

ADJUSTMENTS TO REVERSE CHARGE TRANSACTIONS – HOW TO BE TREATED BY CUSTOMER

We wish to alert you to a private tax ruling by Director of Łódź Tax Chamber dated 21 June 2016 (ref. 1061-IPTPP3.4512.225.2016.2.MJ) in relation to the treatment of invoices which adjust (correct) transactions subject to the reverse charge mechanism.

The particular case involved a company which purchases goods from domestic suppliers under the reverse charge mechanism. Some of the suppliers sometimes issue correcting invoices which adjust the turnover upwards or downwards. The company applied to the Finance Minister for a ruling that would confirm that a correcting invoice which makes a downward adjustment should be recognised in the VAT return for the period during which the correcting invoice is received by the company while the period for recognition of a correcting invoice that makes an upward adjustment depends on the reason for the adjustment.

The Finance Minister disagreed and ruled that the period by reference to which such a correcting invoice should be recognised crucially depends on whether the reason for the adjustment arose after issuance of the original invoice (new development) or already existed at the time of its issuance. The “direction” of the adjustment (upwards or downwards) is irrelevant.

According to the authority:

- if you receive a correcting invoice which adjusts the taxable amount by reason of an event existing at the time of issuance of the original invoice (e.g. a pricing or invoicing mistake), the adjustment must be recognised by reference to the period during which the tax on the original transaction became chargeable;
- if you receive a correcting invoice which adjusts the taxable amount by reason of an event subsequent to the supply (such as where the price is changed, the goods are returned or a discount is granted), the adjustment must be recognised by reference to the period of account during which the event occurred.

The ruling means that, in reverse charge transactions that are adjusted by means of correcting invoices, the taxable person should always find out the reason for the correcting invoice, whether the adjustment is downwards or upwards.

If this issue pertains to your business and you are interested in our assistance, please contact your WTS&SAJA consultant or our office.

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