

# Implementation of VAT changes effective from 1 January 2010

The recently adopted new VAT rules defined in the respective EU Directives and Regulation, the so called "VAT Package", will come into effect on 1 January 2010. The VAT Package brings significant changes to key areas of VAT legislation that impact all businesses performing cross-border transactions. By the time of introduction, businesses will need to be compliant with the new regulations in order to avoid potential penalties for incorrect VAT treatment of the transactions. Affected companies need to start addressing the issues arising from the introduction of the VAT Package quickly in order to ensure that there is sufficient time to reconfigure accounting systems, if necessary, and also to minimise the business disruption that these changes may cause.

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

**1. Place of supply of services:** The rules for determining the VAT treatment of cross-border services will change. The range of services which are deemed to be not subject to local VAT when supplied internationally will increase and the principle of taxation at the place of consumption will be introduced. Therefore businesses will need to consider who will need to account for the VAT on supplies after 1 January 2010.

**2. Reporting obligations:** Additional filing requirements will be introduced for businesses making intra-EU supplies of services. This will add significant compliance burdens for businesses and need to ensure proper filing by electronic means, whereby failure to comply may result in severe penalties.

**3. 8<sup>th</sup> Directive VAT refunds:** This mechanism, under which EU businesses can reclaim VAT incurred in Member States where they are not established for VAT purposes, will be reformed. The new system will include: electronic filing, a detailed timetable for processing refund applications and the right to interest on overdue refunds.

An incorrect application of these new rules could lead to **mismatches in the information reported in EC Sales Lists, risks of double taxation, questions and assessments by the Slovak or foreign tax authorities and penalties.**

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# VAT Package Implementation Program

## Incoming transactions:

### What to do

- Identify services received from abroad and adjust the Slovak VAT treatment to the new VAT rules
- Foreign service providers:
  - inform them on VAT treatment applicable in Slovakia
  - provide them with your VAT number

### What PwC offers

- Easy to use templates to categorize services received (taxable/VAT exempt) + associated helpline services
- Standard letter you may send to your supplier to inform him of the VAT treatment of his services in Slovakia (taxable/VAT exempt)

### Your Benefits

- Ensure that your service providers will not wrongly include services in their EC Sales List that are not subject to the reporting
- Avoid that suppliers charge foreign VAT where they should not
- Ensure that invoices are received on time in order for you to self-charge Slovak VAT in the correct VAT period

## Outgoing transactions:

### What to do

- Identify services supplied:
  - review VAT treatment in Slovakia
  - check VAT treatment applicable abroad
- Confirm the VAT number of your client

### What PwC offers

- Easy to use templates to categorize services supplied (taxable/VAT exempt) + associated helpline to ensure understanding of the template
- Information about the VAT rules in the country of your customer
- Standard letter you may send to your clients to confirm the VAT treatment of the service supplied to your customers in light of the new VAT rules

### Your Benefits

- Identify services that need to be reported in your EC Sales Lists
- Ensure that you will not wrongly include services in your EC Sales Lists and avoid creating issues for your clients
- Ensure that your clients have a correct invoice

## Operational solutions:

### What to do

- Review/update
  - VAT codes in accounting system
  - VAT manual and processes
- Train your staff
- Adapt your IT system for EC Sales Lists data extraction
- Check what invoices must be issued

### What PwC offers

- Match templates with VAT accounting codes for received/supplied services
- VAT manual to guide your teams in dealing with the new rules
- Advice on IT system changes needed for data collection and production of reports
- Preparation / review of VAT returns and EC Sales Lists

### Your Benefits

- Ensure that your system will be able to cope with the new VAT rules and produce compliant EC Sales Lists, VAT returns and invoices
- Raise awareness of staff involved and ensure they correctly apply the new VAT rules