

Amendments to the Regulations for application of the Value Added Tax Act

4 April 2017

In brief

On 21 March 2017, amendments to the Regulations for Application of the Value Added Tax Act (RAVATA) were published in the State Gazette, which envisage new rules for proportional deduction and annual adjustments of input VAT credit in the cases of mixed use of assets (for business and private needs), amendments to the requirements for proving the application of 0% VAT rate for supplies related to vessels and aircrafts, as well as other amendments that may have impact on your business.

New rules regarding the proportional deduction of input VAT

New rules are introduced for reporting of the taxable base and the input VAT under received tax documents in the purchases ledger in the cases of deduction of input VAT proportionally to the degree of usage of the goods for independent economic activity.

It is specified that as the criterion for proportional deduction should be any reasonable time or quantitative criterion, or a combination of both, which reflects the degree of usage of the goods for independent economic activity, in accordance with the specifics of the respective goods in relation to which this criterion will be applied.

An option is introduced for the mechanism of proportional input VAT deduction to be applied in relation to assets available at the date of initial VAT registration or subsequent VAT registration, as well as in the cases of legal succession under Art. 10 of the VAT Act. Furthermore, it is stipulated that a taxable supply will be

deemed to occur in the case of private use of goods, as well as free-of-charge supply of goods to third parties, when no input VAT was deducted for the goods, but input VAT was deducted proportionally in relation to an improvement of these goods.

New approach for fixed assets for which no input VAT has been initially deducted (but subsequent adjustments have been performed, leading to deduction of input VAT)

A new formula is introduced for calculation of the input VAT deduction in the cases of taxable supplies of fixed assets (goods/services), in relation to which no input VAT has been initially deducted upon the production, acquisition or importation, respectively upon the receipt, but subsequently part of the input VAT has been deducted through annual adjustments.

Issuing and reporting of protocols in different cases

Detailed rules are implemented regarding protocols for adjustment of input VAT

deduction and their reporting in different cases, such as:

- On cancellation of a supply, in relation to which invoice for advance payment has been issued;
- On destruction, shortages or scrapping of goods;
- On performance of a subsequent supply of goods/services without the right to input VAT deduction, when initially input VAT has been deducted fully, partially or proportionally;
- On performance of a subsequent taxable supply of goods/services, comprising fixed assets, when initially input VAT has been deducted partially or proportionally (including as result of performed annual adjustment);
- On annual adjustments of input VAT deducted fully, partially or proportionally for goods (including immovable property), which are or should have been fixed assets;
- On annual adjustments of input VAT deducted fully or partially for received services,

which are or should have been fixed assets;

- On donation of food products.

Clarification regarding the supplies of prepaid telephone cards

It is clarified that the supply of prepaid telephone cards is considered a supply of services.

Supplies of goods performed on stages

The amendments introduce explicit rule that, in the cases of supplies of goods performed on stages, the completion of each stage should be considered as a separate supply. The taxable event should occur on the date of completion of the respective stage, which should be evidenced with a hand-over protocol signed by the supplier and the recipient. Until now, similar provision has been in place in RAVATA only in relation to supplies of services.

Amendments to the supplies by tour operators

In the cases of supplies by tour operators, the requirement for provision of a written declaration by the recipient, indicating that the supply is not intended for a subsequent sale, is abolished.

Furthermore, it is explicitly specified that when part of the supply by a tour operator contains also goods/services provided through own resources of the tour-operator (i.e. they are not purchased from other taxable persons), the taxable base for such goods/services shall be determined under the general rules and not under the specific rules of the margin scheme.

Amendments to the rules for application of the 0% VAT rate in the cases of supplies related to vessels and aircrafts

A list of activities for which 0% VAT rate will not be applicable is introduced for vessels that are used, for example:

- For commercial and industrial activities in territorial waters;
- For sport and leisure purposes, or for private needs;
- For navigation on rivers.

Amendments to the required documents for application of the 0% VAT rate for supplies related to vessels and aircrafts are introduced.

New criteria are introduced for evidencing the purpose/use of vessels on high seas.

Adjustments of input VAT deduction by unincorporated entities (e.g. consortia)

In relation to the new rules introduced in the VAT Act regarding the taxation of unincorporated entities, it is stipulated that upon provision of goods/services by a partner to an unincorporated entity for common use, if adjustment of input VAT deduction is required, the partner is obliged to apply a pro-rata coefficient for the respective calendar year calculated on the basis of the turnover of the unincorporated entity.

Appendix No. 6 will no longer be required for VAT refund

The requirement for submission of a report for offsetting (Appendix No. 6 to RAVATA) after completion of the VAT offsetting procedure is abolished.

Appendix No. 6 will be required for refundable VAT amounts, which are subject to offsetting or refund after a completed

offsetting procedure, reported in VAT returns for tax periods until (and including) March 2017. For tax periods after March 2017, VAT registered persons could request effective refund of VAT only by filling in Cell 80 of the monthly VAT return.

Let's talk

For a deeper discussion of how these issues might affect your business, please contact:

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