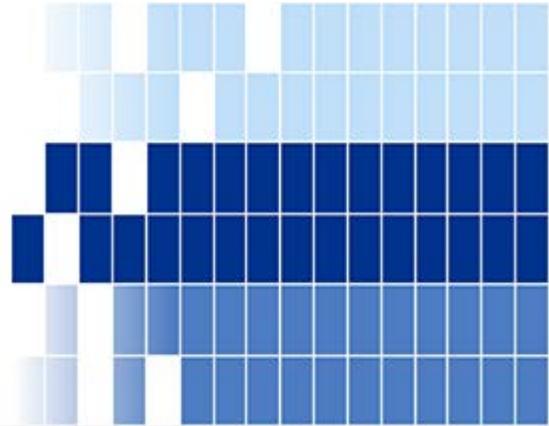




Tax News

KPMG in Bulgaria



## Working in time of COVID-19

### VAT implications arising as result of the COVID-19 outbreak

March 2020

**Relief measures mitigating the adverse impact of the outbreak on the business**

**VAT implications related to various business situations related to the outbreak**

**Organizational issues**

**How can we help?**

In the second issue of our series of *Working in time of COVID-19* our team presents the VAT perspective of the complications created by the new outbreak.

In troubled times of disruption and in particular within the current emergency state introduced in Bulgaria, VAT can become a real challenge. VAT requires daily attention and monthly filings which must go on despite the uncertainty of the situation. If we add the doubts which may arise for the treatment of unusual situations arising in the context of the outbreak and the cashflow effect of the tax, the complications grow even further.

In these circumstances we see three main groups of considerations:

## Relief measures mitigating the adverse impact of the outbreak on the business

The government is considering various relief measures aimed at supporting the business in these challenging times. For the time being, it is not known for certainty which measures will be actually adopted. It seems that the deadlines for filing the VAT package and the terms for payment of the monthly VAT liabilities towards the budget will not be prolonged. It is still not clear whether and in what cases sanctions and penalty interest for delays will be waived.

The only formal proposal made by the government into the Parliament so far which may have VAT implications concerns the terms under pending court and administrative procedures. As per the proposed measure, these terms will be suspended for the duration of the emergency state. If this measure is approved by the Bulgarian Parliament it will have an impact for control procedures such as tax audits, tax checks, appeals of tax assessment acts, etc. It is unlikely that the terms for regular VAT refund procedures will be affected.



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## VAT implications related to various business situations related to the outbreak

The outbreak has caused various business situations which should be carefully considered from a VAT perspective. Among others, these may include the following:

- Renegotiated commercial terms - can this alter the timing of invoicing and the taxable event of transactions and thus influence the cashflow?
- Cancellation of contracts and supplies, cancellation of events, 'no-shows', and other similar events - how should VAT be accounted for in these cases?
- Payment of penalties or liquidated damages - can a no-VAT approach be secured?
- Damage or loss of goods due to circumstances directly related to the outbreak and the government measures related thereto - can we claim a force majeure and how should we document it in the context of a possible input VAT adjustment?
- Donations of goods or services - will taxpayers be obliged to self-charge VAT for any goods/service they have donated to support those combating the spread of the disease?



## Organizational issues

Businesses face multiple organizational issues and in some extreme worse cases, the continuity of the business may be endangered:

- Most of the tax and accounting teams work from distance (home-office) which might be a challenge where businesses have no past experience with similar situations.
- Where a significant number of the team members are unavailable without distant connectivity this may endanger the compliance process.

In such extreme situations, businesses should be prepared with contingency plans for all degrees of distress. These should consider possible allocation of resources from non-pure VAT compliance work to the VAT compliance process, prioritizing the work within the remaining team according to risk and materiality or even seek additional resources outside their respective organization or outsource the compliance process.



## How can we help?

KPMG team remains at your disposal for any inquiries or need for practical assistance you may have in the current situation.



## For information

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