

The VAT Package: Are You Ready?

The VAT Package adopted by the EU will come into effect in the Member States on 1 January 2010.

Significant changes to the rules for place of supply for services will be introduced. The procedure under which EU businesses can reclaim VAT incurred in other Member States will be simplified.

Most of the new VAT rules have been reflected in the proposed amendments to the Bulgarian Value Added Tax Act.

The new VAT rules are associated with opportunities for VAT planning of international service flows of companies. Businesses may however be confronted with additional costs needed to comply with the new VAT regulations. By 1 January 2010, companies will need to rethink their cross-border arrangements and to undertake the necessary modifications, including to their ERP systems.

The new VAT rules will impact any business engaged in the cross-border supply of services, including those which make or receive inter-company recharges.

The VAT Package is going to affect the following key VAT elements:

Place of supply of services

The general rule for determining the VAT treatment of services between businesses will change. VAT will become chargeable where the customer is established (apart from real estate related services, cultural, artistic and other events, etc.). As a result, the current ambiguous VAT treatment of some services will be clarified (such as management services, marketing services, etc.).

The reverse charge mechanism will be applicable to the majority of service transactions. As a result, the VAT charged on such services should no longer result in a cash flow cost for businesses entitled to full VAT credit rights. Also, companies will be released from current burdensome VAT reclaims for VAT charged outside their home country.

Services provided to non-taxable consumers will remain taxable where the supplier is established (with certain exceptions such as intellectual services provided to a non-taxable buyer outside the EU).

Additional obligations for VAT reporting and VAT registration

Additional reporting requirements may be introduced for supplies of services.

A VAT registration obligation is envisaged for the persons (including such carrying out exempt supplies, non-business supplies, etc.) in relation to services they receive in the country and/or for the services they supply in another Member State.

VAT refunds within the EU

The mechanism under which EU companies can reclaim VAT incurred in Member States where they are not established and not VAT registered will be reformed.

The primary aim of the changes will be faster and easier VAT refunds. The new system will include electronic filing of documents, a detailed timetable for processing of refund applications, and the right to receive interest on overdue refunds.

These changes are however not included in the Bulgarian VAT legislation yet.

How can we help?

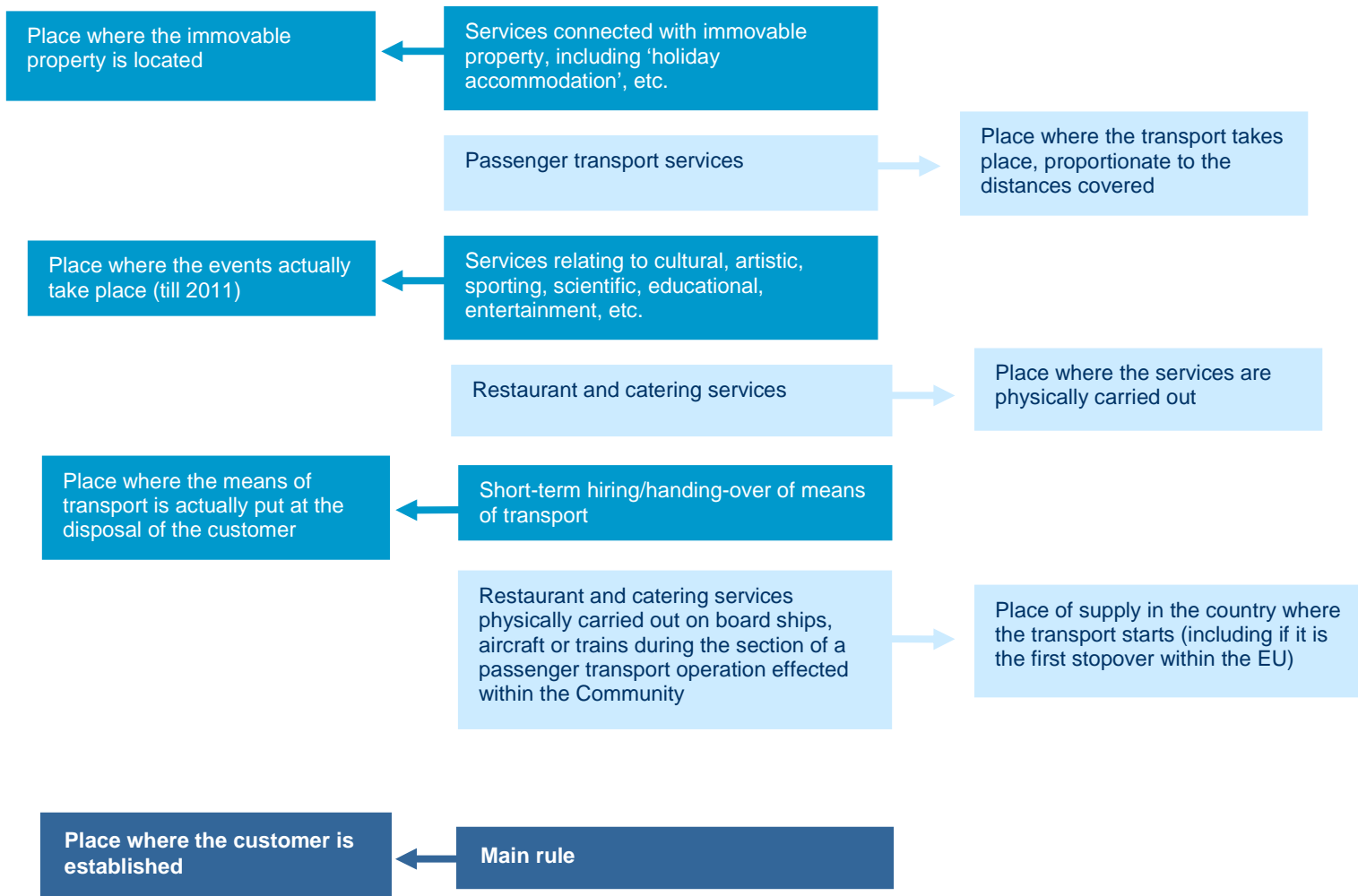
We can assist you to review your service transactions, to understand what will be the impact of the new legislation on your business model, and which adjustments may be required.

Our aim would be to identify the opportunities that may be associated with the new VAT legislation and to minimise the costs that may arise from its implementation.

What we can offer you?

- Mapping to assess the impact of the new legislation on the service transactions of your company, designing a bespoke strategy for service flow optimisation and ERP systems re-configuration (where needed).
- Hot-line-services - providing brief telephone consultations on VAT Package related and other tax issues.
- Performing training/workshops, tailored to specific businesses (finance, retail, transport services, etc), to explain in-depth the impact of the new legislation.
- Conducting individual meetings/discussions to plan a strategy for solving problems specific to your business.

Brief reference to the exceptions from the main VAT rule for place of supply of services provided between taxable persons, applicable as of 1 January 2010



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