept as long as there is a need to check the reporting material. Storage should be in a format that maintains the ability to read the material. Further, the material must be adequately secured against unjustified change, deletion or loss.

Record retention period. The main rule states that primary documentation shall be kept for five years after the end of the fiscal year. Secondary documentation shall be kept for three years and six months after the fiscal year ending period. There are several exceptions from these rules. One important exception is the expanded documentation rules for capital goods that are subject to VAT adjustments, where specific documentation must be kept up to 15 years from the end of the financial year of procurement. Import documents must be kept for 10 years.

Electronic archiving. Electronic archiving is available in Norway. Documentation that is necessary for the preparation of compulsory financial reporting and compulsory specifications, which is available electronically, must stay accessible as such for at least three and a half years after the end of the financial year. Entities with less than NOK5 million in turnover (excluding VAT) are excluded. Entities that are in the process of liquidations shall keep their documentation for six months after the liquidation is completed.

It is up to the entity itself to decide where the ongoing accounting is carried out, as long as the retention requirements are met. As a rule, records shall be stored in Norway under the whole retention period. However, entities that conduct operations abroad may keep records related to this activity in that country, if they are obligated to do so by the law of the country where the operations are conducted. The accounting material must be available for auditing by the tax authorities in Norway without any delay throughout the retention period. Electronic accounting material can be stored in the Nordic countries when this is reported to the Directorate of Taxes. On application, the Directorate may grant an exemption for the storage of electronic accounting materials in other countries as well.

I. Returns and payment

Periodic 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 bimonthly.

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.

Import VAT is declared through the VAT return.

Periodic payments. 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. For bimonthly reported

VAT, this means that the first term of the VAT report (January and February), is reported 10 April, etc. Return liabilities must be paid in Norwegian kroner.

Electronic filing. It is obligatory to report VAT returns electronically. The opportunity to apply for an exemption for VAT returns by paper has been discontinued.

Payments on account. Payments on account are not required in Norway.

Special schemes. Recipients of remote services who are not registered for VAT in Norway are obliged to report reverse-charge VAT through the government web portal (www.altinn.no) on a separate VAT return for non-registered entities (Form RF-0005). The return is submitted quarterly and payments are done 1 month and 10 days after the end of the VAT period. The threshold is for purchases exceeding NOK2,000 (EUR200) excluding VAT, per quarter year.

Annual returns. Annual returns are not required in Norway.

Supplementary filings. No supplementary filings are required in Norway.

Digital reporting. Standard Audit File for Tax (SAF-T) will be mandatory in Norway from 1 January 2020. From this date, all entities with a bookkeeping obligation in Norway will be required to submit accounting data electronically using the xml format, when requested by the Norwegian tax authorities. SAF-T is a standard data format for providing accounting data. Companies will be required to convert the requested accounting data to a SAF-T xml file and submit this through the government web portal (www.altinn.no). The primary purpose is to make tax audits more effective and efficient. SAF-T is mandatory for all entities with a bookkeeping obligation in Norway. However, exceptions are made to entities with a turnover of less than NOK5 million and entities with less than 600 accounting transactions per year. Please note that if SAF-T exempt entities have electronically available data, e.g., an ERP system, SAF-T will still be mandatory.

J. Penalties

Penalties for late registration. 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, because of late registration, a taxable person submits a late VAT return or pays VAT late.

Penalties for late payment and filings. Penalty interest is imposed when an entity is late in delivering the compulsory VAT report or has conducted obvious mistakes. 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 for errors. The penalties for errors in Norway are the same as those for late payment and filings (see above).

Penalties for fraud. The penalties for fraud in Norway are the same as those for late payment and filings (see above). If criminal charges apply for fraud, fines may apply as well as imprisonment of up to two years.

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Oman is a Member State of the Gulf Cooperation Council (GCC). The GCC consists of Bahrain, the Kingdom of Saudi Arabia, Kuwait, Oman, Qatar and the United Arab Emirates. 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. Oman has committed to implementing VAT. It is anticipated that VAT will be implemented in Oman in the second half of 2020 or early in 2021.

The GCC Common VAT Agreement 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 Common VAT Agreement, then each Member State may determine individually.

At the time of preparing this chapter, the GCC Common VAT Agreement has no direct effect in the GCC Member States, except if the respective Member States' domestic VAT law specifically refers to the provisions in the Common Agreement.

The summary set out below is based on the GCC Common VAT Agreement.

A. At a glance

Name of the tax	Value-added tax (VAT)
Local name	Value-added tax (VAT)
Date introduced	To be announced
Trading bloc membership	Gulf Cooperation Council (GCC) Greater Arab Free Trade Area (GAFTA)
Administered by	Sultanate of Oman Tax Autorithy

VAT rates	
Standard	5%
Other	Zero-rated (0%) and exempt
VAT number format	To be announced
Thresholds	
Registration	
Mandatory	USD100,000 (OMR38,500)
Voluntary	USD50,000 (OMR19,250)
VAT return periods	Monthly or quarterly, to be confirmed
Recovery of VAT by non-established businesses	There are provisions under the GCC VAT Framework Agreement that allow a VAT refund for nonresidents, subject to the satisfaction of the stipulated conditions.

Transitional provisions

Each Member State shall outline in their domestic VAT law the transitional provisions, which include the following:

- VAT due on the supplies of goods and services and the import and 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 enforcement date of the local VAT law, or ahead of the VAT registration date, and where the supply took place after this date.
- For continuous supplies that are carried out partially ahead of the date of enforcement of the domestic 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.

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Pakistan	

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A. At a glance

Name of the tax	Sales tax
Local name	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/) Balochistan 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	Goods 0-16% and Services 2-19.5%
Other	Zero-rated (0%) 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	Annual turnover exceeding PKR3 million or labor force of more than 10
Retailers:	Specific provisions apply
Importers:	None
Exporter:	None
Wholesaler, dealer or distributor:	None

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
- Steel billets, ingots, ship plates, bars and other long re-rolled products

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
- 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
  - Who have an industrial gas or electricity connection
  - Who are not located in a residential area
  - Whose taxable turnover in the preceding 12 months exceeded PKR3 million and has a total labor force exceeding 10 workers
- Retailers who are liable to pay sales tax excluding such retailers required to pay sales tax through their electricity bill
- Importers
- Wholesalers dealers or distributors
- Exporters who intend to obtain a sales tax refund against their zero-rated supplies
- Businesses that provide taxable services. Sales tax registration is required for every taxable person. Supplying taxable goods without a sales tax registration is tax fraud

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 the following goods:

- Raw materials and intermediary goods meant for use in an industrial process, which are subject to customs duty at a rate less than 16% ad valorem under First Schedule to the Customs Act, 1969
- The petroleum products falling in Chapter 27 of Pakistan Customs Tariff as imported by a licensed Oil Marketing Company for sale in the country
- Registered service providers importing goods for their in-house business use for furtherance of their taxable activity and not intended for further supply
- Cellular mobile phones or satellite phones
- Liquefied natural gas (LNG)/re-gasified liquefied natural gas (RLNG)
- Secondhand and worn clothing or footwear (PCT Heading 6309.000)
- Gold in unworked condition
- Silver in unworked condition
- Goods as specified in the Third Schedule (i.e., goods subject to retail price mechanism)
- Plant, machinery and equipment falling in Chapters 84 and 85 of the First Schedule to the Customs Act, 1969 (IV of 1969), as are imported by a manufacturer for in-house installation or use

All retailers are required to register for sales tax, however, the following retailers, known as "Tier-1 Retailers," are required to integrate their retail outlets with the tax department's systems for real time reporting:

- Retailers operating as a unit of a national or international chain of stores
- Retailers operating in air-conditioned shopping malls, plaza or center excluding kiosks
- Retailers whose cumulative electricity bill in the preceding 12 consecutive months exceeds PKR1.2 million
- A wholesaler-cum-retailer engaged in bulk import and supply of consumer goods on wholesale basis to the retailers, as well as on retail basis to the general body of the consumers
- A retailer whose shop measures 1,000 sq. feet in area or more
- Any other person or class of persons as prescribed by the board Tier-1 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. However, a reduced rate of 14% is available on supplies of finished articles of textile, textile made-ups, leather and artificial leather.

In the case of other retailers, sales tax is charged/and collected through monthly 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.

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 and small businesses. 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.

Group registration. Group VAT registration is not available under Pakistan sales tax laws.

Non-established businesses. Nonresident businesses (i.e., those who do not have a physical presence/place of business in Pakistan) are not required to register for sales tax under Pakistan sales tax laws. Generally, for services, the recipient pays the respective sales tax under the reverse-charge mechanism (see below) and for goods, sales tax is paid at import stage by the importer on record. However, if it is confirmed that such a person has a place of business in Pakistan (either physically or virtually) and is conducting taxable activity, they would be required to register for sales tax. The registration requirements would be the same as outlined above, however, no mechanism for registering a nonresident businesses involved in rendering services has been introduced by the tax authorities as of yet.

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 A person who has retired or resigned after putting in satisfactory service in the sales tax or customs or federal excise departments for a period of not less than 10 years in a post (s) not inferior to that of an assistant commissioner
- 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 precondition 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.

Domestic reverse charge. The reverse-charge mechanism as mentioned above is operative under the provincial sales tax laws and therefore if transactions are taking place between interprovincial jurisdictions, there is a possibility that the reverse-charge mechanism may apply. Legally, there is a provision, however, practically it is not implemented, since provinces have addressed these issues.

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.

Online marketplaces and platforms. Services provided through online marketplaces are currently taxable under the provincial sales tax law of Khyber Pakhtunkhwa. However, there are no other special rules that exist for online marketplaces and platforms in Pakistan.

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
- GPS-tagged photographs of business premises and utility meter (in case of nonmanufacturers)
- GPS-tagged photographs of machinery and industrial electricity or gas meters installed along with manufacturing premises (in case of manufacturer)

The sales tax registration process with FBR has now been simplified, and if all the documents have been furnished, the sales tax registration is provided. After registration, the applicant or the authorized person will have to visit a National Database and Registration Authority (NADRA) center within a month's time for biometric verification. In case of manufacturers, the board may require post verification through field offices or a third party authorized by the board.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.

Deregistration. A business that ceases operations or whose supplies become exempt from sales tax must apply for cancellation of its sales tax registration.

D. Rates

The term "taxable supplies" refers to supplies of goods and services and to imports that are liable to a rate of sales tax, including the zero rate. The sales tax rates for goods are:

- Standard rate for goods: 17%
- Reduced rates: 1%, 1.5%, 2%, 5%, 6%, 7%, 8%, 10%, 12% and 14%
- 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 import and local supply of mobile phones and bricks 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.

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.

The sales tax rates for services are:

- 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
- Household electrical goods, including air conditioners, refrigerators, deep freezers, televisions, recorders and players, electric bulbs, tube lights, electric fans, electric irons, washing machines and telephone sets
- Household gas appliances, including cooking range, ovens, geysers and gas heaters
- Foam or spring mattresses and other foam products for household use
- Paints, distempers, enamels, pigments, colors, varnishes, gums, resins, dyes, glazes, thinners, blacks, cellulose lacquers and polishes sold in retail packing
- Lubricating oils, brake fluids, transmission fluid, and other vehicular fluids sold in retail packing
- Storage batteries excluding those sold to automotive manufacturers or assemblers
- Tires and tubes, excluding those sold to automotive manufacturers or assemblers
- Motorcycles
- Auto rickshaws
- Biscuits in retail packing with brand name
- Tiles
- Auto parts in retail packing, excluding those sold to automotive manufacturers or assemblers

Examples of goods taxable at the reduced rates (1-16%)

- White crystalline sugar
- Plant and machinery not manufactured locally and having no comparable local substitutes
- Gold in unworked condition
- Re-importation of foreign-origin goods that were temporarily exported out of Pakistan

The term "exempt supplies" refers to supplies of goods that are not liable to sales tax, and that do not qualify for input tax deduction.

Examples of exempt supplies of goods

- Agricultural products, including eggs, meat of bovine animals, sheep and goat, and fresh vegetables (except ware potato and onions)
- Pharmaceuticals
- Newspapers and books
- Educational and scientific materials
- Equipment for fighting AIDS and cancer

- Supplies (excluding electricity and natural gas) made to hospitals run by the federal or provincial government or charitable operating hospitals of 50 beds or more, or to teaching hospitals of statutory universities of 200 or more beds

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. The option to tax exempt supplies is not available in Pakistan.

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, an invoice is raised or consideration is received, whichever is earlier.

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.

Continuous supplies of services. 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).

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.

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.

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.

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.

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 95% 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 Khyber Pakhtunkhwa, which has not mentioned any time period A separate refund claim should be made for input tax that is not claimed in the aforesaid tax periods.

A valid tax invoice or customs documents 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.

Through the amendments to the federal sales tax law, a new provision has been added in section 73 of the Sales Tax Act that states that a sales tax-registered manufacturer would make taxable supplies only to a person who has obtained registration under the Act. If the following assigned sales limits are exceeded, any sales made to the customers who have not obtained sales tax registration but are required to, would be subject to disallowance of related input sales tax as attributable to such excess sales, i.e., exceeding the below threshold:
- Supplies to unregistered customers PKR100 million in a financial year
- Supplies to unregistered customers PKR10 million in a month

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 using a tax fraction formula (i.e., the value of taxable supplies over the value of total supplies), to the extent that only the input tax relating to taxable supplies can be claimed in any given tax period. This adjustment is provisional, and the taxpayer is required to make a final adjustment at the end of each financial year based on taxable and exempt supplies made during the course of that year.

Capital goods. Under the federal sales tax law, input tax incurred on capital goods/fixed assets is claimable in the relevant tax period. However, under the provincial sales tax law, input tax paid on capital goods is recoverable in 12 equal monthly installments. There are no special input tax recovery rules for capital goods.

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.

Pre-registration 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.

Write-off of bad debts. In case of bad debts, the sales tax charged and deposited by the supplier can be adjusted through the issuance of debit/credit notes by stating that the supply has been canceled, if the note is issued within 180 days from the date of the relevant supply.

Noneconomic activities. Input tax incurred upon purchases that are used for noneconomic activities is not recoverable in Pakistan.

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. A taxable person must generally provide a sales tax invoice or cash memo for all taxable supplies made. Tier-1 retailers have to integrate their retail outlets with the boards computerized system for real time reporting of sales.A sales tax invoice is generally necessary to support a claim for input tax credit.

Credit notes. 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.

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.

Simplified sales tax invoices. Simplified sales tax invoicing is not allowed in Pakistan. As such, full sales tax invoices are required.

Self-billing. Self-billing is not allowed in Pakistan.

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.

Supplies to nontaxable persons. 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.

Records. A taxpayer is required to maintain and keep records of goods purchased, imported and supplied (including zero-rated and exempt supplies) at their business premises or registered office. These records include, but are not limited to, tax invoices for both purchases and sales, credit/debit notes, double entry sales tax accounts, bank statements and utility bills, etc.

Record retention period. The record retention period varies between each jurisdiction. However, a taxpayer is required to retain the records from 5 to 10 years.

Electronic archiving. In addition to paper records, electronic archiving of the records is allowed.

I. Returns and payment

Periodic returns. 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.

Periodic payments. Periodic payments against provision of services on a periodic basis are treated as separate and distinct payments. Accordingly, the payment of tax must to be made by the 15th day of the following month in which the payment is made.

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 are required to withhold 20% of the sales tax amount mentioned on the invoice for taxable services acquired from the provinces of Sindh, Balochistan and Khyber Pakhtunkhwa. 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.

Electronic filing. Electronic filing of sales tax returns is mandatory for all taxpayers registered for sales tax purpose.

Payments on account. Payments on account are not required in Pakistan.

Special schemes. No special schemes are available in Pakistan.

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.

Supplementary filings. No supplementary filings are required in Pakistan.

Digital reporting. Electronic filing of sales tax returns is mandatory for all taxpayers registered for sales tax purpose.

In addition, the federal government requires Tier-1 retailers to integrate their systems with that of the Federal Board of Revenue (i.e., the federal tax authority) to monitor their sales on a real-time basis. All sales are to be reported through an accredited electronic fiscal device (EFD), however, such retailers are still required to maintain/retain records as required by law.

J. Penalties

Penalties for late registration. 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.

A penalty of up to PKR1 million can be levied if a person fails to register under the Act and if registered fails to integrate his business for monitoring, tracking, reporting or recording of sales, production and similar business transaction with the board or its computerized system.

Penalties for late payment and filings. A penalty of PKR10,000, under both federal and provincial sales tax laws, 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 PKR200 or 300 per day applies.

A penalty is assessed for the late payment of sales tax for 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).

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 once in a year.

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.

Penalties for errors. 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.
- 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 offense a penalty of PKR10,000 or 5%, whichever is higher.

Penalties for fraud. 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.

A penalty of PKR500,000 or 200% of the amount of tax involved (whichever is higher) can be levied on any person who is integrated with the board or its computerized system but conducts transactions so as to avoid monitoring or tracking, reporting or recording of such transactions.

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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
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.

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 and small businesses. The Panamanian Fiscal Code and its relevant regulations do not contain any provision for voluntary VAT registration.

Group registration. Group VAT registration is not allowed in Panama.

Non-established businesses. 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. It is important to highlight that to carry out the sale of goods within Panama, the tax authorities may require an operation notice, for which the company must register before Panamanian Public Registry. 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 tax. The non-established business would not receive a refund.

Tax representatives. Tax representatives are not required in Panama.

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 issue an annual publication 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 the list are subject to the withholding obligation.

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 tax and used to offset output tax 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.

Domestic reverse charge. There are no domestic reverse charges in Panama.

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.

Online marketplaces and platforms. No special rules exist for online marketplaces and platforms in Panama.

Registration procedures. The Panamanian tax authorities issue an 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 (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.

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.

D. Rates

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

The VAT rates are:

- Standard rate: 7%
- Special rates: 10% and 15%

The standard rate of VAT applies to all supplies of goods and services, unless a specific measure provides for a special rate or an exemption.

Examples of goods and services taxable at 10%

- Alcoholic beverages, such as liquors and beers
- Hotels and other lodging services

Examples of goods and services taxable at 15%

- Cigarettes, cigars and other tobacco products

The term "exempt supplies" refers to supplies of goods that are not liable to VAT and that do not qualify for input tax deduction.

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. The option to tax exempt supplies is not available in Panama.

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.

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.

Continuous supplies of services. There are no special time of supply rules in Panama for continuous supplies. As such, the general time of supply rules apply.

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.

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.

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.

Imported goods. The time of supply for imported goods is when the customs return is filed.

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 tax 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

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.

Capital goods. There are no special input tax recovery rules for capital goods. If a capital good is used for both taxable and exempt supplies, the business must apportion the input tax by using partial exemption (see above). The business should carry out a proportion calculation and apply the percentage of the taxable and exempt revenues over the total revenues for the declared period, excluding the tax itself.

Refunds. If the amount of input tax recoverable in a period exceeds the amount of output tax payable, the taxable person receives an input tax 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.

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.

Pre-registration costs. Input tax incurred on pre-registration costs in Panama, is not recoverable.

Write-off of bad debts. The output tax can only be deducted for bad debts, if the following requirements are met:
- The values are properly recorded for and have been declared as taxable transactions
- The insolvency of the debtor or the prescription of the debt is verified to prove the insolvability of the debtor (e.g., cessation of payment or bankruptcy)

Noneconomic activities. Input tax incurred upon purchases that are used for noneconomic activities, is not recoverable in Panama.

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. 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.

Credit notes. A VAT credit note may be used to reduce VAT charged (within 180 days) 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.

Electronic invoicing. Electronic invoicing is not allowed in Panama. No electronic invoicing rules are effective in Panama. However, the tax authorities are carrying out a pilot scheme to authorize the use of electronic invoices for 43 specific businesses who can participate. *At the time of preparing this chapter, the pilot scheme remains unchanged for 2020, and the use of electronic invoices has not been widely implemented for all businesses yet.*

Simplified VAT invoices. Simplified VAT invoicing is not allowed in Panama. As such, full VAT invoices are required.

Self-billing. Self-billing is not authorized in Panama.

Proof of 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).

Supplies to nontaxable persons. All invoices should comply with the minimum requirements, there are no special rules for supplies to private consumers.

Records.

Record retention period. The general statute of limitation for VAT records in Panama is five years.

Electronic archiving. Electronic archiving may be done electronically, if the archive is compliant with the electronic document law.

I. Returns and payment

Periodic 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.

Periodic payments. Payment of VAT due must be made in full by the same date as the VAT return submission deadline (i.e., by the 15th day of the month following the end of the return period). Return liabilities must be paid in Panamanian balboas or US dollars.

Electronic filing. 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.

Payments on account. Payments on account are not required in Panama.

Special schemes. No special schemes are available in Panama.

Annual returns. Annual returns are not required in Panama.

Supplementary filings. No supplementary filings are required in Panama.

Digital reporting. It is possible to file the VAT returns electronically, however, 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.

J. Penalties

Penalties for late registration. There are no additional specific penalties for late registration of VAT taxpayers.

Penalties for late payment and filings. 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 2019, the applicable interest rate is 0.8%. This interest rate is updated annually. *At the time of preparing this chapter, the applicable interest rate for the fiscal year 2020 has not yet been released.*

Penalties for errors. 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.

Penalties for fraud. A new Code of Tax Procedures for the Republic of Panama (hereinafter, TPC), will predominately enter into force from 1 January 2020. With these changes, tax evasion is now considered as a crime (said disposition has been added to the Penal code and the Tax Code has been modified). Tax evasion will be considered as a crime, whenever someone intentionally avoids taxes (by omitting, hiding, falsifying or deceiving the tax office), for themselves or for a third party, for USD300,000 or above in a calendar year.

Tax evasion will be punished with a penalty of two to four years, who, personally or by an interposed person, receive, possess, deposit, negotiate, transfer or convert money, securities, real estate and other financial resources, knowing that they come from crimes against the National Treasury, in order to hide, cover up or hide their illicit origin, or help evade the consequences legal of such punishable act.

Additionally, it is established that, if the crime has been committed through one or more legal persons, the penalty will be imposed on the legal entity in question and will be a fine of one to three times the amount of the tax defrauded.

On the other hand, crimes against the National Treasury are as follows:

- It will be punished with imprisonment of two to four years, who in own-or third-party benefit and intentionally incur tax fraud against the National Treasury and affect the correct determination of a tax obligation to stop paying, totally or partially, the corresponding taxes.
- It will be punished with imprisonment of two to four years and with a fine of one to three times the amount of the tax defrauded, who gets fraudulently an exemption, return, enjoyment or use of improper tax benefits.

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A. At a glance

Name of the tax	Goods and services tax (GST)
Local name	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 six 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

An activity does not need to be carried on for the purposes of making a profit for it to be registered for GST. “Taxable activity” means a business activity that is carried on continuously or

regularly by a person, whether or not for a pecuniary profit, and involves or is intended to involve, in whole or in part, the supply of goods and services to another person for a consideration, and includes any such business activity carried on in the form of a trade, manufacture, profession, vocation, association or club.

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.

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

Voluntary registration and small businesses. 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.

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.

Non-established businesses. GST applies to taxable supplies and to taxable importations made by nonresident. Branches of foreign entities carrying on taxable or other activities in PNG are required to register and charge GST with respect to their supplies.

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.

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.

Domestic reverse charge. There are no domestic reverse charges in PNG.

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.

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.

Online marketplaces and platforms. No special rules exist for online marketplaces and platforms in PNG.

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.

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.

D. Rates

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

The GST rates are:
- Standard rate: 10%
- Zero-rate: 0%

The standard rate of GST 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%
- 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

The term "exempt supplies" refers to supplies of goods and services that are not liable to GST and do not qualify for input tax deduction.

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. The option to tax exempt supplies is not available in PNG.

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.

Deposits and prepayments. There are no specific time of supply rules in PNG for deposits and prepayments. As such, the normal time of supply rules apply.

Continuous supplies of services. 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.

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. As such, the normal time of supply rules apply.

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.

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).

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.

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).

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. 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. 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. The apportionment is generally required to be calculated on a monthly basis with an annual reconciliation of total input and output tax to be done within 60 days of the taxpayer's fiscal year. Where the input credits calculated on the annual basis differ from the total of the monthly calculations any excess input credits based on the annual calculations are refundable. Where the total of the monthly input credits exceeds the annual calculation, the excess is payable at the time the annual reconciliation is due.

Capital goods. There are no specific rules applicable to capital goods. Where the acquisition of capital goods is solely for the purpose of making taxable supplies, the input GST is allowable as an input credit in the taxable period in which the supply was made to the person or the period in which the GST input tax was paid or invoiced in the case of imported capital goods. Where capital goods are used for making both taxable and exempt supplies, the same rules for claiming input credits on other goods apply.

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.

Pre-registration 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.

Write-off of bad debts. Where a registered person accounts for GST on the accruals basis and writes off all or part of an amount previously reported as a taxable supply, the person is entitled to claim a deduction for the amount of the GST included in the amount written off as a bad debt in the period in which the debt is written off.

Noneconomic activities. Input tax incurred in relation to noneconomic activities is not recoverable in PNG.

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

GST invoices. 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.

Credit notes. 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.

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.

Simplified VAT invoices. Where the consideration for the supply is less than PGK200, neither the name nor address of the recipient nor the quantity or volume of the goods and services supplied is required to be shown on the invoice. Also, where the consideration for the supply is less than PGK50, no tax invoice is required to be issued.

Self-billing. With prior approval of the Commissioner, the supplier and recipient can agree that the supplier does not issue a tax invoice and instead the recipient issues a document with the words "buyer-created tax invoice — IRC approved" in a prominent place.

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.

Foreign currency invoices. All invoices must be expressed in PNG Kina and the exchange rate at the time of supply is required to be used. Where the consideration is agreed in a foreign currency, that can also be shown on the invoice.

Supplies to nontaxable persons. 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.

Records. The records required to be kept include books of account (manual or electronic) recording receipts of payments of income or expenditure, vouchers, bank statements, invoices, tax invoices, credit notes, debit notes, receipts, and such other documents as are necessary to verify the entries in the books of account. The records need to be in English unless approval of the Commissioner is obtained.

Record retention period. 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.

Electronic archiving. Copies of invoices are required to be kept in PNG, unless otherwise approved by the Commissioner. Records may be kept in electronic format.

I. Returns and payment

Periodic returns. 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).

Periodic payments. GST liabilities must be paid in PNG Kina by the 21st day following the tax period. The payment should be made by electronic funds transfer.

Company directors have personal liability if the company defaults on its GST obligations.

Electronic filing. 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.

Payments on account. Payments on account are not required in PNG.

Special schemes.

Secondhand goods. Where secondhand goods situated in PNG are acquired by a registered person by way of a sale that is not a taxable supply, the registered person is allowed to claim an input credit equal to the tax fraction (1/11th) of the consideration in money for 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.

Annual returns. Annual returns are not required in PNG.

Supplementary filings. No supplementary filings are required in PNG.

Digital reporting. No digital reporting requirements apply in PNG.

J. Penalties

Penalties for late registration. Penalty for late registration of GST is a liability to a fine not exceeding PGK25,000.

Penalties for late payment and filings. Penalty for late payment is 10% of the unpaid amount at the due date plus 20% per annum on the unpaid amount from the due date until paid.

Penalties for errors. Penalty for errors is a liability to a fine not exceeding PGK25,000.

Penalties for fraud. Penalty for fraud is a liability to a fine not exceeding PGK25,000.

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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 4)
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 also applies to the following:
- Permanent establishment of a foreign business in Paraguay
- Transparent legal structures (i.e., trusts, investment funds and risk-sharing contracts)
- Undivided successions

Withholding VAT. Companies designated as withholding VAT (WHT) 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.

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

Voluntary registration and small businesses. 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).

Group registration. Group VAT registration is not allowed in Paraguay.

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.

Tax representatives. It is mandatory for all corporate entities (i.e., not individuals) to have their own legal representative in Paraguay.

For non-established corporate entities, if they are to operate in Paraguay, they must have a fixed establishment. If they make supplies that are not physically in Paraguay, then there is no need for a fixed establishment.. For example, if an UK company sells a license for software and supplied it to customers in Paraguay, it is not necessary for that UK company to establish a fixed establishment in Paraguay, to sell the license in Paraguay.

For tax purposes, companies must appoint a legal representative(s) on Tax Form 605 or Tax Form 615. In those forms, the company must complete all the information related to the business, including type of entity, tax obligations and legal representative(s) information, among others.

Reverse charge. Paraguayan tax legislation does not provide "reverse charges" for VAT purposes. VAT on the provision of services by nonresidents is collected by means of WHT (see the subsection *Withholding VAT* for more detail).

Domestic reverse charge. There are no domestic reverse charges in Paraguay.

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 VAT 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.

Online marketplaces and platforms. A digital service is deemed to be rendered in Paraguay, and therefore subject to local VAT, when any of the following is located in Paraguay:
- The IP address of the device used by the customer or country code of the SIM card
- The customer billing address
- The bank account used for the payment
- The billing address of the customer as available to the bank
- The financial institution issuing the credit or debit card with which the payment is made

Where a payment for digital services is made through a financial institution in Paraguay, the financial institution is responsible for collecting and remitting VAT at the standard rate of 10% on the payment.

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

Deregistration. The following documents are required for deregistration 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.

D. 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: 10%
- Reduced rate: 5%

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 5%

- Basic family products
- Pharmaceutical goods
- Sale or housing purposes lease of real estate
- Agricultural products and cattle

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 1931/19)
- Real estate

The term "exempt supplies" refers to supplies of goods and services that are not liable to VAT and that do not qualify for input tax deduction.

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. The option to tax exempt supplies is not available in Paraguay.

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.

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.

Continuous supplies of services. 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.

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.

Reverse-charge services. Paraguayan tax legislation does not provide for reverse charges for VAT purposes. VAT on the provision of services by nonresidents is collected by means of WHT.

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.

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.

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

Partial exemption. Paraguayan taxpayers can recover VAT fiscal credit for input tax incurred on expenses that relate to taxable activities. If the fiscal credit is directly related to exempt activities, the taxpayer cannot use it. The only exempt activity that input tax can be recovered in relation to, is exportation operations (except agricultural products) The VAT fiscal credits are nonrecoverable for all other input tax incurred in relation to exempt activities. The taxpayer must include a Certification of VAT Fiscal Credit to be refunded issued by auditing firms registered with the Paraguayan tax authority.

Where a taxpayer makes both taxable and exempt activities, they must evaluate the origin of each fiscal credit. If it directly relates to a taxable activity, the taxpayer can get the input tax back in full. If the cost cannot be directly related to a taxable or exempt activity, it has to be proportionally calculated across both activities. The calculation is based on the amount of the last six months' worth of sales (i.e., the turnover of the business in those areas in the last six months).

Capital goods. When a Paraguayan company invests in capital goods, there is an incentive law that applies, and no VAT is charged. This means that the business must initially pay the VAT on the purchase of capital goods, then they can offset it against fiscal credits, as long as they are making local supplies in Paraguay. To apply this regime, specific requirements established by laws must be met.

No special time limits apply to the input tax recovery of capital goods.

Refunds. If the amount of input tax (credit VAT) recoverable in a month exceeds the amount of output tax (debit VAT) payable, the excess credit may be carried forward to offset output tax in the following tax period.

If a VAT taxpayer overpaid VAT or paid VAT in error, it may correct the VAT return and use the overpayment to offset output tax in the following tax period or they could start a very formal process in order to reimburse the VAT paid in error.

Pre-registration costs. A taxpayer can amortize preoperative cost within three to five years, but they cannot recover any pre-registration or preoperative costs.

Write-off of bad debts. Output tax accounted for on supplies that do not get paid by the recipient (i.e., bad debts) can be recovered in Paraguay. The following conditions must be met in order to recover the debt:

- The bad debts are credits which, after 36 months from the date on which they became due, have not been collected
- The credits whose debtors are inhibited from selling goods (this only applies the first year in which the inhibition resolution was enacted)
- The claims of debtors who have been declared in bankrupt by the judicial authority
- The withdrawals granted in concordats approved by the judicial authority
- The bad debts must be recorded in the accounting and tax records

Noneconomic activities. Input tax incurred on purchases that are used for noneconomic activities is not recoverable in Paraguay.

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. 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.

Credit notes. 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.

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 the Paraguayan tax authority is developing a pilot program with selected taxpayers to issue electronic invoices. Electronic invoicing is, nevertheless, available for individuals that are not corporate income taxpayers.

Simplified VAT invoices. Simplified VAT invoicing is not allowed in Paraguay. Nevertheless, the tax law provides some specifics types of sales documentations, such as airlines tickets, sales notes, public shows tickets, among others. These can only be used for the relevant types of suppliers (i.e., airlines can use airline tickets, micro-businesses can use sales notes and show providers can use public show tickets, instead of full VAT invoices).

Self-billing. Self-billing is acceptable only in exceptional cases. For example, in cases where the supplier is not VAT registered and is selling an asset, the buyer (who is VAT registered) must issue the invoice on behalf of the supplier.

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).

Supplies to nontaxable persons. Full VAT invoicing is mandatory for all transactions. If the buyer does not require an invoice, the seller must complete it with "no name" and an "X" in the RUC space.

However, for supplies to nontaxable persons, taxpayers must still issue a full VAT invoice but without the name of the customer.

Records. All documentation related to taxes, including accounting books and records, documents, invoices, purchase and sales invoices, must be held by taxpayers in Paraguay.

Record retention period. The action for collection of the taxes shall expire after five years from 1 January of the year following that in which the obligation should have been fulfilled. For annual taxes on income or profits, it shall be understood that the taxable event occurs at the close of the fiscal year.

It is mandatory to keep tax files during the abovementioned statute of limitation period.

Electronic archiving. Electronic archiving is permitted in Paraguay if the requirements are met: a digital signature and the documents must be stored for five years in a durable format (e.g., pdf).

I. Returns and payment

Periodic 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 depends on the last number of the VAT taxpayer's tax identification number.

Periodic payments. The due date for VAT payment depends on the last number of the VAT taxpayer's tax identification number. Return liabilities must be paid in Paraguayan currency.

Electronic filing. Electronic filing is not mandatory but optional. However, most taxpayers choose to file VAT returns electronically online (www.set.gov.py under "Sistema Marangatú").

Payments on account. The Paraguayan tax authority may require VAT payments on account at the end of the fiscal period. This is only applicable when a taxpayer does not submit their tax return or pay taxes online on time. In this case, the tax authorities can claim the overdue tax from the previous tax return as a payment on account. However, while this facility is included in the law, it is not enforced in Paraguay and it is not common.

Special schemes.

Tourist VAT system. The Paraguayan tax authority provides a specific list of products that a tourist can buy with a VAT exemption by presenting his/her passport. The taxpayer must be registered in the tourist regime and a copy of the tourist's passport is attached to the VAT exempt invoice.

Annual returns. Annual returns are not required in Paraguay.

Supplementary filings. The Paraguayan tax authority may require a taxpayer to use special books, sales and purchase books, records or forms of accounting for VAT purposes, according to the category of the taxpayer. This would only be required to be submitted where the tax authorities request this from a taxpayer, which can be done by the tax authorities on demand. The tax authorities may also request copies of invoices from certain suppliers.

Digital reporting. All the taxpayer obligations must be presented through the "Marangatu System," which is a software created by the Paraguayan tax authority (https://marangatu.set.gov.py/eset/login). This is an online tax system developed in-house for every taxpayer. This online/electronic system is mandatory for every taxpayer in Paraguay, as all returns and payments have to be submitted through this system. Taxpayers will log on using their own tax ID and password.

J. Penalties

Penalties for late registration. Penalties are assessed for late registration for VAT. In addition, fines and interest are also applicable if the taxable individual owes VAT.

Penalties for late payment and filings. 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.

Penalties for errors. Omission of payments is equivalent to 50% of the whole tax unpaid.

Penalties for fraud. 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	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.

Exemption from registration. The VAT Act in Peru does not contain any provision for exemption from registration.

Voluntary registration and small businesses. VAT law in Peru does not contain any provision for voluntary VAT registration.

Group registration. Group VAT registration is not allowed in Peru.

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.

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.

Reverse charge. The reverse charge applies to the import of goods and the services in Peru. Under this mechanism, the importer of goods and user of services is charged with an output tax. This VAT is recoverable as a credit against future output tax charges from the following month of its payment.

Domestic reverse charge. There are no domestic reverse charges in Peru.

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 tax (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 tax. 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.

Online marketplaces and platforms. No special rules exist for online marketplaces and platforms 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 resi-

dence. 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.

Deregistration. 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 tax.

D. 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: 18%

The standard rate of VAT applies to all supplies of goods or services unless a specific measure provides for an exemption.

The term "exempt supplies" refers to supplies of goods and services that are not liable to VAT and that do not qualify for input tax deduction.

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

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.

Continuous supplies of services. There is no special time of supply rule in Peru for continuous supplies. As such, the general time of supply rules apply.

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 apply.

Reverse-charge services. The reverse charge applies to the import of goods and the use of services in Peru.

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 apply.

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.

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 tax) the corresponding VAT credit (input tax).

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.

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

Partial exemption. If a taxable person makes both taxable and nontaxable transactions, it may not deduct input tax in full from output tax. It may deduct only the amount of input tax 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 tax subject to deduction in each reporting period must be prorated based on a procedure established by the Regulations of the VAT law.

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 tax (credit VAT) recoverable in a month exceeds the amount of output tax (debit VAT) payable, the excess credit may be carried forward to offset output tax in the following tax period.

Pre-registration costs. Input tax incurred on pre-registration costs in Peru is not recoverable.

Write-off of bad debts. Output tax accounted for on supplies that do not get paid by the recipient (i.e., bad debts) cannot be recovered in Peru.

Noneconomic activities. Input tax incurred in relation to noneconomic activities is not recoverable in Peru.

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. 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.

Credit notes. 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.

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.

Simplified VAT invoices. Simplified VAT invoicing is not allowed in Peru. As such, full VAT invoices are required.

Self-billing. Self-billing is not allowed in Peru.

Proof of 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 when they do not meet the above requirements. These operations 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 tax 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 (PEN), which is the Peruvian currency, using the sales exchange rate in force according to the time of supply for each transaction.

Supplies to nontaxable persons. There are no special rules in Peru for invoices for supplies to nontaxable persons. Full VAT invoices are required.

Records. Taxpayers must keep their purchase and sales registers to record their acquisitions and sales transactions.

Record retention period. Taxpayers must store, archive and keep the purchase and sales registers for five years or during the statutory period of limitation for taxes.

Electronic archiving. The tax administration has progressively implemented the obligation of taxpayers of keeping electronic accounting books and registers for a five-year period or the statutory period of limitation.

I. Returns and payment

Periodic 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.

Periodic payments. 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.

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.

Electronic filing. 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.

Payments on account. Payments on account are not required in Peru.

Special schemes. Not applicable.

Annual returns. Annual returns are not required in Peru.

Supplementary filings. No supplementary filings are required in Peru.

Digital reporting. Taxpayers are obliged to file periodic reports detailing their electronic invoices issued and account books to the tax administration.

J. Penalties

Penalties for late registration. If taxpayers do not follow the registration procedures, there is a penalty of one Tax Reference Unit (UIT), which is approximately USD1,27,260.

Penalties for late payment and filings. No penalties apply in Peru for late payment of VAT. However, interest will be charged for the unpaid taxes (at a monthly rate of 1.2%). For the late filing of the VAT return, there is a penalty of one UIT, which is approximately USD1,272.

Penalties for errors. 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 by up to 95% under certain conditions.

Penalties for fraud. 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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A. At a glance

Name of the tax	Value-added tax (VAT)
Local name	Value-added tax (VAT)
Date introduced	1 January 1988
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 (0%) 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 and quarterly VAT returns
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
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.

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

Voluntary registration and small businesses. It is possible for a taxpayer that is otherwise generally not required to register for VAT to become VAT registered on a voluntary basis.

Any person who elects to register under optional VAT registration shall not be allowed to cancel VAT registration for the next three years.

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 allowed 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.

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. 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 tax (see Section F) for sales of goods or services to the government, instead of the actual input tax directly attributable or apportioned to these sales. If the actual input tax exceeds 7% of the gross payment, the excess may form part of the seller's expense or cost. If the actual input tax 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.

Domestic reverse charge. There are no domestic reverse charges in the Philippines.

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.

Online marketplaces and platforms. Persons who conduct business through online transactions (i.e., online shopping or online retailing, online intermediary service, online advertisement/classified ads, and/or online auction, as defined under Revenue Memorandum Circular No. 55-13) are required to register the business at the Revenue District Office having jurisdiction over the principal place of business/head office (or residence in case of individuals) and comply with other registration requirements. The existing laws and revenue issuances on the tax treatment of purchases (local or imported) and sale (local or international) of goods (tangible or intangible) or services shall be equally applied with no distinction on whether or not the marketing channel is the internet/digital media or the typical and customary medium. Failure to comply with the applicable registration requirements may trigger penal provisions.

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).

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.

D. 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: 12%
- 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.

A taxable person that makes zero-rated transactions may use the input tax as credit against VAT liability, or it may file a claim for a refund or apply for a tax credit certificate (TCC).

Examples of goods and services taxable at 0%

- 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 VAT-able 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 charged at the standard rate of VAT 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

The term “exempt” refers to supplies of goods and services that are not liable to VAT and that do not qualify for input tax deduction.

Examples of exempt supplies of goods and services

- 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 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

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. For continuous supplies of services, a tax point is created each time a payment is made.

Goods sent on approval for sale ore return. 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.

Leased assets. For supplies of leased assets, the time of supply is when each actual payment is made or at the consecutive receipt date for each installment payment.

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.

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 tax exceeds input tax, the person must pay the excess. If input tax exceeds output tax, 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).

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.

- 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).

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 tax 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 tax 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 tax 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.

Capital goods. A VAT-registered person's purchases or imports of capital or depreciable goods may be claimed as credit against output tax, 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 tax 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 tax is allowable as a credit against output tax in the month of acquisition.

The amortization of the input tax shall only be allowed until 31 December 2021, after which taxpayers with unutilized input tax on capital goods purchased or imported shall be allowed to apply the same as scheduled until fully utilized.

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 plus 30-day rule before lodging a petition for review with the CTA.

Pre-registration costs. Input tax incurred on pre-registration costs in Philippines, is not recoverable.

Write-off of bad debts. There is no specific provision on relief of VAT on bad debts. The VAT is generally based on the gross selling price (for sales of goods or properties) or gross receipts (sale of services). However, if the bad debts will reduce the gross selling price or gross receipts this may effectively reduce VAT payable.

Noneconomic activities. Input tax incurred in relation to noneconomic activities is not recoverable in the Philippines.

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. 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. 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.

Credit notes. A VAT 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.

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.

Simplified VAT invoices. Simplified VAT invoicing is not allowed in the Philippines. As such, full VAT invoices are required.

Self-billing. Self-billing is not allowed in the Philippines.

Proof of exports. 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.

Supplies to nontaxable person. 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.

Records.

Record retention period. All taxpayers are required to preserve their books of accounts, including subsidiary books and other accounting records, for a period of 10 years reckoned from the day following the deadline in filing a return, or if filed after the deadline, from the date of the filing of the return, for the taxable year when the last entry was made in the books of accounts. This is provided that within the first five years reckoned from the day following the deadline in filing a return, or if filed after the deadline, from the date of the filing of the return, for the taxable year when the last entry was made in the books of accounts, the taxpayer shall retain hard copies of the books of accounts, including subsidiary books and other accounting records. Thereafter, the taxpayer may retain only an electronic copy of the hard copy (paper) of the books of accounts, subsidiary books and other accounting records in an electronic storage system which complies with the requirements set forth under Section 2-A hereof.

Electronic archiving. Records can be kept and archived electronically.

However, under the TRAIN, within five years from the effectivity of the TRAIN (from 1 January 2018) and upon the establishment of a system capable of storing and processing the required data. the Bureau shall require taxpayers engaged in the export of goods and services, taxpayers engaged in e-commerce, and 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 to be issued by the Secretary of Finance upon recommendation of the Commissioner and after a public hearing shall have been held for this purpose. This is provided that taxpayers not covered by the mandate of this provision may issue electronic receipts or, sales or commercial invoices, in lieu of manual receipts, and sales and commercial invoices. In addition, the machines, fiscal devices, and fiscal memory devices shall be at the expense of the taxpayers.

I. Returns and payment

Periodic returns. VAT payers that use a manual filing system must file monthly VAT declarations, 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 are classified according to their business industry and they are given deadlines based on their classification. The due dates for filing 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, on or before the 10th day of the month following the transaction.

Beginning 1 January 2023, filing and payment of VAT shall be done within 25 days following the close of each taxable quarter).

Periodic payments. VAT payers that use a manual filing system must pay the VAT to an authorized agent bank, not later than the 20th day after the end of each month.

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 payment range from 21 days to 25 days after the end of the month for each monthly VAT declaration. The tax must be paid, on or before the 10th day of the month following the transaction.

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.

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

Payments on account. Payments on account are not required in the Philippines.

Special schemes. No special schemes are available in the Philippines.

Annual returns. Annual returns are not required in Philippines.

Supplementary filings.

Summary List of Sales. Under the Reconciliation of Listing for Enforcement (RELIEF) system, VAT taxpayers with quarterly total sales/receipts (net of VAT), exceeding P2,500,000 are required to submit a Summary List of Sales. The RELIEF supports the third-party information program of the Bureau through the cross referencing of third-party information from the taxpayers' Summary Lists of Sales and Purchases prescribed to be submitted on a quarterly basis.

Summary List of Sales and Purchases. VAT taxpayers are also required to submit a quarterly Summary List of Sales and Purchases (SLSP) on disc, 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.

Digital reporting. No digital reporting requirements apply in the Philippines. However, 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

Penalties for late registration. The commissioner of the BIR may suspend or close a business establishment for at least five days for the failure of a person to register for VAT as required by law.

Any person who becomes liable to VAT and fails to register as such shall be liable to pay the output tax as if they are a VAT-registered person, but without the benefit of input tax credits for the period in which he was not properly registered.

In addition to the tax required to be paid, a surcharge penalty equivalent to 25% of the amount due, is applicable, in the following cases:

1. Failure to file any return and pay the tax due thereon as required under the provisions of this Code or rules and regulations on the date prescribed
2. Unless otherwise authorized by the Commissioner, filing a return with an internal revenue officer other than those with whom the return is required to be filed
3. Failure to pay the deficiency tax within the time prescribed for its payment in the notice of assessment
4. Failure to pay the full or part of the amount of tax shown on any return required to be filed under the provisions of this Code or rules and regulations, or the full amount of tax due for which no return is required to be filed, on or before the date prescribed for its payment

However, under Section 248 (B) of the Tax Code, as amended, in case of willful neglect to file the return within the period prescribed by this Code or by rules and regulations, or in case a false

or fraudulent return is willfully made, the penalty to be imposed shall be 50% of the tax or of the deficiency tax, in case any payment has been made on the basis of such return before the discovery of the falsity or fraud.

This is provided that a substantial under declaration of taxable sales, receipts or income, or a substantial overstatement of deductions, as determined by the Commissioner pursuant to the rules and regulations to be promulgated by the Secretary of Finance, shall constitute prima facie evidence of a false or fraudulent return.

Further failure to report sales, receipts or income in an amount exceeding 30% of that declared per return, and a claim of deductions in an amount exceeding 30% of actual deductions, shall render the taxpayer liable for substantial under declaration of sales, receipts or income or for overstatement of deductions, as mentioned herein.

There shall also be assessed and collected on any unpaid amount of tax, interest at the rate of 12% per annum, or such higher rate as may be prescribed by rules and regulations, from the date prescribed for payment until the amount is fully paid.

Also, under Section 115 (b) of the Tax Code, as amended, the Commissioner or his authorized representative is empowered to suspend the business operations and temporarily close the business establishment of any person for the failure of any person to register as required under Section 236 of the Tax Code, as amended.

The temporary closure of the establishment shall be for the duration of not less than five days and shall be lifted only upon compliance with whatever requirements prescribed by the Commissioner in the closure order.

Penalties for late payment and filings. Civil penalties (25% or 50%) and 12% 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

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 the failure to file a VAT return.

Penalties for errors. Civil penalties (25% or 50%) and 12% interest are assessed on the amount due for the 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 the failure to issue receipts and invoices, and the understatement of taxable sales or receipts by 30% or more of the correct taxable sales or receipts for the tax quarter.

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.

For failure to file, keep or supply a statement, list or information required on the date prescribed shall pay and administrative penalty of P1,000 for each such failure, unless it is shown that such failure is due to reasonable cause and not to wilful neglect.

In addition, there is also an aggregate amount to be imposed for all such failures during a taxable year shall not exceed P25,000.

Penalties for fraud. The following are the consequences of issuing an erroneous VAT invoice or VAT official receipt:

(1) If a person who is not a VAT-registered person issues an invoice or receipt showing his taxpayer identification number (TIN), followed by the word "VAT"
    (a) The issuer shall, in addition to any liability to other percentage taxes, be liable to:
        (i) The tax imposed in Section 106 or 108 without the benefit of any input tax credit
        (ii) A 50% surcharge under Section 248(B) of this Code
    (b) The VAT shall, if the other requisite information required under Subsection (B) hereof is shown on the invoice or receipt, be recognized as an input tax credit to the purchaser under Section 110 of this Code
(2) If a VAT-registered person issues a VAT invoice or VAT official receipt for a VAT-exempt transaction but fails to display prominently on the invoice or receipt the term "*VAT exempt sale*," the issuer shall be liable to account for the tax imposed in Section 106 or 108 as if Section 109 did not apply.

Moreover, under Section 115 of the Tax Code, as amended, the Commissioner or his authorized representative is empowered to suspend the business operations and temporarily close the business establishment of any person for any of the following violations:

(a) In the case of a VAT-registered person:
    (i) Failure to issue receipts or invoices
    (ii) Failure to file a VAT return as required under Section 114
    (iii) Understatement of taxable sales or receipts by 30% or more of his correct taxable sales or receipts for the taxable quarter
(b) Failure to any person to register as required under Section 236
    (i) The temporary closure of the establishment shall be for the duration of not less than five days and shall be lifted only upon compliance with whatever requirements prescribed by the Commissioner in the closure order.

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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 (0%) and exempt
VAT number format	123-45-67-890 PL 1234567890
VAT return periods	Monthly or quarterly
Thresholds	
Registration	None
Established	PLN200,000 (ca. EUR47,000)
Non-established	None
Distance selling	PLN160,000 (ca. EUR38,000)
Intra-Community acquisitions	PLN50,000 (ca. EUR11,900)
Electronically supplied services (MOSS)	PLN42,000 (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 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 or part thereof)

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.

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 and small businesses. 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.

Group registration. Group VAT registration is not allowed in Poland.

Non-established businesses. 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 providers 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).

Tax representatives. 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.

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 and local supplies of goods by foreign entities not having seat or fixed establishment in Poland to the Polish taxpayers.

Domestic reverse charge. The domestic reverse charge has been replaced in Poland by the mandatory split payment mechanism. Effective from 1 November 2019, new regulations apply as regards the use of the split payment mechanism (SPM). The obligatory SPM is being used for the supply of goods and services listed in the VAT regulations that includes, i.e., the goods and services that

were covered by the domestic reverse-charge mechanism and the existing scope of joint and several liability of the buyer (e.g., supply of construction services and fraud sensitive goods, such as ferro alloys, plastic waste, steel products, stretch foil, smartphones). See the *Periodic payments* subsection below for more detail.

Digital economy. In cases 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.

The above rule is not applied when:
- Service provider is established or possessed fixed establishment only on the territory of one EU country
- Electronic services are provided to non-VAT taxpayers located on the territory of another EU country
- The total value of electronic services (excluding the VAT amount) does not exceed the threshold of EUR10,000 (PLN42,000)

In cases where the above threshold is exceeded, the general rule regarding the place of supply should be applied. The given general rule could also be applied on the request of the taxpayer — in such situation he has to inform the tax office about such a decision before the 10th day of the month following the month in which this decision was taken.

Mini One-Stop Shop. Poland implemented EU provisions regarding Mini One-Stop Shop (MOSS) for supply of electronic, tele-communication and broadcasting services to nontaxpayers.

If a taxpayer decides to benefit from MOSS 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 MOSS 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 MOSS simplification should keep the register of all the transactions that fall within the scope of the MOSS mechanism and — upon request — be presented to the tax authorities.

Online marketplaces and platforms. No special rules exist for online marketplaces and platforms in Poland.

Vouchers. As of 1 January 2019, the amendment to the Polish VAT Act introduced new definitions regarding vouchers, i.e., single-purpose voucher (SPV), multi-purpose voucher (MPV), issue of voucher and voucher transfer.

The SPV shall be understood 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.

In case of SPV, VAT taxation occurs at the time of the transfer of it. The tax base for the sale of this type of vouchers is determined by applying the general rules for determining the VAT tax base — it shall be the amount paid minus the VAT included in that amount.

Any other voucher shall be treated as MPV. The transfer of such a voucher will not result in taxation — VAT will be charged only when the goods or services covered by the MVP have been actually delivered.

The tax base on account of supply of goods or services made in exchange for an MPV redeemed in full shall, in relation to this voucher, be equal to:
- The consideration paid for this MPV less the tax amount related to the supplied goods or services
- The monetary value indicated on the MPV or in the related documentation, less the amount of tax relating to the goods or services supplied — where the information concerning this consideration is not available

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.

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 (or two quarters).
- The taxable person issues invoices that do not reflect actual actions.

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.

As of 1 April 2020, the goods subject to reduced VAT rates will be determined based on:
- Combined Nomenclature (CN) for goods
- Polish Classification of Products and Services of 2015 in the field of services

Moreover, from the beginning of April 2020 a new list of goods/services subject to reduced VAT rates will come into force. Also, from November 2019 electronic publications can be subject to reduced VAT rates (5% or 8%).

Examples of goods and services taxable at 5%

- Certain unprocessed basic foodstuffs
- Certain agricultural and forestry products
- Books and certain magazines

Examples of goods and services taxable 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.

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. The 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.

The tax point for exports of goods is created according to the general rules.

Deposits and prepayments. The receipt of prepayments is considered the tax point. The tax point is created only to the extent of the payment.

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.

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.

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 input tax recovery rules), in the same month (quarter) when the tax point arises or in one of the two following months (quarters).

Leased assets. The tax point concerning leased assets arises at the moment of issuance of the invoice documenting leasing services.

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. 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.

Intra-Community supplies of goods. The same tax point rules apply to intra-Community supplies of goods as those for intra-Community acquisitions (see above).

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 tax 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 exemption. 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 tax, 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 tax over output tax, 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 tax 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.

Pre-registration costs. It is possible to deduct input tax 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 the case of receivables that cannot be collected has been substantiated. The adjustment also concerns the taxable amount and tax amount attributable to a portion of receivables that cannot be collected and has been substantiated. Receivables that cannot be collected are deemed as substantiated if receivables were not settled or disposed of in any form within 90 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 90 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 90th 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).

Noneconomic activities. Input tax incurred in relation to noneconomic activities is not recoverable in Poland.

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.

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).

For the general VAT refund rules applicable to the EU 2008/09 and 13th Directive refund schemes, see the chapter on the EU.

EU businesses. For businesses established in the EU, refunds are made under the terms of the EU Directive 2008/09.

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.

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)

Refunds are made within four to eight months after the claim filing date. The taxpayer is entitled to interest on the late refunds.

Non-EU businesses. For businesses established outside the EU, refunds are made under the terms of the EU 13th Directive.

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

H. Invoicing

VAT invoices. 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.

Credit notes. 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. Polish VAT law permits electronic invoicing in line with EU Directive 2010/45/EU (see the chapter on the EU).

Simplified VAT invoices. A simplified invoice may be issued if the aggregate of amounts due does not exceed PLN450 or EUR100, if the amount is specified in EUR, provided that it contains data enabling the determination of the amount of tax at each VAT rate.

Simplified invoices cannot be used in the following cases:
- A distant sale from the territory of Poland and a distant sale into the territory of Poland
- Issuing an invoice at the request of a natural person not conducting business activity
- An intra-Community supply of goods
- Delivery of goods and services on the territory of a Member State other than the territory of the country and the person obliged to pay VAT is the acquirer of goods or recipient of services

Self-billing. The regulations of the Polish VAT Act provide for the possibility for the acquirer of goods or recipient of services to issue the invoice documenting transaction on behalf of and for the benefit of the taxpayer.

Self-billing is possible in Poland, provided that:
- The acquirer of goods or recipient of services is a taxable person registered as an active VAT taxpayer
- There is a prior agreement between the acquirer of goods or recipient of services and the taxpayer in respect of issuing invoices in the name and on behalf of that taxpayer, said agreement specifying the procedure for the acceptance of each invoice by the taxpayer performing these acts

The document issued by the acquirer of goods or recipient of services becomes a full-fledged invoice only when approved by the taxpayer (it is not necessary to sign it physically), who also is required to register it in his system.

When the acquirer of goods or recipient of services issues the invoice on behalf of the taxpayer, the invoice must be marked "self-invoicing" (*"samofakturowanie"*).

Proof of exports 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).

Effective from 1 January 2020, there will be applied unified rules for documenting shipments of goods due to intra-Community supply — two groups of evidence were introduced:
- Documents related to the dispatch or transport of goods, such as a signed CMR document or waybill, bill of lading, invoice for air freight or invoice from the goods carrier
- Evidence including: an insurance policy for the shipment or transport of goods or bank documents confirming payment for the shipment or transport of goods; official documents issued by a public authority confirming the arrival of goods in the Member State of destination; an acknowledgment of receipt issued by the warehouse keeper in the Member State of destination confirming the storage of the goods in that Member State

New regulations implement presumption that the goods were exported when the goods were exported by the seller or a third party acting on his behalf and he is in possession of two noncontradictory documents confirming the shipment. These documents have to come from two different, independent sides.

If the goods are to be exported by the buyer or by a third party acting on his behalf outside these documents, it will be necessary to obtain a buyer's declaration that will include: date of issue; name or address and address of the buyer; quantity and type of goods; the date and place of arrival of the goods; in the case of delivery of means of transport — identification number of the means of transport and identification of the person receiving the goods to the buyer. The buyer will have to provide the supplier with a statement by the 10th day of the month following the month in which the delivery took place.

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.

Supplies to nontaxable persons. 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).

If the acquirer of goods or receiver of services requests an invoice, the taxpayer should issue an invoice within:
- Not later than on the 15th day of the month following the month in which the goods were delivered, or services provided that the invoice request is made by the end of the month in which the goods are delivered, or the service is performed
- Not later than on the 16th day from the date of submission of the request — provided that the request for an invoice has been made after the expiry of the month referred to in the previous point

However, if the request for an invoice was made after three months, counting from the end of the month in which the goods were supplied, or the services were provided, or the payment was received in full or in part, then the taxpayer is not obliged to issue an invoice.

Records.

Record retention period. Taxpayers must store the following:
- The invoices, including those reissued, which the taxpayers issued themselves or which were issued in their own names
- The invoices received, including those reissued — broken down by settlement periods, in a manner allowing the invoices to be easily found and guaranteeing the authenticity of the origin, the integrity of the content and the legibility of the invoices from the moment of issue until the expiry of the tax obligation limitation period (that is for five years from the end of the calendar year in which tax payment was due)

Electronic archiving. Electronic archiving is not obligatory and paper invoices issued and received can be archived under their paper format. Therefore, electronic archiving is allowed in Poland 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.

I. Returns and payment

Periodic 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. 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).*

Periodic payments. The deadline for making the relevant VAT payment is the same as for submitting the VAT return, i.e., by the 25th day of the month following the month in which the tax point arises. VAT liabilities must be paid by bank transfer and must be paid in Polish zloty.

The Whitelist. The "Whitelist" is an electronic list of VAT payers, in which from 1 September 2019 entrepreneurs can verify data on: entities that were not registered for VAT purposes (or were de-registered), entities registered as the VAT taxpayers (i.e., data on active and exempt VAT taxpayers), including entities whose registration as VAT taxpayers has been restored.

The existing registers were merged into a single list extended by the additional data, such as bank account numbers indicated in the tax identification or update notifications.

The list is made available in the Public Information Bulletin of the Ministry of Finance in a manner enabling checking whether a given entity is on the list on a selected day, not earlier than in the period of five years preceding the year in which the entity is checked.

If the entrepreneur makes a payment to another account (not listed) and the seller does not pay VAT on this transaction to the tax office, the entrepreneur will be jointly and severally liable with the seller up to the amount of tax liability for the transaction.

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.

As of 1 November 2019, new regulations apply as regard the use of the split payment mechanism (hereinafter: the SPM). The SPM is compulsory for transactions of sale or purchase of a specific group of goods — listed in Annex 15 to the Polish VAT Act. The Annex includes goods determined according to specific Polish Classification of Goods and Services (PKWiU) groups.

The obligatory SPM is being used for the supply of goods and services that were covered by the reverse-charge mechanism and the existing scope of joint and several liability of the buyer — therefore, it mainly covers the steel, fuel and construction services.

In the case of the taxpayer's obligation to apply the SPM:
- Payment of the amount corresponding to all or part of the VAT amount resulting from the invoice received is made to the VAT account
- Payment of all or part of the amount corresponding to the net sales value resulting from the received invoice is made to the bank account or SKOK account of supplier

It covers payments regarding invoices documenting transactions made between taxpayers whose one-off value, regardless of the number of payments resulting from it, exceeds PLN15.000 or the equivalent of this amount.

In order to identify the SPM, the invoice needs to include "Split Payment mechanism" annotation. Lack of this wording results in high sanctions.

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).

The new JPK_VAT declaration, to be introduced from 1 January 2020, can be signed through the following:
• Qualified signature (Polish or other EU country)
• Trusted profile
• Authorization data

After submitting the correct JPK_VAT, the taxpayer will be able to download the Official Receipt Certificate (UPO).

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).

Payments on account. Payments on account are not required in Poland.

Special schemes.

Small businesses. "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.

The status of a small VAT taxpayer is entitled to submit VAT returns on a quarterly basis, or a "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.

Nevertheless, small taxpayers should pay monthly advance payments for VAT liabilities until the 25th day of the month following the settlement period.

Cash accounting. Poland operates a cash accounting scheme with a maximum threshold of EUR1.2 million.

Annual returns. Annual returns are not required in Poland.

Supplementary 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: PLN4 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: PLN65 million
• Intra-Community supplies: PLN108 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.

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.

Digital reporting.

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.

Therefore, all taxpayers registered for VAT in Poland were obliged to submit monthly SAF-T and simultaneously monthly (or quarterly for some entities) VAT returns.

The main difference between both files was that SAF-T presents all data of the concluded transactions (e.g., VAT number of the contractor, VAT amount) that are required to correctly prepare the VAT settlement of the given transaction (so it is essentially an e-VAT register), whereas VAT returns present the total sums of values of each kind of transaction as well as the sum of VAT to be paid, refunded or carried forward to the next month.

As of 1 April 2020, taxpayers will be required to use the new scheme of monthly SAF-T filings for VAT (JPK_VAT). The idea is to eliminate the obligation to submit a VAT return, as the new file will contain all information that is currently presented in the VAT return (VAT-7 and VAT-7K).

JPK_VAT will contain the following:
- A set of information about purchases and sales, which results from VAT records for a given period
- Items from the current VAT-7 declaration (VAT-7K)
- Additional data that is needed to analyze the correctness of the settlement

The obligation to use the new JPK_VAT files:
- As of 1 April 2020 will cover only large taxpayers

- As of 1 July 2020, it will cover other entities; from 1 April these entities will be able to submit a new JPK_VAT on a voluntary basis, with the first submission of the file forcing the continuation (it will not be possible to return to the form of VAT declaration previously binding for such entities)

JPK_VAT will be submitted only in electronic version for monthly periods, up to the 25th day of the month for the previous month.

Two JPK_VAT variants will apply
- JPK_V7M — for taxpayers who pay monthly
- JPK_V7K — for taxpayers who pay quarterly

J. Penalties

Penalties for late registration. 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.

Penalties for late payment and filings. 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.

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.

Penalties for errors. A penalty of 30% is charged for 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 tax.

A penalty of 15% is charged for the understatement of tax liability (overstatement of the amount of input tax), 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.

If the taxpayer sends JPK_VAT containing errors that prevent verification of correctness, he will receive a PLN500 fine for each irregularity found. A way to avoid above sanction will be to send, in a timely manner, correction of the record after receiving a notice from the tax office containing a list of deficiencies.

Split payment. For the split-payment mechanism, as of 1 November 2019, if:
- The buyer, despite his obligation to regulate the amount of VAT shown on the invoice in the split payment mechanism, will regulate this amount in a different way — the buyer will be subject to a sanction of 30% of the amount of the tax indicated on the invoice and will face criminal liability in the form of a fine of up to 720 daily rates.
- The invoice issuer will not place the indication "split-payment mechanism" on the invoice.
- The invoice issuer will be subject to a sanction of 30% of the amount of tax indicated on the invoice and will face penal fiscal liability in the form of a fine up to the equivalent of 180 daily rates.

The Whitelist. For the Whitelist, effective from 1 January 2020, if the buyer pays to his contractor an amount over PLN15,000 to a bank account other than that specified in the Whitelist, then he:
- Will not be able to include in the tax-deductible costs the amount in which the payment exceeds PLN15,000

- Will bear the risk of joint and several liability with his contractor for tax arrears

An entrepreneur who makes a transfer to the wrong bank account number will be able to avoid sanctions provided that he informs the Head of the Tax Office within three days of making the transfer at the latest.

Penalties for fraud. When the excessive amount of the VAT deduction results from that:

- Were issued by a nonexistent entity
- Relate to actions that were not performed — in their part referring thereto
- Provide amounts inconsistent with facts — in their part referring to such items for which the said amounts were provided
- Confirm the acts to which the provisions of Articles 58 and 83 of the Civil Code shall apply — in their part referring to said acts (e.g., sham activity to circumvent regulations) — amount of the additional tax obligation in the part referring to the input tax based on the above mentioned invoices shall be equal to 100%

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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
Established	None, unless there is a one-time taxable event with a value lower than EUR25,000.
Non-established	None
Distance selling	EUR35,000
Intra-Community acquisitions	None
Electronically supplied services (MOSS)	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 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. (except for one-time taxable events, under EUR25,000). A taxable person that will begin its activity must notify the tax authorities of its liability to register.

Special rules apply to foreign or "non-established" businesses.

Exemption from registration. One-time taxable events, under EUR25,000.

Voluntary registration and small businesses. 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.

Group registration. Group VAT registration is not allowed in Portugal.

Non-established businesses. A "non-established business" is a business that is not registered nor has a 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. 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.

However, a nonresident entity, with head office or established in a third country, registered for VAT purposes in Portugal that intends to cease activity 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.

Reverse charge. In cross-border business to business (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.

Domestic reverse charge. 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

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 (if within the EU). Thus, when the customer is established in Portugal, Portuguese VAT is due.

A 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 estab-

lishment 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 Portuguese State Budget Law for 2019 introduced 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 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) should be taxed in Portugal where the following conditions are met:
1. The service acquirer is a nontaxable person.
2. The service provider has its head office, fixed establishment or domicile only in Portuguese territory and is not established in any other Member State.
3. The services are rendered to an entity established or domiciled in another Member States.
4. The total value of such services does not exceed, net of VAT, EUR10,000, with reference to the previous year or current year.

Taxable persons who meet the conditions referred above and where the total amount supply of services has not exceeded EUR10,000, may choose to be taxed in the Member State in which the acquirer is established or domiciled, and should maintain this regime for a minimum period of two years.

Mini One-Stop Shop. 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 in place for non-EU providers of electronic services.

This scheme is optional and applies to taxable persons established in the Community but not in the Member State of consumption (MSC), and to taxable persons not established in the Community, supplying telecommunications services, broadcasting and television services, and electronically supplied services to nontaxable persons resident or established in the Community.

Taxpayers registered under the MOSS scheme in Portugal are required to submit quarterly a single VAT return and pay VAT to the Portuguese tax authorities, who send the appropriate information and remit the VAT paid to the relevant Member State's tax authority.

Online marketplaces and platforms. The rules mentioned above should be deemed applicable to online marketplaces and platforms. If the supply of goods is made within the EU, the VAT Regime for intra-Community sales of goods may be applicable.

Vouchers. The Portuguese State Budget for 2019 introduced rules concerning the VAT treatment of vouchers (in terms of legal definitions, chargeable event and taxable amount rules). "Single- and multi-purpose vouchers" were included in the Portuguese VAT Code.

A "single-purpose voucher" (SPV) is a voucher for which all the elements necessary for determining the tax due, regardless of the good or service to be supplied, are known at the time of issue or assignment.

For SPVs, VAT shall be due and payable at the time the voucher is issued/ assigned by the taxable person in whose name the transfer of the voucher is made.On the other hand, a "multi-purpose voucher" (MPV) is a voucher for which, at the time of issue or assignment, all the information necessary to determine the tax due is not known.

For MPVs, 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.

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 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.

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, when it is clear that an economic activity is not being developed or intended to continue to be developed.

D. 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%

Examples of goods and services taxable at 6%
(5% in Madeira and 4% in the Azores)

- Basic foodstuffs
- Books and newspapers and other periodic publications that occupy predominantly scientific, educational, literary, artistic, recreational or sporting cultural matters in any medium, provided that it is not wholly or predominantly in video or music
- 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
- Provision of cleaning services and cultural intervention in certain places in terms of fire prevention measures
- Traditional cane honey
- Garments for medical purposes, hair prostheses for cancer patients, as long as duly prescribed
- Services rendered by bullfighting artists, in bullfighting shows to the respective promoters

Examples of goods and services taxable at 13%
(12% in Madeira and 9% in Azores)

- Canned fish and shellfish
- Wine
- Fuel and colored oil marked with government-approved additives
- 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.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.

Deposits and 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.

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.

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.

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.

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.

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

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.

F. Recovery of VAT by taxable persons

A taxable person may recover input tax incurred with the acquisition of goods and services for its business purposes. A taxable person generally recovers input tax 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).

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)
- Car-related expenses when the acquisition cost does not exceed EUR62,500 for electric vehicles and EUR50,000 for plug-in hybrid vehicles (values net of VAT)

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 tax 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 twenty 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 tax, 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 twelve 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

Pre-registration costs. According to the guidelines issued by the Portuguese tax authorities, input tax incurred on pre-registration costs can be deducted under certain circumstances.

The VAT incurred in the acquisition of goods or services that occurs before the delivery of the start of activity declaration and its registration for VAT purposes may be deducted if the transactions represent operations that grant the right to input tax deduction, provided for in the VAT Code.

Write-off of bad debts. Bad debts may be adjusted (and recovered) on periodic VAT returns.

There is a regime 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 when 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.

In the case of debts from special judicial or extra judicial processes, the VAT adjustment can be performed before the abovementioned 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.

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 the general VAT refund rules of the EU Directive 2008/8/CE and EU 13th Directive refund schemes, see the chapter on the EU.

EU businesses. For businesses established in the EU, the refund is carried out under the EU Directive 2008/8/CE.

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.

Claimants may request payment of interest if an EU Directive 2008/8/CE claim is repaid more than 10 working days after the 4-, 6- or 8-month period has elapsed.

Non-EU businesses. 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.

The deadline for refund claims, the approval or denial of the refund and minimum amount claim period for non-EU businesses is the same as EU businesses (as outlined above).

Claimants may request payment of interest if an 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. A Portuguese taxable person must generally provide a VAT invoice for all taxable supplies made, including exports and intra-Community supplies. 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. DeliveryD 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.

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 12th day of the subsequent month.

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.

Electronic invoicing. Portuguese VAT law permits electronic invoicing in line with EU Directive 2010/45/EU (see the chapter on the EU). With the recently published Decree-Law no. 28/2019, of 15 February 2019, new rules will, up to 2021, become into force.

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 through a certified invoicing program and 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.

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.

From 1 January 2020, 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.

Unique invoice code and QR code. From 1 January 2020 onward, invoices must carry a unique invoice code (UUID) and a QR code. The measure providing for the introduction of both requirements will still be subject to regulation through a government ordinance.

Relief from printing or sending e-invoices in transactions with nontaxable persons. Taxpayers are relieved from printing paper invoices and/or from sending electronic invoices to customers/recipients when the same are nontaxable persons, provided that the following conditions are cumulatively fulfilled:
(a) The tax identification number of the purchaser is included in the invoices
(b) Invoices are processed and communicated to the PTA through a certified computer program
(c) The taxable person has opted for the transmission of invoices in real time to the PTA

This relief is not available when the acquirer explicitly requests the paper or electronic invoice.

Simplified VAT invoices. 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).

Self-billing. Self-billing is allowed in Portugal and means that the acquirer raises an invoice on behalf of the acquirer of goods or services. For this procedure to be applicable, the following requirements must be met:
- Prior agreement, in the written form, is made between the acquirer and the supplier of the goods or services.
- The acquirer must have evidence that the supplier of the goods or the service provider has taken notice of the issuance of the invoice and accepted its content.
- The invoice must refer to self-billing ("autofaturação").

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 currency other than euros (EUR), to determine the taxable amount, the amount should be converted into euros using the sales rate used by a bank established in Portugal or the exchange rate used by the European Central Banking System on the date on which the tax is chargeable or on the first business day of that month.

Supplies to nontaxable persons. 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, simplified VAT invoices can be used. 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.

Records.

Record retention period. In Portugal, VAT records should be retained for a period of 10 years, if another deadline does not result from any special provision. However, the obligation to file and retain all books, registers and supporting documents must be maintained until the taxable person de-registers from VAT in Portugal.

Electronic archiving. Invoices and other tax-relevant documents presented in paper format can be scanned and archived in electronic format.

Scanning and e-archiving must be performed with the necessary technical rigor to obtain and reproduce perfect, legible and intelligible images of the original documents, without loss of resolution and information, to guarantee their consultation and reproduction on paper or electronic support.

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.

It must also be guaranteed that it is not possible to change or destroy the electronic archives.

Electronic copies of invoices must be numbered with a continuous sequence according to a predefined archiving plan (xml file).

I. Returns and payment

Periodic 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.

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.

Periodic payments. The time frame for paying the VAT due has been extended, since October 2019, by five days, thus being:
- By the 15th day of the second month following the date of the operations for taxpayers in the monthly regime

- By the 20th day of the second month following the trimester of the operations for taxpayers in the quarterly regime

Electronic filing. 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 to receive an access code.

Intrastat returns, EC Sales List returns and annual VAT returns are submitted by electronic means as well.

Payments on account. Payments on account are not required in Portugal.

Special schemes.

Cash accounting. 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.

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 tax cannot be deducted.

Import VAT postponed accounting. The reverse-charge procedure for import VAT (also known as postponed accounting) has been introduced in Portugal. To benefit from this new mechanism, a taxable business must fulfill the following requirements:
(i) It must fall under a monthly VAT regime.
(ii) Its tax situation must be regularized.
(iii) No input tax blocked restrictions apply.

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.

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.

In general, annual returns must be submitted by 15 July following the end of the calendar year.

Supplementary filings. In the context of the reporting obligations relating to VAT, in addition to VAT returns there are three more types of obligations, namely, the Intrastat, the EU Sales Returns and the Simplified Business Information (that covers all taxes supported in Portugal).

There are also reporting obligations on invoice details and SAF-T files.

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 20192018 is EUR250,000. These limits apply to the mainland and the Azores. Differently, in Madeira, the threshold for 2019 Intrastat Arrivals and Dispatches is EUR25,000.

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.

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.

Simplified Business Information. The Simplified Business Information – in Portuguese "Informação Empresarial Simplificada" (IES), must be filed (general rule, by 15 July) electronically and completely paper free, i.e., dematerialized, regarding accounting, tax and statistical reporting obligations.

Part of this file will be automatically filed with reference to the accounting SAF-T.

SAF-T. From 2020 onward (under the new rules provided in Law 119/2019 of September 18), companies will have to report their invoicing SAF-T to the tax authorities by the 12th of each month (in relation to the previous month).

It will also become mandatory to file the accounting SAF-T on an annual basis (by 30 of April of the year following the operations at stake).

Digital reporting. Taxable persons shall report to the tax authorities, by electronic data transmission:

a) The identification and location of the company's establishments in which invoices and other fiscally relevant documents are issued
b) Identification of equipment used for invoice processing and other fiscally relevant documents
c) The program certificate number used on each equipment, where applicable
d) Identification of the distributors and installers who marketed and/or installed the billing solutions

Taxpayers with head office or domicile in Portugal should also communicate by electronic data transmission the elements of invoices issued in accordance with the VAT Code, as well as the elements of the documents enabling the confirmation of goods or the provision of services and receipts (notably by way of filing the SAF-T (PT) file).

J. Penalties

Penalties for late registration. 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

Penalties for late payment and filings. 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).

Penalties for errors. The General Taxation Infringement Regime only sets forth the difference between negligence and willful misconduct. Additionally, on a provision that states both errors and omissions, the applicable penalty is the same therefore there are no different scenarios.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 willful misconduct — EUR165,000

For Intrastat, 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.

Penalties for fraud. In Portugal, tax fraud is a tax crime that relates to unlawful conduct typified in the law that aim at the non-assessment, delivery or payment of the tax due or inappropriate grant of tax benefits, refunds or other advantages that may decrease the tax revenues. Thus, tax fraud can take place, for example, when any of the following conduct occurs:
- Concealment or alteration of facts or values that must be contained in the books of accounting or of the statements submitted
- Concealment of undeclared facts or values that should be disclosed to the tax administration
- Entering a simulated business

Tax fraud is punishable with imprisonment up to three years or penalties up to 360 days. Fraud may qualify where there are aggravating circumstances also typified in the law, such as:
- The agent is a public employee.
- The agent has been assisted by a public official.
- The patrimonial advantage is of a value exceeding EUR50,000.

Qualified tax fraud is punishable by imprisonment from 1 to 5 years for individuals and penalties of 240 to 1,200 days for legal persons. However, if the patrimonial advantage exceeds EUR200,000, the penalty is imprisonment from 2 to 8 years for individuals and a penalty of 480 to 1,920 days for legal persons.

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 B2B rate	4%
SUT special rate on prepared food	7%
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.
- Admission rights — as a general rule this includes, among other things, the money paid for admitting a person or a passenger vehicle to any place of entertainment, sport or recreation; fees and charges paid to private clubs or membership clubs, which provide facilities for the

purchase of merchandise or services, either in physical commercial locations or through internet memberships, which allow the acquisition of merchandise, services and benefits in exchange for the payment charges or membership fees.

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. Rates

In Puerto Rico, the following are the SUT rates:
- State standard rate: 10.5%
- Municipal rate: 1%
- Special rate on business to business services (B2B): 4%
- Special rate on prepared foods: 7%

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

Nevertheless, and pursuant to Act 257-2018 commencing 1 March 2019, "designated professional services" and "services rendered to other merchants" that are rendered by merchants whose annual volume of business does not exceed USD200,000 will not be subject to SUT.

Pursuant to Act 257-2018, a 7% Special SUT rate is applicable commencing 1 October 2019 to the sales of taxable items that are considered "prepared foods," "carbonated drinks," "confectionery products" and "candy" as defined by the Code. Only merchants that comply with all requirements set for by the Department of Treasury will be eligible to obtain authorization to collect and remit the applicable SUT at the 7% special rate. If the merchant does not comply with the requirements imposed by the Department of Treasury, the sale of "prepared foods," "carbonated drinks," "confecionery products" and "candy" by such merchant will be subject to the 10.5% and 1% state and municipal SUT, respectively.

D. Exemptions

SUT exemptions apply to the following, among others:
- 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 of up to USD4,000
- Prescription medicines
- Machinery and equipment used in exempt manufacturing operations
- Medical-surgical material
- Supplies, articles, equipment and technology used by a hospital unit (under Act 168-1968) 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
- Commercial and residential real property leases, provided that in the case of commercial leases, the lessee must prove to the lessor that it complies with the requirements to maintain a fiscal terminal (pursuant to Administrative Determination 19-05, the fiscal terminal requirement will come into effect on 1 July 2020)
- Printed and electronic books
- Certain products for feminine personal hygiene

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.
- Through agreement or reciprocity with another jurisdiction in the United States and such jurisdiction uses its taxing power and jurisdiction over such person in support of Puerto Rico power.
- The person consents, expressly or implicitly.
- A merchant, including one considered affiliated to said person, that is subject to the jurisdiction of Puerto Rico that does any of the following:
  - Sells a product similar to the produce line sold by the person under the same trade name of the person or a trade name similar to that person
  - Uses their employees in Puerto Rico or their facilities in Puerto Rico to advertise, promote or facilitate sales of the person to the buyers in Puerto Rico
  - Maintains an office, a distribution center, warehouse or storage place, or similar business premises in Puerto Rico to facilitate delivery or performance, as applicable, of taxable items sold by the person to buyers in Puerto Rico
  - Uses trademarks, service marks or trade names in Puerto Rico equal to or similar to those used by the person
  - Gives, installs, assembles or renders maintenance services to the person’s buyers in Puerto Rico on taxable items sold by the person to buyers in Puerto Rico
  - Facilitates delivery of tangible personal property sold to the person’s clients located in Puerto Rico, allowing the person’s clients to collect the tangible personal property in an office, distribution center, warehouse or similar place of business maintained by the merchant in Puerto Rico or receives in his facilities the merchandise returned by the person’s clients who bought directly said merchandise from the person
  - Carries out other activities in Puerto Rico significantly associated with the person’s capacity to establish and maintain a market in Puerto Rico for the person’s sales

In 2018, the United States 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 USD 2,000 (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 and sales of prepared foods subject to the 7% special SUT must be also 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 consists of Bahrain, the Kingdom of Saudi Arabia, Kuwait, Oman, Qatar and the United Arab Emirates. 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 Agreement, but Qatar has yet to announce its implementation date.

The GCC Common VAT Agreement 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 Common VAT Agreement, then each Member State may determine individually.

At the time of preparing this chapter, the GCC Common VAT Agreement has no direct effect in the GCC Member States, except if the respective Member States' domestic VAT law specifically refers to the provisions in the Common Agreement.

The summary set out below is based on the GCC Common VAT Agreement.

A. At a glance

Name of the tax	Value-added tax (VAT)
Local name	Value-added tax (VAT)
Date introduced	To be announced
Trading bloc membership	Gulf Cooperation Council (GCC)
Administered by	General Tax Authority and Qatar Financial Centre Tax Department
VAT rates	
Standard	5%
Other	Zero-rated (0%) and exempt
VAT number format	To be confirmed

VAT return periods	
Thresholds	
Registration	
Mandatory	QAR364,000
Voluntary	QAR182,000
VAT return period	Monthly or quarterly, to be confirmed
Recovery of VAT by non-established businesses	Yes

Transitional provisions

Each Member State shall outline in their domestic VAT law the transitional provisions, which include the following:

- VAT due on the supplies of goods and services and the import and 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.
- For continuous supplies that are carried out partially ahead of the date of enforcement of the domestic 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.

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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
Trading bloc membership	European Union (EU) Member State
Administered by	Ministry of Public Finance (http://www.mfinante.ro)
VAT rates	
Standard	19%
Reduced	9% and 5%
Other	Zero-rated (0%) and exempt
VAT number format	RO XXXXXX (number of digits may vary)
VAT return periods	Monthly, Quarterly, Half-yearly or Annually
Thresholds	
Registration	
Established	EUR88,500 (RON300,000)
Non-established	None
Distance selling	EUR35,000
Intra-Community acquisitions	EUR10,000 (RON34,000)
Electronically supplied services (MOSS)	EUR10,000 (RON34,000)
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.

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 abovementioned supplies of goods and services are considered occasional if they are performed once a year.

Voluntary VAT registration and small businesses. 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

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.

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).

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

Domestic reverse charge. The domestic reverse charge in Romania applies to the following:
- Local supplies of certain categories of goods, such as ferrous waste, grain crops, wood and transfer of green and CO2 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

Digital economy. There are no special VAT rules for the digital economy, aside from the Mini One-Stop Shop rules (as outlined below).

Mini One-Stop Shop. Romanian VAT Law permits the use of the VAT Mini One-Stop Shop (MOSS), 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.

If Romania is the Member State of consumption, the taxable person non-established in Romania who uses the MOSS regime can benefit from the reimbursement of the VAT incurred on imports and acquisitions of goods/services performed in Romania for the activities that fall under this regime. If the taxable non-established person, beneficiary of this regime, performs in Romania activities that do not fall under this regime and for which the obligation of VAT registration arises, the respective person can deduct VAT for its taxable activities that fall under the regime through the VAT return.

The web portal is available with access granted by use of a digital certificate. Online VAT registration is possible for the MOSS (https://www.anaf.ro/revocat.html?mot=no-client-cert).

Online marketplaces and platforms. No special rules exist for online marketplaces and platforms in Romania.

Vouchers. Vouchers can have single purpose (SPV) or multiple purpose (MPV). A voucher is defined as an instrument by which a supplier is obliged to accept it as partial or total payment for a supply of goods or services.The payments received for the sale of an SPV are deemed as advance payments for which VAT is due. An SPV is a voucher for which the place of supply and the VAT liability of the goods/services for which the voucher may be redeemed, are known at the

time the voucher is issued. An MPV is a voucher other than the SPV. The sale of an MPV does not trigger a VAT lability.

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 MOSS.

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 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:
- Thirty days from the date of submission of the complete documentation when the registration is through a tax representative
- Ten 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).

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.

D. 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: 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 provides for a reduced rate, the zero rate or an exemption.

Examples of goods and services taxable at 0%
(i.e., 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 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
- The right to use sport facilities
- The passenger transport by trains or historical vehicles with steam powered on narrow lines for touristic or entertaining purposes
- The passenger transport using transport installations on cable
- The passenger transport using vehicles with animal traction, used for touristic or entertaining purposes
- The passenger transport by boats for touristic or entertainment purposes
- Delivery of high-quality food, respectively mountain products, eco, traditional, authorized by the Ministry of Agriculture and Rural Development
- 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.

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 supplies

The term "exempt" refers to supplies of goods and services that are not liable to VAT and that do not qualify for input tax deduction.

Examples of exempt supplies of goods and services

- 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)
- 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.

Deposits and 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.

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).

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.

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.

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.

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).

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.

Imported goods. The tax point for imported goods is the point when customs duties are due. In principle, the tax point for import VAT is the point when the goods are released into free circulation. Exceptions may apply.

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.

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 tax, 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 tax over output tax 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.

Input tax 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:
- The deductibility of the input tax 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.
- The deductibility of the input tax 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 tax recovery should be supported by backup 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 tax 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.

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 tax is deducted in the year in which the goods are acquired. The amount of input tax 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 tax deducted must be adjusted over time if the destination or use of the goods changes, the capital good ceases to exist or 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:
- 20 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 tax, 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 tax related to capital goods shall not be adjusted where the amount from adjustment of each capital good is lower than RON1,000.

Refunds. If input tax exceeds output tax, 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 tax 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.

Pre-registration 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.

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 implemen-

tation 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. Input tax incurred in relation to noneconomic activities is not recoverable in Romania.

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.

EU businesses. For businesses established in the EU, refund is made under the EU 9th8th Refund Directive.

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.

The deadline for refund claims is 30 September of the year following the calendar year of the reimbursement period.

Non-EU businesses. For businesses established outside the EU, refund is made under the terms of the EU 13th Directive (under the condition of reciprocity).

The deadline, and minimum claim period for non-EU businesses, is the same as the rules for EU businesses (see above).

H. Invoicing

VAT invoices. A Romanian taxable person must generally provide a VAT invoice for all taxable supplies made.

Credit notes. Invoices that contain errors may be canceled 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. Romanian VAT law permits electronic invoicing in line with EU Directive 2010/45/EU (see the chapter on the 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.

Simplified VAT invoices. Simplified VAT invoices are allowed in Romania if the value of the supplies covered by the invoice, including VAT, is not higher than EUR100.

Under certain conditions, if the value of the invoice is higher than EUR100, but lower than EUR400, and if the administrative or commercial practice of the activity sector involved or the

technical conditions would make the issuing of a regular invoice extremely difficult, a simplified invoice can be issued.

Self-billing. Self-billing is allowed in Romania, i.e., the customer can issue invoices on behalf of the supplier. For this procedure to be possible, the following conditions must be met:
- The parties must conclude a pre-invoicing agreement through which this invoicing procedure is outlined. The pre-invoicing agreement means an agreement concluded before the commencement of the invoice being issued by the customer on behalf of the supplier.
- An acceptance procedure of each invoice must exist. The acceptance procedure can be explicit or implicit and can be agreed and described in the pre-invoicing agreement or can be represented by receiving the invoice.
- The invoice must be issued on behalf of the supplier by the customer and sent to the supplier. The invoice must contain all the legal requirements for invoicing.
- The invoice must be registered in the sales ledger by the supplier, if it is established in Romania.

Proof of exports and intra-Community supplies. 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. In respect of the documentation required to evidence the export of goods, a taxpayer should, in principle, hold the supporting documentation attesting the VAT exempt nature of these transactions (e.g., an invoice compliant with the Romanian VAT legislation requirements, export customs declaration bearing the proof of exit from EU territory of the goods — for exports, transport documents from the Romanian customs authorities confirming that the goods left Romania.

In case the respective documentation is not available during a potential VAT audit performed by the tax authorities, there is a high risk that the tax authorities will deny the applicability of the VAT exemption and assess additional VAT liabilities, as well as late payment charges at the level of the company (depending on its VAT position).In respect of the documentation required to evidence intra-Community supplies documentation, from 1 January 2020, the following is required:
- Invoice containing all the mandatory information provided by the Romanian VAT law, which must contain the VAT number of the beneficiary from another EU Member State
- Proof that the goods were shipped from Romania to another EU Member State (transport documents, e.g., CMR signed/stamped by the beneficiary of the transported goods)
- Other documents such as: contract, sales/purchase order, insurance documents. Also, the supplier should be provided with a valid VAT number of its customer

The invoices should also mention the legal basis (e.g., a reference to the relevant provision of the Romanian Fiscal Code or of the Council Directive).

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.

Supplies to nontaxable persons. Special rules apply to the place of supply for supplies of telecommunications, broadcasting and electronic services to non-VAT taxable customers.

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

Records.

Record retention period. The archiving of the financial accounting documents based on which the VAT statements were prepared, as well as the VAT statements, shall be ensured for a period of 10 years (or equal with the useful life in case of immovable capital goods).

Electronic archiving. 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.

VAT split payment. 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. Returns and payment

Periodic returns. Taxable persons with annual turnover below the RON equivalent of EUR100,000 must submit VAT returns quarterly. However, 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. 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.

Periodic payments. Payment in full is required by the same date as the VAT return submission deadline, i.e., the 25th day of the month following the end of the return period. All VAT liabilities must be paid in Romanian currency.

Electronic filing. Electronic submission of VAT statements is mandatory for all 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.

Payments on account. Payments on account are not required in Romania.

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 who supplies electronic services to nontaxable persons.

Cash accounting: For taxable persons 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), 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.

Annual returns. Annual returns are not required in Romania.

Supplementary filings.

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.

The Form 394 includes, 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.

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.

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. 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.

J. Penalties

Penalties for 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 who apply for late registration for VAT purposes.

Penalties for late payment and filings. For the late payment of VAT, late payment interest (0.02% per day of delay) and late payment penalties (0.01% per day of delay) apply. Separate penalties range from RON1,000 to RON5,000 and are assessed for delays in submitting VAT returns.

The interest rate that may be claimed by a taxable person for late refunds will be 0.02% per day of delay.

For Intrastat, a penalty of RON7,500 to RON15,000 may be imposed for late submissions.

For EU Sales and Acquisitions List, 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).

Penalties for errors. For obligations unreported or reported inaccurately, a penalty of 0.08% per day of delay applies for unreported obligations established through a tax decision.

For Intrastat, a penalty of RON7,500 to RON15,000 may be imposed for missing or inaccurate declarations.

For EU Sales and Acquisitions List, 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.

Penalties for fraud. In case of fraud, a penalty of 0.08% per day of delay penalty is increased by 100%.

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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
Trading bloc membership	World Trade Organization (WTO), Eurasian Economic Union (EAEU), Commonwealth of Independent States (CIS), Asia-Pacific Economic Cooperation (APEC), Shanghai Cooperation Organization (SCO), Black Sea Economic Cooperation (BSEC), Union State of Russia and Belarus.
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% and 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 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

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.

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.

Exemption from registration. 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 tax 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 carry-

ing 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 and VAT payable when acting as a tax agent under the reverse-charge mechanism.

Voluntary registration and small businesses. 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.

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. 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 tax 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 tax.

Tax representatives. Tax representatives are not required in the Russian Federation.

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).

Domestic reverse charge. The domestic reverse charge obliging the recipient of goods (works and services) to account for and pay VAT due acting as a tax agent applies in the following situations:
- Where government, administrative and local government bodies rent federal property, property of constituent entities of the Russian Federation and municipal property in the territory of the Russian Federation

- Where a vessel supplied in the territory of the Russian Federation is not registered in the Russian International Register of Vessels within 90 calendar days after the ownership of the vessel is transferred from the taxpayer to a client
- Where taxpayers (other than taxpayers exempt from performing VAT obligations) sell in the territory of the Russian Federation raw hides and skins of animals, scrap and waste of ferrous and non-ferrous metals, secondary aluminum and alloys thereof and waste paper

Digital economy. The place of supply for electronic services should be determined at the buyer's location. If a customer is an individual (business-to-consumer (B2C) supply) or a legal entity (business-to-business (B2B) supply), 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.

With respect to B2B supplies, the Russian legal entities purchasing electronic services from foreign suppliers are not obliged to withhold VAT as tax agents. However, the parties may rely on the official (nonbinding) clarification of the Federal Tax Service: if a service provider did not charge VAT to the Russian customer and the latter acted as a tax agent (voluntarily) and claimed VAT for recovery, the tax authorities would not have grounds to require the foreign company to pay the VAT again, nor would they be able to require the customer to recalculate its tax obligations (VAT charged and VAT reclaimed). Thus, if both parties agree, the Russian customer may continue to voluntarily act as a tax agent and pay VAT on electronic services. However, even if VAT is paid by the Russian customer, the foreign supplier is still required to VAT register and submit quarterly nil VAT returns (if there is no other transaction to be reported). The foreign supplier still bears the responsibility in case of nonpayment of VAT to the budget and should, upon the tax authorities' request, provide the documents proving that VAT was paid by the Russian customer.

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.

To VAT register, the foreign suppliers should submit to the tax authorities: (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.

Once registered for VAT in Russia, the foreign supplier should account for and pay VAT upon all supplies of goods (works and nonelectronic services) subject to VAT in Russia.

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

Online marketplaces and platforms. No special rules exist for online marketplaces and platforms.

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.

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. 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: 20%
- Reduced rates: 10%, 16.67%
- 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 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 goods and services taxable at 16.67%

- Electronically supplied services
- Transfer of going concern

Examples of goods and services taxable at 10%

- Basic foodstuffs
- Certain children's goods
- Medical goods
- Pedigree cattle

The term "exempt supplies" refers to supplies of goods and services that are not liable to VAT and that do not qualify for input tax deduction.

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
- Certain imports, for example:
  - — 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

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.

The following are 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.

With respect to the supply of electronic services by foreign companies, the time of supply is the date on which payment for services is received.

Deposits and prepayments. For advance payments, there are two times of supply — when the advanced payment is made and when the goods (works and services) are dispatched (transferred). The normal time of supply rules mean that 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).

Continuous supplies of services. There are no special time of supply rules for continuous supplies of services in the Russian Federation. As such, the normal time of supply rules apply.

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 the Russian Federation. As such, the normal time of supply rules apply.

Reverse charge. When the reverse-charge mechanism is applied, VAT should be paid by the tax agent to the Russian budget simultaneously with the transfer of payment to the supplier of goods and services.

Leased assets. For VAT purposes, a lease of goods is treated as a supply of services, provided that the legal title on the goods is not transferred to the recipient. In this case, the general rules on time of supply are applicable. If a lessee purchases the leased property at the end of the lease, such transfer of property will be considered as a supply of good and the moment of determination of VAT based upon supply of good.

Imported goods. The time of supply for imported goods is the date of importation.

F. Recovery of VAT by taxpayers

A taxpayer may recover input tax, which is charged on goods (works and services) and property rights supplied for carrying out activities within the scope of VAT.

Starting from 1 July 2019 an exception with respect to the above general rule enters into force. Specifically, the taxpayers have the right to recover input tax on goods and services used in the provision of services that are not deemed to be supplied in the Russian Federation based on the applicable place of supply rules. There are no restrictions relating to the business sector or location of the purchasers of exported services. The new regime would not, however, extend to services classed as exempt supplies, as they are established in the Russian Tax Code.

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) and creation of intangible assets. For a prepayment 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.

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. To execute the right to recover VAT, the following documents should be in place: (1) agreement and/or a settlement document with separately specified VAT, the 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), except the supply of services outside of the Russian Federation and not falling within the list of exempt transactions (as described above). 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 (if related to a taxable business use)

- 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 tax directly related to taxable supplies and the supply of services outside of the Russian Federation is recoverable in full, while input tax directly related to exempt supplies is not recoverable and must be expensed for Russian profit tax purposes. Input tax 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 (including, for this purpose, the value of services supplied outside the Russian Federation) made compared with the total turnover of the business.

Capital goods. Capital goods are not defined by the Russian Tax Code for VAT purposes; thus, the Russian tax authorities refer to the definition established for corporate income tax. As such, capital goods are assets that are used as instruments of labor in the production and sale of goods (the performance of work, the rendering of services) or for the management of an entity and have a historical cost of more than RUB100,000. Input tax charged upon the purchase of capital goods can be recovered, provided that the general requirements for VAT recovery are fulfilled. The law does not establish limitations with respect to the amount of input tax related to the capital goods which can be deducted within one reporting quarter, nor obliges to spread the deduction over a certain period of time.

In case the capital goods are used in both taxable and exempt supplies, input tax must be apportioned based on the partial exemption rules outlined above. Application of partial exemption

rules in relation to the capital goods is not associated with any specific obligations of a taxpayer to monitor or adjust a determined pro rata over time. Similar as with respect to any other types of goods, a previously determined pro rata should be adjusted if there was a change in prices of goods (works, services) supplied within a reporting quarter and taken into account for calculation of the pro rata.

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

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 tax 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.

Pre-registration costs. Input tax incurred on pre-registration costs is not recoverable in the Russian Federation.

Write-off of bad debts. If a company supplied goods (works or services) to its customers and has not been paid for it, the supplier cannot recover VAT paid to the budget upon such supply.

Noneconomic activities. Input tax incurred upon purchases that are used for noneconomic activities, 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.

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

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. 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 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).

Credit notes. 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 tax resulting from a downward change in the value of a transaction.

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.

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.

Simplified VAT invoices. Simplified VAT invoicing is not allowed in the Russian Federation. As such, full VAT invoices are required.

Self-billing. VAT invoice self-billing is applicable only for transactions, where the tax agent mechanism is applied by the Russian entity registered as a taxpayer.

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 supplier 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 tax 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.

Supplies to nontaxable persons. When goods are sold to private customers the supplier should issue the private customer with a sales receipt instead of a VAT invoice.

Records. The general accounting records should be kept in accordance with the Russian Accounting Standards. The taxpayer should also keep the sales and purchase ledgers in accordance with the established format. If the taxpayer performs operations as an intermediary in its own name, it should keep the logbooks of issued and received VAT invoices.

There are no specific regulations with regard to where the records must be stored.

Record retention period. Tax reporting records must be maintained for at least four years.

Electronic archiving. Primary accounting documents, accounting registers, shall be drawn up in the electronic form and signed by a qualified electronic signature. The paper archiving is allowed exclusively, if electronic archiving is impossible or prohibited by the federal laws regulating accounting standards and archiving policies. For instance, it is prohibited to store only in elec-

tronic format the documents which, due to the company's policy, were originally drawn up on paper.

I. Returns and payment

Periodic returns. Taxpayers file VAT returns quarterly. VAT returns must be submitted to the tax authorities where the taxpayer is registered (specifically each area in the Russian Federation) no later than the 25th of the month following the end of the reporting period, specifically:
- No later than 25th of April
- No later than 25th of July
- No later than 25th of October
- No later than 25th of January

The VAT return must be filed in the prescribed format in electronic form via telecommunications channels through an electronic document interchange operator.

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.

Periodic payments. 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.

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).

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.

Payments on account. Payments on account are not required in the Russian Federation.

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.

Annual returns. Annual returns are not required in the Russian Federation.

Supplementary filings. No supplementary fillings are required in the Russian Federation.

Digital reporting. The VAT return shall be filed prescribed format in electronic form via telecommunications channels through an electronic document interchange operator. No other digital reporting obligations are required in the Russian Federation.

J. Penalties

Penalties for late registration. 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.

Penalties for late payment and filings. 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
- 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

Penalties for errors. The Russian tax law provides for the following fines with respect to errors within the VAT return:

- Severe violation of revenue and expenses accounting regulations and objects of taxation in one tax period: penalty of RUB10,000
- Severe violation of accounting regulations and objects of taxation in more than one tax period: penalty of RUB30,000
- Severe violation of accounting regulations and objects of taxation leading to the understatement of the tax base: penalty of 20% of the underpaid tax, but not less than RUB40,000

A severe violation of revenue and expenses accounting regulations and objects of taxation means the absence of primary documents or VAT invoices, books of account or tax ledgers or the systematic (two or more times within a calendar year) late or incorrect recording in accounting records, in tax ledgers and in reports of the taxpayer's economic operations, monetary resources, tangible assets, intangible assets and financial investments.

Penalties for fraud. 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."

The following administrative fines may be imposed on the taxpayer's officers:

- RUB2,000 to RUB3,000 — if the taxpayer carries out activities without registration
- RUB300 to RUB500 — if the taxpayer fails to submit VAT return in due time
- RUB300 to RUB500 — if the taxpayer fails to submit information necessary for tax audit
- RUB5,000 to RUB10,000 — if the taxpayer severely violates bookkeeping and financial accounting requirements
- RUB10,000 to RUB20,000 or disqualification to hold certain positions for one to two years — if the taxpayer repeatedly violates bookkeeping and financial accounting requirements

The following criminal liability might be imposed in exceptional cases:

- A fine in the amount from RUB100,000 to RUB300,000 or in the amount of the wage or other income of the convicted person for a period of one or two years, or compulsory labor for a term of up to two years with deprivation of the right to occupy certain positions or be engaged in certain activities for up to three years or without it, or arrest for up to six months, or imprisonment for up to two years with the deprivation of the right to occupy certain positions or be engaged in certain activities for up to three years — if the taxpayer evaded to pay taxes by failure to submit VAT return or included knowingly false information in it in the amount more than RUB5 million or 25% of the whole amount of taxes to be paid

- A fine in the amount from RUB200,000 to RUB500,000 or in the amount of the wage or other income of the convicted person for a period of one or three years, or compulsory labor for a term of up to five years with deprivation of the right to occupy certain positions or be engaged in certain activities for up to three years or without it, or imprisonment for up to six years with the deprivation of the right to occupy certain positions or be engaged in certain activities for up to three years — if the taxpayer evaded to pay taxes by failure to submit VAT return or included knowingly false information in it in the amount more than RUB15 million or 50 % of the whole amount of taxes to be paid

Rwanda

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A. At a glance

Name of the tax	Value-added tax (VAT)
Local name	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 RWF5 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.

A 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.

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

Voluntary registration and small businesses. 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 which 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.

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

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.

Domestic reverse charge. There are no domestic reverse charges in Rwanda.

Digital economy. There are no specific provisions in the Rwandan VAT law for the taxation of the digital economy.

Online marketplaces and platforms. No special rules exist for online marketplaces and platforms in Rwanda.

Registration procedures. Any person who sets up a business or carries noncommercial activities, but which are subject to tax, has the responsibility 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).

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.

D. 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: 18%
- 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
- 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 liable to VAT and that do not qualify for input tax deduction.

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. The option to tax exempt supplies is not available in Rwanda.

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 apply. However, in practice in relation to construction contracts, advance payments do not qualify as taxable supplies.

Continuous supplies of services. There are no special time of supply rules in Rwanda for continuous supplies. As such, the general time of supply rule apply. 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.

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 apply.

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 apply, where the time of supply rule for imported services is the same as for local taxable supplies.

Leased assets. There are no special time of supply rules in Rwanda for leased assets. As such, the general time of supply rule apply.

Imported goods. The time of supply for imported goods is the date on which the goods enter Rwandan territory under the Customs legislation, i.e., at the customs point in accordance with the customs legislation.

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 examples of expenditures 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)

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

- Purchase of inventory
- Consultancy services
- Payment of legal fees

Partial exemption. VAT directly related to making exempt supplies is not recoverable. A registered person who makes both exempt and taxable supplies cannot recover 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.

Capital goods. Input tax incurred in respect of capital goods purchased during the tax period is claimable if all goods or services supplied by a taxpayer during a tax period are taxable supplies. Where a taxable person supplies both taxable and exempt goods and services, only input tax attributable to taxable supplies may be recovered.

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.

Pre-registration costs. A newly registered taxpayer is allowed to claim input tax credit in respect of goods that were in his store or stock at the close of the last day prior to registration.

Write-off of bad debts. Output tax accounted for on bad debts cannot be recovered in Rwanda.

Noneconomic activities. Input tax incurred in relation to noneconomic activities is not recoverable in Rwanda.

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. 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.

Credit notes. 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.

Electronic invoicing. Electronic invoicing using electronic billing machines (EBMs) supplied by vendors authorized by the tax administration is mandatory for all 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 non-use or fraudulent use of EBMs by VAT-registered taxpayers.

Simplified VAT invoices. A simplified invoice may be issued instead of a VAT invoice. Approval by the tax administration is required in order to issue simplified VAT invoices.

Self-billing. Self-billing is not allowed in Rwanda.

Proof of exports. Goods exported from Rwanda are zero-rated. However, to qualify for zero-rated 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. Foreign denominated invoices are converted using the prevailing National Bank of Rwanda (BNR) exchange rate as at the invoice date.

Supplies to nontaxable persons. There are no special invoicing rules in Rwanda for supplies made by taxable persons to private consumers. Normal VAT invoices must be issued.

Records. A taxpayer must maintain books of accounts and records on the following:
- Sales and purchases records
- Record of assets and liabilities
- Records of daily income and expenses related to the business activity
- Records of stock inventory at the end of the accounting period
- Information related to controlled transactions

Record retention period. The statutory period for archiving of accounting and tax records is five years.

Electronic archiving. There are no specific provisions in the Rwandan VAT law on the electronic archiving of records. In practice, the tax administration requests for physical copies of tax records during a tax audit. It is therefore prudent for a taxpayer who has an electronic archiving system to also maintain physical copies of the invoices.

I. Returns and payment

Periodic 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. 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.

Periodic payments. Payment is due in full by the same date as the VAT return submission deadline, i.e., by the 15th day after the end of the tax period. 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.

Electronic filing. All tax filings in Rwanda are conducted online.

Payments on account. Payments on account are not required in Rwanda.

Special schemes. No special schemes are available in Rwanda.

Annual returns. Annual returns are not required in Rwanda.

Supplementary filings. No supplementary filings are required in Rwanda.

Digital reporting. No digital reporting requirements apply in Rwanda.

J. Penalties

Penalties for late registration. An administrative fine of 50% of the amount of output tax is assessed for the entire period of operation without VAT registration in the event of late registration by traders that meet the turnover threshold.

Penalties for late payment and filings. Administrative fines for non-declaration and nonpayment of tax are:
- 20% of tax due when the taxpayer exceeds the time limit for declaration and payment for a period not exceeding 30 days
- 40% of tax the taxpayer should have declared and paid, if they pay within a period ranging from 31 to 60 days from the time limit for the payment
- 60% of due tax, if the taxpayer exceeds the time limit for declaration and payment by more than 60 days

Administrative fines for late payment of tax are:
- 10% of due principal tax, when the taxpayer exceeds the time limit for payment for a period not exceeding 30 days from the fixed date of payment
- 20% of the principal tax due, when the taxpayer exceeds the time limit for the payment of a period ranging from 31 to 60 days from the fixed date of payment
- 30% of due principal tax, when the taxpayer exceeds the time limit for payment by more than 60 days from the fixed date of payment

Interest on late payment of tax is charged at a 1.5% per month, not compounded.

Penalties for errors. The penalties for errors in Rwanda are the same as the penalties for late payment of tax (see above).

Penalties for fraud. Penalties for VAT offenses include up to 200% of tax evaded and imprisonment for a term of not less than two years and not more than five years upon conviction.

Saint Lucia

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A. At a glance

Name of the tax	Value-added tax (VAT)
Local name	Value-added tax (VAT)
Date introduced	1 October 2012
Trading bloc membership	Caribbean Community and Common Market (CARICOM)
Administered by	Inland Revenue Department, VAT Section
VAT rates	
Standard	12.5%
Reduced	10%
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.

Voluntary registration and small businesses. A person who makes or intends to make taxable supplies in Saint Lucia may voluntarily register for VAT in Saint Lucia where their taxable turnover is below the VAT registration threshold. This registration is done by way of an application to the Comptroller in the form approved by the Comptroller and must contain such further information as may be required. The decision to voluntarily register an entity is at the discretion of the Comptroller and an applicant will receive the decision of the Comptroller within 30 days of receipt of the application.

The Comptroller will not accept an application where the person has no fixed place of abode, does not keep good records, the Comptroller has reasonable grounds to believe that the person will not keep proper records or will not submit regular and reliable tax returns, or the person has not complied with the requirements of any law administered by the Inland Revenue Department.

Group registration. VAT grouping is not allowed under the Saint Lucia VAT law. Legal entities that are closely connected must register for VAT individually.

Non-established businesses. Non-established businesses are required to register for VAT if they make taxable supplies in St. Lucia 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 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.

Reverse charge. The reverse charge applies to the importation of a taxable service, if the imported service is used to make exempt supplies or is used for a private or domestic purpose. Where this occurs, the person importing the service is responsible for the payment of the VAT chargeable to the service. Otherwise the non-established business must register for VAT and charge VAT locally.

Domestic reverse charge. There are no domestic reverse charges in St. Lucia.

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.

Online marketplaces and platforms. No special rules exist for online marketplaces and platforms 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.

Deregistration. A person may deregister when they cease to carry on taxable activities and notifies the Comptroller in writing of such cessation within five working days. The person will ordinarily be deregistered with effect from the last calendar day of the tax period during which all such taxable activities ceased or from such other time as the Comptroller may determine.

D. Rates

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

The VAT rates are:
- Standard rate: 12.5%
- Reduced rate: 10%
- 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 taxable at 0%
- Exported goods and services
- Certain staple foodstuffs
- Fuel
- Goods supplied by licensed duty-free shop operators

Examples of goods and services taxable at 10%
- Hotel accommodation

The term "exempt supplies" refers to supplies of goods and services that are not liable to VAT and that do not qualify for input tax deduction.

Examples of exempt supplies of goods and services
- Financial services
- Medical services
- Education services
- Residential property sales
- Transportation services
- Betting and gaming
- Certain imports, for example:
  - 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. The option to tax exempt supplies is not available in Saint Lucia. 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. There is no special time of supply rules for deposits and prepayments in Saint Lucia. As such, the general time of supply rules apply. Not applicable.

Continuous supplies of services. 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.

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. As such, the general time of supply rules apply.

Reverse-charge services. There are no special time of supply rules for reverse-charge services. As such, the general time of supply rules 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.

Imported goods. VAT is payable on the importation of taxable supplies.

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 exemption. 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.

Capital goods. There are no specific rules for input tax recovery on capital goods in Saint Lucia. The ordinary rules regarding the recovery of input tax therefore apply. Where a capital good is used to make both taxable and exempt supplies, the registrant is required to apportion the input tax on a reasonable basis (as determined by the registrant, but subject to possible review by the tax authorities).

Refunds. If the amount of input tax recoverable in a VAT period exceeds the amount of output tax 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.

Pre-registration costs. There is no provision for persons to claim VAT incurred on costs prior to registration.

Write-off of bad debts. A person is allowed to claim bad debt relief for tax paid in respect of a taxable supply made by the registered person where the whole or part of the consideration for the supply is subsequently treated as a bad debt. The registrant claiming this relief must satisfy the Comptroller that reasonable efforts have been made to recover the amount due and payable.

Noneconomic activities. Input tax incurred upon purchases that are used for noneconomic activities is not recoverable in Saint Lucia.

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. 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.

Credit notes. 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 provisions in the law for electronic invoicing in Saint Lucia. However, in practice electronic invoicing can be used as long as an electronic invoice meets the same requirements as the standard paper invoice.

Simplified VAT invoices. Simplified VAT invoicing is allowed where the supply is made to a VAT-registered person, and the total consideration for the taxable supply is in cash and does not exceed XCD50.

Self-billing. Self-billing is not allowed in Saint Lucia.

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.

Supplies to nontaxable persons. There are no special invoicing rules for supplies to nontaxable persons in Saint Lucia. As such, full VAT invoices are required.

Records. A taxable person must maintain the records in Saint Lucia, and in the English language, including:
- Original tax invoices, sales receipts, tax credit notes and tax debit notes received
- Copies of all tax invoices, sales receipts, tax credit notes and tax debit notes issued by them
- Customs documentation relating to imports and exports by the person
- Accounting records relating to taxable activities carried on in Saint Lucia
- Any other records as may be prescribed by the regulations

Record retention period. Records must be retained for six years after the end of the tax period to which they relate.

Electronic archiving. Records can be kept electronically in Saint Lucia.

I. Returns and payment

Periodic 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.

Periodic payments. Any tax due for the period must be remitted by the same date as the return deadline, i.e., within 21 calendar days after the end of the tax period.

Electronic filing. An electronic filing system is being implemented in Saint Lucia. However, it is not yet fully operational, and as such in practice, taxable persons are still filing returns manually, i.e., by paper.

Payments on account. Payments on account are not required in Saint Lucia.

Special schemes.

Secondhand goods scheme. Under the secondhand goods scheme, the total amount of input tax allowed as a deduction, is the sum of equal to 70% of the tax fraction, of the lower of the following:
- The lesser of the amount paid for the goods
- The fair market value of the goods, which includes the tax of second-hands goods acquired in St. Lucia during the tax period by a registered person from a person (registered or not registered), in a transaction not subject to tax

Based on the if the goods are taxable at a positive rate and are acquired for the purpose of making taxable supplies.

Annual returns. Annual returns are not required in Saint Lucia.

Supplementary filings. No supplementary filings are required in Saint Lucia.

Digital reporting. There are no detailed digital reporting requirements in St. Lucia. However, an electronic filing system is being implemented in Saint Lucia. But this is not yet fully operational, and as such in practice, taxable persons are still filing returns manually, i.e., by paper.

J. Penalties

Penalties for late registration. A person who fails to register is liable to a penalty equal to double the amount of output tax payable from the time the person is required to apply for registration until the person files an application for registration with the Comptroller.

Penalties for late payment and filings. A person who fails to file a return within the required due date is liable to a penalty of XCD250 per month or part of the month for the period during which the return remains unfiled. 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.

Penalties for errors. There is no specific provision that speaks to penalties for errors. However, a person who commits an offense for which there is no penalty specified is liable on summary conviction to a fine not exceeding XCD10,000 or to imprisonment for a term not exceeding one year or both.

Penalties for fraud. A person who willfully evades or attempts to evade an assessment, payment or collection of tax is guilty of a criminal offense and is liable on summary conviction to a fine not exceeding XCD100,000 or to imprisonment for a term not exceeding three years or both.

A person who knowingly or recklessly makes a statement to a tax officer that is false or misleading in a material particular or omits any matter or thing without which the statement is misleading in a material particular and this results in the tax properly payable exceeding the tax that would be payable if that person was assessed on the basis that the statement were true, that person commits an offense and is liable on summary conviction to a fine not exceeding XCD100,000 or to imprisonment for a term not exceeding four years.

São Tomé and Príncipe

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On July 2019 a value-added tax (VAT) Code bill was presented for discussion before the Sao Tomean Parliament. A specialized commission of the Parliament already gave favorable advice on this VAT Code bill. Accordingly, VAT (with a general rate of 10%) is expected to come into force on 1 January 2021 and replace the existing consumption tax.

A. At a glance

Name of the tax	Consumption tax
Local name	Imposto de Consumo
Date introduced	1976 (with consumption tax on services from 2000)
Trading bloc membership	African Continental Free Trade Area
Administered by	Finance Directorate of the Customs Directorate and of Finance Inspection
CT rates	
Standard	5%
Other	Zero-rated (0%) and exempt
CT number format	Taxpayer number (NIF) has 8 digits
CT return periods	No set filing period — tax returns are filed upon payment of tax
Thresholds	
Registration	Mandatory for national or foreign taxpayers who obtain under national tax laws any income or carry out any operation liable to tax herein
Recovery of CT by non-established businesses	No

B. Scope of the taxes

Consumption tax is levied on the value of a determined number of manufactured goods, on the provision of services and on importations.

C. Who is liable

The tax is due by the producer, by the service provider when resident or with permanent establishment in São Tome and Principe (STP) (or by the acquirer through reverse-charge mechanism) and by importers.

Voluntary registration and small businesses. The regulation on consumption tax in STP does not provide for a rule on voluntary registration, as there is no registration threshold (i.e., all entities that make taxable supplies are obliged to register). Exceptions may be applicable to situation where reverse charge on the provision of services may be applicable.

Group registration. Group CT registration is not allowed in STP.

Non-established businesses. Non-established business, without a permanent establishment in STP that provide services within the national territory are liable to consumption tax by way of reverse charge. As there is no specific registration threshold for consumption tax, if a nonresident business with a permanent establishment in STP carries out a business activity, it will also have to register for consumption tax.

Tax representatives. Tax representatives are not required in STP.

Reverse charge. The law is not clear on the rules applicable to the supply of services from outside STP. When a nonresident entity supplies services in STP to a customer resident in STP, the purchaser is responsible for assessing and paying the corresponding consumption tax amounts under general rules. As such, the purchaser should pay the tax due by the 10th day of the following month from which the service was required.

Domestic reverse charge. There are no domestic reverse charges in STP.

Digital economy. There are no special rules for supplies made digitally or within the digital economy in STP. Normal consumption tax rules apply.

Online marketplaces and platforms. No special rules exist for online marketplaces and platforms in STP.

Registration procedures. There are no specific rules in STP applicable to consumption tax registration. Resident and nonresident businesses with permanent establishment in STP have to file a declaration of commencement of activity. The law is silent on these reporting obligations for nonresident businesses with no permanent establishment in STP, and as such no registration is required.

Deregistration. Resident and nonresident businesses with permanent establishment in STP, are no longer operating in STP, the entities should file a declaration of termination of activity.

D. Rates

The term “taxable supplies” refers to supplies of goods and services that are liable to a rate of CT, including the zero rate.

The CT rates are:
- Standard rate: 5%
- Zero-rate: 0%

The standard rate of CT 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 taxable at 0%

- Exports of goods

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.

Examples of exempt supplies of goods and services

- Locally produced goods exported directed by the industrial establishment
- Alcohol needed in industrial processes
- Goods imported by international organizations, foreign embassies and consulates, provided there is reciprocity of treatment
- Medical or medical-related services

Option to tax for exempt supplies. The option to tax-exempt supplies is not available in STP.

E. Time of supply

General rule dictates that consumption tax is levied upon the sale, supply of services or import of goods. According to the regulation on consumption tax, the tax is due by reference to the sale document. On its turn, the invoice or equivalent document should be issued upon the service or sale's payment, or, by the fifth day following the supply of services or goods. The time of the supply should be the date when the service is deemed finished. As such, the general rule for all supplies, is payment should be made by the 10th day of the following month in which the supply was made.

Deposits and prepayments. For deposits and prepayments, the STP tax legislation foresees that an invoice should be raised accordingly by the moment payments occur (even if priory to the supply of goods or services). In this sense, and although it cannot be directly withdrawn from the STP law provisions, consumption tax should be assessed accordingly.

Continuous supplies of services. There is no special time of supply rule in STP for continuous supplies of services. As such, the normal time of supply rules apply.

Goods sent on approval for sale or return. There is no special time of supply rule in STP for supplies of goods sent on approval for sale or return. As such, the normal time of supply rules apply.

Reverse-charge services. The recipient of the service must self-assess consumption tax by the 10th day of the following month when the service was acquired.

Leased assets. There is no special time of supply rule in STP for supplies of leased assets. As such, the normal time of supply rules apply.

Imported goods. Consumption tax is due upon importation (together with other applicable import duties).

F. Recovery of consumption tax by taxable persons

Nondeductible input tax. Consumption tax is not operated on an input output model in STP and therefore deduction of input tax is not allowed. Consumption tax paid is deemed final, and no refunds are allowed in STP.

Partial exemption. Deduction of input tax is not allowed in STP.

Capital goods. Input tax incurred on capital goods in STP, is not recoverable.

Refunds. Refunds of consumption tax in STP is not allowed.

Pre-registration costs. Input tax incurred on pre-registration costs in STP, is not recoverable.

Write-off of bad debts. Input tax incurred in relation to bad debts in STP, is not recoverable.

Noneconomic activities. Input tax incurred in relation to noneconomic activities is not recoverable in STP.

G. Recovery of consumption tax by non-established businesses

Input tax incurred by non-established businesses in STP is not recoverable.

H. Invoicing

Consumption tax invoices. Issuing an invoice or an equivalent document is, under the Legal Regime for Invoices and Equivalent Documents, mandatory for the supplies of goods and services made for consideration. Under this regime, only private individuals or corporate entities resident in STP and that sell goods or provide services should comply with the obligation to issue invoices. Taxable persons must issue an invoice for all taxable supplies made — including exports. Additionally, invoices should be issued in duplicate, the original is delivered to the acquired and the copy remains with the supplier.

Credit notes. Under the Legal Regime for Invoices and Equivalent Documents, invoices or equivalent documents are replaced by guides or return notes (guias ou notas de devolução). Whenever the taxpayer has the need to rectify or to replace invoice or equivalent documents, the replacing documents should contain the mention "Rectificação ou substituição" as well as the identification of the document which is being rectified or replaced.

Electronic invoicing. Electronic invoicing is mandatory in STP. Invoice and equivalent documents must be raised by means of a computer system and contain the expression "Processado por computador." All supply of goods and services made for consideration and by individuals or companies with domicile, headquarters or permanent establishment in STP are obliged to raise invoices (except if the transaction value is equal or lower than STN200,000). These invoices need to be raised by computer.

Simplified CT invoices. Simplified CT invoicing is not allowed in STP. As such, full CT invoices are required. However, invoices are not required to be issued for supplies of goods or services with value equal or lower than STN200,000.

Self-billing. Self-billing is not allowed in STP.

Proof of exports. The required document to evidence an export is the export declaration (declaração de exportação), where the elements related to the goods are declared. The customs value should be mentioned in an invoice as, according to the legal framework on invoices, an invoice should be raised per supply of goods.

Foreign currency invoices. All invoices should be issued in Portuguese language writing and in national currency.

Supplies to nontaxable persons. There are no special invoicing rules for supplies to nontaxable persons in STP. As such, full CT invoices are required.

Records.

Record retention period. All invoices or equivalent documents must be kept for five years at the business' headquarters or establishments located in STP.

Electronic archiving. Digital archives of invoices or equivalent documents is allowed but it does nor replace the obligation to store and archive documentation within the national territory.

I. Returns and payment

Periodic returns. Under the regulations for consumption tax there are no periodic returns required to be filed in STP. This said, consumption tax is payable, when due, on a monthly basis.

Periodic payments. Consumption tax is payable at the following times:
- On a monthly basis (by the 10th day of the following month of the relevant operation) for the production of goods and the supply of services, to a tax office of their residency
- Per import, on the moments the assessment is made by the Customs Offices, in line with the Customs provisions currently in force

Electronic filing. Electronic filing is not allowed in STP. Payments should be filed at the local tax authority's office, in paper. The taxpayer visits the tax office, files the tax guide and makes the payment.

Payments on account. Payments on account are not required in STP.

Special schemes. No special schemes are available in STP.

Annual returns. Annual returns are not required in STP.

Supplementary filings. No supplementary filings are required in STP.

Digital reporting. No digital reporting requirements apply in STP.

J. Penalties

The penalties provided hereunder are reduced to half (both the minimum and maximum) when the offense is committed with negligence. Additionally, when the fine depends of the tax amount, the fine cannot be higher than STN100 million.

Penalties for late registration. As there is no registration for consumption tax purposes, this is not applicable under the current scenario in São Tomé and Principe. This said, the general fine applicable to the lack of filing any document (other than a tax return) is of between STN500,000 and STN5 million.

Penalties for late payment and filings. Late payment is punishable in an amount between the amount of the tax due and its double. Nevertheless, if the payments are made within 10 days after the due date, the value of the fine is of 5% of the missing tax, with a minimum of STN5,000.

If the late payment occurs after 90 days of the due date, the amount of the fine increases to between the amount of tax due and its triple.

Late filing of a tax return (up to 30 days of the deadline) is punishable with a fine between STN500,000 and STN5 million. If the tax return is filed after 30 days of the deadline, the applicable fine increases to between STN1 million and STN 5 million.

Penalties for errors. Tax returns and other documents containing omissions and inaccuracies are punishable with a fine between STN1 million and STN50 million.

Penalties for fraud. Fraud with relevant tax documents will be punished with a fine between STN1 million to STN50 million.

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A. At a glance

Name of the tax	Value-added tax (VAT)
Local name	Value-added tax (VAT)
Date introduced	1 January 2018
Trading bloc membership	Gulf Cooperation Council (GCC) Member State
Administered by	General Authority of Zakat & Tax (GAZT — https://www.vat.gov.sa/en)

VAT rates

Standard	5%
Other	Zero-rated (0%) 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 exceed SAR40 million)
Thresholds	
Registration	
Mandatory	SAR375,000
Voluntary	SAR187,500
Deregistration	Less than SAR375,000
Recovery of VAT by non-established businesses	Yes *(in law but no administrative procedures released as of yet)*

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

In other cases, supplies not normally in scope are deemed to be taxable supplies (nominal supplies) such as supplies for nil consideration (subject to certain exclusions).

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 several requirements.

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.

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.

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.

Voluntary registration and small businesses. 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. A person can also register voluntarily if their expenses in the past, or next 12 months, equal or exceed SAR187,500.

Group registration. 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.

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.

Tax representatives. 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.

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.

Domestic reverse charge. There are no domestic reverse charges in Saudi Arabia.

Digital economy. Supply of wired and wireless telecommunications services and electronic services have special place of supply rules in KSA.

In cases where wired and wireless telecommunications services and electronic services are provided at a telephone box, a telephone kiosk, a Wi-Fi hot spot, an internet café, a restaurant or a hotel lobby, or in other cases where the physical presence of the customer at a particular location is needed for those services to be provided, the customer consumes and enjoys the services at that location.

In all other cases, the customer consumes and enjoys the service at the place where their usual place of residence is.

Online marketplaces and platforms. 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.

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.

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. Deregistration 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.

D. 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: 5%
- 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.

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 goods and services taxable at 0%

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 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

The term "exempt supplies" refers to supplies of goods and services that are not liable to VAT and that do not qualify for input tax deduction.

Examples of exempt supplies of goods and services

- Certain financial and insurance services. This does not include instances where 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. The option to tax exempt supplies is not available in Saudi Arabia.

E. Time of supply

The general time of supply rules for goods and services is the earlier of:

- Date of issuing a tax invoice
- When the goods or services are supplied
- When any payment is received to the extent of the payment

Special time of supply rules apply for the continuous supply of services, see below for further details.

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.

Continuous supplies of services. In cases where goods or services are supplied and the invoice or agreement between the supplier and customer states that consideration is due and payable in periodical 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 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

Goods sent on approval for sale or return. Saudi Arabia does not have a specific time of supply rule for these circumstances.

Reverse-charge services. Saudi Arabia does not have a specific time-of-supply rule for reverse-charge services.

Leased assets. Saudi Arabia does not have a specific time of supply rule for these circumstances.

Imported goods. 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.

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.

Nondeductible input tax. 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.

Examples of items for which input tax is nondeductible

• 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

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

• Goods and services used in making taxable supplies (e.g., raw materials for use in construction of a dwelling for sale)
• Goods and services used in making out-of-scope supplies, where those supplies would have been taxable if made in KSA

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 goods. 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 up front, 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 *Pre-registration 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.

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.

Pre-registration 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

Write-off of 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.

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.

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 either not yet available or operative.

GCC businesses. 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.

Non-GCC businesses. 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. Notwithstanding that applications for VAT refunds relating to the 2018

calendar year were to be made within six months from the end of that year, the tax authorities have, at the time of writing, not provided any administrative details on the scheme's operations.

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 prove 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 non-taxable 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 contain relevant details in the Arabic language. However, the tax authority can use their discretion to allow a supplier to recover VAT where the invoices are issued in the English language, provided they contain all the necessary requirements for a tax invoice.

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.

Credit 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.

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.

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

In addition, a summary VAT invoice can be used covering all supplies of goods and services for a given month where this is to the one customer. The monthly summary VAT invoice must meet all the requirements of a normal tax invoice. It 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.

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.

Proof of exports. 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.

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.

Supplies to nontaxable persons. There are no specific rules currently in place in Saudi Arabia for invoicing for supplies to nontaxable persons.

Records.

Record retention period. 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 — six years for tangible and intangible assets and 10 years for immovable assets like real estate — plus an additional five years from the date of purchase. In total that is 11-15 years.

Electronic archiving. 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.

I. Returns and payment

Periodic 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.

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.

Periodic payments. 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.

If a VAT return is in a refund position, the balance can be carried forward and set off against a future payment or a refund can be requested. For VAT returns in a net refund, this option is to be selected at the time of submitting the VAT return.

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.

Electronic filing. All VAT returns must be filed electronically in Saudi Arabia. Taxpayers have to login to the GAZT portal (https://gazt.gov.sa/) and submit the VAT return electronically. Supporting documents can be uploaded and amendments can be filed through the portal. Option for paper filing is not available in Saudi Arabia.

Payments on account. Payments on account are not required in Saudi Arabia.

Special schemes.

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.

At the time of preparing this chapter, details on what would qualify as "eligible used goods" have yet to be made available.

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. Annual returns are not required in Saudi Arabia.

Supplementary filings. No supplementary filings are required in Saudi Arabia.

Taxpayers have to log in to the GAZT portal (https://gazt.gov.sa/) and submit the VAT return electronically.

J. Penalties

Penalties for late registration. Any taxable person who has not applied for VAT registration within the set time frame, shall be fined SAR10,000.

Penalties for late payment and filings. 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.

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.

Penalties for errors. 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.

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.

Penalties for fraud. 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.

K. Transitional provisions

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.

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.

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.

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.

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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
Thresholds	
Registration	RSD8 million
Recovery of VAT by non-established businesses	Yes, subject to certain conditions

B. Scope of the tax

VAT applies to the following transactions:

- The supply of goods and services deemed to take place in Serbia 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.

Voluntary registration and small businesses. 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 minimum obligation to be VAT registered from voluntarily registering, to account and pay VAT is for two years.

Group registration. Group VAT registration is not allowed in Serbia.

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). 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 supplied by a non-established business to a business that is established and registered for VAT in Serbia, i.e., a business-to-business (B2B) supply, for which the place of supply is Serbia, if the foreign services provider does not appoint a tax representative in Serbia.

Domestic reverse charge. 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 estate.

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.

Digital economy. Specific rules apply to electronically provided services. In general, the 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 where the recipient of services has its seat or a permanent branch office, i.e., Serbia.

Additionally, new guidelines are in place in Serbia, defining the criteria and assumptions for determining the place of establishment, permanent establishment, permanent residence or residence of the recipient of telecommunication services, radio and television broadcasting services and services supplied electronically is applicable as of 1 January 2020. 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.

Note that if permanent and temporary residence of the provider or recipient of the services are not the same place, the place of supply of the service is determined according to the place of temporary residence.

Online marketplaces and platforms. Online markets are regulated by Serbian electronic trade law. Freedom to provide cross-border services is prescribed and the conditions under which it can be restricted. Cross-border service provision is the provision of services in Serbia or the EU, where the service provider is not established or is not resident in the territory of the country where the service is provided. In particular, the freedom to provide cross-border services enables domestic providers registered in Serbia to provide information society services in EU Member States to beneficiaries established/residing in the EU, under the same conditions as EU service providers would. At the same time, it enables EU providers to provide information society services in the Republic of Serbia.

Vouchers. As of 1 January 2020, the concept of a voucher is introduced. A voucher is defined as an instrument for which there is an obligation to be accepted as a fee or part of the fee for the goods/services provided, under condition that the following is stated on the voucher or related document: type of goods/services provided; identity of the supplier of the goods/services; terms of use of the voucher.

The VAT law distinguishes between single-purpose (SPV) and multi-purpose vouchers (MPV). The essence of distinguishing between SPV and MPV is reflected precisely in the tax treatment of issuing and transferring these vouchers. Namely, in the case of transfer of SPV, any transfer made by the VAT taxpayer on its own behalf is considered as a turnover of goods or services to which the voucher relates, while the delivery of goods or services to the voucher holder is not considered as a separate transaction. On the other hand, the transfer of an MPV is not considered as a turnover of goods and services, but the delivery of goods, that is, the provision of services for which a fee is paid by a voucher is regarded as a taxable event.

Registration procedures. A registration form (EVPPDV) is filed by the taxpayer. After conducting the appropriate procedure, the tax authorities will issue a certificate of VAT registration. The VAT registration form EVPPDV is submitted to the tax authorities electronically via the tax authorities portal. 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.

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 electronically via the tax authorities portal. Along

with the ZBPDV form, the taxpayer must also submit a census list in pdf form, which must contain the following information:
- Capital assets used within the taxpayer's business, that are held on the date of VAT deregistration activity, for which there is an obligation to correct the previous input tax deduction claim
- Facilities/buildings where the taxpayer carries out its taxable activities, which the taxpayer owns on the date of VAT deregistration, for which there is an obligation to correct the previous input tax deduction claim
- Other goods that the taxpayer possesses at the date of VAT deregistration, on the basis of which it was entitled to recover its previous input tax deduction claim, or on the basis of which it is obliged to calculate VAT as a tax debtor
- Investments in facilities subject to the obligation to correct the deduction of the previous input tax deduction claim, on the date of VAT deregistration
- Investments in objects for which there would be an obligation to correct the deduction of the previous input tax deduction claim, had they been completed by the date of VAT deregistration
- Given advance funds on the basis of which it was entitled to deduct the previous input tax deduction claim

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.

The tax authority merely informs the taxpayer that the deregistration process has been successfully completed. Otherwise the tax authorities would have notified the taxpayer electronically about any perceived deficiencies via the tax authorities' portal. This is used for any changes in a taxpayer's status, and as such no additional notifications are required.

D. 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: 20%
- Reduced rates: 10%
- 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 taxable at 0%
- Exported goods
- International transportation services and related supplies
- Supplies of goods and services relating to aircrafts and ships used in international traffic

Examples of goods and services taxable at 10%
- Supply of medicines and medical care devices (e.g., prosthesis)
- Supply of a wide range of food products

The term "exempt" refers to supplies of goods and services that are not liable to VAT and that do not qualify for input tax 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 tax
- 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.

Deposits and prepayments. There are no special time of supply rules for deposits and prepayments in Serbia. As such, the general time of supply rules apply.

Continuous supplies of services. There are no special time of supply rules for continuous supplies of services in Serbia. As such, the general time of supply rules apply.

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 Serbia. As such, the general time of supply rules apply.

Reverse-charge services. There are no special time of supply rules for reverse-charge services in Serbia. As such, the general time of supply rules apply.

Leased assets. The Serbian VAT law does not explicitly distinguish between financial and operating leasing. However, there are separate guidelines that set out the conditions that must be fulfilled for a lease to be regarded as a sale of goods. If a lease is regarded as a sale of goods, the time of supply is when the goods are handed over, i.e., the leasing provider issues an invoice

containing the total amount of VAT base and the total amount of the calculated VAT. On the other hand, if a lease is regarded as a sale of services, the time of supply is when the leasing provider issues an invoice for each individual lease installment in which the amount of the lease installment and the amount of VAT (calculated on the lease installment) is disclosed.

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.

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. Effectively, any expenditure that is not business related, is nondeductible from an input tax perspective.

Examples of items for which input tax is nondeductible

- 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

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

- Accommodation
- Employee expenses
- Car hire
- Business maintenance costs

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 tax totally. This situation is known as "partial exemption." The taxpayer should divide that part of the input tax 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:

$$\frac{\text{Amount of deductible input tax x taxable turnover + exports}}{\text{taxable turnover + exports + exempt supplies}}$$

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.

There is no requirement to notify or obtain approval from tax authorities, in order to carry out the above calculation. There are also no special methods allowed to be used in Serbia for partial exemption, i.e., there are no other ways of calculating the pro rata.

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 tax. Exceptionally, the taxpayer does not have an obligation to adjust input tax 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 tax is higher than the output tax, the taxpayer has a right to obtain a refund or to use this amount as a tax credit. In order to claim the input tax refund, the taxpayer must tick the box in its VAT return or by submitting a subsequent request to the tax authorities for the input tax refund.

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 (this is the annual reference rate of the National Bank of Serbia, plus 10 percentage points).

Pre-registration costs. This occurs in the tax period in which the supply of goods with the right to deduct input tax was performed.

The VAT payer may deduct input tax 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.

Write-off of bad debts. Output tax accounted for on supplies that do not get paid by the recipient (i.e., a bad debt) can be recovered in Serbia. The taxpayer may claim the bad debt relief on the price that has not been paid by the customer. This is only allowed if they have received a final binding court decision on the completed bankruptcy proceedings and/or on the ground of a certified minutes on compulsory settlement with debtors. No other documentation is required.

Noneconomic activities. Input tax incurred in relation to noneconomic activities is not recoverable in Serbia.

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 (to the extent the input tax deduction would also be allowed for resident/established businesses), 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. 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.

Credit notes. 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 tax 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.

Electronic invoicing. Serbia has no explicit regulatory framework allowing electronic invoicing for VAT purposes. However, there is a Law on Accounting in conjunction with the Law on Electronic Document, Electronic Identification and Trusted Services in Electronic Commerce that makes it possible to issue valid electronic invoices. This is also confirmed by the Serbian Ministry of Finance. As such, in practice, electronic invoicing is optional in Serbia.

Simplified VAT invoices. Simplified VAT invoicing is not allowed in Serbia. As such, full VAT invoices are required.

Self-billing. In general, the taxpayer who makes taxable sale of goods and services is obligated to issue an invoice. However, under certain conditions, the invoice may also be issued by the recipient of the goods and services. Specifically, self-billing is allowed under the following conditions:
- The customer receiving goods and services is registered for VAT in Serbia and therefore has the right to state VAT on the invoice.
- There is an agreement between the taxpayers issuing and receiving accounting document that the sale of goods and services is to be accounted by the recipient of goods and services.
- The accounting document has been presented to the taxpayer who has delivered the goods or services.
- The taxpayer who has supplies the goods and services is not in VAT debt with the tax authorities.

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.

Supplies to nontaxable persons. There are no special invoicing rules for supplies to nontaxable persons in Serbia. As such, full VAT invoices are required.

Records. VAT payers are obliged to keep the records of received invoices/transactions and records of issued invoices/transactions. Such evidence should contain certain data on invoice or customs declaration number (in case of import), the net fee paid, the applicable VAT rate, the amount of calculated VAT the total amount of turnover during one VAT period and other data,

Record retention period. VAT records and all supporting documents based on which the VAT records are maintained (e.g., invoices) should be kept until the expiry of statute of limitation period for determination and collection of VAT (statute of limitation period is 5 years; absolute limitation is 10 years).

Electronic archiving. The Law on Accounting prescribes that accounting documents may be stored on electronic media as original electronic documents or digital copies, provided that the competent authority has access to the information so stored and provided:
- That the information contained in the electronic document or record can be accessed and is suitable for further processing
- That the data is stored in the form in which it was created, sent and received
- That sender, recipient, time and place of sending and receiving can be determined from the saved electronic message
- Technologies and procedures are applied to sufficiently secure against alteration or erasure of data or other reliable means of guaranteeing the invariability of data or messages, as well as backup database at another location

Hence, both the e-invoice and the email message should be achieved on the computer. Also, please note that if the original document is in paper form and then digitized and authenticated in

accordance with the law regarding electronic documentation, such document gives the probative power of the original (paper) document, but the authentication of the digitized document does not mean that the original document can be destroyed. In this case, according to the regulations currently in force, the paper original must be kept.

I. Returns and payments

Periodic 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.

Taxpayers are also obliged to file a POPDV form along with the VAT return. The POPDV (Pregled obracuna PDV) is the official name of the form, and in English would be "Form and Content of the Overview of VAT Calculation." The form provides an overview of the VAT calculations that support the VAT return figures. 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.

Periodic payments. The deadline for VAT payment is the same as the deadline for the filing of VAT returns, i.e., within 15 days after the expiration of the tax period. 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 tax allowed as a deduction.

Electronic filing. 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.

Payments on account. Payments on account are not required in Serbia.

Special schemes. Serbia applies special VAT treatment to the following schemes:
- Special scheme for work of art, secondhand goods, antique goods
- Special scheme for small enterprises
- Special tour operator's scheme
- Special scheme for investment gold
- Tax obligation after recovered claim

Collection system. 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 tax 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."

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.

Annual returns. Annual returns are not required in Serbia.

Supplementary filings. There are no supplementary fillings required regarding indirect taxes, except for the POPDV form, which is submitted together with the VAT return.

Digital reporting. VAT returns (and other tax returns) must be filled electronically. Taxpayers must use "E-Taxes portal" which is used for collection of electronic services of the Serbian tax administration, enables all taxpayers to submit online tax forms with digital signatures, follow up on

the status of sent applications and have insight into the tax card of a taxpayer, with the purpose of faster and simpler fulfillment of obligations toward tax administration. This system meets high security standards that enable safe and uncompromised electronic data transfer.

J. Penalties

Penalties for late registration. If a taxpayer who is a legal entity fails to register for VAT, a fine ranging from RSD100,000 to RSD2RSD2 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.

Penalties for late payment and filings. For late payment and filing of VAT return, monetary penalty of RSD100,000 is prescribed for the legal entity and RSD50,000 for the responsible person.

Penalties for errors. If the taxpayer establishes that the tax return, which he submitted to the tax administration, contains an error that results in a wrongly determined amount of tax liability, or omission of another kind, he is obliged to immediately file, and no later than the expiration of the expiration date, a tax return in which the error is or omission is remedied. The taxpayer may amend the tax return no more than twice by filing the amended tax return.

Incorrect VAT reporting may lead to penalty of 30% of the difference between the correct VAT amount that should have been reported and unreported/incorrectly reported VAT amount but RSD200,000 at the minimum for legal entity, and penalty in the range from RSD10,000 to RSD100,000 for responsible person.

Penalties for fraud. Serbian criminal law stipulates that whoever with intent to fully or partially avoid payment of taxes, contributions or other statutory liabilities, gives false information on legal income, objects and other facts relevant to determination of such obligations, or who with same intent, in case of mandatory reporting (filing of returns) fails to report lawful income, objects and other facts relevant to determination of such obligations, or who with same intent conceals information relevant for determination of aforementioned obligations, and the amount of obligation whose payment is avoided exceeds RSD1 million, shall be punished by imprisonment of up to five years and fined.

Please note, that if the mentioned tax liability exceeds RSD5 million the offender shall be punished by imprisonment of 2 to 8 years and fined, and if tax liability exceeds RSD15 million, offenders shall be punished by imprisonment of 3 to 10 years and fined. As the law uses the term "whoever," this also includes the liability of directors and individuals responsible.

In addition, please note that a legal person may be liable for criminal offenses from a separate part of the criminal law and other laws, provided that the conditions for liability of the legal person are fulfilled.

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A. At a glance

Name of the tax	Goods and services tax (GST)
Local name	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 (subject to approval)
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
- Imports of services into Singapore, if received by partially exempt businesses (with effect from 1 January 2020)
- Imports of digital services into Singapore, by an overseas supplier to a Singapore non-registered person (with effect from 1 January 2020)

C. Who is liable

A taxable person is a person who is registered or is required to be registered for GST.

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.

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 and small businesses. 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.

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.

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.

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.

Reverse charge. 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).

Domestic reverse charge. With effect from 1 January 2019, a domestic reverse charge has been implemented for the local sale of prescribed goods supplied by a GST-registered supplier to a GST-registered customer for business purposes, 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).

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.

Overseas suppliers and overseas electronic marketplace operators whose global turnover exceed SGD1 million and sale of digital services to consumers in Singapore exceed SGD100,000, are liable for registration under the OVR regime. Local non-GST registered electronic marketplace operators are liable for GST registration if the combined values of digital services made on behalf of overseas suppliers through the electronic marketplace and 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.

Online marketplaces and platforms. In Singapore the term "electronic marketplace" is used to define a medium that allows the suppliers to make supplies available to customers and is operated by electronic means. This includes marketplaces operated via a website, internet portal, gateway distribution platform or any other types of electronic interface but excludes payment processors or internet service providers. There are no special GST rules for such marketplaces.

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.

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.

D. Rates

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

The VAT rates are:
- Standard rate: 7%
- 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.

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. *At the time of preparing this chapter, no further announcement or news has been issued by the government.*

Examples of goods and services taxed at 0%

- Exports of goods and international services

The term "exempt" refers to supplies of goods and services that are not liable to VAT and that do not qualify for input tax deduction.

Examples of exempt supplies of goods and services

- Sale or lease of residential property
- Importation or supply of investment precious metals
- Certain financial transactions

Option to tax for exempt supplies. The option to tax exempt supplies is not available in Singapore.

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.

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.

Continuous supplies of services. 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 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

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
- 12 months after the removal of the goods

Reverse-charge services. There are no special 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-charge implementation).

Leased assets. Where the leased assets are transacted under "hire purchase agreement," subject to prescribed conditions, the time of supply for the full value of the goods will be triggered at the time the invoice is issued for the first instalment under the "hire purchase agreement." For other supplies of leased assets, no special time of supply rule applies. As such, the general time of supply rules outlined above apply.

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.

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.

Capital goods. Capital goods in Singapore are defined as items of capital expenditure that are used in a business over several years. There are no special input tax recovery rules for capital goods. The normal input tax rules for GST apply (as outlined above).

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.

Pre-registration 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.

Write-off of bad debts. A taxable person can apply for bad debt relief from the comptroller for the return of the output tax previously accounted for and paid if the taxable person satisfies the following conditions:
- Whole or any part of the consideration for the supply as a bad debt in its accounts have been written off.
- A period of 12 months beginning with the date of supply has elapse or the debtor has become insolvent before the period of 12 months has elapsed.
- Reasonable steps have been taken to recover the debts.
- Value of the supply is equal to or less than its open market value.

- In the case of goods, the ownership must have been transferred to the debtor.

Noneconomic activities. Where a taxable person is carrying on both business and nonbusiness activities, only the input tax attributable to the business activities for the making of taxable supplies is claimable. A taxable person carrying on activities that are partly business and partly nonbusiness has to apportion the input tax and only the portion relating to the making of taxable supplies is claimable.

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

GST invoices. A taxable person must issue a GST invoice for standard-rated supplies made to another taxable person within 30 days from the time of supply.

A GST invoice is necessary to support a claim for input tax credit.

Credit notes. 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.

Electronic invoicing. It is not mandatory for businesses in Singapore to issue electronic invoices and businesses need not apply to the comptroller for approval to issue tax invoices electronically. If a business decides to issue electronic invoices, the business is required to comply with the following:
- Establish internal controls to ensure that electronic tax invoices issued and transmitted to customers are complete and accurate
- Ensure that the electronic tax invoices issued and transmitted to customers contain all the details required under the GST legislation, where applicable
- Establish internal controls to ensure that electronic tax invoices cannot be manipulated before and during transmission
- Establish internal controls to ensure that all output tax relating to these electronic transmissions will be fully accounted to the Comptroller in the GST returns
- Do not issue tax invoices in paper form to customers that the business has already issued electronic tax invoices. In the event that the business needs to issue tax invoices in paper form, the business must take the necessary measures to prevent double claiming of input tax by its customers (e.g., invalidate either the paper form or electronic form of the tax invoices issued)
- Print and keep a hard copy of the electronic tax invoices issued if the business does not store the tax invoices in electronic media

Simplified GST invoices. A simplified GST invoice may be issued if the amount payable (including GST) does not exceed SGD1,000.

Self-billing. Self-billing is a billing arrangement between a GST-registered supplier and a GST-registered customer, where the customer, instead of the supplier, prepares the supplier's tax invoice/customer accounting tax invoice and sends a copy to the supplier. The customer can adopt self-billing if it satisfies all the conditions as follows:
- It is more convenient for the customer to self-bill because the customer will determine and verify the final value of the goods and services purchased from the suppliers; or self-billing facili-

tates the customer's internal controls and accounting system given that the supplier will be working with uniform purchase documentation.

- There is a written agreement with each supplier that the supplier will not issue tax invoices and/or customer accounting tax invoices for goods and services purchased by the customer.
- Instead, the supplier will authorize the customer to issue the tax invoices and/or customer accounting tax invoices on its behalf.
- Each supplier agrees in writing that he will notify the customer immediately if the supplier's GST registration is canceled or issued with a new GST registration number.
- The customer will provide the suppliers with the tax invoices and/or customer accounting tax invoices issued under self-billing and the customer will retain copies of them. The customer will keep the tax invoices/customer accounting tax invoices issued under self-billing for a period of not less than five years.
- The customer must keep and maintain an up-to-date list showing the names, addresses and registration numbers of all the suppliers covered by the self-billing arrangement.
- Each tax invoice or customer accounting tax invoice issued under self-billing must contain all the details required on a normal tax invoice and customer accounting tax invoice respectively as well as the following details:
  - "Buyer created tax invoice — Approved by the Comptroller of GST" in place of the words of "Tax invoice"
  - The statement "The tax shown is your output tax due to the Comptroller of GST"

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.

Supplies to nontaxable persons. 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.

Records. The taxable person shall maintain records relating to its income and business expense records such as tax invoices, agreements, credit notes and import/export documents.

Record retention period. GST-registered businesses are required to maintain records for a period of five years.

Electronic archiving. Records can be kept electronically using a computer and/or accounting software. Physical copies of source documents need not be kept substantiating the business transactions for tax purposes if the source documents are kept electronically. Businesses should ensure that proper internal controls are put in place to ensure the integrity, completeness, accuracy, availability and reliability of the electronic records, including all transactions executed electronically, where applicable.

I. Returns and payment

Periodic 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 is generally due one month following the end of the return period.

Periodic payments. The GST payment in full is generally due the same date as the GST return filing deadline, i.e., one month following the end of the return period.

Electronic filing. All registered businesses must file GST returns (and GST amended returns) electronically (i.e., it is mandatory). Submissions must be made via myTax.iras.gov.sg. GST-registered businesses are not required to submit any other documents when the GST return is filed. Under exceptional circumstances (e.g., business is under liquidation), a business may file paper GST return.

Payments on account. Payments on account are not required in Singapore.

Special schemes. The special schemes available in Singapore are as follows:
- Major exporter scheme
- Approved contract manufacturer and trader scheme
- Approved third-party logistics company scheme
- Import GST deferment scheme
- Approved marine customer scheme
- Specialized warehouse scheme

In addition, there is a special scheme for cash accounting, which more information is provided below.

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.

Annual returns. Annual returns are not required in Singapore.

Supplementary filings. No supplementary filings are required in Singapore.

Digital reporting. GST returns (and amended returns) must be filed electronically.

J. Penalties

Penalties for late registration. For late registration or failure to register, businesses may be subject to a fine of up to SGD10,000 and a penalty of 10% of the tax due. Penalties may be waived for businesses that come forward to register for GST in a timely manner.

Penalties for late payment and filings. 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.

Penalties for errors. A penalty equal to double the amount of tax that has been undercharged in consequence of such incorrect return or information, or that would have been so undercharged if the return and information had been accepted as correct; and be liable to a fine not exceeding SGD5,000 or to imprisonment for a term not exceeding three years or to both.

Penalties for fraud. A penalty of three times the amount of tax that has or would have been undercharged in consequence of the offense or that would have been undercharged if the offense had not been detected, and be liable to a fine not exceeding SGD10,000 or to imprisonment for a term not exceeding seven years or both.

Sint Maarten

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Please direct all inquiries regarding Sint Maarten to the persons listed below in the Curaçao office.

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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.

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

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

Group registration. RT grouping is not allowed under the RT law. Group entities that are closely connected must register for RT individually.

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 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-zone companies are not liable for RT on their supplies of services or goods to nonresidents.

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.

Tax representatives. A taxpayer may be represented by a third party based on a power of attorney.

Reverse charge. 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.

Domestic reverse charge. There are no domestic reverse charges in Sint Maarten.

Digital economy. RT legislation does not specifically mention any regulations in connection with the digital economy. Normal RT rules apply to supplies of digital goods and services.

Online marketplaces and platforms. No special rules exist for online marketplaces and platforms in Sint Maarten.

Registration procedures. In general, a taxable entity that begins taxable activities must register with the Inspectorate of Taxes by completing an online registration.

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.

D. Rates

The term "taxable supplies" refers to supplies of goods and services that are liable to a rate of RT. In Sint Maarten, 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 RT standard rate is 5%. The standard rate of RT applies to revenue realized from the delivery of taxable supplies, unless a specific measure provides for an exemption.

The term "exempt supplies" 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
- Revenue realized from supplies of exported goods by an "export business"

To qualify, 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. The option to tax exempt supplies is not available in Sint Maarten.

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.

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 applies.

Continuous supplies of services. 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.

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 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 applies, that the tax point arises upon receipt of payment.

Leased assets. There are no special time of supply rules in Sint Maarten for leased assets. As such, the general time of supply rules apply; the tax point arises upon receipt of payment.

Imported goods. There are no special time of supply rules in Sint Maarten for imported goods. As such, the general time of supply rules applies, that the tax point arises upon receipt of payment.

F. Recovery of RT by taxable persons

RT cannot be recovered in Sint Maarten.

G. Recovery of RT by non-established businesses

RT cannot be recovered in Sint Maarten.

H. Invoicing

RT invoices. A business must provide an invoice for all taxable supplies made, including exports.

Credit notes. 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.

Electronic invoicing. The issuance of electronic invoices is optional in Sint Maarten. In this regard, the same invoice requirements apply for electronic invoices as they do for regular invoices.

Simplified RT invoices. This is allowed for certain industries. This includes entrepreneurs active in the catering industry ("horeca"), retailers, as well as lottery vendors, as they are required to use a cash register system. Such suppliers are required to issue receipts to their customers instead of a full RT invoice.

Self-billing. Self-billing is not allowed in Sint Maarten.

Proof of exports. 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

Foreign currency invoices. RT legislation does not specifically mention any regulations in connection with invoices to be issued in foreign currency. In practice, invoices are often issued in foreign currency, mostly in USD.

Supplies to nontaxable persons. There are no special invoicing rules for supplies to nontaxable persons in Sint Maarten. As such, full RT invoices are required. However, see above for more information about special invoicing rules.

Records. Taxpayers are required to keep records in such a manner that at any time their rights, obligations and all other information relevant for tax purposes are clear and readily available upon request from the tax authorities.

Record retention period. Taxable businesses must retain copies of invoices for 10 years.

Electronic archiving. Electronic archiving is allowed in Sint Maarten.

I. Returns and payment

Periodic 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 by the 15th day of the month following the end of the reporting period.

Periodic payments. RT due must be paid by the same date as the return submission deadline, i.e., 15th day of the month following the end of the reporting period. The RT due over the period must be remitted with the return.

Electronic filing. Electronic filing is not allowed in in Sint Maarten. RT returns must be filed by paper.

Payments on account. Payments on account are not required in Sint Maarten.

Special schemes. Special rules apply to gambling companies, offshore companies and offshore banks and entities that have a foreign exchange license.

Gambling companies. Revenue derived from providing access to casino games is exempt from RT.

E-zones. In principle, e-zone companies are exempt from RT to the extent their revenue is generated through the delivery of goods and services outside of Sint Maarten, or the rendering of services.

Offshore companies and banks. Companies that have a foreign exchange license ("deviezenontheffing") are not considered as an entrepreneur for Sint Maarten RT purposes. As a result, these companies are not subject to RT. In short, a company is eligible for a foreign exchange license if it has foreign shareholders and does not perform any activities in Sint Maarten.

Annual returns. Annual returns are not required in Sint Maarten.

Supplementary filings. No supplementary filings are required in Sint Maarten.

Digital reporting. No digital reporting requirements apply in Sint Maarten.

J. Penalties

Penalties for late registration. 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.

Penalties for late payment and filings. 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.

Penalties for errors. A negligence tax penalty of up to 100% of the additional tax due can be imposed if the deficit is attributable to the intent or gross negligence of the taxpayer.

Penalties for fraud. For a late payment caused by negligence or dishonest conduct, fines ranging from 25% to 100% of the RT payable may be imposed.

The amount of the penalty depends on the facts and circumstances and is determined at the Tax Inspector's discretion, which is subject to objection.

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	
Established	EUR49,790
Non-established	Before taxable activity commences
Distance sales	EUR35,000
Intra-Community acquisitions	EUR14,000
Electronically supplied services (MOSS)	EUR10,000
Recovery of VAT by non-established businesses	Yes (subject to conditions)

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 tax is wholly or partly deductible
- The transfer 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 its private use, for the private use of the VAT payer's staff or for any purpose other than that of its 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 of which the 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.

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) of which 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 that 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 the 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 person 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 and small businesses. 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 antifraud measures.

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
- Goods and services subject to a VAT exemption without the right for input tax deduction
- Certain types of goods supplied in certain types of warehouses defined by the VAT Act

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

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 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 tax 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.

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.

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.

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.

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 nonbusiness 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. As of 1 January 2019, this provision does not apply to the sales of goods where a simplified tax invoice (cash register bill) is issued.
- 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. As of 1 January 2019, this provision does not apply to the sales of goods where a simplified tax invoice (cash register bill) is issued.
- 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.

Digital economy. 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 was 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. The place of supply of broadcasting, telecommunications and electronic services rendered to nontaxable customers by providers established in the EU is where the customer is estab-lished, 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) was 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 (MOSS), 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 the place of supply.

Online marketplaces and platforms. In general, there are no specific VAT rules for sale of goods via online platforms in Slovakia.

The suppliers selling goods cross-border have to take the threshold for distance sale into consideration, which is EUR35,000 for Slovakia. If the cross-border distance sales exceed the registration threshold in Slovakia, the supplier has to register in Slovakia for VAT purposes and issue an invoice according to Slovak legislation.

For domestic online platforms (no distance sales), general rules apply for the sale of goods. If the goods are sold to private customer, there is no need to issue an invoice.

Vouchers. In accordance with the Council Directive (EU) 2016/1065, Slovakia has introduced the rules for the application of VAT on vouchers. The rules were introduced in Slovakia with effect from 1 October 2019.

A voucher is defined as an instrument in physical or electronic form and is associated with the entitlement of the holder to receive specific goods or services and the commitment of the supplier to accept such voucher as consideration for the delivered goods or services.

For the VAT purposes, it is necessary to distinguish between so-called “single-purpose” (SPV) and “multi-purpose” (MPV) vouchers.

For SPV, the place of supply of goods or services and the VAT rate are known already at the time of issuance. For MPV, at least one of these facts is unknown.

From 1 October 2019, the sale of a SPV by a VAT payer, acting in their own name, will be regarded as a supply of goods or services against consideration. The supplier charges VAT upon sale of the SPV, while the VAT will not be charged upon the actual supply of goods/services when SPV is redeemed.

On the contrary, the sale of MPV will not be subject to VAT. Only the provision of goods or service itself in return for a MPV will be subject to taxation.

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 (submitted electronically).
• 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).

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 State) 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).

D. 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: 20%
- Reduced rates: 10%
- 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.

If supplies are classified as zero-rated, no VAT is due, but the supplier may deduct related input tax.

Examples of goods and services taxable at 0%

- 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

Examples of goods and services taxable at 10%

- Selected pharmaceutical products and medical aids
- Specific newspapers, periodicals, books, brochures and leaflets, and books for children
- Certain food products such as meat, fish, milk and bread, certain types of vegetables
- Accommodation services
- Certain goods and services related to social welfare

The term "exempt supplies" refers to supplies of goods and services that are not liable to VAT and that do not qualify for input tax deduction.

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, or five years after major reconstruction with or without the change in the purpose of using that property is VAT exempt. The VAT payer may opt to tax the transfer of the immovable property, except for the transfer of residential real estate.

Similarly, the lease of immovable property is VAT exempt. Again, the VAT payer that 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.

Deposits and prepayments. There are no specific VAT rules relating to deposits and potential prepayments in the Slovak Republic.

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.

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.

Reverse-charge services. For reverse-charge services received by a Slovak taxable person, VAT becomes due on the date of supply of the service.

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 generally remains to be regarded as a supply of services.

The lease of real estate or its part is VAT exempt, except for:
- The provision of accommodation services (if for less than three months)
- Lease of land for the purpose of parking of vehicles
- Lease of permanently installed equipment and machinery
- Lease of safes

A VAT payer that leases a nonresidential real estate to a taxable person may opt to tax the lease.

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.

Intra-Community acquisitions. 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.

Intra-Community supplies 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.

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.

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 tax may generally be recovered by deducting it from output tax, which is VAT due on the supplies made. A VAT payer is entitled to deduct input tax 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 tax 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 precondition for deducting.

For imported goods, VAT must have been paid to the customs authority or included in the VAT records to be eligible for deduction.

Non-established taxable persons registered for VAT in the Slovak Republic cannot claim input tax 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 tax incurred can be made through the regular VAT return filed.

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 tax:
- 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 tax on the acquisition of goods and services that represents its nonbusiness use, if the VAT payer elects not to apply output tax 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 exemption. Input tax on goods that are used for both business and for nonbusiness purposes is generally deductible. However, output tax must be paid on the nonbusiness use.

For fixed tangible assets intended to be used for both business and nonbusiness purposes, the VAT payer may opt not to deduct a portion of the input tax 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 tax 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 nonbusiness 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 nonbusiness purposes, it may deduct input tax relating to the entire consideration for the services. If the services are subsequently used for nonbusiness purposes, the VAT payer must account for output tax (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 tax 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 tax 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 tax 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 tax 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 tax 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 tax 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 tax 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 tax 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.

Pre-registration 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 that 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. Output tax accounted for on supplies that do not get paid by the recipient (i.e., bad debts) cannot be recovered in the Slovak Republic.

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 an economic activity in equal proportion of each spouse, unless the spouses decide otherwise.

The execution of activities based on an employment relationship, or other similar relationship, 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.

EU businesses. 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.

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.

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.

Non-EU businesses. 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 tax 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).

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.

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).

Credit notes. 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.

Electronic invoicing. The law also allows the sending or accessing of invoices electronically, subject to approval by the recipient of services/goods. An electronic format is not specifically determined, but any method chosen needs to provide for authenticity, legibility and integrity of the document content from its issuing until the end of the obligatory archiving period. Actual payment of electronically issued invoice is interpreted as approval to its electronic issuance.

The electronic invoice must contain all the compulsory items as the paper invoice. Where electronic invoices are sent or made available to the same recipient in a batch, the details common to

the individual invoices may be mentioned only once where, for each invoice, all the information is accessible.

Simplified VAT invoices. 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.

Self-billing. Taxpayers may arrange for invoices to be issued by the customer (self-billing) or another person (third-party billing); such invoices must be issued in the name of and on behalf of the VAT payer supplying the goods or services.

Self-billing is subject to a written agreement on the issuance of invoices between the VAT payer and the customer. An agreement needs to set out the conditions to be fulfilled for the supplier to accept invoices issued by the customer. The VAT payer who supplies the goods or services remains responsible for the accuracy of the information on the invoices and the timeliness of their issuance, even if an invoice is issued by a customer or via another person.

In the case of intra-Community transactions, the invoice issued by the customer must be issued according to the invoicing rules valid in the Member State of the place of supply.

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 tax.

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:
- A 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 tax in the tax period in which the six-month period elapsed.

As part of the European Commission's Action Plan on VAT, four "VAT Quick Fixes" in relation to intra-EU trade will take effect from 1 January 2020 in Slovakia.

The four VAT Quick Fixes concern the following areas:
• Treatment of call-off stock
• Mandatory VAT identification number to apply the zero VAT rate to intra-EU supplies
• Chain transactions
• Proof of intra-EU supplies

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.

Supplies to nontaxable persons. Under the Slovak VAT Act, a VAT payer is not obliged to issue an invoice for supply of goods and services in Slovakia to a nontaxable person (B2C). An invoice must be issued for supplies to a legal person who is not a taxable person.

Records. The VAT payer is obligated to keep detailed records for each tax period on the supplied goods and services and received goods and services; separate records should be kept on delivery of goods and services to another Member State, on acquisition of goods from another Member State and on import of goods.

The records shall contain the information essential for correct computation of the tax.

For the purpose of tax deduction, the taxpayer shall keep the records separately for the goods and services with the input tax deduction and for the goods and services with no input tax deduction and with partial input tax deduction. The taxpayer shall keep records also on any payments received prior to the delivery of goods and services and any payments provided prior to the delivery of goods and services. A member of a VAT group has to keep records on the delivery of the goods and provision of the services to another member of the group.

Separate records have to be kept on:
• Supply of goods free of charge
• Temporary transfer of goods to another Member State
• Provision of services free of charge, privet use of services
• Provision of services to the EU and also outside of the EU, including those that are tax exempt
• Supply of goods with installation and assembly in the EU
• Goods transferred and received in the call-off stock arrangements
• Other records according to Section 70 of the Slovak VAT Act

All the above persons are required, when retaining invoices, to guarantee the authenticity of the origin, the integrity of the content, and the legibility of invoices throughout the retention period. These documents must be retained for ten years following the year in which the sale or purchase took place. Under Section 76 of the VAT Act, VAT payers are required to retain copies of invoices for a period of ten years following the year to which they relate. Under Section 35 of the Accounting Act (Act No 431/2002), as amended, the retention period for documents is five years following the year to which they relate.

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.

Record retention period. 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.

Electronic archiving. The documents obtained in paper form can be kept and archived electronically under the presumption that the taxable person can ensure (by its technical means) that the authenticity of the origin, the integrity of the content and the legibility during the whole archiving period. The documents obtained electronically can be archived only electronically. The taxable person that stores invoices and other documents by electronic means is obliged to enable the tax authority, for auditing purposes, to access, download and use such invoices, upon request.

I. Returns and payment

Periodic returns. Slovak VAT returns must be submitted by the 25th day after the end of the tax period.

Periodic payments. Payment of VAT liability in full is due by the same date as the return submission deadline, i.e., by the 25th day after the end of the tax period.

Electronic filing. 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.

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.

Payments on account. Payments on account are not required in the Slovak Republic.

Special schemes. The special schemes available in the Slovak Republic are as follows:
- Special scheme for call-off stock
- Special arrangements applicable to secondhand goods, works of art, collectors' items and antiques
- Special scheme for investment gold
- Special arrangements applicable to persons not established in the territory of the European Community supplying the services electronically
- MOSS for EU and non-EU established businesses providing telecommunications, broadcasting or electronic services to nontaxable persons (final consumers) located in the EU

In addition, there is a special scheme for travel agents and for cash accounting. More information about such schemes is provided below.

Special scheme for travel agents. The range of entities required to apply the special scheme for travel agents includes those that procure goods and services for the purpose of a journey/travel

from other taxable persons ("accommodation and travel services") and those that act in their own name toward customers, whether they are taxable or nontaxable persons.

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 tax 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 tax 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).

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 into 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 for 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 tax 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 tax 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.

Annual returns. Annual returns are not possible nor required in the Slovak Republic.

Supplementary filings. When the taxpayer finds out that the tax shall be higher, or the input tax shall be lower than stated in the filed tax return, it is obliged to file a supplementary tax return by the end of the month following the month of finding out the discrepancies. The increased tax shall be due within the same deadline. The taxpayer is obliged to file the supplementary tax return if it does not contain correct data concerning the performed and received taxable transactions for the relevant tax period.

The taxpayer may file a supplementary tax return if it finds out that tax should be lower or the input tax should be higher than reported.

VAT ledger. 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.

The deadline for submission of the VAT ledger is 25 days after the end of the relevant tax period. The deadline is not tied to the date of the VAT return filing.

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.

The 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 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 for those months in which zero movements of goods occur.

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 transfers of goods to other 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
- Transfer of goods within call-off stock arrangements, including the case of the change of the recipient of the goods and return of the goods

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.

Digital reporting. The obligation to communicate with tax authorities by electronic means exists for all VAT payers since 2014. As of 1 January 2018, the obligatory electronic communication with tax authorities is effective for all legal entities enlisted in the Commercial Register and as of 1 July 2018, it was extended to individuals registered for income tax.

The electronic communication toward the tax authorities, as well as submission of VAT returns, is made based on a secured electronic signature or based on a written agreement with the tax office on electronic delivery (in which case a secured electronic signature is not necessary). The signature on the agreement must be validated by the notary.

On the other hand, the communication by the tax authorities toward the taxpayer is done exclusively in paper form. Only some minor communication (soft warning, payment clarification) is communicated by the tax authorities to the taxpayer via electronic mailbox.

Electronic cash register (eKasa). During the first half of 2019, the amendment of the Act on use of electronic cash registers introduced the requirement for all cash registers in the Slovak Republic to have a direct online connection to the Slovak Financial Directorate (system called "eKasa"). With the introduction of eKasa, the hardware is no longer relevant for the use and storage of the information as all information is sent automatically directly to the tax authorities. The amendment also introduces the abolishment of the obligation to print bills in case the bill can be send to the customer via email (upon his agreement).

J. Penalties

Penalties for late registration. The penalty for nonfulfillment 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 that 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.

Penalties for late payment and filings. 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 limit.

Interest on late payment applies in the following circumstances:
- The VAT liability is not paid before or at the deadline.
- The proper amount of the VAT liability or the amount stipulated in a decision of the tax authorities has not been 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.

For Intrastat, a penalty may be imposed for late submission or for missing or inaccurate declarations, up to EUR3,320.

For ESLs, 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.

Penalties for errors. 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 for fraud. 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.

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.

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	
Established	EUR50,000
Non-established	None
Distance selling	EUR35,000
Intra-Community acquisitions	None
Electronically supplied services (MOSS)	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 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.

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.

Voluntary registration and small businesses. For small businesses voluntary VAT registration is possible in Slovenia. In this case, a small business that wishes to register must notify their choice in advance to the tax authorities and be treated as a taxable person for at least 60 months.

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

Domestic reverse charge. 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 is not obliged to 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

If a taxable person performs supplies subject to domestic reverse charge, it has to file a PD-O report. Deadline for the submission of the report is the last working day of the month, following the reporting period.

Digital economy. Special rules apply to the place of supply for supplies of telecommunications, broadcasting and electronic services to non-VAT taxable customers. When telecommunications services, radio and television broadcasting services, or electronic services are supplied to a non-taxable person, the place of supply of these services is the place where that person is established or has his permanent address or usually resides.

The place of supply of the services could be also the place where the service provider is established or, if he is not established, has his permanent residence if the following conditions are fulfilled: the supplier is established or has permanent residence in only one Member State and the service is provided to a nontaxable person established in any other Member State and the total value of the services provided, excluding VAT, in the current calendar year does not exceed EUR10,000 and has not exceeded that amount in the previous calendar year.

Mini One-Stop Shop. Only VAT taxable persons that are established, have a permanent establishment or are VAT registered in Slovenia can register for the Mini One-Stop Shop (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.

Online marketplace and platforms. No special rules exist for online marketplaces and platforms in Slovenia.

Vouchers. Slovenian VAT legislation defines two types of vouchers, single-purpose and multi-purpose vouchers.

The supply of goods or services to which the single-purpose voucher relates is deemed to be any transfer of a single-purpose voucher by a taxable person acting on his own behalf. The actual delivery of goods or services in exchange for a single-purpose voucher accepted by the supplier as payment or partial payment is not considered to be a separate transaction.

If the transfer of a single-purpose voucher is made by a taxable person acting on behalf of another taxable person, the supply of the goods or services to which the voucher relates is deemed to have been made by the taxable person on whose behalf the taxable person acts.

If the supply of goods or services is made by a supplier which is not the taxable person who issued the single-purpose voucher in his own name, that supplier is deemed to have supplied the goods or services to which the voucher relates to the taxable person who issued the single-purpose voucher on his own behalf.

In the case of multi-purpose vouchers, the obligation to charge VAT on a such voucher does not arise upon its transfer, but only upon the actual handing over of the goods or the actual provision of the services in return for a multi-purpose voucher accepted as consideration or part consideration by the supplier for that supply or provision.

In the case of a multi-purpose voucher, the consideration for the voucher constitutes the tax base for the supply of goods or services. In the absence of such information, the tax base is the monetary value shown on the voucher itself, which is reduced by the value of VAT paid for the supply of goods or services.

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 six to eight weeks to complete.

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.

D. 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: 22%
• Reduced rate: 9.5%
• 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 or exemption.

Some supplies are classified as zero-rated (i.e., "exempt with the right to deduct input tax") which means that no VAT is chargeable, but the supplier may recover related input tax. Zero-rated 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.

Examples of goods and services taxable at 9.5%

• Foodstuffs (except alcoholic drinks and catering services)
• Water supplies
• Passenger transport

- Books, newspapers and periodicals if they contain no more than 50% of the promotional content, or content that includes no more than 50% of music, movies and games, including lottery, as well as shows and events in the fields of politics, culture, art, sports, science and entertainment
- 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

The term "exempt" refers to supplies of goods and services that are not liable to VAT and that do not qualify for input tax deduction.

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 tax authorities do not need to be notified. However, a written agreement about the option to tax has to be made between the contracting parties prior to the supply being made.

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.

Deposits and 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.

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.

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.

Reverse-charge services. For reverse-charge services, VAT becomes due when services are performed.

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.

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.

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.

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.

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.

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 tax that may be recovered one of the following methods may be used:

- Deduction of input tax using actual data, provided that the taxable person maintains (in its books and accounts or other records) information regarding the total amount of input tax including the amount of input tax that is deductible.

- Determination of the amount of deductible input tax using a pro-rata method for the whole business, if the taxable person is unable to determine the amount of input tax as described above.
- Determination of the amount of deductible input tax 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 tax 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.

Pre-registration costs. According to the official guidance issued by the Slovenian tax authorities, a VAT taxable person has the right to deduct input tax 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 tax 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.

EU businesses. Businesses established in the EU can submit a claim for refund with the tax authorities of their country of establishment.

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).

Non-EU businesses. 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.

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.

Applications for refunds of Slovenian VAT by non-EU businesses must be filed with the Slovenian tax authorities in electronic form using the tax authorities' online portal. To gain access to the online portal of the tax authorities, a non-EU business and its legal representative(s) must obtain a Slovenian tax numbers.

H. Invoicing

VAT invoices. 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.

Credit notes. 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. Slovenian VAT law permits electronic invoicing in line with EU Directive 2010/45/EU (see the chapter on the EU).

Simplified VAT invoices. In general, taxpayers can issue a simplified invoice for the supply of goods or services carried out in Slovenia, if at least one of the following conditions is met:
- The net amount stated on the invoice does not exceed EUR100
- If a taxable person issues a document or a message that changes the original invoice and refers to it undoubtedly
- If the invoice is issued to a final customer

A taxable person who issues a simplified invoice to another taxable person and needs such an invoice in order to claim VAT deduction has to indicate the name and address of the buyer or customer in the invoice.

A taxable person should not issue a simplified invoice for goods or services supplied to another Member State in which VAT is chargeable or if such taxable person's place of establishment in that Member State does not participate in the supply in terms of Article 192a of Council Directive 2006/112/EC and the person liable to pay VAT is the person to whom the goods or services are supplied.

A taxable person who supplies goods and services in the cases where recipients of goods and services act as persons liable for payment of VAT indicates in the simplified invoice that the reverse charge applies.

If a taxable person supplies goods or services at different tax rates, the amount of VAT in a simplified invoice has to be shown by tax rate separately.

Where a taxable person supplies goods or services that are exempt from VAT, he has to make reference in his invoice to the valid provision of the Sixth Council Directive 2006/112/EEC or to the corresponding Article of Slovenian VAT Act or any other reference indicating that the supply of goods or services is exempt from VAT.

Self-billing. A self-billed invoice may be issued by the buyer of goods or services for the goods or services supplied to them by a taxable person (self-invoicing) where both parties agree on this procedure in advance and specifically agree on the method of accepting each invoice by the taxable person by whom the goods or services are supplied. The buyer of goods or services has to indicate on the self-billed invoice that it is issued on behalf and for the account of the taxable person who supplied the goods or services to the buyer.

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.

Supplies to nontaxable persons. 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.

Records. Every taxable person must ensure that copies of the invoices issued by them, or by their customer or, in their name and on their behalf, by a third party, and all the invoices that they have received, are stored.

Record retention period. 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).

Electronic archiving. A Slovenian 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.

I. Returns and payment

Periodic 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).

Periodic payments. Any VAT due must be paid in full by the last working day of the month following the end of each tax period. Payers from abroad have to remit the amount payable to the account of the tax authorities.

Electronic filing. 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).

Payments on account. Payments on account are not required in Slovenia.

However, if a taxable person proves, that due to reasons over which it has no influence, serious economic damage might occur from making its VAT payment, and the deferment of or payment by instalment of the tax would prevent serious economic damage, the tax authorities might grant payment in installments.

Special schemes.

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.

Small taxable persons. Slovenian taxable person is exempt from charging VAT provided that in the last 12-month period his taxable turnover has not exceeded or is unlikely to exceed EUR50,000.

Farmers. Farmers are entitled to flat-rate compensation for VAT for the supply of agricultural and forest products under certain conditions.

Travel agents. The taxable amount and the price exclusive of VAT in respect of the single service provided by a travel agent is 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.

Secondhand goods, works of art, collectors' items and antiques. The taxable amount is the profit margin made by the taxable dealer, less the amount of VAT relating to the profit margin. A taxable dealer may apply the normal VAT arrangements to any supply covered by the special margin scheme.

Investment gold. Taxable persons who produce investment gold or transform gold into investment gold shall have the right to opt for the taxation of supplies of investment gold to another taxable person.

Annual returns. Annual returns are not required in Slovenia.

Supplementary 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 2020, 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/).

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 an EU Sales List (also known as "Recapitulative Statement" in Slovenia) 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).

PD-O report. If taxable person performs supplies subject to the domestic reverse-charge, it has to file a PD-O report. The deadline for the submission of the report is the last working day of the month, following the reporting period.

Digital reporting. VAT returns must be filed through the electronic filing system of the Slovenian tax authorities ("eDavki").

J. Penalties

Penalties for late registration. 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 for late payment and filings. For late filing or non-filing of a VAT return, a penalty ranging from EUR3,000 to EUR125,000 may be imposed, depending on the size and type of the organization.

For late payment or nonpayment of VAT, a penalty ranging from EUR3,000 to EUR125,000 may be imposed, depending on the size and type of the organization.

Default interest of 3% per year is imposed for the late payment of VAT due, effective from 1 January 2019.

For Intrastat, a penalty of up to EUR1,250 may be imposed for late submission, failure to submit, or for inaccurate declarations. In addition, a penalty of up to EUR125 may be imposed on a person responsible for the return.

For EU Sales Lists, penalties ranging from EUR3,000 to EUR125,000 may be imposed, depending on the size and type of the organization for late submissions, failures to submit, or inaccurate filings.

Penalties for errors. There is no definition of an error in the Slovenian VAT act. The offenses covered by the Act are listed in Articles 140 and 141 of the Slovenian VAT Act. The penalties imposed for errors are set in the range outlined above for late filing.

Penalties for fraud. An offense committed by a responsible person of a taxable entity may result in a fine ranging from EUR1,000 to EUR10,000.

The criminal offense of tax evasion is punishable by a term of imprisonment ranging from one to eight years.

South Africa

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A. At a glance

Name of the tax	Value-added tax (VAT)
Local name	Value-added tax (VAT)
Date introduced	30 September 1991
Trading bloc membership	South African Development Community (SADC) Southern African Customs Union (SACU) African Continental Free Trade Area (AfCFTA)
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, bimonthly, biannually or annually
Thresholds	
Registration	Annual taxable supplies of more than ZAR1 million Foreign suppliers of electronic services to South African residents exceeding 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 Eswatini (previously known as Swaziland) are not subject to customs duty, but they are subject to VAT.

C. Who is liable

A vendor is required to account for output tax on all goods and services supplied in South Africa, 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.

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

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

Voluntary registration and small businesses. 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.

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.

Domestic reverse charge. There are no domestic reverse charges in South Africa.

Digital economy. 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. 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. From 1 April 2014 to 31 March 2019 it provided that the following services were electronic services if 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.

From 1 April 2019, "electronic services" is defined as 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

Online marketplaces and platforms. Where electronic services are supplied after 1 April 2019 by an intermediary (such as an online marketplace or platform) 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 must do so instead.

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 vendor.
- The electronic services are supplied or to be supplied by the principal to a person 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 above is that 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 principal is not 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 to register
  - — 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) nonresident

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.

D. 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: 15%
- 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 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
- Sanitary towels (pads)
- 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 supply of goods that have been imported and entered for storage in a licensed Customs and Excise storage warehouse but have not been entered for home consumption

The term "exempt supplies" refers to supplies of goods and services that are not liable to VAT and that do not qualify for input tax deduction.

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. Where a nonresident non-vendor supplies goods in South Africa that have not been entered for home consumption, the supply is exempt from VAT. However, the nonresident may apply to the Commissioner to, having regard to the circumstances of the case, direct that the exemption from VAT shall not apply to the person.

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.

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

Deposits and prepayments. The supply is deemed to take place at the earlier of when the goods are delivered, or any payment of consideration is made.

Continuous supplies of services. 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.

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.

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.

Leased assets. The time of supply for leased assets is to the extent that payment becomes due or is received, whichever is the earlier.

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.

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.

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" excludes gold,, and goods containing gold (i.e., 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. In addition, a vendor must hold a completed VAT264 Declaration or supply of secondhand repossessed or surrendered goods form 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

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.

Capital goods. If a recipient intends to use a capital good (e.g., fixed property) acquired for making taxable supplies, the recipient may deduct the input tax incurred on acquisition, but only to the extent of payment made. If the capital good is intended to be used partially for making taxable supplies and partially for nontaxable supplies, only the portion relating to the intended taxable use may be deducted.

Capital goods are defined as land (together with improvements affixed thereto), any sectional title unit, any share in a share block company that confers a right to or an interest in the use of immovable property, any time-sharing interest, and any real right in any such land, unit, share or time-sharing interest.

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.

Pre-registration 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.

Write-off of bad debts. Where a vendor writes off bad debt, it may deduct a portion of the output tax levied on the supply. The portion of output tax levied that may be deducted is calculated as the ratio of consideration written off to total consideration. The requirements that should be complied with to deduct VAT on bad debt written off, are (i) the vendor should have made a taxable supply for consideration in money, (ii) the vendor should have submitted a VAT return wherein the output tax levied on the supply was accounted for, and (iii) the vendor should write off so much of the consideration as has become irrecoverable.

A vendor may not make an input tax deduction in respect of a debt which has:

- Become irrecoverable under an instalment credit agreement if the goods supplied in terms of that agreement have been repossessed by or surrendered to the vendor
- Become irrecoverable if the vendor accounts for tax on the payment basis

- Become irrecoverable in respect of a taxable supply of goods or services to another vendor if the vendor and the recipient vendor are wholly owned members of the same "group of companies" for income tax purposes, for as long both the vendors are wholly-owned members of the same "group of companies"
- Been transferred at face value to another person on a non-recourse basis

Noneconomic activities. Input tax incurred in relation to noneconomic activities is not recoverable in South Africa.

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. 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.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.

Credit notes. 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 have been returned to the supplier, including goods or services returned to a vendor who acquired a business as a going concern and the goods or services returned were supplied by the previous owner of the concern.
- 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.

Electronic invoicing. Electronic invoicing is allowed in South Africa, but it is not mandatory. It should contain the same particulars as nonelectronic invoices, but the format of electronic invoices is not prescribed. The electronic transmission and retention of documents is regulated

by the Electronic Communications and Transaction Act, which requires that the following requirements are complied with for documents to be presented or retained in its original format:

- The integrity of the information should be assessed from the time when it was first generated in its final form as a data message by considering whether the information has remained complete and unaltered.
- The information should be capable of being displayed or produced to the person to whom it is to be presented.

Vendors wishing to issue electronic tax invoices must ensure that they meet all these requirements. Vendors do not need prior approval from the Commissioner to implement electronic invoicing.

Simplified VAT invoices. If the total amount in money for the supply is less than ZAR5,000, the supplier may issue an abridged tax invoice, which does not require the name, address and VAT registration number of the recipient to be in the invoice. Where the total consideration for a supply (i.e., VAT inclusive consideration) does not exceed ZAR50, the supplier is not required to issue a tax invoice.

Self-billing. A vendor may issue recipient-created tax invoices subject to the following:
(i) The Commissioner's approval
(ii) The supplier and recipient agreeing that the supplier shall not issue a tax invoice
(iii) The recipient providing the document to the supplier and retaining a copy

The Commissioner has granted pre-approval for issuing recipient-created tax invoices where the recipient carries out the following:
(i) Determines the consideration for the supply
(ii) Is in control of determining the quantity or quality of the supply, or is responsible for measuring or testing the goods sold by the supplier

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/SelectedHistorical ExchangeAndInterestRates.aspx)
- Bloomberg (www.bloomberg.com/markets/currencies/cross-rates)
- The European Central Bank (www.ecb.europa.eu/stats/exchange/eurofxref/html/index.en.html)

Supplies to nontaxable persons. There are no special invoicing rules for supplies to nontaxable persons in South Africa. As such, full VAT invoices are required.

Records.

Record retention period. Records, including tax invoices, should be retained for a period of five years from the date that the relevant VAT return in which the input tax is deducted, is submitted. Where tax invoices are relevant to an audit or investigation, or if the vendor has objected or filed

an appeal against an assessment, tax invoices should be retained until the audit or investigation is concluded or the assessment becomes final.

Electronic archiving. Tax invoices should be retained in their original form or in a form, including electronic form. Where documents are retained in electronic form, the following requirements must be complied with:

- The integrity of the electronic record should satisfy the standard contained in the Electronic Communications and Transactions Act. This effectively means that the vendor should be in a position to prove that the electronic record remained complete and unaltered from the time that it was created in electronic form.
- The vendor should within a reasonable period when required by SARS, be able to provide an electronic copy of the e-invoice to SARS in a format that SARS can access, read and analyze, or be able to send the e-invoice to SARS in an electronic format that is readily accessible by SARS, or provide SARS was a paper copy of the e-invoice.
- SARS should be able to access the electronic records for purposes of performing its functions.
- The e-invoices should be kept and maintained at the place physically located in South Africa. If the e-invoices will be kept at a place outside of South Africa, the vendor will have to obtain preapproval from SARS.
- The vendor must ensure that measures are in place for adequate storage of the e-invoices for the duration of the period that it is required to retain the e-invoices. This includes the appropriate storage of the media on which the electronic records are recorded, the storage of all electronic signatures, login codes, keys, passwords or certificates required to access the e-invoices, and procedures to obtain full access to electronic records of that are encrypted.
- The e-invoices should be available for inspection by SARS at all reasonable times and at premises located in South Africa. The e-invoices should also be available to SARS for audit purposes.
- The vendor should ensure that the electronic system used enables it to demonstrate to SARS during an inspection that these rules are complied with.
- Any electronic signatures, login codes, keys, passwords or certificates that are required to access the e-invoices must be made available to SARS to enable it to carry out an inspection.

I. Returns and payment

Periodic 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 (biannually (i.e., six-monthly) 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 electronically through the SARS e-filing system, by the end of the month following the tax period. 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.

Periodic payments. VAT must be paid by the 25th day after the end of the tax period or, if paid electronically through the SARS e-filing system, by the end of the month following the tax period. 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.

Electronic filing. Vendors may file returns electronically, via "eFiling," which allows you to make submissions and electronic payments to SARS electronically. Registration for eFiling and the

submission of VAT returns via eFiling is compulsory for VAT registered nonresident suppliers of electronic services. Other vendors may still submit paper-based VAT returns at a SARS office.

Payments on account. Payments on account are not required in South Africa.

Special schemes. No special schemes are available in South Africa.

Annual returns. Annual returns are not required in South Africa.

Supplementary filings. No supplementary filings are required in South Africa.

Digital reporting. VAT returns may be filed electronically. No other digital reporting requirements apply in South Africa.

J. Penalties

Penalties for late registration. A taxable person is required 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.

Penalties for late payment and filings. 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 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).

Penalties for errors. 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%.

Penalties for fraud. In the case of an understatement where the taxpayer's behavior amounts to gross negligence or intentional tax evasion, the taxpayer has to pay, in addition to the VAT payable, an understatement penalty of between 100% and 200%.

South Sudan

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A. At a glance

Name of the tax	Sales tax
Local name	Sales tax
Date introduced	27 November 2012
Trading bloc membership	East Africa Community (EAC)
Administered by	National Revenue Authority
Sales tax rates	
Standard	18%
Sales tax number format	Tax identification number (TIN) 123-345-678
Sales tax return periods	Monthly
Thresholds	
Registration	More than SSP12,000 for services and SSP100,000 for goods
Deregistration	Less than SSP12,000 for services and SSP100,000 for goods
Recovery of sales tax by non-established businesses	No

B. Scope of the tax

Sales tax applies to the following transactions:

- Production of goods in South Sudan
- Importation of goods into South Sudan
- Specified services (include hotel, restaurant and bar services)

Please note that sales tax does not apply after production and the goods are exported from South Sudan. Exports are outside the scope of sales tax (i.e., not subject to the standard rate nor exempt).

C. Who is liable

Tax registration is universal for all taxes. Each legal person is required, if liable, to register for sales tax. This is where any persons who manufacture goods or supply prescribed services (hotel and bar services) are subject to sales tax.

Voluntary registration and small businesses. The sales tax law in South Sudan provides for mandatory sales tax registration for businesses supplying specified services worth more than South Sudanese pound (SSP) 12,000 per year. Whereas for local producers the registration threshold is set at supplies worth more than SSP100,000. A business may register for tax including sales tax if its taxable turnover is less than SSP12,000 for specified services and SSP100,000 for local producers.

Group registration. Group registration is not allowed in South Sudan. However, tax registration for a joint venture/partnership is allowed.

Non-established businesses. All businesses are treated the same for tax purposes, and this includes non-established businesses. As such, there are no special rules for non-established businesses. However, in case of restaurant and bar services, non-established businesses that have an annual turnover of less than SSP12,000 or those that do not have a sitting area for customers are exempted from sales tax. Other non-established domestic producers making taxable supplies with a turnover of less than SSP100,000 are also exempted.

Tax representatives. The law allows taxpayers to appoint a tax advisor to represent them on tax matters. A tax representative, a position that carries more responsibility compared to a tax advisor, is not provided in law.

Reverse charge. Reverse charge is not applicable on services purchased abroad. For goods purchased abroad, businesses account for sales tax at the point of clearing the goods through customs. Subsequently, they are not required to file any return if their sales tax is through importation only.

Domestic reverse charge. There are no domestic reverse charges in South Sudan.

Digital economy. No special rules exist for the digital economy in South Sudan.

Online marketplaces and platforms. No special rules exist for online marketplaces and platforms in South Sudan.

Registration procedures. Tax registration is performed by making a written application to the National Revenue Authority (NRA). The application includes a cover letter, a completed prescribed form. Certificate of registration, Chamber of Commerce certificate, operating license and lease agreement. NRA may request for a site visit before registering a person for tax.

Deregistration. Tax deregistration can occur under any of the following circumstances:
- An incorporated entity closes down, ceases to exist, sells or transfers a business
- In the case of a sole proprietorship, if the individual dies
- In the case of a partnership, if it is dissolved, or change of a partner
- The legal status of the registered person changes
- If a person is registered in error
- In any other case as may be provided by law or regulations

D. Rates

The term "taxable supplies" refers to supplies of goods and services that are liable to a rate of sales tax. The standard sales tax rate is 18%. As such, all goods and services liable to sales tax attract tax at the rate of 18%.

Exemption from sales tax is on a case-by-case basis. These exemptions are only granted to diplomatic missions or donor funded projects based on agreements with government of South Sudan.

E. Time of supply

The time of supply rule for produced goods is when goods are released outside the production premises.

The time of supply rule for services is when services are provided.

Deposits and prepayments. There are no specific time of supply rules in South Sudan for deposits and prepayments. As such, the normal time of supply rules apply.

Continuous supplies of services. There are no specific time of supply rules in South Sudan for continuous supplies of services. As such, the normal time of supply rules apply.

Goods sent on approval for sale or return. There are no specific time of supply rules in South Sudan for goods sent on approval for sale or return. As such, the normal time of supply rules apply.

Reverse-charge services. There are no specific time of supply rules in South Sudan for reverse-charge services. As such, the normal time of supply rules apply.

Leased assets. There are no specific time of supply rules in South Sudan for leased assets. As such, the normal time of supply rules apply.

Imported goods. The time of supply rule for imported goods is at the time the importation is completed.

F. Recovery of sales tax by taxable persons

Nondeductible input tax. Sales tax is not operated on an input-output model in South Sudan, and therefore deduction of input tax is not allowed.

Partial exemption. Deduction of input tax is not allowed in South Sudan.

Capital goods. Input tax incurred on capital goods in South Sudan, is not recoverable.

Refunds. Refunds of sales tax in South Sudan is not allowed.

Pre-registration costs. Input tax incurred on pre-registration costs in South Sudan, is not recoverable.

Write-off of bad debts. Input tax incurred in relation to bad debts in South Sudan, is not recoverable.

Noneconomic activities. Input tax incurred in relation to noneconomic activities is not recoverable in South Sudan.

G. Recovery of sales tax by non-established businesses

Input tax incurred by non-established businesses in South Sudan is not recoverable.

H. Invoicing

Sales tax invoices. It is mandatory for transactions requiring collection of sales tax to be accompanied by an invoice detailing the name of the business, tax payer identification number, description of sale, sale value and sales tax applicable. This, however, does not include transactions at the time of import.

Credit notes. South Sudan law does not provide detail for the issuance of credit notes. However, in practice credit notes and similar adjustments and other related transactions should be treated in a similar manner as invoices.

Electronic invoicing. Electronic invoicing is not allowed in South Sudan.

Simplified sales tax invoices. Simplified VAT invoicing is not allowed in South Sudan. As such, full VAT invoices are required.

Self-billing. Self-billing is not allowed in South Sudan.

Proof of exports. On exportation, at the point of exit, the South Sudan customs office will sign off and stamp export declaration forms, which serve as evidence of goods having left South Sudan.

Supplies to nontaxable persons. There are no special invoicing rules for supplies to nontaxable persons in South Sudan. As such, full VAT invoices are required.

Records. There are no special record-keeping rules for sales tax.

Record retention period. Records must be kept for at least six years. Each taxpayer shall keep accounts of all transactions and these accounts shall be made available in South Sudan for inspection by a revenue officer.

Electronic archiving. Electronic archiving is allowed.

I. Returns and payment

Periodic returns. Returns must be filed on a monthly basis along with the payment of the tax due. Upon payment of the tax, a tax receipt is issued by the receiving bank. This tax receipt, together with the completed tax return and any other supporting documents, should then be submitted to the nearest National Revenue Authority office.

Sales tax returns must be submitted monthly by 15th of every month.

Periodic payments. Sales tax due must be paid by the same date as the sales tax return submission deadline of 15th of every month. Monthly payments are made directly through a designated commercial bank using a prescribed form.

Electronic filing. Electronic filing is not allowed in South Sudan. Taxpayers must present a hard copy return to the nearest tax office in South Sudan.

Payments on account. Payments on account are not required in South Sudan.

Special schemes. No special schemes are available in South Sudan.

Annual returns. Annual returns are not required in South Sudan.

Supplementary filings. No supplementary filings are required in South Sudan.

Digital reporting. No digital reporting requirements apply in South Sudan.

J. Penalties

Penalties for late registration. Late registration for sales tax attracts a penalty of SSP500 for each month or part month during which such failure to register continues. Additionally, criminal charges may be brought against person(s) who fail to register for sales tax.

Penalties for late payment and filings. Late filing of sales tax returns attracts a penalty of 5% per month for each month the sales tax return remains unfiled, up to a maximum of 25%. Additionally, late payment of sales tax attracts a penalty of 5% per month for every month the sales tax remains unpaid. This penalty is not capped.

A monthly interest rate of unpaid tax is at the rate of 120% of average interbank lending rates. At the time of preparing this chapter, the tax authority is using a flat interest rate of 3.6% per month.

Penalties for errors. Where there is an understatement of sales tax, the following penalties may apply:

- Less than 25% of the tax due, the taxpayer shall be liable to a 10% penalty of the understatement
- Exceeds 25% of the tax due, the taxpayer shall be liable to a 50% penalty of the understatement
- Exceeds twice the times of the tax due, the taxpayer shall be liable to a penalty of between 100%-200% of the understatement
- If the error is voluntarily disclosed by the taxpayer, the taxpayer shall be liable to a penalty of 5% of the understatement

Penalties for fraud. Penalty for fraud is not specifically provided in the sales tax law in South Sudan. However, any offense specifically not provided in law when adjudicated for can attract a maximum penalty of one year in prison.

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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	
Established	None
Non-established	None
Distance selling	EUR35,000
Intra-Community acquisitions	None
Electronically supplied services (MOSS)	EUR10,000
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.

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 subsequent 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 tax should be charged; exports of goods, or intra-EU supplies of goods.

Voluntary registration and small businesses. 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).

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.

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.

Reverse charge. 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.

Domestic reverse charge. Apart from the cases described above, the reverse charge also applies to the following domestic transactions in Spain:
- Supplies of certain kinds of gold and gold-processed products, silver, platinum and palladium
- Supplies of certain wastes from iron, paper or glass industries
- Supplies of services related to rights on greenhouse gases
- Supplies of immovable property on the frame of insolvency proceedings, warranty executions or exempt supplies of immovable property when the exemption is waived
- Work executions
- Supplies mobile phones, videogame consoles, tablets and laptops

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.

Online marketplaces and platforms. No special rules exist for online marketplaces and platforms in Spain.

Vouchers. The regulation on the VAT treatment of vouchers has been implemented through the Resolution dated on 28th December 2018, from the Spanish General Tax Directorate, which is based on the Council Directive (EU) 2016/1065 of 27 June 2016 amending Directive 2006/112/EC as regards the treatment of vouchers. According to it, there are two kind of vouchers:

- Single-purpose vouchers (SPV) are those in which 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 issuing the voucher. The taxation of a supply of a SPV is the same as the supply of goods or services to which the voucher is referred. SPV is subject to VAT at the time of its supply.
- Multi-purpose vouchers (MPV): is a voucher which, at the time of its issuance, the taxation of the underlying supply cannot be known. In particular, MPV are those that can be redeemed by goods or services located inside or outside the VAT territory or goods or services taxed at different VAT rates. The supply of the MPV is not subject to VAT. It will be the supply of goods or services for which the MPV is redeemed that will be subject to VAT.

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.

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.

D. 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: 21%
- Reduced rates: 4%, 10%

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 4%
- Basic foodstuffs
- Books, journals and magazines
- Pharmaceutical products for humans
- Certain goods and services for handicapped persons

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
- Certain medical equipment
- Residential dwellings
- Passenger transport
- Hotel and restaurant services
- Garbage collection
- Trade fairs and exhibitions
- Cinema tickets
- Cultural live shows/entertainment

The term "exempt supplies" refers to supplies of goods and services that are not liable to VAT and that do not qualify for input tax deduction.

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. Taxpayers may opt to pay tax on supplies of real estate (land or buildings) if:
- The recipient has the right, total or partial, to deduct input tax.
- The recipient has no right to deduct input tax, but the goods acquired would be destined, totally or partially, to carry out operations giving the right to deduct input tax.

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.

Deposits and prepayments. The tax point for prepayments or advance payments is the date when the advance payment is received.

Continuous supplies of services. 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.

Reverse-charge services. No specific tax point rules apply. As such, the general time of supply rules apply (as outlined above).

Leased assets. The tax point is when each payment is due.

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.

Intra-Community acquisitions. 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.

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 from the supplier or the date when the invoice is issued.

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 tax charged on supplies made. Input tax may be deducted in the accounting period in which the output tax 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 tax 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 tax 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 tax in full. The amount of input tax 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 tax that corresponds 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 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 tax is deducted in the VAT year in which the goods are acquired and first used. The amount of input tax recovered depends on the taxpayer's pro rata recovery percentage 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 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 tax, 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 tax recoverable exceeds the amount of output tax 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 tax in the following four years.

Two different procedures are available with respect to applications for refund of the excess input tax. 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. However, as of the month following the request the company will be obliged to submit the information related to its invoices through the "Immediate Submission of Information" (ISI) system.

Pre-registration costs. Input tax incurred on pre-registration costs in Spain, is not recoverable.

Write-off of bad debts. 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.

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.

EU businesses. For businesses established in the EU, refund is made under the terms of the EU 2008/9/EC Directive. The condition of reciprocity is not required in connection with input tax borne on accommodation, travel and restaurant services related to attendance at fairs or exhibitions in Spain.

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.

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.

Non-EU businesses. 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 tax borne on accommodation, travel and restaurant services related to attendance at fairs or exhibitions in Spain.

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*).
(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.

H. Invoicing

VAT invoices. 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 tax deduction or a refund under the EU 2008/9/EC Directive or the EU 13th Directive refund schemes (see the chapter on the EU).

Credit notes. The Spanish Invoicing Regulations do not foresee the so-called "credit notes" or "debit notes" and consequently the invoices are amended through a rectifying invoice (*factura rectificativa*) which 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. The VAT law permits 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.

Simplified VAT invoices. The Spanish Invoicing Regulation foresees in its article 4 a list of transactions and circumstances under which the transactions can be documented by a simplified invoice (replacing the former “tickets”). Simplified invoices can be generally used if the amount of the invoice does not exceed the threshold of EUR400 (VAT included) and for amending invoices.

In particular, if the amount of the invoice does not exceed the threshold of EUR3,000 (VAT included) and the transactions correspond to the following supplies:
- 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, for supplies of telecommunications, broadcasting and electronic services to non-VAT taxable customers, Spanish suppliers of these services are required to issue invoices to nontaxable customers.

Self-billing. Self-billing by the recipient of the transactions is allowed in Spain when the following conditions are met:
- There must be an agreement through which the supplier authorizes the recipient to issue the invoices.
- The recipient must forward a copy of the invoice to the supplier, who must accept and approve the invoice.
- These invoices are considered to have been issued in the name and on behalf of the supplier.

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. Such proof for intra-Community supplies are included within the EU Quick Fixes, coming into effect from 1 January 2020.

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.

Supplies to nontaxable persons. 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 (see the subsection above on *simplified VAT invoices*).

Records.

Record retention period. For tax purposes, all the invoices and records must be kept for four years (statute of limitation period).

However, for commercial law purposes, all the documents must be retained by the taxpayers for at least six years.

Electronic archiving. The Invoicing Regulation envisages the obligation of keeping the invoices in a format that ensures their readability, authenticity and content.

This obligation can be fulfilled by electronic means if the above requirements are met.

I. Returns and payment

Periodic returns. Periodic VAT returns are submitted in Spain on a monthly or quarterly basis, depending on the taxable person's turnover and activities.

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.

Quarterly VAT returns must be submitted 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 by the 20th day of the month following the month of the assessment.

Periodic payments. Periodic VAT returns must be paid by the due date. Quarterly VAT returns must be 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 paid by the 20th day of the month following the month of the assessment.

Electronic filing. 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.

Payments on account. Payments on account are not required in Spain.

Special schemes.

Travel agencies. There is a special scheme for travel agencies that includes among others the opt-out possibility in connection with business-to-business (B2B) supplies where the normal VAT regime could be applied.

Cash accounting. Under the cash accounting 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 tax arises when payment is made. The scheme is optional and is subject to certain requirements.

Simplified regime. The simplified regime allows taxpayers to determine the payable amount on the basis of certain indexes, modules and other parameters. This regime can only be applied by individuals and some other entities conducting certain activities envisaged by the law.

Farming, agriculture and fishing. Under this regime, taxpayers are not obliged to charge VAT for their sales and do not have the right to deduct the input tax borne in the purchases. Additionally, taxpayers are released from most of the formal obligations.

Secondhand, art and antiques goods. The special system for secondhand goods are a type of VAT system, applied voluntarily to resellers when acting in their own name and supplying the goods referred to above. These supplies will be charged with VAT by applying the corresponding tax rate on a taxable basis, which will be the profit margin obtained in each transaction.

Investment gold. Mandatory regime applicable to the supplies of gold qualifying as investment gold. In general, the regime implies that the supplies of investment gold are VAT exempt, with a limitation to deduct the input tax and the possibility to waive such exemption.

Retailers. The regime is applicable to retailers selling goods to final consumers, in case the retailer does not carry out any transformation over the goods to be sold. Under the retailer regime, the supplier of the retailer will charge the latter an extra cost in the invoices (in general 5.2%). By doing this, the retailer avoids all the formal obligations (i.e., submission of VAT returns), but it will not be entitled to deduct the input tax.

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.

All taxable persons must also complete an annual summary VAT return.

Supplementary 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 2019 is EUR400,000. The current threshold for Intrastat Dispatches in 2019 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.

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.

Digital reporting.

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 is 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.

The deadlines for filing VAT returns for taxpayers who file on a monthly basis is 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 are not obliged to file the annual summary, the VAT books form (form 340) and the annual return of transactions with third parties (form 347).

Bookkeeping system for products subject to excise duties (SILICIE). As of 1 January 2020, compliance with bookkeeping requirements relating to products subject to excise duties and, when applicable, raw materials used in their production, will be carried out via the tax agency's e-office with the electronic delivery of accounting records. SILICIE will be compulsory to the owners of factories, tax warehouses, tax stores, receiving warehouses and vinegar factories. Under the new system, the information related to the accounting records must be transmitted electronically and almost immediately to the Spanish tax authorities. In general terms, the information must be electronically communicated to the Spanish tax authorities within 24 hours of the date of the movement, the transaction or the process that is recorded.

J. Penalties

Penalties for late registration. 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.

Penalties for late payment and filings. 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

Delays or failure in the provision of information for the ISI 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.

The penalty for late or incorrect Intrastat filings depends on the level of infringement. Penalties range from EUR60 to EUR30,050.

Penalties may be imposed for late, missing or inaccurate ESALs.

Penalties for errors. The penalties for errors in the VAT returns depend on whether mistake has caused an economic damage to the tax administration or not.

If no economic damage has been produced, the penalty for late filing amounts to EUR200, while the penalty for incorrect filing amounts to EUR150.

If the error has caused an economic damage to the tax authorities (e.g., the taxpayer indicates a lower amount of output/payable VAT) the penalty amounts to 50% of the unpaid amount.

For the purpose of this penalties, an error means any inaccuracy or incorrect data indicated in the VAT returns or any VAT statement to be filed by taxpayers.

Penalties for fraud. Under the Spanish General Tax Law, the use of fraudulent means makes any infringement to qualify as very severe. In such a case, the applicable penalty related to a particular infringement is considerably increased.

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 (Caribbean Community and Common Market)
Administered by	Inspection of taxes
Standard rate for services provided	8%
Standard rate for delivery of goods	10%
Standard rate for import of goods	10%
Other	25%, zero-rated (0%) and exempt
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.

Exemption from registration. There is no specific exemption from registration in Suriname TOT law.

Voluntary registration and small businesses. Voluntary registration is not available in Suriname.

A small entrepreneur is a resident individual who has a turnover of SRD 6SRD6,000 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.

Non-established businesses. A "non-established business" is able to register for TOT in Suriname.

Tax representatives. A taxpayer may be represented by a third party based on a power of attorney or a license from the Tax Inspector. A tax representative is not a mandatory requirement for a non-established business, it is optional.

Reverse charge. 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.

Domestic reverse charge. There are no domestic reverse charges in Suriname.

Digital economy. There are no specific rules or law relating to the digital economy. However, for a non-established business making supplies of digital services to consumers in Suriname (B2C) it will be required to register for VAT in Suriname, as there is no registration threshold.

Online marketplaces and platforms. No special rules exist for online marketplaces and platforms in Suriname.

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.

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.

D. Rates

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

The TOT rates are:
- Standard rate: 10% (delivery and import of goods) and 8% (services)
- Special rate: 25% (luxury goods)
- Zero-rate: 0%

The standard rate of TOT applies to all supplies of goods or services unless a specific measure provides for a special rate, the zero rate or an exemption.

Examples of goods and services taxable at 0%

- Exports (to qualify for the 0% TOT rate, export documentation issued by customs must be in place)

Examples of goods and services taxable at 25%

- Video cameras
- Motorbikes

- Automobiles and other motor vehicles for passenger transport
- Television larger than 31 inches
- Speedboats, water scooters and yachts
- Weapons and munition
- Fireworks

The term "exempt supplies" refers to supplies of goods and services that are not liable to TOT and that do not qualify for input tax deduction.

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.

Examples of exempt supplies of goods and services

- Goods related to the so-called "primary necessities of life." The government publishes an exhaustive list, some examples are provided below:
  - Cheese
  - Butter
  - Fresh fish
  - Salt
  - Toilet paper
  - Electric energy and cooking gas

Option to tax for exempt supplies. The option to tax exempt supplies is not available in Suriname.

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.

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

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

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.

Leased assets. For leased assets, the tax point arises upon receipt of the payment.

Imported goods. For imported goods the "time of supply" is considered to be the moment of importation.

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.

As such, input tax deduction is only allowed for locally manufactured goods, and not for bought in goods. There is no input tax deduction at all when it comes to services, bought in or locally supplied.

If the TOT paid exceeds TOT due in a period, the excess will be refunded by decree of the Tax Inspector.

Nondeductible input tax. Input tax can only be recovered for locally produced goods. Input tax incurred in relation to any other supplies is not recoverable in Suriname.

Examples of items for which input tax is nondeductible

- Input tax 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 (if related to a taxable business use)

- Input tax 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. 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 exempt supplies, the portion of the deductible general input tax is determined based on the proportion of taxable supplies to total supplies.

Capital goods. There are no specific regulations that apply to the refund of TOT for capital goods in Suriname. As such, the normal input tax recovery rules 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.

Pre-registration costs. Input tax incurred on pre-registration costs in Suriname is not recoverable.

Write-off of bad debts. Output tax accounted for on supplies that do not get paid by the recipient (i.e., a bad debt) cannot be recovered in Suriname.

Noneconomic activities. Input tax incurred in relation to noneconomic activities is not recoverable in Suriname.

G. Recovery of TOT by non-established businesses

Recovery of TOT by non-established businesses is not allowed in Suriname.

H. Invoicing

TOT invoices. 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.

Credit notes. Credit notes are not available in Suriname because of the cash accounting system companies use in Suriname. However, credit invoices are possible in Suriname, but they are not captured by any statutory regulation. Invoices are also less relevant in the Suriname TOT system

as the TOT is calculated on the compensations received; that's why reference is made to "cash accounting system." Therefore, whatever the supplier (eventually) receives is the basis of the TOT.

There is a rule that whatever amount is charged by the supplier as TOT should be reported and paid to the tax authorities. So, a business can end up in a position that a compensation is received and a TOT return and payment with the tax authorities is done and that afterward a return or price reduction occurs. There is no specific regulation dealing with this situation.

Electronic invoices. Electronic invoicing is not allowed in Suriname.

Simplified TOT invoices. Simplified TOT invoices are not allowed in Suriname. As such, full TOT invoices are required.

Self-billing. Self-billing is not allowed in Suriname.

Foreign currency invoices. Upon request of the company, invoices can be issued in USD.

Proof of export. There is no special regulation included in the Suriname TOT legislation with regard to invoices in case of export. However documents of transportation are sufficient for proof of export in Suriname, to evidence the zero-rating.

Supplies to nontaxable persons. There are no special invoicing rules for supplies to nontaxable persons in Suriname. As such, full TOT invoices are required. Invoices should always be issued by the supplier if the delivery of the good or service falls within the scope of the turnover tax. As such, the status of the client is irrelevant, i.e., even if they are retailers. Under Suriname TOT, there is no special category as "nontaxable persons."

Records. Documentation held by taxpayers must be clear and taxpayers must be able to deliver the documents needed within an acceptable time period to the tax authority.

Record retention period. Record retention period is 10 years.

Electronic archiving. No special regulation is included in the Suriname TOT legislation with regard to electronic archiving. In practice, it's possible as long as the company can deliver the documents needed within an acceptable time period.

I. Returns and payment

Periodic 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.

Periodic payments. 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.

Electronic filing. Electronic filing of TOT returns is not possible. Paper submission required only.

Payments on account. Payments on account are not required in Suriname.

Special schemes. Special TOT regulations do not exist. The cash accounting basis is not a special scheme, as it is one of the general basics that apply to all businesses.

Annual returns. Annual returns are not required in Suriname.

Supplementary filings. No supplementary filings are required in Suriname.

Digital reporting. No digital reporting requirements apply in Suriname.

J. Penalties

Penalties for late registration. 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.

Penalties for late payment and filings. 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.

Penalties for errors. The penalties outlined above for late payment and filings, also apply for penalties for errors.

Penalties for fraud. In Suriname, 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. TOT fraud is punishable by a term of imprisonment of three months, or the penalty is set at not more than SRD5,000, or if the amount of the TOT that should be paid is higher, the penalty is set at a maximum of 300% on all TOT that still has to be paid.

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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	Swedish Ministry of Finance (http://www.sweden.gov.se/sb/d/2062)
VAT rates	
Standard	25%
Reduced	6% and 12%
Other	Zero-rated (0%) and exempt
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 SEK40 million) Quarterly (with the possibility to opt for monthly) Annually (if turnover is below SEK1 million)
Thresholds	
Registration	
Established	SEK30,000 (approximately EUR2,778)
Non-established	No thresholds apply for non-established businesses
Distance selling	SEK320,000 (approx. EUR29,630)
Intra-Community acquisitions	SEK90,000 (approx. EUR8,333) (for exempt taxable persons)
Electronically supplied services (MOSS)	SEK 105,000 (approx. 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 Sweden by a taxable person
- The intra-Community acquisition of goods in Sweden for goods coming 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 for consideration in the course of a business in Sweden.

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.”

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 and small businesses. 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.

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 VAT if it engages in business that accrues a VAT 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.

There is no minimum duration that a VAT group must be in place for. Both the forming of, and the cessation of a VAT group may however only happen following a formal decision by the tax authorities.

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.

The reverse charge applies to supplies made by non-established businesses to taxable persons in Sweden, i.e., a business-to-business (B2B) supply. 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

Tax representatives. 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.

Reverse charge. The reverse charge applies to supplies made by non-established businesses to taxable persons in Sweden (i.e., a B2B supply).

Domestic reverse charge. The domestic reverse charge applies to the following:
- Supplies 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
- Trading with emission licenses
- Gold and other specific metals
- 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 Mini One-Stop Shop (MOSS) scheme. 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.

For such non-established businesses providing electronically supplied services to private consumers, the registration threshold is EUR10,000 (approximately SEK 105,000).

Online marketplaces and platforms. No special rules exist for online marketplaces and platforms in Sweden. However, as of 2021, there will be specific rules applicable as Sweden adopts the EU e-commerce package. By then, a taxable person that, via online marketplaces and platforms, facilitate distance sales of goods, imported from a country outside the EU at a value less than EUR150, may, under certain circumstances, be deemed as having acquired and supplied the goods.

Vouchers. Sweden implemented the EU Directive on the VAT treatment of vouchers into the Swedish VAT Act as of 1 January 2019. The Swedish VAT Act has specific rules that define a voucher, a single purpose voucher (SPV), a multi-purpose voucher (MPV) and when a taxable event takes place and at what value. A voucher may be described as an instrument that businesses are obliged to accept as full or part payment for goods or services. Vouchers may be physical or electronic.

An SPV is an instrument where it is already at the time for issuance possible to establish all facts that are needed to decide in what country VAT shall be paid and with what amount, i.e., which taxable country, what kind of taxable supply, at what tax rate and at what amount VAT should be calculated on. All vouchers that are not SPVs are deemed as MPVs.

VAT is due when an SPV is sold if the voucher refers to a taxable transaction within Sweden. A MPV, on the other hand, is not subject to VAT when sold at a time before it is used as means as payment for goods or services. The VAT is instead due at the time when the MPV is redeemed against goods and services.

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.

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. Non-established businesses must often use hard copies, since a Swedish personal identification number is needed in order to obtain the Swedish electronic identification.

In addition, a notification of changes for the taxpayer, such as change of activities or changes of other information that was provided when registering for VAT, should also be submitted either online at www.verksamt.se or through the use of form SKV 4639.

D. 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: 25%
- Reduced rates: 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 an exemption.

The zero rate in Sweden is referred to as "exempt with credit," which means that no VAT is chargeable, but the supplier may recover related input tax.

Examples of goods and services taxable at 0%
(i.e.,. exempt supplies with credit)

- Exports of goods and related services
- Supplies of intangible services made to either another taxable person established in the EU, or to any recipient outside the EU (see the chapter on the EU)

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 VAT and that do not qualify for input tax deduction.

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).

Deposits and prepayments. For deposits and prepayments, the tax point is the date on which the advance payment is received.

Continuous supplies of services. The VAT law in Sweden does not contain any specific time of supply rules for continuous supplies of services. As such, the normal tax point rules apply as outlined above. However, for continuous cross-border supply of services for which the buyer is liable to report VAT in Sweden, the time of supply is deemed to be at the end of each calendar year if the services are provided over a period of more than one year and no payments are made during the period in question.

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. As such the normal tax point rules apply, as outlined above.

Reverse-charge services. 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.

Leased assets. The tax point rules for leased assets, depends if it is a prepayment or not (see above).

Imported goods. The time of supply for imported goods is when the import takes place.

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.

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 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.
- 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.

The use of the above calculation does not need to be approved by the tax authority. However, if any special methods are used instead, it is common that disclosures are made, especially if the calculation deviates from the turnover allocation method, but this is not a requirement. As long as the special method is deemed reasonable and sufficiently accurate it should be accepted.

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 tax, 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 month exceeds the amount of output tax payable, the taxable person has an input tax credit. A refund of the credit is triggered automatically by the submission of the VAT return.

Pre-registration costs. Input tax on pre-registration 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. Businesses are entitled to adjust its output tax 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. The output tax should be reduced in the period in which the bad debt is confirmed, but there are no formal requirements in terms of the correction of VAT returns or additional information to be submitted to the tax authorities.

Noneconomic activities. The input tax 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 a business is not considered performing taxable activities if it supplies 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.

EU 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.

Applicants from EU Member States apply for refunds through their respective domestic tax authority.

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 time limit for the tax authority to deal with refund applications from businesses established within the EU is four months. If a claim for a refund is granted, but repaid after the specified time limit, interest is paid (without the need to actively claim it).. This rule applies if the applicant has complied with any requests for extra information from the tax authority within the time limit.

For the general VAT refund rules under EU Directive 2008/9 and the EU 13th Directive, see the chapter on the EU.

Non-EU businesses. 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).

The minimum and maximum claim periods (and associated conditions) for non-EU businesses are the same as the EU businesses claims (see above).

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.

H. Invoicing

VAT invoices. 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. 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.

Simplified VAT invoices. Simplified invoices are permitted if one of the following criteria is met:
• The invoice amount does not exceed SEK4,000 (approx. EUR373)
• Commercial trade or administrative practices or technical limitations makes it difficult to follow the normal invoicing rules
• The invoice is a credit note that is to be treated as an invoice in accordance to the Swedish VAT Act

Self-billing. For a buyer to be allowed to use self-billing, the following conditions have to be met:
• There needs to be an agreement in place between the seller and the buyer before the use of self-billing is started.
• There needs to be a system in place to facilitate the seller's possibility to confirm each and every self-billing invoice.
• The invoice itself needs to contain the words "self-billing" or similar, clearly indicating that it is in fact an invoice issued by the buyer on behalf of the seller.

Apart from the above, regular invoicing rules apply to self-billing invoices.

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. From 1 January 2020, Article 45a of Regulation 2018/1912 should be

directly applicable in Sweden. As such, meeting the criteria set out in the Regulation should be deemed sufficient in order to prove the removal of goods from Sweden.

Foreign currency invoices. Swedish taxable persons may maintain their accounts in either EUR or SEK depending on the place of supply rules. 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.

Supplies to nontaxable persons. Suppliers are not required to issue invoices to private consumers according to Swedish regulation regarding supply of electronic services.

Records.

Record retention period. Invoices and other records for indirect tax should as a minimum be retained for seven years after the end of the calendar year in which the record was received or presented. For certain records for which the capital goods adjustment scheme applies, records need to be retained for seven years after the end of the adjustment period. For immovable property the adjustment period is 10 years, and for other capital goods the adjustment period is 5 years, meaning that the retention period for those records is 17 and 12 years, respectively.

Electronic archiving. Records should be retained in the format in which the record was initially received or presented, meaning that, for example, electronic invoices should be retained electronically, whereas physical invoices should be retained physically. Under certain restrictions, records may be transferred from one format to another, however, records still need to be retained in the original format for at least three years following the end of the calendar year in which the record was received or presented.

I. Returns and payment

Periodic 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.

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.

Periodic payments. VAT returns must be filed with full payment of VAT. Payment must be made by the same deadline as submission of the return (see above). Returns must be completed and return liabilities must be paid in SEK.

Electronic filing. Periodic VAT returns can be submitted electronically by using electronic identification. It is allowed but not mandatory. The electronic identification is personal and only available to someone with a Swedish personal identification number. The right to file electronically can be granted by the authorized signatories of the taxable person, either by using an e-service which requires the authorized signatory to already have obtained electronic identification themselves or by filing in a paper form (SKV 4809). The filing authorization granted applies to multiple filings such as VAT returns, CIT returns, PAYE, excise duty returns and grants reading access to the Swedish tax account of the taxable person.

Payments on account. Payments on account are not required in Sweden.

Special schemes.

Cash accounting. Sweden operates a cash accounting scheme with a threshold of EUR350,000 (approximately SEK3.7 million).

Annual returns. Annual returns are not required in Sweden.

Supplementary 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.

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.

Digital reporting. Periodic VAT returns can be submitted electronically by using electronic identification. There are no additional digital reporting requirements that apply in Sweden.

J. Penalties

Penalties for late registration. No specific penalty is assessed for late registration. However, interest is charged on any VAT paid late as a result of late registration.

Penalties for late payment and filings. 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.

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.

A penalty of SEK1,000 is imposed for late, missing or inaccurate ESLs.

Penalties for errors. A tax penalty may be imposed by the Swedish tax agency for incorrect VAT reporting and VAT reporting accrual errors. The penalty is calculated as 20% of the incorrect reported VAT (i.e., as 20% of incorrectly reported input tax or 20% of such output tax that incorrectly has not been reported). In cases of VAT reporting accrual errors, the penalty is calculated as 2%-5 % of the VAT reported in an incorrect VAT reporting period. The tax penalty may be subject to partly or full redemption depending of the matters at hand.

Penalties for fraud. There are no specific tax penalties, besides the tax penalties described above regarding errors, for fraud. Fraud, as well as incorrect VAT reporting, knowingly or by negligence, may, however, be subject to criminal penalties under the Swedish Tax Evasion Act.

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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)
VAT rates	
Standard	7.7%
Reduced and special	2.5% and 3.7%
Other	Zero-rated (0%) 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 tax occurs regularly)
Thresholds	
Registration	CHF100,000 (EUR90,000) (or CHF150,000 for nonprofit/ EUR140,000)
Established	CHF100,000 (EUR90,000)
Non-established	CHF1 (EUR1) if worldwide turnover exceeds CHF100,000
Distance selling	CHF100,000 (EUR90,000) of low-value goods
Electronically supplied services	CHF1 (EUR1) for B2C if worldwide turnover exceeds CHF100,000
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 and DE-Büsingen is considered to be the domestic territory for Swiss VAT and Customs purposes. Likewise, Switzerland is considered to be part of the territory of Liechtenstein for the purposes of VAT in Liechtenstein (Swiss Customs Territory).

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.

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 and small businesses. 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.

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 as Liechtenstein and Switzerland have independent tax authorities.

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 threshold. 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 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 default rule services from a supplier domiciled abroad who is not registered for Swiss VAT, and the place of supply is in the Swiss Customs Territory (place of supply in the customer country). Exceptions apply for telecommunication or electronic services to nontaxable recipients and also services with non-default place of supply rules.
- 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.

Domestic reverse charge. The domestic 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. In addition, the domestic reverse charge also applies to work on immovable goods located in Switzerland, provided by a business established abroad and not registered for Swiss VAT purposes, and the supply has not been subject to import VAT. 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.

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. Once VAT registered, foreign businesses have to declare all default services rendered to a recipient in the Swiss Customs Territory regardless whether they are registered for VAT or not.

Online marketplaces and platforms. For distance selling supplies, since 1 January 2019, mail-order companies that supply more than CHF100,000 per year of low-value goods to their customers in Switzerland are now obliged to register for Swiss VAT. Concerned distance sellers execute domestic sales with such low-value goods and are by default ruled a VAT-importer. Consequently, they have to charge Swiss VAT to their customers, not only on their sales of low-value goods, but also on all goods for which the amount of import tax exceeds CHF5.

Low-value goods are defined as goods whose import tax amount do not exceed CHF5. (i.e., value of imported goods (including transportation costs), taxable at standard VAT rate of 7.7%, is inferior to CHF65. Low-value goods are exempt from import tax when crossing the border.

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-bei-der-mwst.html. On average, the application procedure takes about two weeks.

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.

D. 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: 3.7%

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 0%
(i.e., tax-exempt with credit)**

- 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)

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 3.7%

- 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 exempt supplies of goods and services (i.e., tax-exempt without credit)

- Health care (in some cases; unless opted for taxation)
- Financial services
- Insurance
- Education (unless opted for taxation)
- Real estate (unless opted for taxation)

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 commercial property. However, restrictions may apply and the right to opt should be reviewed on a case-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. Exceptions apply in case of VAT rate changes and various other special events.

Deposits and prepayments. The tax point for a deposit and prepayment is when the supplier receives the consideration or when the invoice is issued, whichever is earlier.

Continuous supplies of services. 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.

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).

Reverse-charge services. 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.

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).

Imported goods. The time of supply for imported goods is the official date of importation.

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 the Swiss Customs Territory 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 the Swiss Customs Territory, 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 tax 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 tax 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.

Capital goods. The input tax recovery is allowed on capital goods in Switzerland. However, the input tax recovery is subject to the capital goods being monitored and corrected in accordance with the actual use of the said capital goods. The useful life of the capital goods is defined as 5 or 20 years and corrections have to be considered pursuant to this duration. Lump-sum models are available.

Refunds. If the amount of input tax recoverable in a period exceeds the amount of output tax 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.

Pre-registration costs. Under certain circumstances, input tax incurred on pre-registration costs is recoverable in Switzerland.

Write-off of bad debts. Bad debt relief applies in Switzerland only once the debt has been written off the accounts and accounted as a loss from a Swiss accounting perspective. Only then, can the output tax due be corrected.

Noneconomic activities. Input tax incurred in relation to noneconomic activities is not recoverable in Switzerland.

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
Austria
Bahrain
Belgium
Bermuda
Bulgaria
Canada
Croatia
Cyprus
Czech Republic
Denmark
Estonia
Finland
France
Germany
Greece
Hong Kong
Hungary
Ireland
Israel
Italy
Japan
Latvia
Lithuania
Luxembourg
Macedonia
Malta
Monaco
Netherlands
Norway
Poland
Portugal
Romania
Saudi Arabia
Serbia
Slovak Republic
Slovenia
Spain
Sweden
Taiwan
Turkey
United Arab Emirates
United Kingdom
United States

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

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. 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.

Credit notes. 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.

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.

Simplified VAT invoices. Invoices issued by automatic cash register systems (receipts), do not need to include information on the recipient of the supply, provided that the consideration disclosed on the receipt does not exceed the amount of CHF400.

Self-billing. Self-billing is allowed in Switzerland. No formal additional requirements other than the general invoicing requirements apply to self-billing. However, parties are required to agree on processes, recipient documentation and proxy for self-billing entity.

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.

Supplies to nontaxable persons. 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.

Records. Record keeping requirements are provided by the Swiss Commercial Law. There is no specific requirement from an indirect tax perspective.

Record retention period. Considering the 10 years of absolute statute of limitations in Switzerland, the recommended retention period is respectively 16 years (and 26 years for documents related to immovable property).

Electronic archiving. Electronic archiving is possible in Switzerland. However, electronically stored documents must meet specific criteria of authenticity, origin and integrity (among other).

I. Returns and payment

Periodic 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 tax may apply to submit monthly returns.

VAT liabilities must be paid in Swiss francs.

Periodic payments. The VAT return is due, together with full payment, 60 days after the end of the VAT settlement period.

Electronic filing. 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.

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.

Payments on account. Payments on account are not required in Switzerland.

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. A VAT margin scheme is applicable 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.

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.

Supplementary filings. The preparation of an annual turnover and input tax reconciliation is a mandatory requirement in Switzerland. This document does not, however, have to be filed as such to the federal tax administration. In case discrepancies are revealed further to the filing of a VAT return, a finalization form (or corrective returns) must be filed accordingly.

Digital reporting. Taxable persons can choose to file VAT returns electronically. There are no other digital reporting requirements that apply in Switzerland.

J. Penalties

Penalties for late registration. 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.

Penalties for late payment and filings. Interest at a rate of 4% per annum may be assessed for the late payment of VAT.

Penalties for errors. Any person who willfully or negligently reduces the tax claim to the detriment of the state by wrongly stating output or input tax shall be liable to a fine not exceeding CHF400,000.

In addition, if the tax evaded is transferred in a form that entitles the taxable person to make an input tax deduction, the fine shall not exceed CHF800,000.

However, any person who reduces the tax due to the state by truthfully declaring relevant tax factors, but by willfully qualifying them incorrectly for tax purposes shall be liable to a fine of up to CHF200,000. If the offense is committed through negligence, the fine is up to CHF20,000.

Penalties for fraud. 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	Value-added tax (VAT) and gross business receipts tax (GBRT)
Local name	Value-added and non-value-added business tax
Date introduced	13 June 1931 (revised June 2017)
Trading bloc membership	Asia-Pacific Economic Cooperation (APEC)
Administered by	Taiwan Ministry of Finance (MOF)
Rates	
VAT	5%, zero-rated (0%) and exempt
GBRT	0.1% to 25%
VAT number format	10001111 (eight digits)
Return periods	Bimonthly
Thresholds	
Registration	None
Recovery of VAT by non-established businesses	Yes (only 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.

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

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 (i.e., a fully taxable business and is entitled to fully recover input tax), 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, that meet the threshold of annual sales of digital services to individual buyers in Taiwan (business-to-consumer (B2C) supply of digital services)

Exemption from registration. Business entities engaged solely in the business of the sale of exempt goods or services (as outlined 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 and small businesses. The VAT law in Taiwan does not contain any provision for voluntary VAT registration.

Group registration. Group VAT registration is not allowed in Taiwan. 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.

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.

Tax representatives. Tax representatives are not required in Taiwan. However, filing agents or tax agents are allowed. A filing agent can file the tax returns on behalf of the appointor. Whereas a tax agent can file the tax return and pay the tax on behalf of the appointor; in practice, only filing agents are allowed.

Reverse charge. A nonresident entity is not required to register for VAT in Taiwan, except for the foreign entities that import goods into Taiwan. In this regard, for the importation of goods, the VAT will be borne by the importer, generally the domestic purchaser (i.e., via the reverse-charge mechanism).

For the purchase of services supplied by foreign entities that have no fixed place of business in Taiwan, they will be subject to reverse charge mechanism. However, if a business entity purchasing services is solely engaged in the operation of goods or services that are subject to VAT in Taiwan (i.e., a fully taxable business and is entitled to fully recover input tax), the business entity is not subject to business tax on its purchases of services supplied by a foreign entity.

In addition, for foreign entities making e-commerce supplies who have no fixed place of business in Taiwan and sell e-commerce services to Taiwanese individuals, they may need to register for the VAT purpose in Taiwan (please refer to the “Digital economy” section below).

Domestic reverse charge. There are no domestic reverse charges in Taiwan.

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.

Online marketplaces and platforms. If a foreign e-commerce operator renders digital platform services to local individuals, the foreign e-commerce operator may need to register for VAT in Taiwan (please see the "Digital economy" subsection above).

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 TWD480,000 (USD16,000). If the sales revenues are in currencies other than TWD, the amount should be converted to TWD at a buying exchange rate announced by the Bank of Taiwan on the last date of the bimonthly VAT filing.

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.

D. 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: 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. Exempt supplies apply to both VAT and GBRT. Zero-rated supplies apply only to VAT.

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 noncore 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 goods and services taxable at 0%

- 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

The term "exempt supplies" refers to supplies of goods and services that are not liable to VAT and that do not qualify for input tax deduction.

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 business persons 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.

Deposits and prepayments. The VAT law in Taiwan does not contain any provision for deposits and prepayment. As such normal time of supply rules apply.

Continuous supplies of services. The VAT law in Taiwan does not contain any provision specifically related to continuous supplies. As such normal time of supply rules apply.

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.

Reverse-charge services. Except for digital services for B2C transactions, the reverse-charge mechanism applies to services rendered by a foreign entity that does not have a 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 (i.e., a fully taxable business and is entitled to fully recover input tax), the business entity is not subject to business tax on its purchases of services supplied by a foreign entity.

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.

Leased assets. The VAT law in Taiwan does not contain any provision specifically related to leased assets. As such normal time of supply rules apply.

Imported goods. The holder of imported goods is liable to pay the 5% VAT at customs, i.e., at the time of importation.

F. Recovery of VAT by taxable persons

Input tax is deductible only with respect to VAT, and not recoverable for GBRT.

Input tax is deductible in the current and next filing periods. If a taxpayer reports the input tax after the next filing period, the taxpayer must provide the reasons in an attachment to the tax return.

Nondeductible input tax. Input tax is not deductible if supporting documents with respect to purchased goods or services are not obtained or maintained.

Examples of items for which input tax is nondeductible

- 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 abovementioned nondeductible input tax.

Partial exemption. If a business entity incurring 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 business entity must classify its purchases and importation of goods and services into for use specifically in its taxable business and for use in its tax-exempt business or for common overhead use. Depending on whether or not the business entity could clearly identify the purchase and importation of goods and services for use, the business entity may choose to employ the proportional deduction method or the direct deduction method to calculate its VAT recovery percentage. The nondeductible ratio is subject to be computed according to the prescribed formula as below.

The nondeductible ratio is the following:
The net sales amount of exempt sales + the net sales amount subject to business as financial industries (e.g., banking enterprise), small business (e.g., vendor), and special food and beverage services enterprises (e.g., night clubs) /the total net sales amount for each period. The net sales amount shall be the balance of the total sales amount deducting sales returns and discounts.

Capital goods. In general, overpaid tax may be offset against future business tax payable and the excess input tax not credited against the output tax in the current VAT return shall be carried over to the next period. According to the VAT Act, the business tax overpaid on fixed assets obtained could be refunded after verification by the competent tax authority. The competent tax authority shall assess the VAT return and the application for VAT overpaid refund within six months starting the next day of the filing deadline.

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 resulting from zero-rated sales

- The overpaid amount of VAT resulting from the acquisition of fixed assets
- The overpaid amount of VAT resulting 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

Pre-registration costs. Input tax incurred on pre-registration costs in Taiwan, is recoverable.

Write-off of bad debts. Input tax incurred in relation to bad debts is not recoverable in Taiwan.

Noneconomic activities. Input tax incurred in relation to noneconomic activities is not recoverable in Taiwan.

G. Recovery of VAT by non-established businesses

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 tax 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. 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.

Credit notes. In Taiwan, in the case where the sales amount for the GUIs has been declared to reduce the output tax incurred from the sales return or allowances, a certificate of sales returns/allowances issued by the purchaser is required; such a case, however, shall be limited to instances where the original GUI contains the name and uniform serial number of the purchaser.

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.

Simplified VAT invoices. Simplified VAT invoicing is not allowed in Taiwan. As such, full VAT invoices are required.

Self-billing. Self-billing is allowed in Taiwan. It is only allowed for goods that are produced, imported or purchased by a business, and are used by the business itself or supplied for no consideration. These scenarios are only where the business entity can issue GUIS to themselves in their own name.

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 dollar (TWD), with the exception of foreign e-commerce companies. The foreign currency can be noted as a remark on the GUIs.

Supplies to nontaxable persons. A VAT invoice is generally required for all sales of goods and/or services.

The foreign e-commerce operators ("FECOs") are required to issue eGUIs aforesaid.

The tax authority announced that there will be no penalties (up to TWD1 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.

Records.

Record retention period. All the accounting documents, except for those that must be permanently preserved or those related to unsettled accounting transactions, must be kept for at least five years after the completion of annual closing procedures.

There is no clear definition on "permanently preserved documents" in Taiwan. In practice, the accounting documentation that the business entity must preserve permanently is based on the entity's own business considerations.

All the accounting books, except for those related to unsettled accounting transactions, must be kept for at least 10 years after the completion of annual closing procedures.

Electronic archiving. A business entity is allowed to maintain its accounting documents, accounting books and financial statements of business entities digitally. All abovementioned accounting records can be held electronically or stored via a data storage medium. The record retention period for accounting records via electronic archiving shall be the same as traditional paper archiving as described above.

I. Returns and payment

Periodic returns. VAT 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. VAT returns must be accompanied with all relevant documentation, and excess output tax must be paid to the tax authorities before the returns are filed.

Periodic payments. VAT taxpayers must declare and pay VAT due on a bimonthly basis in Taiwan. Taxpayers can submit payment via deposit accounts, credit cards or in person at financial institutions and convenient stores. Payments must be made in TWD.

Electronic filing. Electronic filing is optional for the taxpayer. It has been widely adopted by most business entities.

Payments on account. Payments on account are not required in Taiwan.

Special schemes. If a business entity is qualified as the definition of "small business," the VAT of the business entity shall be assessed by the tax authority every three months and the VAT return is not required to be submitted to the tax authority.

The term "small business" refers to business entities whose monthly average sales amount is TWD200,000 or less.

Annual returns. Annual returns are not required in Taiwan.

Supplementary filings. No supplementary filings are required in Taiwan. However, if a business entity wants to disclose other information outside of the VAT return, it may attach such information along with its VAT return.

Digital reporting. No digital reporting requirements apply in Taiwan. VAT returns may be filed electronically.

J. Penalties

Penalties for late registration. Businesses registering late for VAT is 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

Penalties for late payment and filings. 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.

Penalties for errors. Under the Taiwan tax regime, there is a grey area between errors and fraud. Generally, whether or not a taxpayer is intentional or unintentional to avoid its tax obligation is subject to the tax authorities' discretion.

Whether the issue is deemed as an error or fraud is up to the tax authority's discretion. Most penalties are categorized as fraud and not errors.

Whereas a taxpayer voluntarily files a supplementary tax return and pays to cover the tax amount failed to pay in the original tax return before any informant's reports or the tax authorities' assessments, the punishments imposed on such tax evasion could be exempted.

Per Article 44 of the Tax Collection Act, if a business entity were found to have failed to issue GUIs or understated sales amount on GUIs before the statutory period for filing a tax return, in addition to paying the tax calculated on the basis of the understated or omitted sales amount at the prescribed tax rate, the business entity shall be fined no more than five times the amount of the tax evaded. But the amount of fines shall not exceed TWD1 million.

Moreover, per Article 51 of the VAT Act, if a profit-seeking entity fails to provide or obtain GUIs to or from others or to keep GUIs as required by the law, upon the verification of the tax authority, a fine equivalent to 5% of the total amount of the relevant GUIs shall be imposed on such entity. But the amount of fines shall not exceed TWD1 million.

Where an event simultaneously violates the Article 44 of the Tax Collection Act (penalty for behavior sanction) and the Article 51 of the VAT Act (penalty for VAT shortfall), the heavier penalty between the two shall be imposed.

Penalties for fraud. A taxpayer may be subject to a fine for tax evasion ranging up to five times of the amount of tax evaded and the closure of the business 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.

Generally, a taxpayer who evades tax payments by fraud or other unrighteous means shall be sentenced to imprisonment for no more than five years, detention or in lieu thereof or in addition thereto, be imposed with a fine of no more than TWD60,000. Additionally, a person who assists or instigates another person to evade tax payments shall be sentenced to imprisonment for no more than three years, detention or in lieu thereof, be imposed with a fine of no more than TWD60,000. Whereas a tax official, an attorney, a certified public accountant or any other authorized agent commits an offense by assisting or instigating the taxpayer to evade tax payments by fraud or other unrighteous means, the penalty to be imposed on the above enumerated persons shall be increased by up to one-half.

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)
Local name	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	Southern African Customs Union (SADC) East African Community (EAC)
Administered by	Tanzania Revenue Authority (www.tra.go.tz)
VAT rates	
Standard	18%
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.

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.

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 and small businesses. 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.

Group registration. Group VAT registration is not allowed in Tanzania.

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.

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.

Tax representatives. According to the provisions of section 64 of the VAT act 2014, where a nonresident business 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. The obligation to account for VAT on imported services lies with the person whose taxable supplies are less than 90% of its total supplies.

Domestic reverse charge. There are no domestic reverse charges in Tanzania.

Digital economy. Nonresident suppliers of business-to-consumer (B2C) telecommunication services and e-services are required to register for VAT.

Online marketplaces and platforms. Generally, Tanzania does not have specific VAT rules for online purchases of goods and services. The online marketplaces and platforms fall within the same rules as ordinary purchases of goods and services. For domestic purchases, these will be subject to VAT at 18%, unless the goods or services in question are exempt. Where the purchases involve importation of goods, VAT on importation may be applicable. In case the online platforms involve the acquisition of imported services by a taxable person, the person will be required to account for VAT (via the reverse charge) on such imported services provided that the taxable supplies of such person are less than 90% of its total supplies.

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.

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. 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.

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.

D. 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: 18%
• 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
• 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

Previous special relief rates are no longer in place in Tanzania. However, a 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.

The term “exempt supplies” refers to supplies of goods and services that are not liable to VAT and that do not qualify for input tax deduction.

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
- 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. The option to tax exempt supplies is not available in Tanzania.

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.

Deposits and prepayments. There is no specified time of supply for deposits and prepayments in the Tanzanian legislation, however, VAT on a taxable supply for which a deposit or prepayment has been made becomes payable when the deposit is made.

Continuous supplies of services. Each periodic or progressive supply is treated as a separate supply for determination of the VAT amount.

Goods sent on approval for sale or return. Goods are considered to be supplied at the time when they are delivered or made available.

Reverse-charge services. The time of supply for services is the time when the services are rendered, provided, or performed.

Leased assets. The time of supply of leased assets is the earlier of when the property is transferred or made available to the customer.

Imported goods. 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.

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 credit is only available where the goods or services in which the input tax was incurred, were acquired or imported into mainland Tanzania by a person in the course of economic activity and for the purpose of making taxable supplies.

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.

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 tax 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. 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.

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.

Capital goods. Capital goods are defined in Tanzania as goods for use in the person's economic activity that have a useful economic life of at least one year and are neither consumables/raw material nor imported for the principal purpose of resale.

Input tax credit for capital goods is only allowed where a person incurs input tax on capital goods for purposes of making taxable supplies only. Input tax incurred for purposes of making exempt supplies is not recoverable.

Where a person incurs input tax on capital goods partly for the purpose of making taxable supplies (that is input tax incurred for the purpose of making both taxable and exempt supplies), a person will be required to apportion the part of the input tax that relates to taxable supplies in accordance with the formula provided under the law and claim the credit thereof. The claim for input tax credit is available within six months from the date of the fiscal receipt.

Where capital goods are imported, a taxable person may apply for VAT deferment, provided that the VAT payable on each unit of the capital goods should be at least TZS10 million. Once the

application is approved, VAT on imported capital goods will not be payable. Unless revoked, the deferment lasts for the period of 10 years from the date of approval.

The basis for input tax calculation for local supplies shall be the cost of the supply while for imports the base is the sum of costs, insurance, freight, import duty and other duties charged on importation (such as railway development levy and customs processing fee).

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.

Pre-registration costs. Input tax incurred on pre-registration costs is not recoverable in Tanzania.

Write-off of bad debts. Where all or part of the amount payable to the supplier for a taxable supply has been overdue for more than 18 months and the supplier has, in his books of account, written off the amount unpaid as a bad debt, the supplier shall be allowed a decreasing adjustment equal to the amount that remains unpaid after the tax period.

For a decreasing adjustment to be applicable, both conditions must be met that the amount unpaid must be overdue for more than 18 months and the supplier must have written off the amount from the books of account.

Noneconomic activities. Input tax incurred in relation to noneconomic activities 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. A supplier of taxable goods and services must issue a fiscal receipt to the purchaser at the time of supply.

A tax invoice must be fiscalized (i.e., issued through an electronic fiscal device), indicate the date, details of the supplier [name, address, taxpayer identification number (TIN), VAT registration number (VRN)], description of services or goods supplied, consideration payable, as well as the details of the buyer [i.e., name, address, TIN and VRN)].

A tax invoice that is short of the requirements shall not be used to support a claim for input tax or any refund claim.

Credit notes. 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.

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.

Simplified VAT invoices. Simplified VAT invoicing is not allowed in Tanzania. As such, full VAT invoices are required.

Self-billing. Self-billing is not allowed in Tanzania.

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.

Supplies to nontaxable persons. 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.

Records. A taxable person is required to maintain records of all accounts, documents, tax returns, as well as other records that are required to be maintained under other tax laws, including but not limited to:
- Tax invoices and adjustment notes issued and received by the person
- Customs documentation relating to imports and exports of goods by the person
- Records relating to supplies of imported services to the person, whether or not those supplies were taxable supplies
- A VAT account that records, for each tax period, all the output tax payable by the person in that period, or the input tax credit the person is allowed in that period, and all the increasing and decreasing adjustments that the person is required or entitled to make in that period
- Records showing the deposit of amounts paid to the Commissioner General under the VAT Act

Record retention period. A taxpayer is required to maintain documents for a period of at least five years from the end of the tax period to which they relate; or until a later date on which the final decision is made in any audit, recovery proceedings, dispute, prosecution or other proceedings under the VAT Act relating to that tax period.

Electronic archiving. The records can be archived in whichever method that is convenient to the business, either electronically or paper. There is no limitation on the methods of document retention.

I. Returns and payment

Periodic returns. The VAT tax period is one month. Returns must be filed within 20 days after the end of the tax period. 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.

The due date for filing the return is on the 20th day of the month after the end of the period to which the return relates. Where the 20th days falls in a weekend or public holiday, the return may be filed on the subsequent working day.

Periodic payments. Payment of VAT is due in full on the same date as the submission, i.e., within 20 days after the end of the tax period.

Electronic filing. 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.

Payments on account. Payments on account are not required in Tanzania.

Special schemes. No special schemes are available in Tanzania.

Annual returns. Annual returns are not required in Tanzania.

Supplementary filings. No supplementary filings are required in Tanzania. However, 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.

Digital reporting. No digital reporting requirements apply in Tanzania. VAT returns are filed electronically.

J. Penalties

Penalties for late registration. 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.

Penalties for late payment and filings. 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.

Penalties for errors. A person is liable for penalty upon making a false or misleading statement. The penalty is where the statement or omission is made without reasonable excuse, 50% of the tax shortfall or where the statement or omission is made knowingly or recklessly, 75% of the tax shortfall.

In case of second or subsequent errors or omission, the penalty will be increased by 10%. Where a taxpayer makes a voluntary disclosure, a penalty will be reduced by 10%.

Penalties for fraud. The penalties for fraud are the same as those for penalties for errors, as outlined above.

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A. At a glance

Name of the tax	Value-added tax (VAT)
Local name	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%
Other	Zero-rated (0%) and exempt
VAT number format	Tax identification number (TIN)
VAT return periods	Monthly
Thresholds	
Registration	Annual revenue of THB1.8 million
Recovery of VAT by non-established businesses	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

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).

Voluntary registration and small businesses. 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.

Group registration. Group VAT registration is not allowed in Thailand.

Non-established businesses. To register as a VAT operator in Thailand, the non-established business must be engaged in VAT taxable activities in Thailand via a local agent or representative, and have a fixed place of business 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. Tax representatives are not required in Thailand.

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 tax.

Domestic reverse charge. There are no domestic reverse charges in Thailand.

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 seventh 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 seventh 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 January 2020, the Revenue Department proposed the draft VAT bill related to the collection of VAT on services rendered by foreign e-business operators. This is the second version of draft bill after receiving the comments from the Council of State of Thailand.

Online marketplaces and platforms. Under the bill, foreign businesses who provide electronic services 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 (USD60,000).

According to this draft VAT bill, where electronic services are provided via an electronic platform, the platform operator has an obligation to pay the VAT on behalf of all foreign e-business operators on its platform, with the same duties and responsibilities as an operator. *At the time of preparing this chapter, the draft bill is still under consideration and thus is not enforced yet in Thailand.*

Registration procedures. 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.

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.

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. 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: 7%
- 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 VAT rate of 7% will apply until 30 September 2020. 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.

Examples of goods and services taxable at 0%

- Export of goods to foreign countries and customs free zone in Thailand
- Export of services , i.e., services performed in Thailand must be used in a foreign country, such as R&D that results in services used in foreign country. If the services are partially used in Thailand, the part of the services used in Thailand (if can be segregated) is subject to VAT at a rate of 7%

- International transport services by aircraft or seagoing vessels
- Sale of goods and provision of services to United Nations Organization, an embassy, legation, consulate-general or consulate
- Sale of goods and provision of service between bonded warehouse and the other bonded warehouse between the supplier who carries on the business in free zone

Examples of exempt supplies of goods and services

- 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.

Continuous supplies of services. 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).

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 seventh 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 tax.

Leased assets. The tax point for the supply of leased assets will be triggered upon receipt of rental fee or issuance of tax invoice, whichever happens earlier.

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.

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. A VAT operator who carries on both VAT-able and non-VAT-able activities is required to apportion the input tax attributable on common expenses (i.e., expenses incurred for the benefit of both the VAT and non-activities) in accordance with the proportion of the revenues of each category of business.

The apportionment basis must comply with the rules, procedure and conditions as prescribed under Thai VAT laws.

Capital goods. Input tax on the purchase of the capital goods that are used in VAT-able business, can be fully claimed. Normal input tax rules apply.

Refunds. The VAT refund can be made within three years from the last day of filing date.

Pre-registration costs. Any input tax attributable to the pre-registration costs prior to the VAT registration date is not recoverable.

Write-off of bad debts. The VAT operator carrying on the business of selling goods or provision of services who has issued a tax invoice and has included an output tax in the VAT computation, is entitled to deduct the output tax computing from a portion of bad debts from an output tax in the tax month that the bad debts were written off, if it meets the following conditions:

- Debt must arise from the sale of goods or the provision of service to non-VAT operator.
- The full tax invoice for such sale of goods or provision of service is issued.
- The legal prescription of the bad debt is not expired and there is substantial evidence to file a lawsuit.
- The legal procedure prescribed under Thai VAT laws has been complied.

Noneconomic activities. Input tax incurred in relation to noneconomic activities is not recoverable in Thailand.

G. Recovery of VAT by non-established businesses

VAT incurred by a non-established business (that is, an overseas legal entity) may not be recovered, unless the non-established business is registered as a VAT operator in Thailand.

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.

In order to satisfy this condition, the business must have a local agent, fixed establishment or permanent establishment 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.

H. Invoicing

VAT invoices. 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.

Credit notes. 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.

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 electronic certificate 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.

Simplified VAT invoices. The VAT operator who carries on a retail business is entitled to issue simplified tax invoices if such business meets the following conditions:
- The sale is made directly to customer without intention of resale.
- The service is provided in small transaction to a large number of persons.

Self-billing. Self-billing is not allowed in Thailand.

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 Revenue Department. The exchange rate applied must be presented on the tax invoice.

Supplies to nontaxable persons. 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.

Records.

Record retention period. A VAT operator must keep and maintain the records, tax invoices, copies of tax invoices and the supporting documents at the place of business for at least five years.

Electronic archiving. The storage of VAT documents in an electronic format it is not mandatory in Thailand, but it is allowed. The VAT operator must obtain the approval from the tax authority prior to the electronic storage of VAT documents.

I. Returns and payment

Periodic returns. VAT returns are submitted monthly.

Periodic payments. 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).

Electronic filing. The VAT operator can file its monthly VAT returns provided that it obtains the approval from the Thai Revenue Department. An additional eight days of deadline can apply. This applies to all filings for VAT, not just electronic filings.

Payments on account. Payments on account are not required in Thailand.

Special schemes. No special schemes are available in Thailand.

Annual returns. Annual returns are not required in Thailand.

Supplementary filings.

Reverse-charge services filing. A separate return is required to report VAT on reverse-charge services. So where a Thai service recipient accounts for VAT via the reverse-charge mechanism, it is required to remit a filing summarizing such supplies, to the Thai tax authority by the seventh day of the month following the month in which the payment is made.

Digital reporting. No digital reporting requirements apply in Thailand.

J. Penalties

Penalties for late registration. 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.

Penalties for late payment and filings. 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

Penalties for errors. A VAT registrant who issues a tax invoice, a simplified tax invoice, a debit note or a credit note containing incomplete particulars shall be subject to the fine not exceeding THB2,000.

Penalties for fraud. A penalty is imposed for the use of a false tax invoice in computing tax. The penalty is 200% of the VAT payable under the original tax invoice.

In addition, a VAT registrant who intentionally makes use of a false tax invoice for the purpose for tax crediting shall be liable for a fine from THB2,000 to THB200,000 and three months to seven years imprisonment.

Trinidad and Tobago

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A. At a glance

Name of the tax	Value-added tax (VAT)
Local name	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
VAT rates	
Standard	12.5%
Other	Zero-rated (0%) and exempt
VAT number format	999999 (6 digits)
VAT return periods	Bimonthly or otherwise determined
Thresholds	
Registration	TTD500,000
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.

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.

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.

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. 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.

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.

Reverse charge. No reverse-charge mechanism applies in Trinidad and Tobago. In Trinidad and Tobago, the responsibility to account for VAT charged on goods and services is with the supplier of the goods or services and not the recipient. VAT incurred on services purchased from abroad is not required to be reported in Trinidad and Tobago and cannot be claimed by the Trinidad and Tobago recipient in its VAT return.

Domestic reverse charge. There are no domestic reverse charges in Trinidad and Tobago.

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.

Online marketplaces and platforms. No special rules exist for online marketplaces and platforms 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.

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 canceled. 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.

D. Rates

The term “taxable supplies” refers to supplies of goods and prescribed services that are made liable to a rate of VAT. Taxable supplies are referred to as “commercial supplies” in Trinidad and Tobago. The term “prescribed services” means any services not listed as exempt services in Schedule 1 of the VAT Act.

The VAT rates are:
- Standard rate: 12.5%
- 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 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 VAT and that do not qualify for input tax deduction.

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. The option to tax exempt supplies is not available in Trinidad and Tobago.

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 tax indicated on the tax invoices.

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.

Continuous supplies of services. 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

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.

Leased assets. Where goods are supplied under an agreement for hire purchase or lease with an option to purchase, the supply takes place when the goods are made available to the recipient.

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.

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.

Examples of items for which input tax is nondeductible

- Input tax is not deductible where invoices do not meet VAT invoicing requirements as set out in the law.

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

- Rental of premises used in the business
- Inventory used to make finished goods
- Vehicles and equipment used in the business
- Professional and other services provided to the business

Partial exemption. 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 noncommercial 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."

Capital goods. There are no specific rules for capital goods and there is no definition in the VAT law for capital goods. The same general rules for input tax recovery apply to capital goods.

Refunds. If the amount of input tax recoverable in a VAT period exceeds the amount of output tax 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.

Pre-registration costs. Pre-registration input tax 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.

Write-off of bad debts. Customers can claim relief for VAT paid on goods/services provided, which were not settled by the customers. The claim for VAT on bad debts is made by deducting the VAT on bad debts from the total output tax due for the period. However, for the claim to be made, the debt must be outstanding for at least 12 months, reasonable efforts should have been made to collect the debt and the amount outstanding has been written off as a bad debt.

Noneconomic activities. Input tax incurred in relation to noneconomic activities is not recoverable in Trinidad and Tobago.

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

VAT invoices. 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.

Credit notes. 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.

Electronic invoicing. Electronic invoicing is not allowed in Trinidad and Tobago.

Simplified VAT invoices. 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.

Self-billing. Self-billing is not allowed in Trinidad and Tobago.

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 the goods have left Trinidad and Tobago. Such evidence includes:
- The commercial invoice, which includes a description of the goods exported, quantum and price
- A CARICOM invoice
- Seaway Bill/airway bill as applicable
- The completed Customs Declaration Form (C82 Form), signed and stamped by Customs and Excise

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.

Supplies to nontaxable persons. 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.

Records. Every registered person shall keep at their principal place of business in Trinidad and Tobago or such other place as the Board may approve such books and records, expressed in the English language and the currency of Trinidad and Tobago, as are appropriate to enable the Board to ascertain the liability of that person to tax. The records required to be kept are, but not limited to, tax invoices, proforma invoices, and certificates of waiver given to them and copies of tax invoices and proforma invoices given by them.

Record retention period. Books and records are to be kept for six years from the end of the VAT period, except where the person has ceased to exist, and the affairs of the person have been wound up.

Electronic archiving. Electronic archiving is not allowed in Trinidad and Tobago.

I. Returns and payment

Periodic 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 to the Board of Inland Revenue by the 25th day of the month following each tax period.

Periodic payments. Every registrant is required to pay the amount of VAT due, to the Board of Inland Revenue by the 25th day of the month following each tax period.

Electronic filing. VAT returns may be filed physically or electronically. However, to file electronically, the taxpayer must register to obtain a TTConnect ID. To obtain a TTConnect ID, the taxpayer must have two forms of Trinidad and Tobago national identification.

Payments on account. Payments on account are not required in Trinidad and Tobago.

Special schemes. No special schemes are available in Trinidad and Tobago.

Annual returns. Annual returns are not required in Trinidad and Tobago.

Supplementary filings. No supplementary filings are required in Trinidad and Tobago.

Digital reporting. VAT returns may be filed electronically in Trinidad and Tobago. No other digital reporting requirements apply.

J. Penalties

Penalties for late registration. A penalty of TTD6,000 is imposed for a failure to notify the tax authorities of changes relating to the registration.

Penalties for late payment and filings. 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.

Penalties for errors. There are no specific penalties for errors. The penalties for late payment and filings above apply.

Penalties for fraud. Where a person who makes a supply and:

(a) Falsely represents that tax is charged on that supply
(b) Falsely represents the amount of tax charged on that supply
  Or
(c) Recovers or seeks to recover an amount represented to be in respect of tax, the Board may assess that person as being liable to pay an amount of tax on the basis of so much of the amount that it appears to the Board was represented to be charged as tax, or was recovered or sought to be recovered in respect of tax, as exceeds the amount, if any, that he is authorized by the VAT law, to recover in respect of the supply and, where the person is not registered, the assessment shall be made as if that person were registered and his tax period had been such period as the Board may determine

Where an assessment of the tax payable by a person is made or amended under this section wholly or in part as a result of any act or omission of that person that constitutes an offense against the VAT Act, the assessment may include such additional amount by way of penal tax as the Board sees fit, but so that the additional amount does not exceed three times the amount of tax (other than penal tax) that is included in the assessment or amendment as a result of the act or omission that constitutes the offense.

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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	Tunisia Ministry of Finance (http://www.portail.finances.gov.tn)
VAT rates	
Standard	19%
Reduced	7%, 13%
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 an 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 independently in taxable transactions other than import sales.

In addition, a person (individual or legal entity) that supplies goods or services for consideration as part of that person's business activities, but who is not required to register for VAT, may opt for a 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.

Exemption from registration. Even if sales are subject to the zero VAT rate, there are no rules that allow an exemption from a VAT registration.

Voluntary registration and small businesses. 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 registering for VAT purposes if the supplier incurs input tax on the purchases that are necessary for the services rendered in Tunisia, and if the input tax generates a VAT-credit position or a VAT-receivable position for that supplier. The input tax credit may be refunded upon request.

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 exempt 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.

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, the 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

Reverse charge. The reverse charge applies when services or goods are used/consumed in Tunisia and supplied by nonresident entities.

Domestic reverse charge. The reverse charge is in general not applicable on domestic transactions. According to Tunisian tax rules, it applies only on payments to nonresident and non-established suppliers when the payment corresponds to a taxable operation in Tunisia, other than an importa-

tion of goods. VAT is collected on domestic payments by the supplier itself who remains liable for the VAT due.

However, the reverse charge is partially applicable on local payments when payment is processed by State Services, local authorities, public companies and establishments. When payments are processed by these bodies, a WHT on the VAT amount should be processed at the rate of 25%.

Digital economy. There are no VAT 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 tax. 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).

Pursuant to Article 27 of the Finance Act for the year 2020, nonresident businesses in Tunisia that are selling computer software and internet-based services are subject to a royalty of 3% on the turnover earned with resident individuals and corporate entities. Please note, however, that this royalty is not qualified as VAT. The nonresident companies concerned shall proceed with the filing of their abovementioned turnover on a quarterly basis. Reporting and payment procedures will be established by a governmental decree. *At the time of preparing this chapter, further details have not yet been published.*

Online marketplaces and platforms. No special rules exist for online marketplaces and platforms in Tunisia.

The same rules as such as those provided for Article 27 of the Finance Act for the year 2020 (as outlined above) are applicable to online marketplaces and platforms.

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.

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.

D. 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: 19%
- Reduced rates: 7% and 13%

The standard rate of VAT applies to all supplies of goods and services unless a specific measure provides for a reduced rate, a suspension or an exemption.

Examples of goods and services taxable at 7%

- Transport of goods
- Activities carried out by doctors and analytical laboratories
- Materials and supplies for pharmaceutical products
- Tourism activities

Please note that pursuant to Article 30 of the Finance Act for the year 2020, the VAT exemption for medicinal and pharmaceutical products retailing ended on 31 December 2019. Thus, these products are subject to the VAT at the rate of 7% as from 1 January 2020. Serums and other blood fractions and vaccines falling under No. 30.02 of the customs duties tariff and medicinal products not having similar products manufactured locally and falling under No. 30.03 and 30.04 of the customs duties tariffs benefit from to the VAT suspension all along the sales stages.

Examples of goods and services taxable at 13%

- 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 2024). 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.

The term "exempt supplies" refers to supplies of goods and services that are not liable to VAT and that do not qualify for input tax deduction.

Examples of exempt supplies

- Banking interest
- Maritime air transport
- Food products (for example, milk and flour)

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 certificate 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.”

The time of supply for the sale of goods is when the goods are delivered to the customer.

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.

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 completion production of the service, or by the collection of the price or the advances in case they occur before the provision of the service.

Continuous supplies of services. There are no specific time of supply rules for continuous supplies of services. As such, normal time of supply rules apply.

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.

Leased assets. The tax law does not explicitly indicate the time of supply rules for leased assets. However, according to the point 3 of Article 5 of the VAT code, VAT is collected on services, when the service is rendered or when the overall price or advances are collected before the service is rendered. The same rule applicable for services is applicable to leasing operations.

Imported goods. The time of importation for imported goods is when the goods are cleared at customs.

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 VAT
- 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.

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 territories with privileged tax regime

According to Tunisian rules, input tax that can be deductible is not limited. In fact, any input tax charged on the acquisition of goods or services that are necessary for the operation and so related to a taxable business use can be deductible. However, according to Article 10 of the VAT code, the deduction of VAT cannot be accepted on the items listed below.

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

- Passenger cars used for the transport of persons other than those which are the object of operation, as well as the rental of passenger cars and all costs incurred to ensure their operation and maintenance
- Products delivered, and the services rendered by the persons who are not subject to the VAT (not liable to collect the VAT)
- Commodities, goods and services of which the amount is greater than or equal to 5,000 dinars exclusive of taxes and which is paid in cash
- Amounts paid to persons resident of established in low tax jurisdictions

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.

Capital goods. According to Article 9 of the VAT code, VAT on investments of all types required for operation (except passenger cars intended for the carriage of passengers and not constituting an object of exploitation) is deductible. This includes capital goods.

However, in case of transfer, contribution, change of use of these assets and in the event of cessation or abandonment of the taxable person's regime, a payment must be operated equal to the amount of the deducted VAT or which should have been paid or reimbursed, reduced by one-fifth for each calendar year or fraction of a calendar year of detention in the case of capital goods or equipment, and one-tenth by calendar year or fraction of calendar year of detention in the case of a building.

If capital goods are used for both taxable and exempt activities, the amount of the deductible tax that should be operated, is calculated according to a percentage resulting from the ratio between the following elements achieved during the previous financial year:

- Income subject to VAT plus those resulting from the exportation of taxable goods or services or deliveries made in suspension of such tax and incomes from international air transport operations, including due VAT or VAT of which payment is not required
- The sums referred to in the above paragraph plus income from exempted business or business situated outside the scope of VAT

Refunds. VAT liability (output tax) is computed by multiplying all taxable sales by the applicable VAT rate. The enterprise subtracts the total VAT paid on purchases of goods (input tax) from output tax and pays the net amount to the tax administration. If the input tax exceeds the output

tax, 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 audit, 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.

Pre-registration costs. The input tax on pre-registration 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 tax 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).

Write-off of bad debts. Output tax accounted for on supplies that do not get paid by the recipient (i.e., bad debts) cannot be recovered in Tunisia.

Noneconomic activities. Input tax incurred upon purchases that are used for noneconomic activities, is not recoverable in Tunisia.

G. 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. 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.

Credit notes. 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.

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.

Simplified VAT invoices. Simplified VAT invoicing is not allowed in Tunisia. As such, full VAT invoices are required.

Self-billing. Self-billing is not allowed in Tunisia.

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 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.

Supplies to nontaxable persons. There are no special rules for VAT invoices issued for suppliers made by taxable persons to private consumers.

Records.

Record retention period. The accounting system of businesses, financial statements relating to an accounting period, as well as the documents, books, balance and supporting documents relating thereto must be kept by businesses for at least 10 years.

Electronic archiving. There are no specific VAT rules dealing with electronic archiving. In case of tax audit, all supporting documents should be presented on hard original copies.

I. Returns and payment

Periodic 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.

Periodic payments. Payments must be paid by the 28th day of the following month for legal entities and by the 15th day of the following month for individuals. The payments must be paid in

Tunisian Dinar (TND) and, it should be processed electronically for taxpayers of which the annual turnover is equal or exceeds TND500,000.

Electronic filing. The electronic filing of a monthly VAT returns is mandatory for entities whose annual revenue exceeds TND500,000. Below this threshold, electronic filing is optional.

Payments on account. Payments on account are not required in Tunisia.

Special schemes.

VAT suspension regime. 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.

The VAT suspension regime may be granted to special taxpayers, e.g., those that wholly export, supply hydrocarbon and those in the mining sectors.

Annual returns. Annual returns are not required in Tunisia for VAT purposes.

Supplementary filings.

Quarterly reporting on purchases with the suspension of VAT. A detailed list of invoices is required to be submitted to the tax authority. These are for invoices issued in suspension of VAT according to a model established by the administration including in particular the invoice number object of the benefit, its date, the customer's first and last name or business name, address, tax identification card number, the price excluding tax, the rate and the amount of value added tax having is the subject of suspension and the number and the date of the certificate of purchase in suspension of VAT relating to the sale transaction in suspension of tax. The filings must be submitted to the competent tax control office during the 28 days which follow each calendar quarter.

Digital reporting. Apart from the e-filing process and the filing of the quarterly reporting on purchases with the suspension of VAT and the supplies with the suspension of VAT, there is no specific digital reporting in Tunisia.

J. Penalties

Penalties for late registration. A fine that varies between TND1,000 and TND50,000 is applicable for late registration of VAT. However, this fine does not apply if the taxpayer regularizes the situation prior to a tax audit.

Penalties for late payment and filings. 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
- 0.75% per month or fraction of a month in certain other cases
- 1% 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 20%)

In addition, by virtue of Article 51 of the Finance Act for the year 2019, a new fixed penalty that applies in case of late payment of tax is instituted at the rate of:
- 1.25% based the amount of the due tax, when the payment delay does not exceed 60 days
- 2.5% of the amount of the due tax, when the payment delay exceeds 60 days

The new fixed penalties are added to the due delay penalties, either in the case of spontaneous delay payment or in case of tax audit.

The new fixed penalty established by the Finance Act cannot be lower than the due minimum penalty equal to TND5 even in the absence of a payable tax amount.

These provisions do not apply to amounts reported on tax returns filed spontaneously prior to 1 April 2009, and to notifications of results of tax audit undertaken before the above date.

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)

Penalties for errors. The same penalties for late payment and filings are applicable for the case of errors. There are no specific penalties for errors.

Penalties for fraud. A penalty of imprisonment of 16 days to 3 years and a fine of TND1,000 to TND50,000 for any person who keeps double accounts or uses falsified accounting documents, registers or directories, with the aim of totally or partially to the payment of tax or to benefit from tax advantages or tax refunds.

The above is imposed, in addition to the withdrawal of the license to practice, business agents, tax advisors, experts and all other persons having an independent profession of keeping or helping to keep accounts and who have knowingly established or helped in making false accounts or false accounting documents in order to minimize the tax base or the tax itself. These people are also jointly liable with their customers for the payment of the principal tax and the related penalties evaded by their actions.

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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	Turkish 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.

Partial VAT withholding. There is a "partial VAT withholding" mechanism in Turkey. Under this mechanism, a certain portion of VAT amount is withheld by the recipient (purchaser, service receiver, etc.), and the recipient pays this VAT directly to the tax office instead of the supplier (seller, service provider, etc.). The portion that is not subject to withholding is declared and paid to the tax office by the supplier.

Partial VAT withholding is applied to a list of transactions which covers but not limited to:
- Construction works
- Maintenance and repair services related to machinery and equipment
- Catering and organization services
- Labor procurement services
- Contract textile manufacturing
- Cleaning, environmental and garden care services
- Delivery of copper, zinc, aluminum and lead products

The rate of withholding varies depending on the type of services.

Exemption from registration. The VAT law in Turkey does not contain any provision for exemption from registration. Evidently, if not established in Turkey, it is not possible to only register for VAT purposes.

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

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).

Tax representatives. Tax representatives are not required in Turkey.

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

Domestic reverse charge. There are no domestic reverse charges in Turkey.

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 26thVAT 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.

Online marketplaces and platforms. No special rules exist for online marketplaces and platforms in Turkey.

Registration procedures. There is no online registration 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.

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.

D. 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: 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 that are 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 incentive 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

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.

Deposits and prepayments. A deposit or prepayment 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 for sale or return. The tax point for goods sent on approval for sale or return is when the customer accepts the goods and a supply is made.

Reverse-charge services. There are no special time of supply rules in Turkey for supplies of reverse-charge services.

Leased assets. There are no special time of supply rules in Turkey for supplies of leased assets. Normal time of supply rules apply.

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.

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 tax exceeds the output tax, the excess amount is generally not refunded but can be carried forward to subsequent VAT periods.

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.

Capital goods. In general, input tax incurred on fixed assets is recoverable. Taxpayers can deduct the whole amount of VAT paid for fixed assets in the taxation period in which the related invoices are recorded in the legal books.

On the other hand, input tax of lost goods is not deductible and needs to be corrected in the taxation period in which the goods became lost.

However, if depreciable assets are lost (due to fire, being stolen, etc.) after completing their useful lives, then there is no need for VAT correction.

If depreciable assets are lost before fully completing their useful lives, then the portion of input tax corresponding to the remaining useful life needs to be corrected.

Refunds. If the amount of input tax recoverable in a period exceeds the amount of output tax 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.

Pre-registration 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.

Write-off of bad debts. Taxpayers must declare and pay the VAT related to their supplies of goods and services, whether or not they receive the consideration for these supplies.

As of 1 January 2019, taxpayers can deduct the VAT that has been calculated and declared related to the receivables which became a bad debt (as per the article 322 of the Tax Procedures Code).

Noneconomic activities. Input tax incurred in relation to noneconomic activities is not recoverable in Turkey.

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. 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. Credit notes may not be used to reduce VAT charged and reclaimed on supplies of goods or services.

Electronic invoicing. The Turkish taxpayers fulfilling the following conditions are required to use an e-invoicing system:

- Taxpayers whose gross sales revenue is TRY10 million or more in 2014 and subsequent fiscal years.
- 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.
- 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.

Simplified VAT invoices. Simplified VAT invoicing is not allowed in Turkey. As such, full VAT invoices are required.

Self-billing. Self-billing is not allowed in Turkey.

Proof of exports. 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.

Supplies to nontaxable persons. For supplies made by taxable persons to private consumers (i.e., not VAT registered), where the price of the supply is below TRY1,200, 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 TRY1,200. However, this is the amount for 2019 and the amount for 2020 has not yet been announced.*

Records.

Record retention period. The record retention period is 5 years as per the Tax Procedures Code and 10 years as per the Turkish Commercial Code.

Retention period of five years is only valid for tax purposes. Therefore, considering the Turkish Commercial Code, it is recommended to maintain all files for 10 years.

Electronic archiving. Taxpayers using e-archive system archive their data on an electronic environment. However, they are required to archive original hard copy of the documents that were originally issued in hard copy format.

Taxpayers not using e-archive system archive their data and files in their original format. They will be required to submit these data/files to tax authorities when requested.

I. Returns and payment

Periodic returns. The VAT return period is monthly. Returns must be submitted electronically through the internet by the 26th day of the month following the end of the return period. Returns must be declared in the form which was designated according to the provisions of Tax Procedural Law. There are five types of VAT returns:

- VAT Return No. 1: Filed by the taxpayers who are subject to real taxation to declare VAT calculated over their supplies
- VAT Return No. 2: Filed by taxpayers responsible to declare reverse charge and partially withheld VAT
- VAT Return No. 3: Filed by the non-established companies to declare VAT on their electronically supplied services to Turkish real persons (B2C)
- VAT Return No. 4: Filed by the taxpayers who are subject to revenue-based taxation system
- VAT Return No. 5: Filed by the enforcement offices and those who are not subject to real taxation to declare VAT on sales made in auction halls

Periodic payments. Payment in full must be made by the 26th day of the month following the end of the return period (i.e., month of submission). Tax return liabilities must be paid in Turkish lira.

Partial VAT withholding. There is a "partial VAT withholding" mechanism in Turkey. Under this mechanism, a certain portion of VAT amount is withheld by the recipient (purchaser, service receiver, etc.), and the recipient pays this VAT directly to the tax office instead of the supplier (seller, service provider, etc.). The portion that is not subject to withholding is declared and paid to the tax office by the supplier.

Partial VAT withholding is applied to a list of transactions which covers but not limited to:

- Construction works
- Maintenance and repair services related to machinery and equipment
- Catering and organization services
- Labor procurement services
- Contract textile manufacturing
- Cleaning, environmental and garden care services
- Delivery of copper, zinc, aluminum and lead products

The rate of withholding varies depending on the type of services.

Electronic filing. 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.

Payments on account. Payments on account are not required in Turkey.

Special schemes.

Small-scale taxpayers. As of 1 January 2019, a revenue-based taxation system has been established for small-scale taxpayers in Turkey. Accordingly, those operating within the sector and occupa-

tional groups determined by the President, if requested, may pay a certain percentage of their proceeds (including VAT) by declaring it without considering the deductible VAT amount. Currently, suppliers of public transportation services who fulfill certain conditions are in the scope.

Annual returns. Annual returns are not filed in Turkey.

Supplementary filings. Taxpayers are required to file BA-BS forms to declare the transactions over TRY5,000 between the purchaser company and seller company. The purchases from other companies are stated within the BA Form, whereas the sales to other companies are stated within the BS Form.

Digital reporting. 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.

In addition, starting from 1 April 2020, it will be mandatory to submit all VAT refund certification reports on electronic environment via the internet tax office.

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.

Penalties for late registration. In case of late registration, the following penalties could apply:
- Tax loss penalty
- Late payment charge (interest)
- Irregularity penalty

Penalties for late payment and filings. Late submission of tax returns on electronic environment is subject to tax loss penalty and special irregularity penalty. In such a case, the special irregularity penalty is TRY1,900 per tax return and the tax loss penalty is the amount of the tax loss itself.

Late payment of taxes due is subject to late payment interest at the rate of 1.6% (as of 30 December 2019) per month.

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.

Penalties for errors. Penalties for errors should be evaluated based on the result of error.

If, for example, the error causes a tax loss, then the tax loss penalty may apply. If the error does not cause a tax loss but is only related to form, such as not using the correct line of the return to declare a tax, then the irregularity penalties may apply. The amount of irregularity penalties vary depending on the type of irregularity.

Penalties for fraud. Manipulating or destroying the legal books and accounting records or issuing misleading or forged documents are evaluated under smuggling and penalized accordingly. Smuggling acts may result in jail sentence varying between 18 months and 5 years.

Uganda

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A. At a glance

Name of the tax	Value-added tax (VAT)
Local name	Value-added tax (VAT)
Date introduced	1 July 1996
Trading bloc membership	Common Market for Eastern and Southern Africa (COMESA); East African Community (EAC)
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 USD40,000); UGX37.5 million (approximately USD10,000) in three calendar months
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 (approximately USD40,000).

A "taxable person" is defined in the Uganda VAT Law as someone that is registered or required to be registered for VAT in Uganda.

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

Voluntary registration and small businesses. 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.

Group registration. Group VAT registration is not allowed in Uganda.

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 representatives. 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.

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 (two alternatives, not both required):
(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, the Tax Appeals Tribunal had issued a ruling on the issue of reverse-charge VAT on imported services. This issue regarded whether the place of supply provision is applicable to the imported services provision. The Tribunal ruled that VAT is payable on

imported services by all recipients, whether taxable or not, and this input tax is not claimable, unless the person is a licensee or a contractor in the petroleum or mining operations or is a person providing business process outsourcing services. This decision has been appealed against in the High Court, and a decision is yet to be delivered.

Domestic reverse charge. There are no domestic reverse charges in Uganda.

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 tax on imported services.

For business-to-consumer (B2C) 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.

Online marketplaces and platforms. Electronic services when provided or delivered remotely to a person in Uganda, where the recipient is a nontaxable person, are supplied in Uganda and as such are taxable supplies in Uganda. Electronic services are defined to include websites, web-hosting or remote maintenance of programs and equipment; software and updating of software; images, text and information; and self-education packages among others. The Revenue Authority has issued a Public Notice that such a person providing these services ought to apply for registration and account for VAT in Uganda.

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 USD10,000)
- 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 USD10,000)

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.

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.

D. 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: 18%
- 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 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, medicines and medical sundries manufactured in Uganda
- 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

The term "exempt supplies" refers to supplies of goods and services that are not liable to VAT and that do not qualify for input tax deduction.

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, reinsurance and aircraft insurance 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
- Imported drugs, medicines and medical sundries
- 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 operators 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
- Imported mathematical sets and geometry sets used in educational services
- Woodworking machines
- Welding machines and sewing machines
- Imported crayons, colored pencils, lead pencils, rulers, erasers, stencils, technical drawing sets, educational computer tablets, educational computer applications or laboratory chemicals for teaching science subjects used in educational services

Option to tax for exempt supplies. The option to tax exempt supplies is not available 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.

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.

Continuous supplies of services. 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.

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.

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.

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.

Imported goods. VAT on imported goods is due at the time of import.

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.

Capital goods. The VAT law in Uganda does not define "capital goods."

Tax incurred on capital goods is claimable where these capital goods are used in the carrying on of the taxable person's business activities. Like with all other input tax incurred where the goods are used for both taxable and exempt supplies, the input tax will be apportioned using the Standard method in order to allow input tax credit in respect of taxable supplies.

The standard method is A*B/C where A is the total amount of input tax for the period, B is the total amount of taxable supplies made by the taxable person and C is the total amount of all supplies made by the taxable person during the period other than an exempt supply. This method applies to the supply of goods as part of the transfer of a business as a going concern by one taxable person to another taxable person.

Where the standard method disadvantages the taxpayer, the Commissioner General may approve an alternative method (standard alternative method) to calculate the input tax to be credited. Using this method, the taxpayer may directly attribute input tax separately to the exempt and taxable supplies in so far as it is possible and may claim credit for all input tax related to taxable supplies and none of input tax related to 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 (USD1,351), 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 (USD1,351) 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.

Pre-registration 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.

Write-off of bad debts. A taxable person may seek a refund for the portion of tax paid that it has not received payment for within two years after the supply. The taxable person should have taken all steps to pursue the payment and reasonably believes that it will not be paid.

Noneconomic activities. Input tax incurred upon purchases that are used for noneconomic activities, is not recoverable in Uganda.

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. A taxable person making a taxable supply to any person must issue to that other person, at the time of supply, with an original tax invoice for the supply.

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

Credit notes. Where a tax invoice has been issued and the amount shown as tax charged in that tax invoice exceeds the tax properly chargeable in respect of the supply, the taxable person making the supply shall provide the recipient of the supply with a credit note.

A credit note may also be issued by a person where a tax invoice has been issued and tax properly chargeable in respect of the supply that exceeds the amount shown as tax charged in the tax invoice.

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

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.

Simplified VAT invoices. Simplified tax invoices may be issued by registered persons with a taxable turnover below UGX100 million per annum (USD27,000), for taxable supplies made to

another registered person, provided the value of any individual item on the invoice does not exceed UGX50,000 (USD14) and the total invoice does not exceed UGX100,000 (USD28).

Self-billing. Self-billing is not allowed in Uganda.

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 tax and input tax, the exchange rate prescribed by the tax authorities for that tax period is used.

Supplies to nontaxable persons. 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).

Records. Every taxpayer is required for tax purposes to maintain in the English language, as may be required to determine or readily ascertain the taxpayer's tax liability under a tax law. The records kept shall contain sufficient transaction information, and the case of an electronic format shall be capable of being retrieved and converted to a standard record format equivalent to that contained in an acceptable paper record.

Record retention period. The record retention period is five years after the tax period to which the record relates.

Electronic archiving. The Tax Procedure Code Act requires every taxpayer to maintain records including in electronic format, for a period of five years. A record 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. Returns and payment

Periodic returns. The VAT tax period is one month. Returns must be filed by the 15th day after the end of the tax period. 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.

Periodic payments. Payment must be made in full by the 15th day after the end of the tax period.

Electronic filing. 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.

Payments on account. Payments on account are not required in Uganda.

Special schemes.

VAT withholding scheme. A designated withholding agent for VAT purposes is required to withhold and remit 6% of the taxable value on making payment for taxable supplies. The withholding VAT will not apply to a taxable person who the Commissioner General thinks is satisfied has regularly complied with the obligations imposed on the tax payer by the Value Added Tax Act Cap 349.

If a taxpayer is included on the list of designated VAT withholding agents, they are required to withhold VAT from nonexempted suppliers at the rate of 6% of the taxable value of the supply. The list of designated withholding VAT agents has not yet been gazetted by the Minister and the list of exempt persons has not yet been issued by the Commissioner General, Uganda Revenue Authority.

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.

Supplementary filings. No supplementary filings are required in Uganda.

Digital reporting. No digital reporting requirements apply in Uganda.

J. Penalties

Penalties for late registration. 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.

Penalties for late payment and filings. The late submission of a return is subject to a penalty of UGX200,000 (USD56) 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.

Penalties for errors. There is no express penalty for errors in the Uganda VAT law. However, where an error is made leading to the taxpayer paying less tax, interest at the rate of 2% compounded per month will accrue on the unpaid tax.

Penalties for fraud. 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 Tax Service of Ukraine (http://www.tax.gov.ua)
VAT rates	
Standard	20%
Reduced	7%
Other	Zero rate (0%) 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 established

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 that 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

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

Voluntary registration and small businesses. 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 the 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 which then passes this application to the tax authorities.

Group registration. Group VAT registration is not available in Ukraine.

Non-established businesses. 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.

Tax representatives. Tax representatives are not required in Ukraine.

Reverse charge. A reverse-charge mechanism applies if a nonresident entity (including a permanent establishment of the nonresident that is 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 would account for the VAT due, at the time the services are supplied 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.

Domestic reverse charge. There are no domestic reverse charges in Ukraine.

Digital economy. For business-to-business (B2B) 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 establishment. 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 place of establishment (i.e., in Ukraine). VAT would apply in those cases, and the customer would have to self-assess VAT through the reverse-charge mechanism.

A 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 (B2C) transactions, the qualification of transactions for VAT purposes should be the same as described 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.

Online marketplaces and platforms. No special rules exist for online marketplaces and platforms in Ukraine.

Registration procedures. Existing entities that are subject to a mandatory registration file a registration request by the 10th day of the calendar month following the month in which the threshold (UAH1 million) was exceeded.

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 and deregistered VAT taxpayers is available online at the following link: https://cabinet.sfs.gov.ua/cabinet/faces/public/reestr.jspx.

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 taxpayer has been registered as a single taxpayer, which does not envisage payment of VAT.
- The taxpayer 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 tax and invoices.

D. 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: 20%
- Reduced rate: 7%
- Zero-rate: 0%

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

Examples of goods and services taxable at 0%

- Exports of goods (under customs regime of export, reexport (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 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

The term “exempt supplies” refers to supplies of goods and services that are not liable to VAT and that do not qualify for input tax deduction.

Examples of exempt supplies of goods and services

- 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 a 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.

Under the general "first event" rule, a 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, the 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), the VAT liability arises on payment or execution of the act of acceptance, whichever occurs first.
- For long-term agreements, the VAT liability arises on the delivery of the work results.

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 tax, respectively, based on the adjustment note to the VAT invoice properly registered in the Unified Tax Invoice Register.

Continuous supplies of services. 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, a VAT invoice is to be issued when the VAT liability arises.

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).

Reverse-charge services. 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.

Leased assets. The time of supply rules for the supply of leased assets depends on the type of lease (i.e., operational lease or financial lease).

Transfer of assets under the financial lease arrangements is treated as supply of goods for VAT purposes. The lease qualifies as a "financial lease" if at least one of the below conditions is satisfied:
- Leased assets are transferred for a term during which at least 75% of their initial value is depreciated, and the lessee must purchase these assets from the lessor under the contract.

- At the time of expiration of the lease arrangement, the residual (balance) value of the leased assets constitutes up to 25% of the initial value of such assets.
- The total amount of lease payments equals/exceeds the initial value of the leased assets.
- Leased assets are manufactured under the instructions of the lessee and cannot be used by the third parties, considering the characteristics of such assets.

In case of financial leasing, the lessor must accrue VAT liabilities on the value of the assets upon their transfer to the lessee. The lessee is entitled to credit this VAT upon receipt of assets from the lessor.

Transfer and return of assets under operational lease (i.e., all leasing arrangements that do not satisfy the criteria for financial leasing) is not subject to VAT. Leasing fees payable under the operational lease arrangements can be subject to VAT under the general rules for supply of services.

Imported goods. Import of goods is subject to VAT at a 20% rate or 7% rate (which applies to a limited range of goods) unless an exemption is available under current legislation. The 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 the import VAT was paid. VAT credit should be supported by an 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. The VAT amount payable should be guaranteed to customs through a financial/banking guarantee or pledge of the equipment.

F. Recovery of VAT by taxable persons

In general, VAT credit is available only for registered VAT taxpayers with respect to input tax 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 tax 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.

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).

Nondeductible input tax. At the end of the tax period, the taxpayer 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.

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.

Examples of items for which input tax is nondeductible

- Business entertainment
- Goods found missing during stock-taking
- Purchases used to make supplies for which the place of supply is outside Ukraine (e.g., advertising services provided to a nonresident customer)

In general, input tax credits are not available from suppliers 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.

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

- Corporate business mobile phones
- Hotel accommodation for employees
- Business purchases for an amount up to UAH200 supported by a cash receipt indicating VAT ID of the supplier and an amount of VAT

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.

Capital goods. Taxpayers may deduct the whole amount of input tax incurred upon purchases of capital goods, provided that a duly registered VAT invoice or a customs declaration is available. If purchased capital goods are used both for VAT-able and exempt transactions, the taxpayer must then accrue VAT liabilities based on the pro rata coefficient (refer above). If capital goods are used not for business (i.e., income generating purposes) or to make exempt supplies, the taxpayer must accrue VAT liabilities based on the balance sheet value.

Refunds. VAT due to the budget is calculated as a positive difference between VAT liability (output tax 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 the 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.

Pre-registration costs. VAT on purchases made prior to a buyer's registration as a VAT taxpayer, is not creditable.

Write-off of bad debts. Output tax accounted for on supplies that do not get paid by the recipient (i.e., a bad debt) cannot be recovered in Ukraine.

Noneconomic activities. Input tax incurred upon purchases that are used for nonbusiness purposes is not recoverable.

G. Recovery of VAT by non-established businesses

The Ukrainian tax law does not allow nonresident entities that do not have a 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 invoices 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. Improper completion of the VAT invoice (except for mistakes in the HS code of the goods) still allows identification of the transaction, and 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.

Credit notes. If output/input tax 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.

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

Electronic invoicing. Electronic VAT invoicing is mandatory for all taxpayers. A VAT invoice must contain all of the necessary elements and must bear a duly registered electronic signature.

Simplified VAT invoices. Simplified VAT invoicing is not allowed in Ukraine. As such, full VAT invoices are required.

Self-billing. Self-billing is not allowed in Ukraine.

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.

Foreign currency invoices. VAT invoices are issued in Ukrainian currency, which is the hryvnia (UAH).

Supplies to nontaxable persons. 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.

Records. Documents that must be kept for VAT purposes include source accounting documents (e.g., invoices, service acceptance acts, supply contracts), accounting ledgers, VAT returns, customs declarations, issued and received VAT invoices, and other documents related to tax accounting.

Record retention period. The statutory retention period in Ukraine is three years (1,095 days) after the deadline for filing a tax return for the relevant reporting period.

Electronic archiving. Electronic keeping and archiving records is allowed for documents that were initially completed electronically (inter alia these documents should bear a relevant electronic digital signature). Otherwise, physical storage (i.e., paper) must be used.

I. Returns and payment

Periodic returns. 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.

Periodic payments. Tax is payable within 10 days after the filing deadline. VAT liabilities must be paid to the revenue from the special VAT account of the taxpayer. All settlements must be made in the Ukrainian currency (UAH).

Electronic filing. All registered VAT taxpayers must file tax declarations electronically.

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 tax 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.

Payments on account. Payments on account are not required in Ukraine.

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 tax on services included in the tourist product is not creditable whereas input tax on any tourist services not included in the value of the tourist product is creditable.

Works of art. 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 tax. Export of works of art is not subject to zero VAT during export (i.e., input tax, if any, is not recoverable). The dealer is required to maintain separate accounting of transactions involving purchase and sale of works of art.

Annual returns. Annual returns are not required in Ukraine.

Supplementary filings. Taxpayers must issue electronic excise invoices for all shipments of certain excisable goods (fuel and ethyl alcohol). Excise invoice layout and principles of electronic excise tax administration are similar to VAT rules.

Digital reporting. Taxpayers who are liable to use electronic cash registers must transmit real-time transactional data (information from cash receipts) to the tax authorities. Inter alia, this data includes information on the goods and services supplied, as well as amounts of VAT and excise tax.

All registered VAT taxpayers must file tax declarations electronically. Electronic filing of source accounting data (inter alia, upon tax audits) is being considered in the long term.

J. Penalties

Penalties for late registration. Late registration or violation of other tax registration requirements may trigger a fine of UAH170 for self-employed persons and UAH510 for legal entities or 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 three years) violation

An interest penalty may also apply. In addition, the taxpayer is not eligible for a VAT credit or refund with respect to input tax incurred before VAT registration.

Penalties for late payment and filings. The following are the penalties for failure to file or for the 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.

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

Under the tax code, an amount of VAT that is not refunded to the tax authorities on time is considered to be a debt to 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.

Penalties for errors. 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 three-year period
- 50% if the violation was repeated within a three-year period

It is not clear whether an overstatement of negative VAT (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 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. The percentage penalty is based on the VAT amount due, and the timings are based on if the mistake is not corrected within such number of calendar days:
- UAH170 and obligation to correct the mistake
- 10% (15 days)
- 20% (16 to 30 days)
- 30% (31 to 60 days)
- 40% (61 to 90 days)
- 50% (91 to 120 days)
- 60% (121 to 150 days)
- 70% (151 to 180 days)
- 100% (after 181 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 the 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.

Penalties for fraud. Deliberate tax evasion committed by a taxpayer is recognized as a criminal offense under the Criminal Code of Ukraine. Tax evasion may trigger criminal responsibility, if the total amount of underpaid tax (including financial sanctions) exceeds 3000 statutory nontaxable minimum income (for 2020 the threshold is UAH3 million — approximately EUR118,000).

The potential penalties for tax evasion include fines (the amount gradually rises depending on the amount of unpaid tax liability), restriction to occupy certain positions or conduct certain activities for up to three years and, in certain cases, confiscation of property.

Ukrainian Criminal Code does not envisage any special provisions on criminal liability of tax advisors.

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A. At a glance

Name of the tax	Value-added tax (VAT)
Local name	Value-added tax (VAT)
Date introduced	1 January 2018
Trading bloc membershi	Gulf Cooperation Council (GCC)
Administered by	Federal tax authority (www.tax.gov.ae)
VAT rates	
Standard	5%
Other	Zero-rated (0%) and exempt
VAT number format	XXXXXXXXXXXXXXX (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 (for certain countries)

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.

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.

Voluntary registration and small businesses. 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.

Group registration. 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.

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).

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.

Tax representatives. 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.

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.

Imports into the UAE by a VAT registered person can also 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.

Domestic reverse charge. 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.

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.

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 are initiated outside the implementing states

Online marketplaces and platforms. 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.

At the time of preparing this chapter, the respective tax authorities of the UAE, Saudi Arabia and Bahrain 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.

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.

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.

D. 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: 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 goods and services taxable at 0%

• 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

The term "exempt supplies" refers to supplies of goods and services that are not liable to VAT and that do not qualify for input tax deduction.

Examples of exempt 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 option to tax exempt supplies is not available in the UAE.

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

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).

Continuous supplies of services. 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

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.*

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.

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.

Imported goods. In the case of imports, the tax becomes due on the date when the goods are imported into the UAE, under the customs legislation.

Deemed supplies. The tax point 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.

Vouchers. The tax point of a supply of a voucher, shall be the date of issuance or supply thereafter.

Vending machines. The tax point 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 tax, which is VAT charged on goods and services supplied to it for business purposes. Recovery is by way of deducting input tax against output tax, which is the VAT charged on supplies made by the business.

Input tax includes VAT paid on imports of goods, and VAT self-assessed through the reverse charge mechanism.

Nondeductible input tax. Input tax may not be recovered in respect of certain expenses specifically listed as nondeductible.

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

- 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
- Business gifts supplied for no consideration, unless the total value of these gifts are less than AED500 per recipient within a 12-month period
- Health insurance for dependents, except in respect of Abu Dhabi employees
- VAT incurred for making exempt supplies
- Staff party expenses

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

- Motor vehicles not available for private use
- Where an employee requires hotel accommodation/subsistence for an overnight stay on a domestic business trip
- Food and drink in the normal course of a business meeting (e.g., simple refreshments)
- Short-term accommodation provided to a new employee joining the business

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 goods. 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 tax 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.

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 tax 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 tax 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 tax 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 tax 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.

Pre-registration costs. A taxable person may recover input tax incurred before its VAT registration on the VAT return submitted for the first tax period following the VAT registration. It can relate to input tax 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 tax recovery upon VAT registration.

Input tax may not be recovered in any of the following instances:
- The receipt of goods and services for purposes other than making taxable supplies
- Input tax 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

Write-off of bad debts. A taxable person may reduce the output tax in a current tax period to adjust the output tax paid for any previous tax period, if all 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 tax for the current tax period related to a supply received during any previous tax period where the consideration has not been paid and all 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 tax 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.

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.

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 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. The federal tax authority has further provided a list of countries eligible for VAT refunds for business visitors with reciprocal agreements. *At the time of preparing this chapter, 25 countries are included in the list.*

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 (per the above, the federal tax authority has specified a list of countries it considers eligible)

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 AED2,000. This may comprise single or multiple purchases.

For claims in respect of the 2019 calendar year, refund applications can be made from 1 March 2020. The federal tax authority will only process refund applications for six months from the date the business can first make a claim, i.e., from 1 March 2020. Note: the condition that the period of claim shall be one calendar year does not apply in the case of residents in any GCC State that is not considered to be an implementing state.

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.

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.

Credit notes. A VAT credit note may be used to reduce the VAT charged and claimed on a supply, and also for deemed supplies.

Electronic invoicing. Electronic invoicing is allowed in the UAE. 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.

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

The federal tax authority may at its discretion grant an exception to standard rules applicable to VAT invoices, VAT credit notes, length of tax period, VAT staggers and standard time period for export of goods from the UAE. The federal tax authority considers requests for an exception on a case-by-case basis, depending on each applicant's individual circumstances.

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.

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 same calendar month as 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.

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 the goods and 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 Saudi Arabia are not treating each other as implementing states.

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.

Supplies to nontaxable persons. 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 above in the "Simplified VAT invoices" section.

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

Record retention period. 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.

Electronic archiving. 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.

I. VAT returns and payment

Periodic 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 canceled must provide a final VAT return for the last tax period for which it was registered.

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)

As part of the administrative exceptions, businesses in constant refund position, as well as small and medium enterprises making taxable supplies equal to or less than AED5 million per 12-month period, may apply to change the length of the tax period to 6 months.

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.

Periodic payments. 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.

Electronic filing. 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.

Payments on account. Payments on account are not required in the UAE.

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:
  - Second hand 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. Annual VAT returns are not required to be filed in the UAE.

Supplementary filings. No supplementary filings are required in the UAE.

Digital reporting. Taxable persons are required to submit their VAT returns online on the federal tax authority's portal and pay any VAT due electronically.

J. Penalties

Penalties for late registration. Any taxable person who has not applied for VAT registration within the set time frame shall be fined AED20,000.

Penalties for late payment and filings. If a taxable person fails to pay the VAT due within the prescribed time frame, 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%.)

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.

Penalties for errors. 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

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 audit; 5% if the taxable person makes the voluntary disclosure before being notified of the tax audit by the authority

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.

Penalties for fraud. 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.

Other 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 AED50,000 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 (AED5,000 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.

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 Saudi Arabia 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)
Local name	Value-added tax (VAT)
Date introduced	1 April 1973
Trading bloc membership	European Union (EU) Member State *(until 31 January 2020, where after this date a transitional 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 (0%) and exempt
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	
Established	GBP85,000
Non-established	None
Distance selling	GBP70,000
Intra-Community acquisitions	GBP85,000
Electronically supplied services (MOSS)	GBP8,818 (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 the United Kingdom (UK) 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 UK
- The importation of goods from outside the EU, regardless of the status of the importer

For VAT purposes, the UK 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 31 January 2020. 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 (although it is possible that Northern Ireland will have to follow different rules in respect of the EU VAT rules in relation to goods depending on any deal negotiated). However, the UK VAT system is expected to continue largely as before and CJEU case law should continue to apply where the UK legislation 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 UK in the course of a business in excess of the relevant turnover thresholds.

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 UK. A nil registration threshold applies to businesses not established in the UK. As a result, any non-established business that makes a taxable supply (not covered by an existing VAT simplification) in the UK 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.

Exemption from registration. A taxable person whose turnover is wholly or primarily zero-rated (see Section D) may request exemption from registration.

Voluntary registration and small businesses. 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 established or have a fixed establishment in the UK 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 UK. A non-established business must register for VAT if it makes any of the following taxable supplies in the UK, regardless of the value of the supply:
- Goods located in the UK 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 UK (see *Digital economy*)

EU businesses not established in the UK must also register for VAT if they make distance sales in the UK 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 UK. If not registering online, 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

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 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 UK.

Domestic reverse charge.

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.

Mobile phones and computer chips. 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.

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.

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.

Domestic B2B supplies of construction services. From 1 October 2020, 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 (i.e., business-to-business (B2B) supply), as defined by the CIS, will be subject to the reverse charge unless they are supplied to a contractor who is an end user.

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 the UK, 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* subsection below).

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 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 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 took effect on 1 January 2019:

- The introduction of a EUR10,000 threshold (GBP8,818 in UK legislation) 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.

Online marketplaces and platforms. 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.

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.

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 apply to vouchers issued on or after 1 January 2019 and refers only to single-purpose vouchers (SPV) and multi-purpose vouchers (MPV). A SPV is one where the place of supply of the underlying goods or services is known (i.e., the country in which the supply will take place) and the relevant goods or services

have a single liability to VAT (i.e., standard rate, zero rate, reduced rate or exempt) at the time the voucher is issued and transferred (such that the applicable VAT rate is known at the time the voucher is issued/transferred). Both the issue of a SPV, and its subsequent transfer represent a supply of the underlying goods or services, and any VAT payable is due at this time. The consideration is the amount charged for the issue and transfer of the voucher. Any voucher that is not a SPV will be a MPV. With a MPV, at the time the voucher is issued or transferred, the VAT rate of the underlying goods or services is not known (e.g., the place of supply and/or rate of the goods is unknown) and thus the underlying goods or services are only taxed when the voucher is redeemed. The issue or transfer of the voucher is disregarded (i.e., not a supply for UK VAT purposes).

Registration procedures. 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.

When registering online, a VAT online account (sometimes known as a "Government Gateway account") must be created. Businesses should receive a VAT registration certificate within 30 working days, although it can take longer. Further details on how to register are available on the HMRC website (https://www.gov.uk/vat-registration).

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) or if its taxable turnover is wholly or primarily zero-rated (see Section D below). However, deregistration is not compulsory in these circumstances.

D. 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: 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 a reduced rate, the zero rate or an exemption.

In addition, some supplies are classified as "exempt-with-credit." Exempt-with-credit supplies are known in the UK as zero-rated supplies. This means that no VAT is chargeable, but the supplier may recover related input tax (subject to the usual input tax recovery rules). Exempt-with-credit supplies include services supplied to customers outside the EU.

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
- Services supplied to customers outside the EU (an exempt-with-credit supply)

Examples of goods and services taxable at 5%

- Fuel and power supplied to domestic users and charities
- Installations of energy-saving materials in residential buildings where the cost of the materials does not exceed 60% of the total cost of installation (where the 60% threshold is exceeded, only the labor cost element qualifies for the reduced rate); installations of energy saving materials in residential accommodation for recipients who are aged 60 or over or receiving certain benefits, for housing associations and where the residential accommodation is a building or part of a building used solely for a "relevant residential purpose." The reduced rate does not apply to the installation of 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 VAT and that do not qualify for input tax deduction.

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 UK 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.

Effective from 1 March 2019, the unfulfilled supplies prepayment rules became effective. The changes 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.

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.

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.

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.

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.

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.

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 UK, VAT paid on imports of goods into the UK 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)
- Import VAT paid by a taxable person who is not the owner of the relevant goods

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.

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 UK, 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.

Pre-registration 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. Input tax incurred in relation to noneconomic activities is not recoverable in the UK.

G. Recovery of VAT by non-established businesses

The UK refunds VAT incurred by businesses that are neither established nor registered for VAT in the UK. 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). *At the time of preparing this chapter, Brexit may impact the use of this scheme and may affect the deadline for submission of claims. No further guidance has been published 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 UK 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. 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.

Credit notes. 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, subject to new rules below. If the customer can reclaim all the tax on the supply as input tax, the original VAT charge does not have to be adjusted, provided both the supplier and customer agree not to do so. Where a credit note is issued, it must refer to the number and date of the original VAT invoice.

From 1 September 2019, where a change in consideration is agreed by a supplier and customer (e.g., faulty goods) after the original date of supply and VAT has been accounted for in an earlier period, the new rules require that a VAT adjustment can only be made where a credit/debit note is issued within 14 days and, in the case of a reduction in consideration, a "payment" has been made. Where a VAT invoice is not required to be issued in the first place (e.g., retail customer), a debit/credit note will not be required. The credit note should also refer to the number and date of the original VAT invoice.

Electronic invoicing. UK VAT law permits electronic invoicing in line with EU Directive 2010/45/EU (see the chapter on the EU).

Simplified VAT invoices. There is no requirement to issue a VAT invoice for retail supplies to unregistered businesses. Retailers may assume that no VAT invoice is required unless a customer asks for one in which case, if the charge made for the individual supply is:

- GBP250 or less (including VAT), an invoice can be issued showing the retailer's name, address and VAT registration number, the time of supply (tax point), a description that identifies the goods or services supplied, and for each VAT rate applicable; the total amount payable, including VAT shown in GBP and the VAT rate charged. Exempt supplies must not be included on this type of VAT invoice.

- More than GBP250, then either a full VAT invoice or a modified VAT invoice must be issued, showing VAT inclusive rather than VAT exclusive values.

If the taxable person is not a retailer, and the total value of the supply does not exceed GBP250, the supplier may issue the customer with a simplified invoice. If the charge made for the individual supply is:
- GBP250 or less (including VAT), an invoice showing the supplier's name, address and VAT registration number, the time of supply (tax point), a description which identifies the goods or services supplied, and for each VAT rate applicable, the total amount payable, including VAT shown in GBP and the VAT rate charged. Exempt supplies must not be included on this type of VAT invoice.
- More than GBP250, then either a full VAT invoice or a modified VAT invoice must be issued, showing VAT inclusive rather than VAT exclusive values.

Self-billing. Self-billed invoices may only be issued by a customer to a supplier if:
- The supplier has agreed to this method of accounting
- A self-billing agreement has been set up
- Certain rules have been followed including:
  - — The raising of self-billed invoices for all transactions with the supplier named on the document for the period of the agreement/contract
  - — The completion of self-billed documents showing the supplier's name, address and VAT registration number, together with all the other details that make up a full VAT invoice and should also be clearly marked with "Self-Billing." HMRC also recommends including the following statement on each self-billed invoice raised: "The VAT shown is your output tax due to HMRC"
  - — The customer keeps the names, addresses and VAT registration numbers of the suppliers with whom a self-billing agreement is held.

HMRC authorization is not required to operate self-billing as long as all the relevant conditions are met.

Proof of exports and intra-Community supplies. UK VAT is generally not chargeable on supplies of exported goods. However, to qualify for VAT zero-rating, exports must be supported by evidence proving that the goods have left the UK.

Acceptable proof includes official customs documentation and commercial documentation, such as consignment notes and airway bills. 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.

UK VAT is generally not chargeable on intra-Community supplies of goods, except distance sales (see the chapter on EU). From 1 January 2020, the VAT Quick Fixes come into effect across the EU and aim to harmonize certain requirements. The full impact of these requirements from a UK perspective will depend on the Brexit outcome, although any intra-Community supply chains with goods will be affected.

The Quick Fixes introduce two new material conditions that the supplier must comply with in order to zero rate the supply:
- The supplier must obtain the customer's VAT number and include it on their invoices.
- The supplier must include the supply of goods in its EC Sales List.

Rules on harmonizing the proof required for the intra-EU transport of goods are also introduced from 1 January 2020.

A business can either rely on the EU Quick Fixes proof of dispatch requirements or follow national rules on the proof of dispatch requirements if they prefer.

For intra-Community supplies, the UK proof of dispatch rules require a range of commercial documentation, such as customer orders, sales invoices, transport documentation and packing lists. 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.

The proof of dispatch conditions under the Quick Fixes require the seller to hold two documents evidencing dispatch, this is enough to prove that the goods have been transported. The evidence must not be contradictory, and the tax authorities may still disapply the zero-rating if they find evidence to the contrary.

The evidence should be issued by two different parties that are independent of each other, as well as independent of the seller and the customer.

If the buyer arranges the transport, they will also need to provide the supplier with a written statement giving details of the transport and Member State of arrival. The buyer must provide this written statement to the supplier by the 10th day of the month following the supply.

At the time of preparing this chapter, specific UK legislation on the Quick Fixes is yet to be issued.

For further information on the Quick Fixes, please refer to the EU chapter.

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

Supplies to nontaxable persons. 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 UK, 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.

Records.

Record retention period. VAT records must be kept for at least 6 years (or 10 years if you use the VAT MOSS service). VAT records include:
- Copies of all invoices issued
- All invoices received (originals or electronic copies)
- Self-billing agreements
- Name, address and VAT number of any self-billing suppliers
- Debit or credit notes
- Import and export records

- Records of items VAT cannot be claimed on — for example business entertainment
- Records of goods given away or taken from stock for private use
- Records of all the zero-rated, reduced or VAT exempt items bought or sold
- A VAT account

General business records, such as bank statements, cash books, check stubs, paying-in slips and till rolls must also be kept.

Businesses signed up to the "Making Tax Digital for VAT" (MTD) regime must keep VAT records digitally (subject to a 12-month digital links soft landing period), as well as a number of other digital records, including business name, address and VAT registration number, any VAT accounting schemes used, the time of supply, the net value of the supply and VAT on everything bought and sold. All transactions must be added to the digital records, but paper records like invoices or receipts do not need to be scanned.

Additional records must be kept if digital services are supplied in the EU and the VAT MOSS scheme is used.

Electronic archiving. Electronic archiving is allowed in the UK, but it is not mandatory. If records are kept digitally, for example, under MTD, these should be archived electronically (subject to the 12-month digital links soft-landing period). However, records not required to be kept digitally can be archived in paper format.

I. Returns and payment

Periodic 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. 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).

Periodic payments. Payment must generally be made by the last day of the month following the end of the return period. 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 (GBP) but return liabilities may be paid in pounds sterling or euros.

Electronic filing. 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. In addition, MTD rules came into effect for

some UK VAT registered businesses from 1 April 2019 and for others from 1 October 2019. MTD requires that the nine-box VAT return is submitted using an application programming interface (API), i.e., MTD-compatible software (see *Digital reporting* subsection below).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.

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 1/24 of the taxable person's VAT liability for the preceding 12 months. Electronic transfers must be used for all payments on account.

Special schemes.

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.

Annual returns. Annual returns are not required to be submitted in the UK.

Supplementary 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. *At the time of preparing this chapter, the 2020 Intrastat thresholds are not yet known.*

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

The UK is due to leave the European Union on 31 January 2020. After this date, EU filings, such as Intrastat and ESLs, may no longer be required. Specific requirements should be checked nearer the exit date, as HMRC has already indicated that Intrastat declarations will continue to be required post-Brexit where information about exports and imports is not otherwise reported, i.e., through the use of simplifications. 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.*

Digital reporting.

Making Tax Digital for VAT. HMRC's Making Tax Digital (MTD) program applies to VAT and other taxes. It came 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 deferral categories (see below).

Businesses that fall into one of the "deferrals" categories below are required to meet the MTD requirements with effect from 1 October 2019:

- Trusts (although see below for NHS Trusts)
- "Not for profit" organizations that are not set up as a company
- VAT divisions
- VAT groups
- 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

At the time of preparing this chapter, Government Information and NHS Trust (GIANT) users are not live for MTD purposes. The MTD deferral for these users is for an as yet, undefined period.

Businesses that fall within the MTD rules 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.

HMRC introduced a 12-month "soft-landing period" in relation to the digital journey requirements, meaning that, in the first 12 months of a business's MTD go-live date, the digital link requirements were relaxed. This means that if the Making Tax Digital rules apply to a business from a VAT period starting on or after 1 April 2019, the business will have until the first VAT return period starting on or after 1 April 2020 to put digital links in place. If MTD applied from a VAT period starting on or after 1 October 2019, businesses will have until the first VAT return period starting on or after 1 October 2020 to put digital links in place.

Following consultation with businesses, HMRC is now allowing businesses to apply for additional time to comply with the MTD digital journey requirements if they have complex or legacy IT systems, or if they have acquired a business and are unable to comply by the end of the initial soft-landing period. Applications must be received by HMRC by the end of a business's soft-landing period and must provide a clear explanation and timetable for when and how they will become fully MTD compliant.

J. Penalties

Penalties for late registration. 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.

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.

Penalties for late payment and filings. 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 may be assessed for the late submission of ESLs and for material inaccuracies in ESLs.

Penalties for errors. 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 (voluntary) disclosure to the UK VAT authorities. The degree of mitigation also depends on the "quality" of the disclosure.

Penalties for 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.

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)."

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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 13,000 taxing jurisdictions exist in the United States.

The laws, rules and procedures with respect to US state and local 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, most apply one uniform rate 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, while some also impose higher rates on items such as alcohol. Excluding additional local sales and use taxes, US state-level sales and use tax rates range from 2.9% (Colorado) to 7.25% (California). The highest combined state and local tax rate is 10.25% (Chicago, Illinois).

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 store in a different geographic location may be subject only to a county tax, in addi-

tion 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 services 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 US state and local sales and use taxation is the jurisdiction to tax, or what is commonly referred to as "nexus." This concept deals with the power of one state or local taxing jurisdictions 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 Inc. (Wayfair)*, nexus was deemed to exist only if the seller had some physical presence within the taxing state or local jurisdiction (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 even after the *Wayfair* ruling) 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.

Remote sellers. Between 1999 and 2018, several states enacted laws that required 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 they were 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" under the Commerce Clause of the U.S. Constitution 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 2019, all but three states — Florida, Kansas and Missouri — have enacted new laws applying an economic nexus standard based solely on sales directed to customers in the state. The Kansas Department of Revenue and the Kansas governor have taken the position that the state does not need to enact a law to apply such a standard. Furthermore, legislation is expected to be introduced in each of the three states during their upcoming 2020 legislative sessions implementing the same sales-only nexus standards, and it will likely be enacted.

Marketplaces. Also, in response to the *Wayfair* decision, nearly 40 states have extended collection responsibilities to marketplace facilitators and providers (i.e., businesses that operate and maintain a platform to allow sellers to market and sell their goods and services). In most instances, the states have required that the marketplace facilitator or provider have a physical presence in the state or meet the state's economic nexus sales threshold, A few states (e.g., Colorado, Hawaii, Maryland), however, have remained silent on whether such stand-alone nexus is required. In these states, sales and use tax collection and filing responsibilities with respect to any transactions made through the marketplace are with the marketplace facilitator or provider. These new laws have created significant complexities, given that the state definitions of "marketplace facilitator" and "marketplace provider" vary considerably and can be broad, pulling in a number of businesses that would generally not be perceived as operating "traditional" marketplace forums.

Businesses that are not physically present in the US should be aware that the US states believe that their remote seller economic nexus and the marketplace facilitator/provider provisions apply equally to businesses that lack any US presence or permanent establishment. Moreover, while enforcement by the states may present a challenge, noncompliance creates potentially significant accounting and financial statement risks, pursuant to Accounting Standards Codification (ASC) 450, for non-US companies that do not comply with these collection and registration requirements.

Third parties. In addition to these economic nexus provisions, 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 to compel remote sellers to register and collect tax. Such measures have been introduced in each of the past several Congresses, dating back well before the Wayfair decision. However, as in past years, 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 2020.*

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.

Drop shipments. 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 shipment" transactions. In a drop shipment 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, state law may determine that 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.

Lease transactions. 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. Complications can arise when regularly leased property is brought in from a state that allows a lessor to purchase such property exempt from sales tax. In such cases, the state into which the property is brought may assert that use tax is due on the entire original purchase price or value of the property that is subsequently leased in the state. Careful consideration of the origin of leased property and the relevant and varied state approaches is recommended.

Lease transactions that are deemed to constitute "financed sales" (i.e., 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 and are subject to immediate sales and use tax. Thus, if a lease is reclassified as a financed sale, in virtually all states, sales or use tax is due in full at the time of inception of the lease, generally at the original purchase price of the leased property.

Taxable base. 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 by statute in most states as personal property that can be seen, touched, measured and weighed, or is otherwise perceptible to the senses. On the other hand, services are generally not broadly subject to sales and use taxes unless the state's sales tax law specifically enumerates such services as taxable. The sales tax treatment of both sales of tangible property and services is not uniform across the states.

Real property. 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, the leasing of real property is subject to sales and use tax in Arizona and Florida while in New York City a specialized lease transaction tax applies). 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. Among the oldest taxes levied in the US, these tax laws vary widely from state to state and even within some states can vary not only as to rates but also applicability from locality to locality.

Intangible property. The sale of intangible personal property, such as securities and intellectual property, is generally not subject to sales and use taxation. However, the sale of certain intangible digital goods (such as computer software and electronically delivered photographs, music and video files) 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. California sales and use tax law, on the other hand, continues to treat any such goods delivered electronically as intangible property not 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 (that may or may not be taxable).

Many states classify utility services, such as the sale of natural gas or electricity, as the sale of taxable tangible personal property. In such states, sales of these utility services may be subject to sales and use tax in addition to any applicable utility transmission fees or excise taxes that may be applied and collected separately.

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 have 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. The elimination of the physical presence requirement by the *Wayfair* decision is expected to make such use tax transactional obligations much less frequent.

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 is a significant component of the sales and use tax system in the US. Many of these exemptions are largely driven by tax policy and they may be based on federal or state law.

Federal exemptions. Exemptions based on federal law include excluding from state and local sales and use tax transactions that involve Indian tribes or occur on Indian reservation lands (although many Indian tribes may separately impose and collect their own sales and use taxes independent of the states in which such reservations are located). Moreover, sales made to the federal government may be expressly exempt from state and local sales and use tax and also would be excluded under precedent issued by the U.S. Supreme Court.

State and local exemptions. Other 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 widely among the states and, in some cases, even among the local taxing jurisdictions in the same state 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 the purchase of grocery 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" exemp-

tion is most often claimed. Such exemptions are a structural component of the sales tax in the US intended to generally provide that tax only applies to the ultimate retail sale to the consumer.

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. Most states provide an "occasional sale" exemption, also referred to as the "casual sale" or "isolated sale" exemption. This exemption typically applies in the context of business restructurings, mergers and acquisitions, and infrequent sellers, such as individuals selling personal property in single, limited transactions such as a garage or yard sale. Again, as with other exemptions, the occasional sale exemption rules vary widely among taxing jurisdictions.

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 transactions that involve the transfer of assets.

Temporary storage. Several states allow an exemption from use tax 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 US.

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 a 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 sellers not based in the US that are making sales for resale, or sales under some other exemption to customers located in the US, because registration often requires that the seller first obtain a federal employer identification number. In recent years, several states have greatly 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. Fortunately, in most of these states, the local sales and use tax base mirrors the state-level sales and use tax base. On the other hand, rates may differ significantly among the localities within a particular state and multiple local taxing jurisdictions (such as counties, municipalities and special taxing districts) may impose separate rates.

Thus, as indicated above, a single address within a state may fall within multiple local taxing jurisdictions for determining the applicable rate to apply to a specific transaction.

In most states, local sales and use taxes are administered at the state level. However, in a limited number of states, such as Alabama, Colorado and Louisiana, such taxes may be administered by the locality imposing the tax. Thus, separate registrations and filings may be required in addition to registrations and filings with the state. In these states, not only may rates differ but so may the applicable tax base (i.e., transactions exempt from state tax may nevertheless be subject to local sales and use taxes). 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 specific locality, but this position is not universal (e.g., Colorado's Department of Revenue recently declared that despite the decision in *Wayfair*, physical presence was still required to collect local sales and use tax by those few jurisdictions in the state that exercised home rule authority).

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 businesses. This liability can be avoided if the seller complies with certain bulk sales and notice requirements, the rules for which vary between states and they often are required in addition to the general requirements applicable to commercial transactions generally under the applicable commercial law of the state.

K. Penalties

All states impose penalties for failure to file returns and pay sales and use 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% annually. 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.

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.

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. 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.

Tax representatives. 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).

Reverse charge. In Uruguay the importer entity should pay VAT on the taxed goods, no matter if it is a local or foreign entity.

Domestic reverse charge. Under Uruguayan regulations, there is no reverse charge as such.

However, there are some withholding agent regime measures related to VAT that are regarding goods and services that apply in the following cases:
- In the case of security, surveillance and cleaning services rendered to CIT payers for amounts higher than UYU40,000 excluding VAT (approximately USD1,050), the withholding would be 90% of the VAT.
- Moreover, if a taxed service is rendered in Uruguayan territory by a nonresident, a 22% VAT should be withheld by the CIT taxpayer client.

Also, some public bodies are appointed as VAT withholding agents for purchases of goods and services. In general, the withholding amount should be 60% of the total VAT.

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.

Online marketplaces and platforms. 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.

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.

Deregistration. Deregistration is accomplished by submitting Form 0351, establishing that the entity is no longer a VAT payer. To deregister, the business should stop carrying on the activity that was taxed by VAT.

VAT payers include, among others, CIT taxpayers who perform taxed activities, personal income taxpayers for self-employed activity and nonresident income tax (NRIT) payers, except when their activities are related exclusively to obtaining capital gains or yields of capital.

D. Rates

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

The VAT rates are:
- 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 0%

- Exports of goods

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

The term "exempt supplies" refers to supplies of goods and services that are not liable to VAT, and that do not qualify for input tax deduction.

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. The option to tax exempt supplies is not available in Uruguay.

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.

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.

Continuous supplies of services. For ongoing supplies of services, the taxable event established in the Uruguayan VAT regulations is determined on a monthly basis.

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.

Leased assets. In Uruguay there are two types of leasing: operative and financial. Both are treated as continuous supplies of services from a time of supply perspective (see above).

In accordance with Uruguayan law, by operative leasing includes a contract that gives the purchase option to the client at the end of the contract, but as long as such option implies a small amount (under certain circumstances determined on local regulations). Otherwise, it would be a financial leasing.

Leasing of real estate property in accordance with the Civil Code is exempt from VAT. Other operational leases are subject to VAT. Financial leasing is considered as sales and is subject to VAT depending on the goods supplied.

The tax treatment for "leasing" transactions with financial institutions is exempt from VAT. The leasing charge is exempted from VAT in the following circumstances:

- The contract must last at least three years.
- The goods subject to the contract have to comply with the definition of a utility vehicle given by the Uruguayan law and cannot be a real estate property affected to housing.

- The user must be a taxable person of one of the following taxes: CIT, farming CIT or transfer of agricultural and livestock assets tax.

If one of the circumstances mentioned above does not comply, the VAT applicable to the leasing would be calculated by the total amount of the payments expected in the contract, including the price of the asset and the accessory 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.

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

Partial exemption. A taxable person generally recovers input tax by deducting it from output tax. If purchases of goods and services are not used for making taxable supplies or for business purposes, input tax may not be recovered. Input tax related to both taxed and exempted income (other than exports), should be apportioned and recovered based on the taxable person’s taxable and exempt income.

Capital goods. There are no special input tax recovery rules for capital goods. As such, the normal input tax recovery rules apply.

Refunds. If the amount of input tax (credit VAT) recoverable in a month exceeds the amount of output tax (debit VAT) payable, the excess credit may be carried forward to offset output tax in

the following tax period. Nevertheless, input tax related to export sales can be recovered through credit certificates issued by the tax authorities.

For annual VAT returns, if the annual purchase VAT is greater than the annual sales VAT, the VAT credit is carried forward to the next fiscal year until it has been absorbed by VAT on sales.

Pre-registration 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.

Write-off of bad debts. A bad debtor is considered to exist in the following situations:
- 18 months after the expiration of the payment obligation
- A check payment without funds
- Other similar situations

When the bad debt is recognized, the VAT that was accounted for by the supplier is reduced in the current VAT period. If the debtor subsequently pays, the company has to recompute the VAT deducted previously.

Noneconomic activities. Input tax incurred upon purchases that are used for noneconomic activities is not recoverable in Uruguay.

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. 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.

Credit notes. 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.

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.

Simplified VAT invoices. Simplified VAT invoicing is not allowed in Uruguay. Nevertheless, a separate invoice is not required to be issued for sales to a final customers (i.e., for B2C not B2B sales) amounting to less than UYU140. In such cases, a general invoice should be issued at the end of each business day, including all sales that were not documented due to this exception.

Self-billing. Self-billing is not allowed in Uruguay.

Proof of 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.

Supplies to nontaxable persons. 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).

Records. The records that must be held by taxable persons are as follows:
- Inventory book (which contains the balance sheets of the company)
- Diary book (which contains the accounting entries of the company)

Special accounts for VAT should also be kept and 22%-rate and 10%-rate transactions should be separated.

Record retention period. The general statute of limitations for tax obligations in Uruguay is 5 years, which may be extended to 10 years in cases of tax fraud, or other periods may apply for promoted investment projects.

Electronic archiving. Physical records should be kept physically (e.g., books), and electronic records should be kept electronically (e.g., accounting system).

I. Returns and payment

Periodic 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.” Monthly VAT returns are due in the month following the month in which the transactions are reported.

Periodic payments. All VAT taxpayers must make VAT payments monthly. Monthly 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). 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.

If taxable persons choose this option, it must be maintained for at least three fiscal years, provided the conditions to access the option are still met.

For annual VAT returns, if the annual purchase VAT is greater than the annual sales VAT, the VAT credit is carried forward to the next fiscal year until it has been absorbed by VAT on sales.

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.

Payments on account. Payments on account are not required in Uruguay.

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.

Annual returns. 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.

However, large taxpayers are required to submit monthly tax returns.

Supplementary filings. There are several supplementary filings that apply, depending of the type of business, the type of VAT regime and the type of operation. Examples include:
- Informative form number 2181, including details of VAT on sales and purchases, which is applicable only to relevant or large taxpayers
- Informative form number 2183, including details of some VAT withholdings

Digital reporting. There are a number of digital reporting requirements in Uruguay. Examples include:
- Electronic invoicing, invoices are sent digitally in real time through the tax authorities' system
- Tax returns in most cases are filed electronically
- Disposal of electronic credit certificates for businesses
- Electronic payments

J. Penalties

Penalties for late registration. The penalty for late registration established by the tax authority is an economic fine of approximately USD20.

Penalties for late payment and filings. A penalty of 5%, 10% or 20% is imposed for late payment of VAT, and a penalty of UYU540, UYU560 or UYU610 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 errors. There are no specific penalties for errors in Uruguay. If taxes are not paid, irrespective of whether or not this arises as a result of an error, the penalties that can be imposed are those outlined above in Penalties for late payment and filings and below in Penalties for fraud.

Penalties for fraud. In cases of tax fraud, fines could total from 1 to 15 times the amount of unpaid taxes due to the infraction and the offense could be punished with a penalty of six months to six years in prison.

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A. At a glance

Name of the tax	Value-added tax (VAT)
Local name	Qo'shimcha qiymat solig'i (QQS) / Налог на добавленную стоимость (НДС)
Date introduced	1992
Trading bloc membership	None that relate to VAT
Administered by	State Tax Committee Ministry of Finance
VAT rates	
Standard	15%
Other	Zero-rated (0%) and exempt
VAT number format	12-digit number (XXXXXXXXXXXX), where X is a digit between 0-9
VAT return periods	
Monthly	Calendar month (filing and payment due before 20th day of the month following the reporting period)
Thresholds	
Registration	
Mandatory	More than UZS1 billion (approximately USD105,000)
Imports	None
Voluntary	Less than UZS1 billion are eligible to pay revenue-based tax under simplified tax regime instead of CIT and VAT. However, they may register for VAT on voluntary basis.
Recovery of VAT by non-established businesses	No (subject to certain exceptions)

B. Scope of the tax

VAT is levied on turnover derived from the supply of goods and services in Uzbekistan (based on place of supply rules), including imports, unless they are zero-rated or specifically exempt. Any excise taxes paid are included in the taxable base for VAT purposes.

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 Uzbekistan must register with the local tax service.

Uzbek legal entities and individual entrepreneurs with an annual turnover more than UZS1 billion (approximately USD105,000) have to register with tax authorities for VAT purposes. Importers of goods have to register with tax authorities for VAT purposes regardless of the annual turnover.

Exemption from registration. The VAT registration threshold in Uzbekistan is UZS1 billion (approximately USD105,000).

Voluntary registration and small businesses. Uzbek legal entities and individual entrepreneurs with an annual turnover less than UZS1 billion (except importers of goods) are eligible to pay revenue-based tax under simplified tax regime instead of CIT and VAT. However, they may become taxpayers on a voluntary basis.

Non-established businesses. Non-established businesses selling goods or services in the territory of Uzbekistan, are obliged to register for VAT if place of supply is deemed to be Uzbekistan. The basic place of supply rule for services is where the recipient of the service is located. There are some exceptions to the general place of supply rule, for example for advertising services and immovable property (located in Uzbekistan). If the recipient is registered for VAT in Uzbekistan, the recipient is responsible for accounting for the VAT.

For supplies made by non-established businesses, where the contract states VAT, the recipient in Uzbekistan withholds VAT at source. If the contract does not state VAT, the recipient accounts for VAT by way of the reverse-charge mechanism.

Tax representatives. Tax representatives are not required in Uzbekistan.

However, new rules for VAT on digital services were introduced from 1 January 2020. As such for non-established businesses supplying digital services to individuals in Uzbekistan, i.e., business-to-consumer (B2C), digital services are subject to VAT, and the non-established business must register for VAT in Uzbekistan. See the *Digital economy* subsection below for more details.

However, at the time of preparing this chapter, no exact detail has yet been published as to how non-established businesses must register for VAT in Uzbekistan, how they must pay the VAT, what documents are required etc. Therefore, it is possible that such businesses may be re-quired to appoint a tax representative, but this is not yet known.

Reverse charge. For supplies made by non-established businesses to businesses in Uzbekistan, i.e., business-to-business supplies (B2B), where the contract does not state VAT, the recipient must self-account for VAT by way of the reverse charge. However, this does not apply for supplies of digital services supplied to consumers (B2C). See the *Digital economy* subsection below for more details.

Digital economy. From 1 January 2020, nonresident entities providing electronic services to Uzbekistan individuals, i.e., B2C via the internet must register for VAT in Uzbekistan, calculate Uzbekistan VAT based on turnover of such services rendered (if place of supply is deemed to be Uzbekistan), file regular VAT returns (electronically) and pay the calculated VAT liability to the Uzbekistan tax authorities.

Registration procedures. Relevant notice for registration for VAT should be submitted to the tax authorities via the online platform or by an application in a written form.

Deregistration. Taxable persons may deregister for VAT if their turnover falls below the registration threshold.

D. 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: 15%
• 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
• International transportation services
• Utility services provided to private consumers
• Goods and services supplied for official use to diplomatic missions

The term "exempt" refers to supplies of goods and services that are not liable to VAT and that do not qualify for input tax deduction.

Examples of exempt supplies of goods and services

• Financial services (e.g., banking and insurance)
• Sale of pharmaceuticals (e.g., drugs and medicines)
• Educational services
• Veterinary services
• Passenger transportation services provided by the government (i.e., the public transport system)

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 the earlier of when the goods are delivered, the receipt of the invoice or the title is transferred to the purchaser. The basic time of supply for services is the earlier of the acceptance of the supply of services or the receipt of the invoice.

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 Uzbekistan and VAT paid on imports of goods.

VAT payable to the budget is generally determined as output tax charged less allowed input tax paid on purchases. Input tax incurred in connection with the supply of exempt goods and services and on nonbusiness costs cannot be offset against output tax.

Partial exemption. Input tax directly related to the making of exempt supplies is, as a rule, not recoverable. If a taxable person makes both exempt and taxable supplies, it may not recover input tax in full. The amount of input tax that a partially exempt business may recover is calculated using the general pro-rata method or the direct allocation method. The method that is used is based on the accounting policy of the taxpayer.

For the direct allocation method, all input tax incurred that relates directly to taxable turnover can be offset in full. Then the input tax incurred for overheads is recoverable, based on the distributed ratio of turnover (total taxable turnover over total nontaxable turnover).

For the proportionate method, the taxpayer calculates the ratio of total taxable and nontaxable turnovers. That ratio is then applied to all input tax incurred.

Only the above two methods can be used in Uzbekistan, there are no special methods.

G. Recovery of VAT by non-established businesses

Non-established businesses not registered for VAT in Uzbekistan, cannot recover input tax incurred in Uzbekistan. This is, however, subject to certain potential exceptions. Nevertheless, input tax incurred in Uzbekistan by nonresident entities that are registered for VAT in Uzbekistan can offset their input tax against output tax.

H. Invoicing

VAT invoices. There is no specific VAT invoice format in Uzbekistan. However, there are general invoicing rules, which must be used. Invoices should be issued upon completion of the services or upon transfer of the goods. Invoices must be retained for input tax to be offset. If the services are rendered on an ongoing basis, the invoice should be issued at the end of the month.

Credit notes. If there are changes in the terms of the supply (e.g., change in the volume of supply, a price change, or if there is a return of the goods) the supplier may issue a credit note.

Electronic invoicing. With effect from 1 January 2020, electronic invoicing is now mandatory. There are no mandatory software providers for electronic invoicing.

Proof of exports. Proof of exports to support exemption with credit are the general commercial and transportation documents related to export sales, e.g., export declaration. Declarations should have the mark of the customs authorities where the goods have been exported from.

Foreign currency invoices. Invoices issued to foreign customers can be issued in USD or EUR, depending on the commercial terms of the agreement. If supplies are made within Uzbekistan, the invoices must be issued in Uzbekistani Som (UZS). The Central Bank exchange rates must be used for conversion, which are published on a weekly basis.

Records. All accounting records and supporting documents, invoices, contracts, and transportation documents, etc., must be kept by taxpayers.

Record retention period. Records must be retained for five years.

Electronic archiving. Electronic archiving is not allowed yet in Uzbekistan. However as electronic invoicing is mandatory from 1 January 2020, new rules may be issued by the tax authority for electronic archiving. *At the time of preparing this chapter, no rules have yet been issued. As such, physical records must be kept for now. Before 1 January 2020 all documents must be physically kept in Uzbekistan, but this may be subject to change.*

I. Returns and payment

Periodic returns. The filing of VAT returns is on a (calendar) monthly basis in Uzbekistan. Filing is due before 20th day of the month following the reporting period.

Periodic payments. Taxpayers must make VAT payments before 20th day of the month following the reporting period.

Electronic filing. VAT returns may be filed electronically, via the tax authority's website. It is not mandatory to file electronically but is strongly recommended. To file VAT returns electronically,

the taxpayer must have an electronic signature from the tax authority's website to submit files online. However, if there is no possibility to submit VAT returns electronically, paper filing is still allowed.

J. Penalties

Penalties for late registration. The penalty for late registration of VAT is 5% of the revenue subject to VAT, the penalty applies from the date when the VAT registration was due, until the actual date of registration. The penalty cannot be less than UZS5 million (approximately USD500).

Penalties for late payment and filings. For non or late payment of VAT, or for incomplete payment, a penalty is due of 20% of the amount underpaid or paid late.

For late or non-filing of the VAT return, the penalty is 1% of the tax due for each day of the delay, but not more than 10%.

Late payment interest is calculated 1/300 of the amount due, for each day of delay.

Penalties for errors. If an error leads to an understatement of VAT, late payment interest is due.

If an error leads to an overstatement of VAT, no penalties are due. An updated VAT return is required to be submitted to the tax authorities.

Penalties for fraud. A range of penalties may be applicable in the case of VAT fraud, but there is no specific fine for fraud.

For the concealed understatement of the tax base, a penalty is due of 20% of the concealed understated amount (i.e., a deliberate evasion). In addition, criminal sanctions and administrative fines may be imposed if the amount in question is significant.

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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 consumption tax) maximum 20%, minimum 15%; zero-rated (0%) 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.

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

Voluntary registration and small businesses. 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.

Group registration. Group VAT registration is not possible in Venezuela.

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 input tax belongs to the recipient (the Venezuelan entity).

Domestic reverse charge. There are no domestic reverse charges in Venezuela.

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.

Online marketplaces and platforms. No special rules exist for online marketplace and platforms in Venezuela.

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.

Deregistration. This occurs upon notification to the tax administration. This applies when taxpayers are liquidated or merged within another entity, in which cases the taxpayer ID of the entity that is absorbed or eliminated shall be deregistered.

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.

D. 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: 16%
- Zero-rate: 0%

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. The luxury consumption (additional rate) is currently 15%. The 15% rate also applies to the sale or import of certain goods specified in the VAT law, and specific services.

The standard rate of VAT applies to all supplies of goods and services, unless a specific measure provides for a different rate.

Examples of goods and services taxable at 0%

- Exports of tangible personal property and tangible movable property
- Exports 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 goods and services taxable at 15%

- Membership and maintenance fees of restaurants, nightclubs and bars with restricted access
- The rental of ships or aircraft for civilians, among others, for recreational activities or sports
- Services provided by third parties through text messaging or other technological means
- 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
- 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 term "exempt supplies" refers to supplies of goods and services that are not liable to VAT and that do not qualify for input tax deduction.

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. Option to tax for exempt supplies is not allowed in Venezuela.

E. Time of supply

VAT generally becomes due when the taxable event occurs.

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

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

For all other supplies, 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.

Continuous supplies of services. 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.

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.

Leased assets. In Venezuela, there are no special time of supply rules for supplies of leased assets. As such, the time of supply rule for services applies. As such, VAT must be accounted for upon issuance of the invoice, payment or when the consideration is enforceable.

Imported goods. The time of supply for imports is when the registration of the customs return is due.

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 tax is higher than the output tax 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.

Nondeductible input tax. Input tax may not be recovered on purchases of goods and services that are not used for making taxable supplies. Input tax may not be recovered if no documentation supports the transaction or if one or more formal invoice requirements are not fulfilled.

Examples of items for which input tax is nondeductible

- Goods acquired for private use by an entrepreneur

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. There are no partial exemptions. Exonerations are temporary and can last up to five years.

Capital goods. There are no specific input tax recovery rules for capital goods. As such, the general input tax rules apply. The acquisition and sale of tangible movable assets will be taxable for VAT purposes whether or not such goods are referred to capital goods. In cases where acquisition of goods is used for both taxable and exempted activities, the attribution of the input tax shall be on a on a pro rata basis, in cases where it is not separately recognized. Regarding the use of the input tax from acquisition of goods note that such right is applicable for 12 months after issuance of invoice. This is the general rule to be observed under VAT law.

Refunds. 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 subsidiaries.

Pre-registration costs. VAT incurred on pre-registration costs cannot be recovered in Venezuela.

Write-off of bad debts. Output tax accounted for on supplies that do not get paid by the recipient (i.e., bad debts) cannot be recovered in Venezuela.

Noneconomic activities. Input tax incurred upon purchases that are used for noneconomic activities, is not recoverable in Venezuela.

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.

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.

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

Simplified VAT invoices. Simplified invoices issued by tax machines (tickets) are allowed for ordinary VAT taxpayers, duty free shops and those that are not considered ordinary VAT taxpayers, when the annual gross income is higher than 1,500 tax units (1 tax unit is equivalent to VES50 — USD0.0025) and/or where businesses mainly execute transactions with customers that will not be using the invoice to support an expense claim, among other conditions.

Self-billing. Self-billing is allowed only when under reverse-charge mechanism (import of services).

Proof of exports. 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.

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.

Supplies to nontaxable persons. There are no special rules that apply for VAT invoices issued for supplies made by taxable persons to private consumers.

Records. Taxpayers must keep in an orderly manner, as long as the obligation is not prescribed (6 to 10 years), both books, invoices and other accounting documents, such as magnetic media, discs, tapes and the like or other elements, which have been used to make the corresponding entries and records.

Record retention period. Records must be kept during the statute of limitation. Under Master Tax Code, the statute limitation is a period between 6 and 10 years.

Electronic archiving. Records shall be kept and archived in hard copy and electronically. Records must be available in case of any requirement from the tax administration.

I. Returns and payment

Periodic returns. The tax is assessed for monthly tax periods. The tax return a 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.

Periodic payments. The payment of any tax due must be submitted within the first 15 days following the tax period. It should be filed online.

Electronic filing. Electronic filing is required for all taxpayers and submitted online.

Payments on account. Payments on account are not required in Venezuela.

Special schemes. The taxpayers qualified as "special" (high level of income) by the tax administration will act as withholding agents for the VAT invoiced by their suppliers of goods or services.

Annual returns. Annual returns are not required to be filed in Venezuela.

Supplementary filings. No supplementary filings are required in Venezuela. However, there is an obligation to maintain a sales book, among other books (i.e., a daily book, inventory book, mayor book (ledger), shareholder book, shareholders meeting minutes book). Nevertheless, these books must be provided to the tax authority only when it is required through a legal procedure. In this sense, it is not be considered a supplementary filing.

Digital reporting. No digital reporting requirements apply in Venezuela. VAT returns must be filed electronically (definitive/WHT/and advance VAT).

J. Penalties

Penalties for late registration. The penalty for late registration is closure of the office (when applicable) for 5 days and a fine of 50 tax units (currently, the value of 1 tax unit is VES50 [USD0.00201] at the FX rate of VES21,000VES1 to USD1).

Penalties for late payment and filings. The penalty for late payment and filings will be:
- Less than one year from the expiration date — a fine of 0.28% of the amount due for each day of delay up to a maximum of 100%
- After one year but less than two years from the expiration date — an additional fine than previously indicated equivalent to 50% of the amount due
- Delay exceeding two years from the expiration date — an additional fine to what was previously indicated equivalent to 150% of the amount due

The penalty for nonpayment of VAT due, is a fine between 100% and 300% will apply.

Failure to withhold VAT may result in the following penalties:
- For not withholding, a penalty equivalent to 500% of the tax not withheld, will be applicable
- For applying a withholding in a lower amount, 100% of the tax not withheld
- For late payment of the WHT, a penalty equivalent to 5% of the amount withheld for each day of delay up to a maximum of 100 days
- For nonpayment of the amount withheld, the penalty will be 1,000% of the respective amount and this will imply imprisonment between six months to seven years

Supplementary VAT returns (substitutive) are allowed when there is a VAT amount to be paid (output tax higher than input tax). Submission of substitutive (rectifying) declarations is subject to fines only after the file of the second substitution or when the first substitute declaration is

submitted after the 12 months following expiration of the deadline for the presentation of the substituted declaration. In these cases, a 50 UT fine is assesed (1 UT equals VES50 – USD0.002).

Penalties for errors. Noncompliance of formal duties are sanctioned as follows:
- 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

Penalties for fraud. 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)
Local name	Thue Gia tri gia tang (GTGT)
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 (0%) and exempt
VAT number format	9999999 (7 digits)

VAT return periods	Monthly or quarterly
Thresholds	
Registration	None
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.

No VAT registration threshold applies in Vietnam.

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

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 and small businesses. 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.

Group registration. Group VAT registration is not allowed in Vietnam.

Non-established businesses. 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 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, tax is payable only through the withholding mechanism.

As outlined above, there are two methods for VAT calculation (under the current VAT regulations) in Vietnam:

- Credit method: declare the input and output VAT and pay to authority the offset amount between output and input tax
- Withholding method/direct method: fixed tax rate on added value/revenue

A foreign contractor will elect the most suitable method for its VAT filings in Vietnam, subject to fulfillment of relevant conditions. For example, if it anticipates that it will incur a lot of local input tax, it will apply credit method.

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. Tax representatives are not allowed in Vietnam.

Reverse charge. Reverse-charge services relate to foreign contractors who apply the foreign contractor tax (FCT) declaration under the deemed method. Upon making the payment, the Viet-

namese purchasers must self-assess and withhold the FCT amount (including VAT and corporate income tax).

Domestic reverse charge. There are no domestic reverse charges in Vietnam.

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.

Online marketplaces and platforms. New rules will come into effect from 1 July 2020 for cross-border business activities based on digital intermediary platforms. The foreign parties must register for VAT directly with the tax authority. For e-commerce trading, i.e., business based on digital platforms, and other services performed by foreign suppliers having no permanent establishment in Vietnam, the foreign suppliers have to directly register for VAT and pay VAT based on the regulations by the MOF.

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.

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).

D. 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: 10%
- Reduced rate: 5%
- Zero-rate: 0%

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

Examples of goods and services taxable at 0%

- Exported goods and services, including goods and services sold to overseas organizations or individuals outside Vietnam, as well as goods and services supplied to organizations or individuals in non-tariff areas
- Construction and installation carried out overseas or within export processing zones
- International transportation

Examples of goods and services taxable at 5%

- 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 term "exempt supplies" refers to supplies of goods and services that are not liable to VAT and that do not qualify for input tax deduction.

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. Option to tax for exempt supplies is not allowed in Vietnam.

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.

Deposits and prepayments. For services, the tax point is when the prepayment is made, requiring an invoice to be issued.

Continuous supplies of services. Vietnam does not have a special time of supply rule for continuous supplies of services. As such the normal tax point rules for services apply (see above).

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).

Leased assets. Vietnam does not have a special time of supply rule for leased assets. As such the normal tax point rules for services apply (see above).

Imported goods. For imported goods, VAT becomes due at the time of registration of the customs declarations.

Installment sales. For installment sales, VAT becomes due when the purchaser possesses the right to use the goods.

F. Recovery of VAT by registered persons

Businesses may claim input tax 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 tax 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 tax paid on goods or services used for producing or trading nontaxable goods or services. They also cannot claim the input tax 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 tax 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 tax is calculated using a ratio based on the proportion of taxable turnover compared with total turnover.

Capital goods. "Capital goods" are defined as tangible fixed assets such as building, machines, equipment, etc. When capital goods are purchased and relate to both taxable and exempt supplies made by a taxpayer, an apportionment has to be calculated to work out the percentage of the goods that relates to the taxable supplies. This percentage can only be deducted as input tax, and the remaining percentage that relates to the exempt supplies is not allowed to be deducted. There are no special rules for capital goods in respect of time and duration of use.

Refunds. Businesses that pay VAT using the tax credit method (see the non-established businesses subsection above for detail on this 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 tax 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 tax of at least VND300 million that has not been credited against output tax 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 six working days (in the case of refund before examination) or within 40 days (in the case of examination before refund).

Pre-registration costs. A taxpayer may recover input tax it incurred prior to registering for VAT. It must hold the invoices bearing the name of the authorized business. The invoices of which the

value is VND20 million or more (inclusive of VAT) must be reimbursed via the bank of the company, and not via the tax authority.

Write-off of bad debts. Input tax incurred in relation to bad debts can be recovered by taxpayers. The VAT must have already been written off as an expense, as a provision for bad debts.

Noneconomic activities. Input tax incurred in relation to noneconomic activities is not recoverable in Vietnam.

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 Vietnam Accounting Standard/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 Vietnam Accounting Standard/Hybrid Method

Foreign contractors that do not apply the Vietnam Accounting Standard/Hybrid Method may not recover input tax unless a specific international agreement entered into by Vietnam provides otherwise.

H. Invoicing

VAT invoices. 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

The tax authorities may sell only blank invoices to a few specified persons such as nonbusiness organizations, individuals and households that generate sale revenue.

A valid invoice is necessary to support a claim for input tax deduction.

Credit notes. Credit notes are not available in Vietnam. An adjustment or cancellation to a supply is reflected by way of an adjustment invoice. If it is return of goods, the buyer is required to issue an invoice to the seller. In case an issued invoice is found incorrect before it is given to the buyer, the seller shall cross out the copies and keep the incorrect invoice.

In case an issued invoice is found incorrect after it is given to the buyer but before goods are delivered or services are provided, or after it is given to the buyer but before the buyer and the seller declare tax, the invoice shall be void; the buyer and the seller shall make a record on withdrawal of copies of the incorrect invoice. The withdrawal record must specify the reasons for

invoice withdrawal. The seller shall cross out the copies, keep the incorrect invoice and issue a new invoice as prescribed.

In case an invoice is found incorrect after it is given to the buyer, goods are delivered or services are provided, the buyer and the seller are declared tax, the buyer and the seller shall make a record or a written agreement specifying the errors, then the seller shall make a corrective invoice. The corrective invoice must specify the adjustment (increase or decrease) to the quantity of goods, sale prices, VAT rates, VAT amounts on the invoice number. According to the corrective invoice, the buyer and the seller shall adjust the sales, input tax and output tax. Negative numbers must not be written on the corrective invoices.

Electronic invoicing. 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

It is understood that from 1 July 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.

At the time of preparing this chapter, it is understood that the implementation of electronic invoices shall be delayed from 1 July 2020 to 1 July 2022.

Simplified VAT invoices. Simplified VAT invoicing is not allowed in Vietnam. As such, full VAT invoices are required.

Self-billing. Self-billing is not allowed in Vietnam.

Proof of exports. Exports of goods and services are zero-rated. Proof of export is required. The required documents to claim a refund of input tax 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.

Supplies to nontaxable persons. 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 require one; however, at the end of the day, the supplier has to issue VAT invoice for the total of those such purchases.

Records.

Record retention period. The following general guidelines apply to the retention of documents and other accounting records:

- Documents to be kept for at least five years include those used for management or operation of the enterprise
- Documents to be kept for at least 10 years include accounting data, accounting books, financial statements and reports of independent auditing firms
- Documents to be kept permanently include those that are significant in terms of economics, national security and defense

Electronic archiving. Enterprises are allowed to choose whether to keep the records in physical form or electronically. Upon the request from competent authorities for the purpose of inspection, enterprises might be required to print out the electronic records, sign and seal to provide.

I. Returns and payment

Periodic returns. Businesses are generally required to file a monthly tax return 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 statutory 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.

Periodic payments. Businesses are generally required to remit the monthly VAT payable to the tax office by the 20th day of the following month or quarterly VAT payable by the 30th day of the following quarter.

Any excess input tax 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.

Electronic filing. 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.

Payments on account. Payments on account are not required in Vietnam.

Special schemes. There are no special schemes for VAT available in Vietnam.

Annual returns. Annual returns are not required to be filed in Vietnam.

Supplementary filings. No supplementary filings are required in Vietnam. However, in case the tax declaration dossier submitted to the tax authority is erroneous or inadequate, supplementary documents may be provided within 10 years from the deadline for submission of the erroneous

or inadequate tax declaration dossier but before the tax authority or a competent authority announces a decision on tax document examination.

Digital reporting. No digital reporting requirements apply in Vietnam. *At the time of preparing this chapter, it is understood that electronic invoicing will be implemented to 1 July 2022.*

J. Penalties

Penalties for late registration. 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.

Penalties for late payment and filings. Interest is imposed for late payment of VAT at the progressive rate of 0.03% per day from 1 July 2016.

Failure to comply with tax filing requirements may result in a warning or a fine ranging from VND700,000 to VND5 million, depending on the length of the delay.

Penalties for errors. The fine for understatement of tax payable or overstatement of refundable tax, exempt tax shall be 20% of the tax arrears or overstated refundable tax, exempt tax.

Penalties for fraud. Tax evasion or tax avoidance if incurring may result in a fine ranging from one to three times of the tax arrears.

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At the time of preparing this chapter, the Zambian government has indicated in the 2020 National Budget that it will not proceed with its previous plans to abolish VAT and reintroduce sales tax.

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 (COMESA) and Southern African Development Community Member (SADC)
Administered by	Zambia Revenue Authority (www.zra.org.zm)
VAT withholding tax	1/3 of VAT charged on an invoice
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.

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, they may by notice waive the requirement of the business to register. However, the Commissioner-General reserves the right to rescind the decision any time they deem it necessary.

Voluntary registration and small businesses. 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

Group registration. Group VAT registration is not allowed 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).

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. 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.

Domestic reverse charge. There are no domestic reverse charges in Zambia.

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). Before 1 January 2020, the VAT treatment of e-services supplied by non-established businesses would have been treated as an imported service. Effective 1 January 2020, the VAT Act has been amended to introduce the taxation of electronic services, whereby tax is payable on the provision of an electronic service in Zambia where that service is performed, undertaken or utilized in Zambia or the benefit of the supply is for a recipient in Zambia regardless of whether the provider of the service has a place of business in Zambia or the service is paid for outside Zambia.

As with other imported services, in the event that the non-established business has no registered office in Zambia, the supplier will be required to appoint a tax agent resident in Zambia to account for VAT. In absence of tax agent, the customer would account for the VAT as output tax.

Online marketplaces and platforms. No special rules exist for online marketplaces and platforms in Zambia.

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.

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.

D. 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: 16%
- 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 VAT and that does not qualify for input tax deduction.

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 (except fee-based banking services, which are subject to VAT at standard rate)
- Insurance services (except property insurance and casualty insurance, which are subject to VAT at the standard rate)
- Basic foods
- Agricultural supplies

Option to tax for exempt supplies. Option to tax for exempt supplies is not allowed in Zambia.

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 of supply for prepayments is the date when payment is received
- The time when a tax invoice is issued
- The time when they are actually rendered or performed

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 form part of the consideration, the time of supply is when the deposit is refunded when the goods are returned safely.

Continuous supplies of services. If a supplier provides services on a continuous basis and receives payments regularly or from The 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.

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.

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

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.

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.

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.

Capital goods. No special input tax rules apply to VAT incurred upon capital goods. As such, normal input tax recovery rules (as outlined above) apply.

It is worth noting, however, that capital goods are subject to VAT at the standard rate except where expressly exempted. Thus, input tax would be claimable by a taxable supplier subject to the normal recovery rules. However, when goods are imported into Zambia (which includes removing from an approved bonded warehouse), VAT, together with any import duties, is payable at importation except for exempt goods. There may be some exceptions for goods imported pursuant to the Customs and Excise (General) Regulations.

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.

Pre-registration costs. Businesses registered within one month after becoming liable to register are eligible to claim input tax incurred three months prior to registration.

Write-off of bad debts. VAT paid to the authority but not received from a customer may, subject to the rules below, be claimed back:

- The debt has been outstanding for 18 months or more.
- The debtor has been declared insolvent by a court of law, i.e.,
  - If the defaulting customer is a person, sole trader or partnership, who has been declared bankrupt by the courts
    Or
  - If the debtor is a limited company, the court has ordered it's winding up and an appointed liquidator or receiver has issued a certificate to the effect that in his opinion the company would not meet the debts of unsecured non-preferential debts

To satisfy the revenue authority that claims to bad debt relief are valid, VAT-registered suppliers claiming bad debt relief should retain the following documentary evidence:

- A copy of the tax invoice issued to the debtor in connection with the supply that later became a bad debt
- Evidence that the VAT being claimed as bad debt relief was remitted to the authorities
- Copies of correspondence referred to in steps 1 and 2 above

Noneconomic activities. Input tax incurred in relation to noneconomic activities is not recoverable in Zambia.

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. 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. 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. The period for which tax invoices can be used to support input tax recovery is three months.

All tax invoices must be issued from a ZRA approved software package. Taxpayers are able to apply for approval from the tax authority of their accounting packages prior to the issuance of invoices.

Effective 1 January 2020 taxpayers are also required to use electronic fiscalized devices (EFDs). Taxpayers must have the EFD in place at the time of registering for VAT. The application for EFDs can be done electronically (via the tax online system) or physically (by paper in person). The statutory provision allows for the Commissioner-General to apply his discretion in approving the use of a document, device or equipment other than an EFD for a certain category of taxpayers. It is mandatory to capture and electronically transmit to the ZRA the taxpayer identification number (TPIN) and names of both the buyer and seller of goods and services in all business-to-business and business-to-government transactions.

Credit notes. 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.

Electronic invoicing. Electronic invoicing is not mandatory in Zambia but is allowed and 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

Simplified VAT invoices. Simplified VAT invoicing is not allowed in Zambia. As such, full VAT invoices are required.

Self-billing. Self-billing is not allowed in Zambia.

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.

Supplies to nontaxable persons. There are no special VAT rules for supplies made to private consumers. A tax invoice must be issued for all supplies.

Records.

Record retention period. All records and accounts, including tax invoices and credit notes, must be preserved in English for a minimum of six years and made available for inspection to authorized officers of the ZRA on demand.

Electronic archiving. The VAT Act does not specifically provide for electronic archiving. However, it is recommended to archive records electronically in addition to manual archiving (i.e., by paper).

I. Returns and payment

Periodic 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.

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.

Periodic payments. Payment is due in full by the same date as the filing deadline of the VAT return (see above).

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.

Payments on account. Payments on account are not required in Zambia.

Special schemes.

Cash accounting. 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).

Annual returns. Annual returns are not required to be submitted for VAT in Zambia.

Supplementary filings. No supplementary filings are required in Zambia.

Digital reporting. Electronic invoicing is not mandatory in Zambia but is allowed and is being encouraged.

Effective 1 January 2020, taxpayers are also required to use electronic fiscalized devices (EFDs). Taxpayers must have the EFD in place at the time of registering for VAT. The application for EFDs can be done electronically (via the tax online system) or physically (by paper in person). The statutory provision allows for the Commissioner-General to apply his discretion in approving the use of a document, device or equipment other than an EFD for a certain category of taxpayers. It is mandatory to capture and electronically transmit to the ZRA the taxpayer identification number (TPIN) and names of both the buyer and seller of goods and services in all business-to-business and business-to-government transactions.

J. Penalties

Penalties for late registration. 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.

Penalties for late payment and filings. Penalties for late payment is 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%.

Penalties for late filings is 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.

Penalties for errors. Interest is chargeable at the Bank of Zambia discount rate plus 2% on amounts underdeclared on VAT returns, e.g., under-declarations discovered and assessed following a VAT inspection visit.

Failure to issue a tax invoice from an approved computer package, preprinted tax invoice book or a fiscalized cash register can result in penalty of K90,000 (300,000 penalty units).

Penalties for fraud. Penalties for the issuance of false returns and statements attract a fine of up to K6,000 (20,000 penalty units) or imprisonment for a term not exceeding two years, or both. Penalties for fraudulent evasion of tax attracts a fine of up to K9,000 (30,000 penalty units) or six times the amount of the tax sought to be evaded or recovered, whichever is greater, or imprisonment for a term not exceeding three years, or both.

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A. At a glance

Name of the tax	Value-added tax (VAT)
Local name	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 withholding tax	1/3 of VAT charged on an invoice
VAT rates	
Standard	14.5%
Other	Zero-rated and exempt
VAT number format	10001111 eight numeric characters beginning with a 1
VAT number format	10001111
VAT return periods	Annual taxable supplies of RTGS 4 million or more (category C) Annual taxable supplies of less than RTGS 4 million (categories A & B)
Thresholds	
Registration	RTGS1 million
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 any person

- The supply of imported services by any person
- The supply of goods and services through an auctioneer

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. 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 from 2012 to 2019 was USD60,000. With effect from 1 January 2020 the threshold is Zimbabwean RTGS dollar (RTGS)1 million. A taxable person must notify ZIMRA of its obligation to register for VAT within 30 days of becoming obligated to register.

The auctioneer through whom a non-registrant supplies goods and services is responsible for the VAT on the supply of such goods and services.

Exemption from registration. The VAT Act in Zimbabwe does not contain any provision for exemption from registration.

Voluntary registration and small businesses. Generally not allowed in Zimbabwe who may set threshold for voluntary registration from time to time. There are also no special rules for small businesses. The law requires a trader to satisfy the Commissioner General that they are eligible to register for VAT. ZIMRA generally rejects an application for registration if the applicant's annual turnover is less than RTGS1 million per annum. A company cannot apply for VAT registration for purposes of recovering input tax.

However, the Commissioner can set the turnover threshold for voluntary registration on a special case basis, upon its approval.

Group registration. Group VAT registration is not allowed in Zimbabwe. 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 RTGS1 million per annum.

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.

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. The reverse-charge mechanism is not in place in Zimbabwe. 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. With effect from 1 January 2019, registered operators were required to pay VAT on imported services. However, the tax paid was not claimable as import tax. The tax is eligible for input tax starting 1 January 2020 following a change in law.

Domestic reverse charge. It is applicable in limited situations. The Commissioner's approval is required before it is applied. The domestic reverse charge applies to the following:
- Supplies of commodities
- Supplies made within the mining sector

For such supplies, the customer is required to self-account for the VAT due. It is also allowed to self-bill for the supplies made, as it is only the purchaser who can exactly quantify what and how much has been supplied, due to the nature of the supplies and sectors in scope.

Digital economy. There are no specific rules on registration of businesses that sell goods via the internet to customers who are in Zimbabwe. See the Online marketplaces and platforms subsection below. 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. With effect from 1 January 2020, the supply of radio and television services from outside Zimbabwe to an address in Zimbabwe or of electronic service by an electronic commerce operator domiciled outside Zimbabwe to a person resident in Zimbabwe shall be deemed to be a supply made in Zimbabwe. This means operators are supposed to charge VAT at the standard rate. The obligation to charge and account for tax shall be that of the supplier or their duly appointed representative in Zimbabwe. Operators are required to appoint a representative taxpayer who will be responsible to account for the tax.

Online marketplaces and platforms. With effect from 1 January 2020, VAT is due on supplies made through online marketplaces and platforms in Zimbabwe. *However, at the time of preparing this chapter, the legislation on this change has been released by the tax authorities, but no regulations outlining the detail on this change have yet been published.*

Registration procedures. Every person who carries on trade is liable to register within 30 days if:
- Taxable supplies exceed RTGS1 million 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 RTGS1 million 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

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 RTGS1 million or is not expected to exceed RTGS1 million in the period of 12 months commencing at the beginning of any tax period.

D. 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 rate are:
- Standard rate: 14.5% (with effect from 1 January 2020)
- 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.

The effective date for collection of tax on the exportation of unbeneficiated platinum is 1 January 2022. In addition, exported unbeneficiated hides are subject to tax at the higher of USD0.75 or 14.5% of the gross value.

No VAT payable with effect from 1 January 2020 to 1 January 2025 on the value of unbeneficiated lithium exported in the form of spodumene and chemical grade petalite concentrate by a supplier of such lithium who, by 1 January 2020 commences or has commenced operations as a lithium producer in a Special Economic Zone.

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

The term "exempt supplies" refers to supplies of goods and services that are not liable to VAT and that do not qualify for input tax deduction.

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. Option to tax for exempt supplies is not allowed in Zimbabwe.

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
- In the case of supply of an immovable goods, at the time the recipient takes possession of said goods
- In the case of a supply of a movable good, at the time of its removal from the place of sale
- In case of a supply of a service at the time the service is performed

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).

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.

Continuous supplies of services. 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.

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. The reverse charge is not applicable in Zimbabwe, as imported services are taxed directly. As the VAT due on imported services is accounted for by way of the reverse-charge mechanism (i.e., the customer self-accounts for the VAT), the tax point for imported services is the earlier of the receipt of the invoice or receipt of payment.

Leased assets. No special time of supply rules apply for supplies of leased assets. As such, the normal time of supply rules apply (see above). However, certain lease transactions are covered under instalment or credit payments or rental agreements.

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.

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.

Imported goods. 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) up to 31 December 2019.

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

F. Recovery of VAT by taxable persons

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.

Nondeductible 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 nondeductible

- 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. 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.

Capital goods. Capital goods are defined in Zimbabwe as any asset, or any component of any asset, which is of a character granted capital allowances in terms of the Income Tax Act. Input tax incurred on capital assets used exclusively to produce taxable supplies is claimable in full. Where capital goods are used to produce exempt supplies and taxable supplies, input tax claim shall be determined using the ratio of exempt/private use to taxable supplies. The input tax amount shall bear the ratio of intended use of the goods. If goods are used for more than 90% to produce taxable supplies, they are regarded as having been acquired or used wholly for the purpose of making taxable supplies.

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.

Pre-registration 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.

Write-off of bad debts. A taxpayer is permitted to claim relief for the VAT on bad debts. The taxpayer is required to satisfy the Commissioner that they have taken all reasonable steps to collect the bad debt without success. The amount should be included in the prior period VAT returns and should still be due to the taxpayer.

Noneconomic activities. VAT incurred on nonbusiness/noneconomic activities is not recoverable. The VAT Act allows for recovery of input tax on goods and services used to produce taxable supplies only. Nonbusiness/noneconomic activities are not within the scope of taxable supplies.

G. Recovery of VAT by non-established businesses

Non-established businesses can recover VAT incurred in Zimbabwe, through their agents in Zimbabwe.

H. Invoicing

VAT invoices. A registered operator must provide a VAT 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 VATVAT invoice to the supplier. The VAT Act requires invoices to be issued through fiscal devices linked to the Revenue Authority online.

All VAT-registered taxpayers are required to install (at the time of registering for VAT) electronic registers or electronic signature device, with prescribed specifications to record taxable transactions. 50% 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.

Credit notes. 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.

Electronic invoices. Electronic invoicing is not allowed in Zimbabwe.

Simplified VAT invoices. Simplified VAT invoicing is not allowed in Zimbabwe. As such, full VAT invoices are required.

Self-billing. Self-invoicing is allowed in Zimbabwe, subject to approval by Commissioner. Self-billing may apply to the following:
- Supplies of commodities
- Supplies made within the mining sector

For such supplies, the customer is required to self-account for the VAT due, by way of the domestic reverse charge (se subsection Domestic reverse charge above). It is also allowed to self-bill for the supplies made, as it is only the purchaser who can exactly quantify what and how much has been supplied, due to the nature of the supplies and sectors in scope.

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 Zimbabwe RTGS dollar (introduced on 20 February 2019). With effect from 1 January 2019, VAT is paid using the currency received from the customer. In cases where another currency other that the USD is used, international cross rate is used to determine the USD equivalent. Invoices may be issued in any currency. However, payments to the Revenue Authority in case of other foreign currencies other than USD should be converted to USD at international cross rate.

Supplies to nontaxable persons. No VAT invoice is required for supplies to nontaxable persons unless requested by the purchaser. However, all VAT-registered taxpayers are required to install fiscal devices at all points of sale.

Records. The following records should be maintained:
- A record of all goods and services supplied by or to the registered operator showing suppliers or agent in sufficient detail
- A record of all importations of goods and documents relating thereto
- The charts and codes of account, the accounting instruction manuals and the system and program documentation
- Any documentary proof required to be obtained and retained

Record retention period. VAT records must be held for a period of six years. In cases of fraud or misrepresentation the Revenue Authority may open the record retention period beyond six years. The Companies Act provides that records should be retained for eight years.

Electronic archiving. Electronic archiving is not allowed in Zimbabwe. Taxpayers are required to maintain physical archiving (i.e., paper, computer print outs).

I. Returns and payment

Periodic returns. All registered operators with annual taxable supplies in excess of RTGS1 million have a monthly tax period.

Prior to 31 December 2019 returns were filed on a monthly or bimonthly basis. From 1 January 2020 returns are filed on a bimonthly basis.

For monthly returns there is one category – C. For bimonthly returns, there are two categories — A and B. Category A is the two months starting with an odd number and ending with an even

one, e.g., December/January. Category B is the two months starting with an even number and ending with an odd one, e.g., January/February.

The threshold for category A and B is RTGS1 million. For category C the threshold is RTGS4 million. At the time of preparing this chapter, taxpayers are filing monthly returns until more guidance is issued from the tax authorities for bimonthly returns.

VAT returns must be filed by the 25th day of the month following the tax period. 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.

Periodic payments. Payment of VAT is due in full by the same date as the VAT return filing deadline (see above).

Zimbabwe uses multiple currencies. With effect from 1 January 2019, VAT is paid using the currency received from the customer.

Subject to application to the Commissioner, an extension may be granted for the payment of tax deadline. However, interest at the rate of 10% per annum is charged.

Electronic filing. VAT returns must be submitted online.

Payments on account. The law does not specifically provide for payments on account. However registered operators may apply to the Commissioner for specific payment terms. Interest at 25% is charged for payments received after due date.

Special schemes. No special schemes are available in Zimbabwe.

Annual returns. Annual returns are not required to be filed in Zimbabwe.

Supplementary filings. No supplementary filings are required in Zimbabwe. However, VAT returns can be amended within the six-year prescription period. In case of additional tax payable interest at 10% is charged.

Digital reporting. Real-time transactional reporting. All VAT-registered taxpayers are required to install (at the time of registering for VAT), electronic registers or electronic signature device, with prescribed specifications to record taxable transactions. 50% 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. Therefore, all transactions are transmitted to the ZIMRA on a real-time basis.

J. Penalties

Penalties for late registration. 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 25% interest thereon is assessed for the period interval when the person first became liable to be registered and the late-registration date.

Penalties for late payment and filings. 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.

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 91 days that each return is in default. If the person continues to be in default after the 91 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.

Penalties for errors. 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 electronic 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.

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.

Penalties for fraud. Any person or agent who with intent to evade the payment of tax or obtain a refund that they are not entitled to, is liable for any of the following actions:

- Makes or causes or allows to be made any false statement or entry in any return
- Prepares or maintains or authorizes the preparation or maintenance of any false books of accounts or authorizes the falsification of records
- Gives any false answer to any request of information
- Make use of any fraud or false statement
- Issue erroneous or incomplete invoice, credit and debit note

They shall be guilty of an offense and liable to a fine of level 12 (USD3,000) or imprisonment not exceeding two years.

Table of VAT, GST and sales tax rates

Jurisdiction	Standard rate*	Other rates**
Albania	20%	6%, 0%
Algeria	19%	9%, 0%
Angola	14%	3%, 0%
Argentina	VAT: 21%	VAT: 27%, 10.5%, 0%
	IIBB: 1%-4% (industrial), 2.5%-5% (commerce and services) and 4.9%-8% (commission and intermediation)	0%
Armenia	20%	0%
Aruba	RT: 3% HT: 3%	0%
Australia	10%	0%
Austria	Rest of Austria: 20% Regions of Jungholz and Mittelberg: 19%	13%, 10%, 0%
Azerbaijan	18%	0%
Bahamas	12%	10%, 7.5%, 2.5%, 0%
Bahrain	5%	0%
Bangladesh	15%	10%, 7.5%, 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%
Cameroon	19.25%	0%
Canada	GST: 5% HST: 13%–15% QST: 9.975%	0%
Chad	18%	9%, 0%
Chile	19%	15%–50%

Jurisdiction	Standard rate*	Other rates**
China	13%	9%, 6%, 5%, 3%, 0%
Colombia	19%	5%, 0%
Costa Rica	13%	4%, 2%, 1%, 0%
Croatia	25%	13%, 5%
Curaçao	6%	9%, 7%
Cyprus	19%	9%, 5%, 0%
Czech Republic	21%	15%, 10%, 0%
Democratic Republic of the Congo	16%	0%
Denmark	25%	0%
Dominican Republic	18%	16%, 0%
Ecuador	12%	0%
Egypt	14%	5%, 0%, table tax
El Salvador	13%	0%
Equatorial Guinea	15%	6%, 0%
Estonia	20%	9%, 0%
Eswatini	15%	0%
Finland	24%	14%, 10%, 0%
France	20%	10%, 5.5%, 2.1%, 0%
Georgia	18%	0.54%, 0%
Germany	19%	7%, 0%
Ghana	12.5%	3%, 0%
Greece	24%	13%, 6%, 0%
Guatemala	12%	5%, 0%
Guinea	18%	0%
Honduras	15%	18%
Hungary	27%	18%, 5%, 0%
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%, 0%
Japan	10%	8%
Jersey, Channel Islands	5%	0%
Jordan	GST: 16% ST: Various percentage rates and fixed amounts for 20 types of goods and 1 type of service	GST: 10%, 5%, 4%, 0%
Kazakhstan	12%	0%
Kenya	16%	8%, 0%

Jurisdiction	Standard rate*	Other rates**
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%
Madagascar	20%	0%
Malawi	16.5%	0%
Malaysia	Sales Tax: 10% Service Tax: 6%	5%, specific rates for certain special supplies
Maldives	GST: 6% TGST: 12%	0%
Malta	18%	7%, 5%, 0%
Mauritius	15%	0%
Mexico	16%	8%, 0%
Moldova	20%	8%, 0%
Mongolia	10%	0%
Morocco	20%	14%, 10%, 7%, 0%
Myanmar	5%	8%, 3%, 1%, 0%
Namibia	15%	0%
Netherlands	21%	9%, 0%
New Zealand	15%	9%, 0%
Nicaragua	15%	0%
Nigeria	7.5%	0%
North Macedonia	18%	5%, 0%
Norway	25%	15%, 12%, 0%
Oman	5%***	0%***
Pakistan	Goods: 17% Services: 13%–16%	Goods: 0%–16% Services: 2%–19.5%
Panama	7%	15%, 10%
Papua New Guinea	10%	0%
Paraguay	10%	5%
Peru	18%	N/A
Philippines	12%	0%
Poland	23%	8%, 5%, 0%
Portugal	Mainland: 23% Madeira: 22% Azores: 18%	Mainland: 13%, 6% Madeira: 12%, 5% Azores: 9%, 4%
Puerto Rico	10.5%	7%, 4%, 1%
Qatar	5%***	0%***
Romania	19%	9%, 5%, 0%

Jurisdiction	Standard rate*	Other rates**
Russian Federation	20%	16.67%, 10%, 0%
Rwanda	18%	0%
Saint Lucia	12.5%	10%, 0%
São Tomé and Príncipe	5%	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%
South Sudan	18%	N/A
Spain	21%	10%, 4%
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%–10.25%	N/A
Uruguay	22%	10%, 0%
Uzbekistan	15%	0%
Venezuela	16%	8%–20%, 0%
Vietnam	10%	5%, 0%
Zambia	16%	0%
Zimbabwe	14.5%	0%

* Rate shown here is most common standard rate; for regional variations, see each chapter.

** Reduced rates for special supplies, as explained in each chapter.

*** Final legislation has not yet been published at the time of preparing the Guide, 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**
Jurisdiction	Currency	Code
Albania	Albanian Lek	ALL
Algeria	Algerian Dinar	DZD
Angola	Angolan Kwanza	AOA
Argentina	Argentine Peso	ARS
Armenia	Armenian Dram	AMD
Aruba	Aruban Florin	AWG
Australia	Australian Dollar	AUD
Austria	Euro	EUR
Azerbaijan	Azerbaijani Manat	AZN
Bahamas	Bahamian Dollar	BSD
Bahrain	Bahraini Dinar	BHD
Bangladesh	Bangladeshi Taka	BDT
Barbados	Barbados Dollar	BBD
Belarus	Belarusian Ruble	BYN
Belgium	Euro	EUR
Bolivia	Boliviano	BOB
Bonaire, Sint Eustatius and Saba (BES Islands)	United States Dollar	USD
Botswana	Botswanan Pula	BWP
Brazil	Brazilian Real	BRL
Bulgaria	Bulgarian Lev	BGN
Cameroon	Central African CFA Franc	XAF
Canada	Canadian Dollar	CAD
Chad	Central African CFA Franc	XAF
Chile	Chilean Peso	CLP
China	Chinese Yuan	CNY
Jurisdiction	Currency	Code
Colombia	Colombian Peso	COP
Costa Rica	Costa Rican Colón	CRC
Croatia	Croatian Kuna	HRK

Jurisdiction	Currency	Code
Curaçao	Antillean Guilder	ANG
Cyprus	Euro	EUR
Czech Republic	Czech Koruna	CZK
Democratic Republic of the Congo	Congolese Franc	CDF
Denmark	Danish Krone	DKK
Dominican Republic	Dominican Peso	DOP
Ecuador	United States Dollar	USD
Egypt	Egyptian Pound	EGP
El Salvador	Salvadoran Colón	SVC
Equatorial Guinea	Central African CFA Franc	XAF
Estonia	Euro	EUR
Eswatini	Swazi Lilangeni	SZL
Finland	Euro	EUR
France	Euro	EUR
Georgia	Georgian Lari	GEL
Germany	Euro	EUR
Ghana	Ghanaian Cedi	GHS
Greece	Euro	EUR
Guatemala	Guatemalan Quetzal	GTQ
Guinea	Guinean Franc	GNF
Honduras	Honduran Lempira	HNL
Hungary	Hungarian Forint	HUF
Iceland	Icelandic Króna	ISK
India	Indian Rupee	INR
Indonesia	Indonesian Rupiah	IDR
Ireland, Republic of	Euro	EUR
Isle of Man	Pound Sterling	GBP
Israel	Israeli New Shekel	NIS
Italy	Euro	EUR
Japan	Japanese Yen	JPY
Jurisdiction	Currency	Code
Jersey, Channel Islands	Jersey Pound	JEP
Jordan	Jordanian Dinar	JOD
Kazakhstan	Kazakhstani Tenge	KZT
Kenya	Kenyan Shilling	KES
Korea	South Korean Won	KRW
Kosovo	Euro	EUR

Jurisdiction	Currency	Code
Kuwait	Kuwaiti Dinar	KWD
Latvia	Euro	EUR
Lebanon	Lebanese Pound	LBP
Liechtenstein, Principality of	Swiss Franc	CHF
Lithuania	Euro	EUR
Luxembourg	Euro	EUR
Madagascar	Malagasy Ariary	MGA
Malawi	Malawian Kwacha	MWK
Malaysia	Malaysian Ringgit	RM
Maldives	Maldivian Rufiyaa	MVR
Malta	Euro	EUR
Mauritius	Mauritian Rupee	MUR
Mexico	Mexican Peso	MXN
Moldova	Moldovan Leu	MDL
Mongolia	Mongolian Tughrik	MNT
Morocco	Moroccan Dirham	MAD
Myanmar	Myanmar Kyat	MMK
Namibia	Namibian Dollar	NAD
Netherlands	Euro	EUR
New Zealand	New Zealand Dollar	NZD
Nicaragua	Nicaraguan Córdoba	NIO
Nigeria	Nigerian Naira	NGN
North Macedonia	Macedonian Denar	MKD
Norway	Norwegian Krone	NOK
Oman	Omani Rial	OMR
Pakistan	Pakistani Rupee	PKR
Panama	Panamanian Balboa	PAB
Papua New Guinea	Papua New Guinean Kina	PGK
Paraguay	Paraguayan Guaraní	PYG
Peru	Peruvian Sol	PEN
Philippines	Philippine Peso	PHP
Poland	Polish Zloty	PLN
Portugal	Euro	EUR
Puerto Rico	United States Dollar	USD
Qatar	Qatari Rial	QAR
Romania	Romanian Leu	RON
Russian Federation	Russian Ruble	RUB

Jurisdiction	Currency	Code
Rwanda	Rwandan Franc	RWF
Saint Lucia	East Caribbean Dollar	XCD
São Tomé and Príncipe	São Tomé and Príncipe Dobra	STD
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	South African Rand	ZAR
South Sudan	South Sudanese Pound	SSP
Spain	Euro	EUR
Suriname	Suriname Dollar	SRD
Sweden	Swedish Krona	SEK
Switzerland	Swiss Franc	CHF
Taiwan	New Taiwan Dollar	TWD
Tanzania	Tanzanian Shilling	TZS
Thailand	Thai Baht	THB
Trinidad and Tobago	Trinidad and Tobago Dollar	TTD
Tunisia	Tunisian Dinar	TND
Turkey	Turkish Lira	TRY
Uganda	Uganda Shilling	UGX
Ukraine	Ukrainian Hryvnia	UAH
United Arab Emirates	United Arab Emirates Dirham	AED
United Kingdom	Pound Sterling	GBP
United States	United States Dollar	USD
Uruguay	Uruguayan Peso	UYU
Uzbekistan	Uzbekistani Som	UZS
Venezuela	Venezuelan Bolívar	VES
Vietnam	Vietnamese Dong	VND
Zambia	Zambian Kwacha	ZMW
Zimbabwe	United States Dollar	USD

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