

WTS Value Added Tax Newsletter



Editorial

Dear Reader,

With this second edition of the WTS Global VAT Newsletter in 2020, we want to share with you insights on the latest developments in terms of VAT and GST across the globe. As the economic and social impacts of the **coronavirus disease** (COVID-19) continue to challenge the world, WTS Global is continuously updating an overview of the measures taken by various countries to respond to the tax aspects of this crisis:

<https://wts.com/global/insights/covid19>

In recent days, businesses have been rediscovering the “cash is king” approach. With VAT being a significant cash flow factor, the European section of this newsletter covers different elements of this topic.

Belgium provides a cash flow privilege for so-called “starters”, whereas in **Denmark** a special regime for exports can be utilised to improve cash flow by creating a virtual input VAT refund position. The **Czech Republic**, even if driven by another motivation, provides relief by having a largely extended scope of application for the reverse charge system. The appropriate VAT actions of customers defaulting with their payments are shown for **France**. **Germany** has decided to temporarily cut VAT rates and extend payment deadlines for import VAT on very short notice. As non-compliance always creates costs, **Hungary** shares insights on the VAT compliance basics for non-residents. **Italy**, despite a delayed go-live, further elaborates on the technical side of its e-Invoicing procedures and continues the implementation of Quick Fixes.

Furthermore, outside of Europe, VAT (or GST) is of course the focus of legislation and tax authorities: **Angola** has modified its rules for the cash settlement and recovery of import VAT. Changes to the VAT law in **Chile**, amongst others, cover the taxation of specific digital services and the introduction of an “enjoyment” exception for VAT exemptions. **Costa Rica** replaced its sales tax regime with VAT, which created some significant changes and also shows the first reactions of the tax authorities applying this new law. The **Kingdom of Saudi Arabia** is the first GCC state to raise its VAT rate.

Our experts will be happy to answer any questions you may have.

Yours sincerely,

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Belgium



I. EU Member-States

Monthly VAT refund for “starters”

Since 1 January 2020, Belgian VAT legislation has permitted an accelerated VAT refund procedure for so-called “starters”. This new measure allows for the granting of a VAT credit refund within one month after submission of the VAT return, whereas this refund generally takes up to three months to six months.

To whom does this procedure apply?

The accelerated VAT refund procedure applies to taxpayers that have recently started economic activities in Belgium and have submitted a VAT identification form less than 24 months ago. Therefore, a taxpayer is considered as a “starter” during the period of 24 months following the start of their economic activities in Belgium. The procedure also applies to existing entities that deactivated their Belgian VAT number at least 3 months ago and that have recommenced their economic activities, which requires a new VAT identification in Belgium. The same applies for newly constituted VAT groups.

This development is also relevant for non-Belgian companies that have been recently identified for VAT purposes in Belgium, even if they were already identified for VAT in Belgium in the past (and provided that such previous VAT identification was cancelled more than 3 months ago). These companies will be considered as a starter during a period of 24 months, which allows for an accelerated VAT refund in Belgium. However, taxpayers who are identified under a global VAT number will never qualify as a starter under this procedure.

Conditions and formalities

To benefit from this procedure, the taxpayer must meet the following conditions and formalities:

- The VAT credit for which a VAT refund is requested should relate to the period of 24 months following the commencement of the economic activities, as stated in the VAT identification form.
- The taxpayer must submit their periodical VAT returns on a monthly basis.
- The monthly VAT credit must at least reach an amount of EUR 245.
- The periodical VAT return must be submitted, at the latest, on the 20th of the month following the month to which the VAT return relates. VAT authorities do not accept any derogations here, such as an extension of the filing deadlines in the summer.
- Periodical VAT returns must be submitted electronically, via the online portal INTERVAT. Again, no derogations are accepted here.
- The taxpayer must, if applicable, explicitly request a refund of the VAT credit in the monthly VAT return, which occurs by ticking the box “request a refund” in the VAT return.

Provided that these conditions and formalities are met by a starter, the monthly VAT refund will be granted automatically. Hence, the taxpayer does not need to request a monthly VAT refund permit nor do they need to notify the Belgian VAT authorities that they would like to apply this procedure.

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Czech Republic



Generalised reverse charge mechanism

The European Commission permitted the Czech Republic to temporarily apply a generalised reverse charge mechanism – from 1 July 2020 to 30 June 2022, i.e. until the implementation of the final system of VAT rules. All taxable supplies of goods and services shall be subject to the new mechanism if the value of each transaction exceeds CZK 450,000 (approximately EUR 17,500).

Under the reverse charge mechanism, the purchaser is liable to report and potentially pay output VAT on taxable supplies with the place of supply in the Czech Republic.

The main reason for which the Czech Republic applied for a generalised reverse charge mechanism is to curb carousel fraud. A sector-related reverse charge mechanism has already been applied in the Czech Republic in all areas permitted by the existing EU law – in the construction sector, precious metal trade, for selected IT products, gas and electricity supplies. The Czech Republic applied for this exemption, under which Member States are allowed to implement a generalised reverse charge mechanism, in June 2014. The Economic and Financial Affairs Council gave its final approval to this application in November 2019.

The approved measure first needs to be translated into the Czech legislation. However, this procedure has not yet started, as the Czech Republic postponed the implementation of the mechanism in order to negotiate an extension before implementing it. The aim is to avoid criticism that an amendment to the tax scheme for only 18 months is not an appropriate systemic action, adding excessive administrative burden on companies.

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It is currently unclear when and whether the extension will be approved. However, this is not likely to happen before the end of 2020 and it is difficult to anticipate the further developments in 2021.

Denmark



The export VAT system – cash optimisation

The COVID-19 situation has caused severe economic challenges as well as negative impact on cash flow for many businesses. In Denmark, the Danish Parliament has implemented extensive relief packages for businesses operating in Denmark.

Many of these new initiatives are cash flow focused, such as the postponement of VAT payments. However, a business may use a number of existing methods or processes to optimise its cash flow.

One of these optimising methods is the so-called “export VAT scheme”. The purpose of the export VAT scheme is to obtain a liquidity advantage on exports. The liquidity advantage consists of the company being able to recover input VAT before the output VAT has to be paid to the Danish Tax Agency. In general, this timing effect results in a spread of approximately 14 days. Due to further reliefs driven by the COVID-19 pandemic, the spread may increase to a total of 1 month and 14 days.

The export VAT scheme can be used by companies selling goods and/or services without Danish VAT to customers abroad.

Understanding the export VAT system

1. The company requests the Danish Tax Agency for a partial VAT registration – also referred to as the “export VAT number”. The company will then operate with two VAT numbers, i.e. the main number and the new export VAT number.
2. A pro forma invoice subject to VAT is issued from the main VAT number to the export VAT number for the entirety of the export sales of a VAT period.
3. The main VAT number must include the output VAT from the pro forma invoice in its VAT return, whilst the export VAT number includes the VAT as input VAT.
4. The export VAT number issues invoices without VAT to foreign customers under the reverse charge mechanism (which has previously been carried out from the main VAT number).

Accordingly, the export VAT number will always be in a refund position by filing negative VAT returns.

5. For each VAT period, the main VAT number files and pays VAT upon the due date applicable for the period. For each VAT period, the export VAT number files the negative VAT immediately after the end of the VAT period.
6. The export VAT number receives repayment of the input VAT excess before the main number has to pay VAT.
7. A VAT account must be kept for both the main VAT number and the export VAT number.

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VAT Cash Optimisation

Bad debt relief

During very difficult times, businesses have cash problems, given that some of their customers are no longer able to pay their invoices.

In case of supplies of services, this does not create VAT problems, given that VAT is due only when the invoice is paid, except if the supplier opted for payment at the time of invoicing, such as for the sale of goods.

Indeed, in the case of sale of goods, VAT is due at the time of invoicing, even if the customer does not pay the invoice. Therefore, the supplier is required to pay VAT to the tax authorities, even if it has not received the cash from its customer.

In the case of unpaid invoices for the sale of goods or for the supply of services, when the supplier opts for VAT payment at the time of invoicing, it is possible to receive a VAT credit. The supplier must send a copy of the invoice to the customer, specifying that the invoice has not been paid and that VAT cannot be deducted by the customer. It must also record the invoice as a loss in its accounting. The unpaid VAT is then recorded in the VAT return as input VAT and can be refunded by the tax authorities if the supplier is in a credit position. The

recording as input VAT in the VAT return must be carried out before 31 December of the second year after the invoice has been considered as unpaid, e.g. 31 December 2021 for 2019 unpaid invoices. However, the tax authorities are very strict: they ask taxpayers to demonstrate that it is impossible for them to collect the payment of the invoice. In practice, it is very difficult to prove this, except in the event of customer bailout.

If the sale is cancelled or if the supplier grants a rebate, a credit note must be sent to the customer. The supplier can then deduct, as input VAT on its VAT return, the amount of VAT at stake and can ask for a refund, if it is in credit position.

Businesses have asked the tax authorities if, during the COVID-19 lockdown, it could be possible, in case of sale of goods, to pay VAT only when the customer has paid the invoice. However, for the time being, the tax authorities have not accepted this request.

Changing the structure of transactions

Of course, for optimising VAT cash flow, it could be possible to temporarily lease goods rather than sell them until the customer has sufficient funds to settle the purchase price. In that case, VAT does not have to be paid to the tax authorities until the customer pays the lease invoice.

If the customers are businesses and the French supplier sells goods purchased from an EU affiliate, it is also possible that the foreign affiliate sells the goods directly to the French customers. In this scenario, French VAT will be due by the customer through the reverse charge mechanism. The French company could invoice its margin to the EU affiliate as remuneration for its intermediary services; VAT on this margin will be due by the EU affiliate through the reverse charge mechanism. Of course, the customer will have to fill in the Intrastat return, whereas this could also be carried out by the French company acting on behalf of the EU affiliate.

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Digital Services Tax (DST)

Normally, the first instalment for 2020 DST had to be paid in April. Due to the discussions between OECD Member States regarding future DST and particularly between France and the US, France has decided that the two 2020 DST instalments, normally due in April and in October, will be postponed to December 2020.

However, the balance of 2019 DST had to be paid in April 2020.

Germany



Temporary cut in VAT rates and extension of payment due dates for import VAT

On 3 June 2020 the leaders of the black-red governing coalition have agreed on a so-called economic and crisis management package in response to the consequences of the Corona crisis. This 31-point package provides a cut in VAT rates and an extension of the deadline for paying import VAT to the 26th of the following month.

Starting on 1 July 2020, the regular VAT rate shall be reduced from (currently) 19% to 16% and the reduced VAT rate from (currently) 7% to 5%. The measure shall be limited in application until December 31, 2020.

At the present time, there is still no legislative proposal and thus further details are missing.

In order to be able to make optimal use of the economic opportunities that result, in particular, from lowering the tax rate, companies should identify and implement the necessary adjustments considering the very short implementation period. In the course of changes in VAT rates, there are regular questions about invoicing, the adjustment of ERP systems (new tax codes), but also with regard to the purchase of services from other companies (keyword input tax deduction). Additional complexity arises from the fact that the reduction in VAT rates should only apply for a limited time.

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Hungary



VAT compliance basics for non-residents

Representation

Foreign companies are generally registered for VAT purposes in Hungary if they carry out VAT payable transactions in the territory of Hungary.

Non-residents registered for VAT in Hungary may appoint a tax advisor, tax expert, chartered tax expert or an employee of a company authorised to provide tax advisory and accounting services. Non-residents may appoint a fiscal representative, which may only be a Hungarian business entity that complies with strict legal requirements and has joint and several liability with the foreign company. Although engaging a tax representative is generally optional, it is mandatory for non-residents outside of the EU.

VAT reporting frequency

In Hungary, no draft VAT reporting exists. VAT returns with final figures have to be submitted on a monthly, quarterly or annual basis. Generally, VAT registered entities are required to file VAT returns quarterly. However, newly registered taxpayers are subject to monthly filing in the first two years of their operations. Filing frequency should be determined at the beginning of the tax year; however, it may change during the year. At the beginning of the year, VAT balance (payable or reclaimable) of the second year preceding the tax year should be reviewed (e.g. for 2020, VAT figures for 2018), filing frequency is

- yearly, if it has not reached HUF 250,000 (approximately EUR 760),
- quarterly, if it has reached HUF 250,000 but has not reach HUF 1,000,000 (approximately EUR 3,000) payable,
- monthly, if it has exceeded HUF 1,000,000 payable.

The quarterly frequency should be switched to monthly during the tax year, if the accumulated payable VAT reaches HUF 1,000,000. In certain cases, taxpayers with a quarterly reporting liability may request the tax authority to change to monthly filings.

Intra-Community summary reports are also to be filed quarterly. However, it should be switched to monthly if VAT reporting is switched to monthly or intra-Community deliveries or intra-Community acquisitions of goods in a period reach EUR 50,000. Monthly filing frequency for quarterly VAT reporters should be switched back to quarterly if intra-Community deliveries or intra-community acquisitions of goods do not reach EUR 50,000 in four consecutive quarters.

The VAT return and intra-Community summary report have to be submitted by the 20th day following the reporting period. Taxpayers with an annual reporting liability have to submit their VAT return by 25 February following the tax year.

VAT payment and reclaim

VAT payment should be managed by the deadline for the submission of the VAT return. In general, the deadline for the VAT refund is 75 days from the date of receipt of the VAT return. However, if all incoming invoices with VAT reported are financially settled, this fact can be marked in the VAT return and, in this case, the VAT amount would be transferred back within 30 days or 45 days (if the refund exceeds HUF 1,000,000, approximately EUR 3,000). Note that the tax authority may levy penalties if the declaration regarding the financial settlement is incorrect. VAT can be reclaimed, if it reaches HUF 1,000,000 (approximately EUR 3,000) in the case of monthly VAT reports and HUF 250,000 (approximately EUR 760) in the case of quarterly VAT reports.

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Italy



E-invoicing / Proof of transport (EU)

Further steps in the implementation of e-invoicing

One year after the mandatory implementation of the electronic invoicing process between private entities via SDI, **new technical instructions** have been approved (please see Provision of the Tax Authority Director no. 99922 dated 28 February 2020). However, in consideration of the current COVID-19 crisis, the terms of application of the new technical instructions have been postponed (please see Provision of the Tax Authority Director no. 166579 dated 20 April 2020). From 1 October 2020 and until 31 December 2020, it will be possible to (optionally) adopt the new technical instructions, which will become **mandatory** as of **1 January 2021**.

Amongst others, the main changes refer to new codes relating to "Document Type" and "Nature". As regards "**Nature**" codes, in general, these need to be stated whenever the invoice does not show VAT, given that the underlying transaction is exempt from VAT, out of scope of VAT, under reverse charge, etc. New codes have been implemented in order to more precisely identify the type of the underlying transaction. As regards the "**Document Type**", additional codes have been implemented to more carefully identify the underlying transaction (e.g. immediate invoice vs deferred invoice, etc.). In addition, special codes have been implemented to enable the issuance of **e-documents** for the integration procedures on incoming transactions. At present, lacking further clarifications, the adoption of these e-documents appears not to be mandatory. However, it could represent an opportunity for taxpayers to be appraised on a case-by-case basis. Obviously, if issued, said e-documents must be consistent with the new technical instructions.

As of 1 October 2020, the Italian recipient could decide to draft an e-document (according to a specific pattern, depending on the underlying circumstances) and transmit it via SDI, in order to document the application of the reverse charge mechanism (so called "integration" procedure). In this way:

- in the case of purchases from non-resident suppliers, said Italian recipient would avoid the filing of the so-called "esterometro"; and

- in the case of domestic purchases falling under the reverse charge mechanism (Italy has adopted most parts of the derogations stated by Article 199 and 199-bis of the VAT Directive), said Italian recipient could rely on more accurate pre-filled periodical and yearly VAT returns and VAT ledgers, that will be made available by the Italian tax authorities.

The above could have a relevant impact, for instance, on Italian recipients who are deeply involved in intra-Community acquisitions of goods. At present, when performing an intra-Community acquisition of goods, the Italian recipient must apply the reverse charge mechanism by way of integration of the purchase invoice. More precisely, the Italian recipient must integrate the purchase invoice received by the EU supplier by stating the mandatory data (i.e. progressive numbering, taxable base amount in EUR, VAT rate and corresponding VAT amount); this can be carried out by means of writing or printing directly on the purchase invoice or by means of issuing a separate document which must show the relevant data (including the date and number of the invoice it refers to) and must be enclosed with the purchase invoice and properly stored. In the near future, the Italian recipient could decide to implement the e-document and this could presumably lead to more standardised procedures regarding documentation management and storage.

Proof of transport for intra-community deliveries

"Quick Fixes" have not been implemented in Italy by means of a new law, given that – being already specified by the Italian tax authorities with Ruling No. 100/2019 – the instructions provided in the past were already compliant with the new EU rules in force as of 1 January 2020 and, in particular, with Article 45-bis of the Implementing Regulation.

In the light of the above, the Italian tax authorities have recently issued a new Ruling (No. 117 dated 23 April 2020) on the proof to be kept regarding intra-Community deliveries/intra-Community transport of goods, dealing in particular with a case of ex-works transport of goods.

Intra-Community deliveries of goods benefit from the VAT non-taxation regime, provided that all of the following requirements are met:

- the transferor and transferee are taxable entities in two different Member States;
- the transfer takes place upon payment;
- the goods are transported from one Member State to another Member State (different from the starting Member State).

In relation to the last requirement, the means of proof have been "codified" by aforementioned Article 45-bis of the Implementing Regulation.

The Italian tax authorities also took the chance to clarify that the CMR, even in the absence of the transferee's signature – if supplemented with the transferee's declaration of receipt of the goods in the country of destination – is eligible as proof of the VAT non-taxability of the intra-Community transfers under the following conditions:

- the supplemented declaration identifies the parties involved (transferor, carrier and transferee) and all data useful to define the transaction to which they refer;
- sales invoices, documents proving payment, contractual documentation and EC sales listing /Intrastat form in addition must be kept.

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Angola



II. Further countries

COVID-19 and other VAT news

VAT – Tax Credit for 12 months

Presidential Decree No 98/20, dated 9 April 2020, has approved several immediate measures for relief of the negative economic and financial effects of the COVID-19 pandemic. One of these measures is a granting of a tax credit for a period of 12 months of the VAT paid upon importation of capital and raw material goods necessary to the “basic basket” (“*cesta básica*”), as well as other goods considered as priority from national origin (totalling 54 goods, listed in Presidential Decree No. 23/19, dated 14 January 2020).

In this context, tax authorities have published several rulings, such as Ruling no. 19/2020, dated 27 March 2020, setting out the exemption from VAT, customs duties and from any other fee due for any supply of services, on the import of goods intended to prevent and contain the spread of COVID-19. Only goods imported for humanitarian aid or donations can benefit from this exemption.

The procedures for an effective application of the measure regarding the aforementioned VAT credit have been defined with Ruling no. 34/20, dated 17 April 2020.

Ruling no. 34/20 states the following requirements for taxpayers to benefit from the VAT credit at stake:

- Entities which have their tax registration with the tax authorities (AGT) duly updated, falling within the scope of one of the VAT Regimes (Standard, Transitional or Non-Subjection) and importing any goods or raw materials intended exclusively for the production of those 54 products, may, upon prior request made to the Director of Customs Services, carry out customs clearance of imported goods (customs clearance) and only make, a posteriori, the payment of VAT due on said importation;
- The aforementioned payment may be made by the deadline of 12 months as of the following day on which the customs declaration is submitted to the AGT. The last day for the payment to be made in full is the 15th day after those 12 months, after which the debt certificate will be extracted if payment has not been fully made;
- As regards taxpayers of the Standard VAT Regime adhering to this mechanism of deferral of payment of VAT on importation, tax may only be deducted when the payment of VAT is made and in the respective proportion thereto (by the applicable deadlines).

This request to regularise VAT on importation a posteriori may be made until 8 April 2021.

Angolan VAT authorities – communication improvements

It is also important to highlight that Angolan VAT authorities have been strongly investing in the improvement of communication and sharing of information electronically, through more regular publication of rulings and press releases, which reveals, in these times of crisis, a technological boost enhancing fiscal certainty and security.

Indeed, the several rulings and press releases published have brought more clarity to various topics, such as: procedures for requesting VAT refunds, procedures for nominating a

tax representative for non-resident entities, without residence, head office or permanent establishment in the national territory; procedures for assessing VAT on financial operations and issuance of invoices by financial institutions; implementing VAT for insurance companies and procedures for issuing invoices or equivalent documents, amongst others.

As regards procedures for nominating a tax representative for non-resident entities, without residence, head office or permanent establishment in national territory, Angolan tax authorities confirm that such entities, performing operations in Angola subject to VAT, must nominate a tax representative registered in the Standard VAT Regime, in order to comply with declarative obligations and payment of VAT. Additionally, it is also set out that the nominated tax representative must comply with the legal framework of invoices and equivalent documents currently in force and is solely responsible for compliance with declarative obligations and respective VAT payments.

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Chile



Relevant VAT changes

On 24 February 2020, the new Law No. 21.210 was published. This law includes a series of modifications to different laws with tax content in force in Chile. As regards the VAT Law, by way of summary, some of the main changes are:

1. Whilst applying VAT, the presumption of habituality is eliminated when the sale of real estate occurs prior to one year after its acquisition or construction. In turn, the presumption of habituality for taxpayers with an effective real estate business line is eliminated. With this modification, it will be the "SII" ("*Servicio de Impuestos Internos*" – Chilean Internal Revenue Service) which shall determine, on a case-by-case basis, the quality of the usual alienating seller, for the purposes of whether or not VAT is applied.
2. VAT is levied on the remuneration for certain digital services provided by individuals domiciled or residing abroad, adding a new taxable event related to the provision of remunerated services performed by non-residents in Chile, which are the following:
 - The intermediation of services provided in Chile, independent from its nature, or sales made in Chile or abroad, provided that the latter give rise to an import;
 - The supply or delivery of digital entertainment content, such as videos, music, games or other analogues, via download, streaming or other technology, including for these purposes, texts, magazines, newspapers and books;
 - The provision of software, storage, platforms or computer infrastructure; and
 - Advertising, regardless of the medium through which it is delivered, materialised or executed.

Another new feature included in the reform is that the VAT Law establishes a new simplified procedure to declare VAT for non-resident service providers, which provide B2C digital services to be used in Chile.

3. The regulations on the early repayment of tax credits in Article 27-*bis* were modified. Prior to the reform, taxpayers had to maintain the remaining VAT credit for the acquisition of fixed assets for a period of 6 consecutive tax periods. Said period has now decreased to 2 tax periods and taxpayers are able to request a refund of the VAT credit.
4. In addition, the VAT exemption for services taxed with Withholding Tax is modified. Prior to Law 21.210, the exemption from VAT with respect to services subject to Withholding Tax had the exception that they were provided in Chile and benefitted from an exemption from Withholding Tax by applying the laws or the agreements to avoid double taxation in Chile. In this regard, the rule adds the services 'used' in Chile to the exceptions of this exemption.

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Costa Rica



VAT Law since 2019 – basics

Background

The VAT Law (VATL) came into force in Costa Rica on 1 July 2019, amending the prior Sales Tax Law.

Relevant changes: all services will be taxable, the concept of goods includes all transfers of tangible assets (fixed assets or inventories) and intangible assets (software, payment of royalties, etc.) which are also deemed as a service and taxable.

There are specific exemptions, including: interest on loans, assignment of shares, exports of goods or services, renting of houses (if a limit is provided for), printed books, private education services (primary and secondary school), reorganisation transactions (between related entities) and the transfer of the business through shares or the sale of the substantial assets.

The principle of the VATL is that all input taxes are credit and are deducted from the output (debit). Therefore, the taxpayer would pay the difference or, if the credit is higher than the debit, there would be a balance in favour of the taxpayer.

If the tax rates of the goods or services are lower than 13% (standard rate) whenever the VAT is collected, the input VAT paid by the taxpayer would be credited in the percentage of the ratio of sales at different rates to total sales. This mechanism is known as the ratio method.

According to the above, there are exceptions in the VATL. In order to not lose VAT credit, e.g. sales to the Social Security Institute, Local Governments, Red Cross and goods or services included in the database of the tax administration are deemed as necessities.

Exporters of goods or services can purchase, exempt from local suppliers, if they are included in the EXONET system and have a tax code. The taxpayer should disclose, in its electronic invoice, the tax code to justify the exemption.

Entities of the Free Trade Zone regime can also buy exempt. However, if they sell to customers located in Costa Rica, they would need to import goods by paying the VAT and using it as a credit in the local transaction collecting the output VAT.

In relation to reverse charge, entities that import services should calculate the VAT over the total of the purchase, using the invoice as support documentation and pay the VAT. They can use the VAT as a credit to calculate the debit for the month.

Relevant rulings

Due to the recent enforcement of the VATL, there are no tax audits or challenges concerning the tax treatment of the law, but there are some rulings in which the tax administration has responded to queries of the taxpayers:

Taxpayer offering outsourcing services: The tax administration stated that, if employees are working in the customer's office but are on the supplier's payroll, the costs of those salaries and social charges could be reimbursed without VAT.

Collecting services for the lending company: The Costa Rica entity (taxpayer) renders (collection) services to a foreign entity that grants loans to Costa Rica customers and the collecting company charges a commission for its services. The taxpayer asked whether those services are taxable with VAT, arguing that the customer is located outside of Costa Rica. Based on the territoriality principle, the tax administration said that if services are provided in Costa Rica they are deemed as Costa Rica source income and VAT has to be assessed.

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Kingdom of Saudi Arabia



VAT rate increase to 15%

The Kingdom of Saudi Arabia (KSA) has announced an increase in its standard VAT rate from 5% to 15%.

The new 15% VAT rate will be effective as of 1 July 2020 as part of the tax measures taken to support the economy during the COVID-19 crisis.

The VAT system was introduced in KSA in 2018 as part of the Common VAT Agreement (VAT Framework) agreed upon between the Gulf Cooperation Council (GCC) states with a VAT rate of 5% to be implemented across all member states.

Taking into consideration that the framework agreement has not yet been implemented in all GCC states to date, it is unsure how the increase in the VAT rate will impact the application of the GCC framework agreement.

Such rate increase is to be agreed upon by the GCC member states and must be announced at least six months before implementation.

The General Authority of Zakat and Tax (GAZT) has issued VAT guidelines regarding the transitional provisions of the rate increase as of July 2020, shedding light on how to deal with the signed contracts and VAT invoices before and after the rate increase and the continuous supplies of goods or services by a taxable entity.

Specifically, for continuous supplies, the guidelines state that, provided that the following conditions are met:

- if the contract is signed before 11 May 2020 between two parties subject to VAT and
- the supplies are continued after 1 July 2020 and
- the customer is entitled to deduct input tax in respect of the supply of goods or services in full,

then the VAT is applied at 5% until the date of expiry or renewal of the contract or until the date of 30 June 2021, whichever comes first.

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The guidelines also provide sample transactions where the tax point varies and the rates should apply in each case.

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