

VAT adjustments (2) (2/45/17)

Last week we wrote about adjusting VAT where a hire purchase (finance lease) agreement is terminated as a result of the goods (leased assets) being stolen (destroyed). This article explores how to adjust VAT in other cases, for example, where your output tax or deducted input tax needs adjusting because you have allowed or received a discount, returned or taken back an advance, written off an excess wastage, recovered a bad debt, or handled real estate.

Discounts

A discount, rebate, cancellation of purchase, return of goods, or refund of an advance ("discount") can be applied only if the parties have agreed to such a reduction and only based on an adjusting tax invoice (credit note) the parties then use for reporting an increase or reduction in the output tax on their VAT returns. The amount of a discount allowed after receipt of goods or services should be reported by the registered taxable person on his VAT return for the tax period in which the discount was applied.¹ Where a supply and a discount occur in different tax periods, a reduction in the output tax calculated earlier should be reported on line 67 of the VAT return for the tax period, instead of adjusting the amount of the supply.² The other party should report a reduction in the input tax deducted earlier on line 57.

Wastage

Any input tax deducted on a wastage of goods needs adjusting if that wastage exceeds the rates permitted by the legislation on income taxes.³ In that case the taxable person should adjust the input tax through his VAT return for the last tax period of the calendar year.⁴ This involves making calculations before the VAT return for the fourth quarter or December is filed at the beginning of the next year, and adjusting VAT if the wastage rates are exceeded.

Bad debt

Section 105 of the VAT Act lays down procedures a registered taxable person should follow for deducting VAT on a bad debt from the output tax paid. Exercising this right is subject to a number of statutory conditions. A debt of less than €430 excluding VAT attracts nine conditions, while a debt that reaches or exceeds this amount is subject to eleven conditions. The VAT Act also permits a VAT deduction on a bad debt if the debtor has gone into insolvency. You might want to read these rules right now because some of the conditions should be met in a specified period, e.g. the bad debt should be either written off against a special bad debt provision or taken directly to losses (expenses) in the taxable person's books for the current or a past tax period.

Real estate

Since input tax paid on the acquisition, construction, renovation, reconstruction or restoration of unused real estate (RE) is deductible in proportion to its expected use, the taxable person is required to adjust the deducted input tax annually in proportion to the actual use during the tax year.

Accordingly, over a ten-year period starting from the tax year in which the RE was purchased or accepted for use, the taxable person is required to notify the State Revenue Service by 1 May in the following tax

year about the use of the RE for taxable and exempt supplies during the tax year. The taxable person should recalculate the ratio, measure the amount of tax payable to or refundable by the government, and file part B of the statement of RE use, along with the annual VAT return.

It is important to note that an input tax adjustment should be made separately for each property and for each tax year by measuring the difference between one-tenth of the input tax deducted and the deductible input tax for the tax year according to the actual use of RE. The taxable person should then either pay the difference to, or get a refund from, the government.

¹ Paragraph 3 of the Cabinet of Ministers' Regulation No. 40 of 15 January 2013, *VAT Returns*

² The State Revenue Service's "Guidance on completing the VAT return and its appendices" (paragraph 32.2.1, Appendix 2)

³ Section 106(4) of the VAT Act

⁴ Paragraph 163.1 of the Cabinet of Ministers' Regulation No. 17 of 3 January 2013