

Tax Reform 2018: amendments to VAT Act (1/28/17)

As part of Tax Reform 2018, proposals for amending the VAT Act have been submitted to the Cabinet of Ministers. This article explores what we see as key changes.

The proposals for amending the VAT Act have been drafted in line with the tasks set by the National Tax Policy Framework 2018–2021.

A lower registration threshold

The proposals reduce the current VAT registration threshold of €50,000 to €40,000, which still substantially exceeds the €5,000 threshold set by the VAT directive,¹ and so approval will need to be sought from the European Commission. Lithuania has adopted a threshold of €45,000, and Estonia is adopting a threshold of €40,000 from 1 January 2018.

More supplies covered by reverse-charge VAT

To continue the fight against VAT fraud, the proposals improve the treatment of six categories of supplies covered by the special reverse-charge procedure and add two new categories from 1 January 2018.

To improve VAT collection in the construction industry and to fight VAT fraud more effectively, there are plans to extend the application of the reverse charge procedure under section 142 of the VAT Act to all construction services and to introduce the reverse charge procedure for supplies of construction products. As a result, reverse-charge VAT will apply to any construction work, to all types of design work included in a contract for construction services, and to supplies of construction products, which section 142 of the VAT Act defines as any product designed for incorporating into a building and any industrially manufactured structure. Section 143.1 of the VAT Act, which lays down a special VAT regime for supplies of certain electronic goods, will cover also games consoles.

The VAT Act will have two new sections: section 143.4, which lays down a special (reverse charge) procedure for supplies of metal products and related services, and section 143.5, which lays down a special VAT regime for supplies of electronic household appliances and electrical household devices.

Under the new sections, the Cabinet of Ministers will draft a set of rules to determine goods considered to be metal products according to Combined Nomenclature codes, services associated with supplies of metal products, and goods considered to be electronic household appliances and electrical household devices according to Combined Nomenclature codes.

Payments for all supplies of goods and services that are subject to the reverse charge procedure can be made only by bank transfer.

¹ Council Directive 2006/112/EC of 28 November 2006 on the common system of value added tax