

General Court Case T-689/24 – VAT Deductibility with Late Invoice

In a landmark VAT decision (Case T-689/24, *I S.A. v. Dyrektor Krajowej Informacji Skarbowej*, Feb 11, 2026), the General Court of the EU ruled that a business may deduct input VAT in the tax period when a supply occurs, provided it obtains the invoice before filing the VAT return for that period. This judgment clarifies that national rules cannot postpone VAT deduction solely because an invoice was issued in a later period, reaffirming the fundamental EU principles of **fiscal neutrality** and **proportionality** in VAT.

Business Case Context

A Polish energy trading company (I S.A.) purchased gas and electricity and attempted to deduct the **input VAT** in the same period the supplies took place. However, the **supplier's invoices were issued only in the following tax period**. Under Polish VAT law (comparable to rules in several EU countries), a taxpayer could generally claim input VAT only in the period **when the invoice is received**. This created a timing **mismatch** for the company's VAT recovery: the **tax on purchases became chargeable during one period (when the energy was supplied)**, but the supporting invoice did not arrive until the next period. The company sought an **advance tax ruling** to confirm it could still deduct the VAT in the earlier period (when the supply occurred) since the invoice would be in hand **before the VAT return was submitted** for that period.

Issue Between Taxpayer and Tax Authority

The core issue was a **conflict between the taxpayer's right to timely VAT deduction and the Polish tax authority's invoicing requirements**. The **taxpayer's stance** was that its right to deduct input VAT arose as soon as the purchase was made and the tax became chargeable (during the supply's period). **They argued** that as long as the invoice was obtained *before filing the return* for that period, delaying the deduction served no purpose and harmed the principle of VAT neutrality. On the other side, the **Polish tax authority (Dyrektor KIS)** insisted that, under Polish law, an **invoice must be present in the same reporting period** to claim the deduction. In their view, **no invoice by period-end meant the company had to wait** and claim the input VAT in a later return, effectively **postponing the deduction**. This dispute meant the company would either **immediately recover VAT on its costs (taxpayer's view)** or be **forced to defer recovery and temporarily bear the VAT cost (authority's view)**.

Legal Question to the Court

Unsure whether the Polish rule was compatible with EU law, Poland's Supreme Administrative Court referred a **preliminary question** to the Court of Justice of the EU. The question asked essentially: *Do EU VAT Directive provisions (notably Articles 167, 168(a), 178(a) of Directive 2006/112/EC) and the principles of VAT neutrality, effectiveness, and proportionality allow a national law to deny the right to deduct input VAT in the tax period of the supply if the invoice was not yet received in that period, even when the invoice is obtained before the VAT return for that period is filed?* In other words, **can a Member State require a taxable person to delay their VAT deduction to a later period just because the invoice arrived after the period of the taxable transaction?**

Decision of the General Court

The **General Court of the EU (GC)** answered decisively **in favor of the taxpayer**. It held that **EU law precludes** any national legislation that **prevents a taxpayer from deducting input VAT in the period a purchase was made, if the invoice for that purchase is received before the VAT return for that period is submitted**. The Court's judgment stressed these key points:

- **Substance over Form:** The **right to deduct VAT arises at the time of the taxable transaction (when the tax becomes chargeable)**. Receiving a valid invoice is only a **formal condition to exercise** that right, not a condition for the right to **exist**. Therefore, once a supply has occurred and VAT has

become chargeable on it, the subsequent arrival of the invoice by the filing deadline means the taxpayer has met the formal requirement in time. The **deduction should not be pushed to a later period** in such a case.

- **Violation of Neutrality:** Forcing businesses to delay their VAT deduction *even after they have the invoice* was deemed to **violate the principle of fiscal neutrality**. VAT neutrality implies a business should not suffer a financial burden for VAT that it is entitled to reclaim. A **mandatory deferral** makes the business temporarily finance the tax (until a later return), which is at odds with the immediate nature of the VAT deduction right.
- **Proportionality:** The Court found the Polish rule **disproportionate**. While governments can impose **formal requirements** to ensure proper tax collection and prevent fraud, these measures must not **systematically undermine the right to deduct**. In this case, once the invoice is available by the return filing, the tax authority can perform all necessary verifications. Automatically denying the deduction for that period (despite having the invoice at filing time) goes beyond what is needed to combat evasion and **unduly hampers legitimate businesses**.

As a result, the GC concluded that **Poland's VAT rule (and any similar national rule) is incompatible with EU law**. Taxable persons must be allowed to claim input VAT in the correct period of the taxable supply if they hold the invoice by the return deadline. This decision effectively aligns VAT reporting with economic reality: the **VAT can be reclaimed for the period in which the purchase was made**, eliminating purely formal delays.

Implications for Businesses Across the EU

Although the case arose from Poland, its impact extends EU-wide. The judgment clarifies the interpretation of the VAT Directive that **must be applied uniformly across all Member States**. Key implications include:

- **Need for Law and Policy Changes:** Countries with VAT laws or practices similar to Poland's (e.g. requiring that invoice and supply occur in the same period for deduction) will need to **amend their legislation or administrative guidelines**. Tax authorities across the EU can no longer categorically enforce a deferral of input VAT deductions when a valid invoice is in hand by the filing date.
- **Enhanced VAT Neutrality:** The ruling strengthens the **immediate right to deduct**. Businesses should no longer be obligated to carry the cost of VAT until a later period merely due to administrative timing. This upholds the **neutrality of VAT** by ensuring it truly remains a tax on final consumers, not a burden on businesses.
- **Cash-Flow Benefits:** Companies will see **cash-flow improvements**. By claiming input VAT in the earlier period, businesses either reduce their VAT payable or increase refunds sooner. This can be significant for **end-of-period transactions** (e.g. supplies in the last days of a month or quarter). Over time, reduced delays in VAT recovery lower financing costs and improve liquidity across supply chains in the EU.
- **Consistency and Legal Certainty:** The decision brings more consistency in VAT treatment across Member States. Businesses operating in multiple EU countries can expect a more **harmonized approach** regarding the timing of VAT deductions. This uniform interpretation reduces uncertainty and the risk of penalties for taking deductions "too early" in some jurisdictions.
- **Compliance Adjustments:** On a practical level, businesses might need to **adapt their VAT compliance processes**. Since valid invoices received after a period's close can now be applied to that period's return, companies must ensure they capture those invoices **before filing deadlines**. Deliberately postponing a deduction that could have been taken (i.e., waiting until a later return) might conflict with the clarified rules in some countries. Tax departments and accounting systems may require updates to track incoming invoices right up to the VAT filing date for each period.

To summarize these impacts and how businesses can respond, the table below outlines key **implications** of the judgment and corresponding **opportunities** for businesses:

Immediate VAT Deduction

Allowed

VAT on purchases can be deducted in the **supply's period** if the invoice is received by the filing deadline.

Neutrality Preserved

100%

Businesses no longer forced to **pre-finance VAT**, supporting full fiscal neutrality.

Implication	Opportunity for Businesses
EU-Wide Policy Changes Member States must align local VAT rules with this decision, removing any clause that delays deductions until an invoice is received.	Engage & Influence Businesses and industry groups can work with tax authorities to accelerate adoption of the new rule, ensuring a smoother transition and consistent compliance in all jurisdictions.
Improved Cash Flow VAT refunds/credits can be claimed without delay, reducing the period during which companies fund the VAT.	Optimize VAT Position Adjust treasury and tax planning to reflect faster VAT recovery. This reduces financing costs and may free up working capital for reinvestment or debt reduction.
Revised Compliance Processes Businesses must track and include invoices that arrive after month-end but before return submission.	System & Process Upgrades Implement or enhance invoice processing systems to capture late-arriving invoices. Train staff to adjust cut-off procedures so all eligible input VAT is claimed promptly.
Historical Period Reviews Past VAT returns where input deduction was deferred due to late invoices might have been filed under now-invalid constraints.	Recovery Opportunities Consider reviewing recent periods to identify if input VAT was postponed. If so, evaluate options to amend returns or claim interest for the period the deduction was improperly delayed (subject to local procedures).

Opportunities for Businesses

This judgment presents **several opportunities** for businesses to refine their VAT management and strategy across the EU:

- Cash-Flow Management:** Companies can **immediately benefit** from the improved cash flow. By claiming input VAT at the earliest possible period, businesses reduce the time tax funds are tied up. Finance teams should factor in these faster VAT recoveries when planning budgets and managing working capital.
- Strategic Compliance and Planning:** In anticipation of **Member State law changes**, businesses can proactively align their VAT compliance policies with the EU interpretation. For instance, businesses operating in countries that had restrictive rules (like Poland or Germany) should prepare for new guidance. They can already start capturing all invoices received by the VAT filing date so that once local rules formally change, they can seamlessly claim timely deductions.
- Audit and Retrospective Claims:** Internally, tax departments may **audit prior periods** to identify cases where VAT deductions were postponed solely due to invoice timing. Depending on local administrative procedures and statute of limitation periods, there might be an opportunity to **amend**

past returns or seek corrections. This could potentially allow recovery of VAT (or interest) that was unnecessarily delayed. Each case should be evaluated for feasibility and compliance risk, as formal processes must be followed.

- **Training and System Improvements:** The ruling underscores the importance of good invoicing practices. Businesses should train their accounting and procurement teams to promptly chase and record invoices for all purchases. Investing in **invoice management systems** or adjusting month-end closing processes can ensure no deductible VAT is missed. In effect, companies have a chance to improve their VAT governance — reducing errors, avoiding **penalties for incorrect period allocation**, and ensuring VAT neutrality is maintained in practice.
- **Competitive Advantage:** Firms that quickly adapt to these changes will **gain a competitive edge.** Better cash flow and streamlined VAT recovery can lower costs and prices. Additionally, demonstrating compliance with the latest EU VAT jurisprudence can be a selling point in due diligence or tax risk assessments.

Conclusion: *General Court case T-689/24 reinforces that **input VAT deduction should be contemporaneous with the taxable transaction** (when the tax becomes chargeable), as long as the supporting invoice is obtained by the return filing. This outcome eliminates unjustified delays in VAT recovery and bolsters the principle that VAT is meant to be neutral for businesses. Companies across the EU should review their VAT compliance timelines in light of this decision, ensuring they take full advantage of prompt VAT deductions while remaining within the law's requirements.*