
Changes to the VAT law

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In brief

Below is a summary of the most significant amendments to the VAT Act approved by the Slovak Parliament and signed by the President on 9 October 2015. In addition to changes stated in previous Indirect Tax Alerts, the major change to the draft law is a reverse-charge mechanism for the *construction* industry.

Supply of buildings and construction work

The amendment to the VAT Act establishes a new taxation method for supplies in the construction industry. From 1 January 2016, local reverse-charge rules will be introduced for the following supplies between two Slovak VAT payers:

- Supply of construction work;
- Supply of building or parts of buildings under construction or similar agreements;
- Supply of goods with assembly and installation where assembly and installation can be considered as construction work.

For such supplies, the supplier will not charge VAT on the issued invoice and the recipient (VAT payer) must apply a reverse-charge. The recipient will be entitled to deduct input VAT if the respective legislative obligations are met.

The purpose of the implementation of this exception to the basic VAT mechanism rule is to help

reduce the insolvency of small and medium-sized enterprises, and eliminate tax fraud in the construction industry related to VAT refunds for supplies of construction work.

The takeaways

In practice, providers of construction work will no longer be accountable for VAT on most of their supplies. This obligation will be transferred to their customers, who will have to self-assess VAT on construction supplies under the reverse-charge procedure. This change will also have a significant impact on VAT payers undertaking exempted supplies without entitlement to deduct input VAT, e. g. **banks, and insurance companies**. When purchasing construction work, such taxpayers will have to self-assess VAT on these supplies. However, they will not be entitled to deduct this VAT if they provide financial (insurance) services, which are exempted from VAT.

The reverse-charge mechanism will be also applicable for **municipalities** registered as VAT payers even if such a purchase of construction work is related to public interest purposes or own economic activities. For example, if the

construction company (VAT payer) repairs a municipality road damaged by flooding, the municipality (VAT payer) will be obliged to pay VAT to the state budget.

Since this mechanism will only be applied to construction supplies between VAT payers, it is advisable to check to the VAT status of a company (e.g. in the list of VAT payers on the website of the Financial Directorate.)

Changes to the reporting of simplified invoices in section B3 of the Control Statement

Due to the increasing amount of tax fraud related to VAT deductions from so-called simplified invoices (e.g. documents from electronic cash register, vignettes), a change will be made to the recording of these invoices in section B3 of the Control Statement. The amendment will take effect on **1 April 2016**. It establishes a limitation regarding detailed information from simplified invoices in one taxable period. If a VAT payer claims a VAT deduction in an amount higher than EUR 3,000, there will be an obligation to state more detailed information about the suppliers.

The takeaways

VAT payers claiming input VAT based simplified invoices in an amount lower than EUR 3,000 will continue to record the relevant information in section B3 of the Control Statement in the cumulative amount. However, if a VAT payer claims an input VAT deduction in a taxable period from simplified invoices in an amount equal or higher than EUR 3,000, he must record more detailed information about his suppliers, e.g. the VAT registration number.

Introduction of lower VAT rate on selected foods

The amendment to the VAT Act will increase the number of goods taxed at the lower VAT rate. Currently, the lower VAT 10% rate is only levied on goods stated in Appendix 7 of the VAT Act (e.g. medicines, books). With effect from 1 January 2016, the lower tax rate will also be levied on so-called "basic foods". Foods taxable at the 10% rate are stated in Customs tariff nomenclature codes.

Increase of turnover limit related to "cash accounting system"

As stated in the Indirect Tax Alert of 3 June 2015, the special regime for VAT payment following the receipt of payment for supplied goods or services will be introduced from 1 January 2016. During parliamentary hearings, it was proposed to increase the turnover limitation for this regime from the initially proposed EUR 75,000 to EUR 100,000. This would allow more VAT payers to choose the cash accounting regime.

Let's talk

For a deeper discussion of how this issue might affect your business, please contact:



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- **Delivery of goods and services**
- **VAT liability**
- **VAT deduction**
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The seminar is designed for everyone who works with VAT and needs to gain a comprehensive knowledge of it, who is in charge of tax returns, accounting for and deducting VAT, issuing invoices and the proper determination of VAT treatment.

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The Academy