



VAT Rate Changes – Transitional measures

Watch-out for your organization

Overview by www.vatupdate.com

The objective of this document is to outline the watch-outs upon a change in the VAT rate. This is typically defined in the transitional measures included in the legislation of the VAT change. This document only provides general guidance. It needs to be checked upon VAT rate changes what the specific rules issued set by the authorities.

Background

Authorities are often changing the VAT rates or goods/services are reclassified from standard to reduced rate (or vice versa) in an effort to stimulate economy, address political priorities, reduce country's deficit, etc. A change in the VAT rate is applicable as of a date set by the authorities. There are however couple of instances during which it may be unclear which VAT rate applies, the rate before or after the change. For instance, in case the goods are sent to the customer before the date of the VAT rate change and arrive at customer's location only after the date of the VAT rate change.

General rule

The general rule is that the tax rate to be used should be the one in force at the time a taxable event occurs (art. 62-71 of the EU VAT Directive 2006/112/EU).

Specific scenarios

Fully delivered goods and services before the date of the VAT rate change

If the delivery of goods and services have been fully performed before the date of the VAT rate change, the "old" VAT rate should be used in calculating the tax rate, regardless of when the calculation and invoicing took place.

Partial delivery of goods/services

If partial delivery of goods and/ or services are performed before the date of the VAT rate change, and the remainder is performed after afterwards, the "new" VAT rate should be used for calculation, even though a portion of the goods or services were performed after the date of the VAT rate change. An exception may be applicable in case the invoice of the goods and/or services that were performed partially before the date of the VAT rate change is issued no later than a date set by the authorities; in that case the old tax rate is applicable.

Intra-Community Acquisitions of goods

With respect to intra-Community acquisitions, the tax rate shall be applied at the date of calculation/invoicing, instead of delivery. Therefore, if a business acquires goods in the country of the VAT rate change before the date of the VAT rate change and the invoice is not issued until after the the date of the VAT rate change, the new VAT rate of 22% shall be applicable. Additionally, the amount of the VAT that was calculated upon this method has to be included into the VAT period when the "old" VAT rate was still applicable.

Importation of goods

The VAT rate applicable in respect of importations shall be the rate in force at the time the goods are imported.

Advanced Payments

A taxable person who receives full payment in advance of a delivery of goods/services before the date of the VAT rate change should use the VAT rate in force prior to the date of the VAT rate change.

In regards to partially advanced payments, meaning, if a taxpayer receives a portion of the payment before the date of the VAT rate change for goods and/or services that will be completed after that date, the VAT is calculated based on the "old" VAT rate, whilst the remaining advance payment received should use the "new" VAT rate.

The above regulations for partial and full advanced payments are also for deliveries of goods or service for which the customer is liable to calculate the VAT.

Debit notes and Credit notes

By way of debit notes and credit notes issued after the date of the VAT rate change, the VAT rate must be calculated according to the VAT rate that was valid for the originally issued invoice.

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