News and changes to the VAT law and Administration Act

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In brief

In the current Indirect Tax Alert, we provide you with an overview of the final major amendments to the VAT Act effective from 1 January 2016 and 1 April 2016. We first informed you about these changes in the previous Indirect Tax Alerts. Below we give a summary of the most significant changes in relation to sanctions in amendments to the Slovak Administration Act. The calculation and amount of sanctions will be changed from 1 January 2016.

Provisions of the Slovak VAT Act effective from 1 January 2016

A major change is the introduction of a **special regime for the payment of VAT by a supplier based on the receipt of a payment for supplied goods or services ("cash accounting")**. This regime will postpone the obligation to pay VAT until the customer pays the supplier for the supply.

This cash-accounting scheme can only be used by Slovak established entities (i.e. with a seat, place of business or fixed establishment in Slovakia).

The VAT liability of a supplier that applies the cash-accounting scheme arises on the day of receipt of the payment for goods or services. In this case, a supplier applying the cash-accounting scheme can only deduct VAT from his purchases after the payment of the invoices to the suppliers, regardless of whether the supplier chose to apply a cash-accounting scheme or not.

The right to deduct input VAT by a customer that received the invoice from supplier applying this regime, arises on the day of payment for the goods or services to the supplier, i.e. when tax liability arises. If only part of the invoice is paid, the customer only has a proportional right to deduct the VAT (i.e. up to the paid amount).

More information on this change was given in the previous bulletins from 16 February 2015, 3 June 2015 and 13 October 2015.

A very important change is the **introduction of the reverse-charge mechanism for local supplies of any type of goods by foreign persons to a Slovak established entrepreneur**.

Foreign companies that only carry out local supplies in Slovakia subject to the local reverse-charge mechanism will not be obliged to register for Slovak VAT. If they are already registered for Slovak VAT, they will not be entitled to deduct input VAT via a Slovak VAT Return if this input VAT relates only to the supplies where the reverse-charge mechanism applies. Foreign companies will be able to claim Slovak input VAT using the VAT refund procedure providing they meet the stipulated conditions.

For more information regarding this amendment, please see our previous Indirect Tax Alert from 3 June 2015.

Another significant amendment is the **implementation of the local reverse-charge rule in the construction industry**, which will apply 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 legal conditions are met.

For more information, see the Indirect Tax Alert of 13 October 2015.

The range of goods taxed at the **lower VAT rate** (10 %) **will be extended** to include so-called **basic foods**, such as meat, milk, bread, etc. Foods taxable at the 10 % rate are defined by Customs tariff nomenclatures codes.

Non-payment of the VAT guarantee to the Tax Office by the specified deadline **for voluntary VAT registration** will no longer lead to the automatic rejection of a VAT registration request. The VAT guarantee will be recovered by the Tax Office under a special regulation as tax underpayment.

The obligation to pay the VAT guarantee for voluntary VAT registration of Slovak companies performing only start-up activities at the time of a VAT registration application **will be abolished**.

A **30-day period** for the Tax Office to make changes to the VAT registration certificate is established if the conditions for changing from local VAT registration to VAT registration of a foreign entity (or vice versa) are met.

The company acting as a middleman (first customer) in a VAT triangulation regime cannot, for the purpose of applying this regime, be registered for VAT purposes in a Member State of the first supplier, i.e. in the country from which the goods are dispatched to the country of the final customer.

VAT can be deducted related to goods and services (e.g. advisory services, legal services etc.) purchased by a business entity before the assigning of a Slovak VAT number if certain conditions are met.

New obligation for VAT refund requestors from other member states and from third countries to notify the Tax Office if they receive a credit note for a price reduction from their supplier after the VAT has been paid to the applicant. They will have to repay the relevant amount of VAT to the Tax Office.

The **deadline for submission of a VAT refund application for companies from non-EU countries will be shortened**. Such companies will also be entitled to apply for a VAT refund on a half-yearly basis if certain conditions are met.

The conditions for a faster VAT refund will be simplified. The period for consideration of existing underpayments will be reduced from 12 to 6 months. Underpayments up to EUR 1,000 will no longer be taken into account when assessing the right to a faster VAT refund.

The preclusive period regarding a VAT refund reimbursement will be shortened from 6 to 3 months. If the VAT payer does not allow the carrying out of a VAT inspection within 3 months of its start, the entitlement to a VAT refund will expire on the last day of the third month.

Provisions of the Slovak VAT Act effective from 1 April 2016

A **change in the reporting of simplified invoices in Section B3 of the Control Statement** is introduced. If a VAT payer deducts VAT in an amount higher than EUR 3,000, there will be an obligation to state more detailed information about the suppliers.

The takeaways

The amendment to the Slovak VAT legislation defines a number of significant changes. The most important is the applying of a reverse-charge in the construction sector and for local supplies of goods performed by foreign persons to a Slovak established entrepreneur, and the introduction of cash accounting regime. As we have already informed you, these changes may significantly impact company cash-flow and the input VAT deduction.

Provisions of the Slovak Administration Act effective from 1 January 2016

Currently, a fixed penalty of 5% of additional tax liability or decrease of a VAT refund is charged if a self-assessment is made via an amended tax return. For an assessment made by the Tax office, a fixed penalty of 10% of the assessed tax amount applies.

From 1 January 2016, the penalty will depend on the time elapsed from the deadline for filing the regular tax return to the date of filing the amended tax

return or the start of the tax audit.

From 1 January 2016, the penalties will be:

- 3% a year for self-assessment via an amended tax return;
- 7% a year for self-assessment within 15 days after notification that a tax audit has been opened ("self-disclosure"); and
- 10% a year for an assessment made by the Tax Office during a tax audit.

The penalties will be levied minimally as 1% of the assessed amount, and maximally as 100% of the assessed amount. The system of aggregated penalty is introduced for cases of more than one administrative offence.

The takeaways

The mechanism for penalties assessment will change considerably from 1 January 2016 due to the introduction of a time interval into the calculation of penalties for additional tax liability. This change may significantly impact the amount of penalties according to the time interval and the method for assessing the additional tax liability. Up to now it was not possible to file an amended tax return if a tax audit had already started.

On 2 November 2015, the Slovak Ministry of Finance issued updated guidance on reporting in the Slovak VAT return in the Financial Bulletin. The new guideline reflects legislative changes in the Slovak VAT Act effective from 1 January 2016. The VAT return form remains unchanged.

Let's talk

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

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Current affairs in PwC

Of further interest

Paying Taxes 2016:

The tax burden of Slovak businesses is 10% higher than both the worldwide and EU & EFTA average. However, the introduction of electronic tax filing and payment has moved Slovakia up by 27 positions in the tax payment system rankings

For ten years running, businesses worldwide have reported a reduction of tax expenses and the administrative burden of tax payment. This year, in particular, due to the introduction of electronic tax systems.

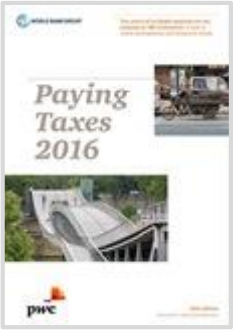
According to the findings of the 10th edition of Paying Taxes compiled by the World Bank Group and PwC, electronic tax filing and payments were the most common tax reforms undertaken by countries worldwide during the past year. As a result, paying taxes became easier for medium-sized companies globally, but the focus has moved from reducing tax rates for companies to embracing technology and relieving their compliance burden.

Paying Taxes 2016 found that the average company has a Total Tax Rate (as defined under the Doing Business methodology) of 40.8% of commercial profits, down by just 0.1% from last year. It took 25.6 tax payments per year and 261 hours to comply with tax requirements, a drop of two hours compared to last year.

Paying Taxes 2016 found that the average company has a Total Tax Rate (as defined under the Doing Business methodology) of 40.8% of commercial profits, down by 0.1% from last year. The number of tax payments has been reduced slightly to 25.6 and the time to comply for an average company has been reduced to 261 hours per year. Over the 10-year period covered by the study, the global average time to comply has declined by 61 hours and the number of payments sub-indicator by 8.2 payments, due in large part to the introduction and improvement in electronic filing and payment systems.

Electronic filing continues to have a significant impact in easing the burden of tax administration. Globally, the most common feature of tax reform in the past year was the introduction or enhancement of electronic systems for filing and paying taxes.

In comparison, 84 economies used fully electronic tax filing and payment systems in 2014, while only 46 used them in 2005. Due to this, the number of economies in which the time to comply is less than 300 hours has increased from 60% to 74 %. From 2010 to 2014, the introduction of the electronic system was the most frequent reform affecting the ranking of economies, while from 2004 to 2009 it was mostly the reduction of corporate income taxes.



Read more in the Paying Taxes 2016 study.

We are opening a business skills curriculum

PwC Academy has developed a unique business skills program.

We do not offer traditional soft skills training, but rather business skills programs.

We look to stimulate the improved work performance of participants via combining learning with work.

Each program lasts 4-8 weeks and consists of several parts.

The first part includes individual activities. Participants can decide on their learning time which makes the programme easy to combine with a standard workload.

Then they attend a workshop, where they can practice model situations.

The last part of our program is applying what has been learnt in real life and we encourage and support students in this.

Being business advisers, we know a lot about doing business, therefore we focus on topics which are truly relevant for business:

- **Business skills** (Coaching in the workplace, Change management, Leader survival, Dealing with stress & coaching management, Unique Shaolin courses and more)
- **Communication skills** (Assertive communication, Influencing, EQ, Visual communication)
- **Analytical skills** (Problem solving, Critical thinking, Creativity and lateral thinking, Turning data into information, Decision making and logical reasoning)
- **Development programs** (Train the trainer, Team management)

How much you spend on your staff training is up to you, which is a real advantage. You decide how many people attend each program up to a maximum of 15.

You know best what you need and prefer. Please contact us to find out more: academy.pwc@sk.pwc.com

The Academy