



VAT bad debt adjustment, one solution to improve business financials

Context



Considering the significant financial impact of the COVID-19 pandemic on most companies, identifying opportunities to improve cash flow and mitigate the economic impact of this disruptive situation becomes essential.

Improving the streamline of VAT cash-flow impact during this period counts as one of the solutions to support business financials. Thus, we revisited some of the VAT law provisions enabling opportunities for easing taxpayer's burden.

Solution



One of the VAT cash-saving opportunities relates to bad debts. Being usually overlooked as too difficult to implement, the provision of the tax law which allows VAT adjustments for bad debts may enable an important cash-saving opportunity for any company.

The adjustment of output VAT already accounted for, is allowed in relation to clients falling under the insolvency law provisions and for debts going back as far as the company's incorporation (under some specific circumstances).

Which are the steps in order to implement VAT adjustments on bad debts?

STEP 1

Put together the list of clients for which the receivables fall under the category of bad debts.

STEP 2

Verify whether these clients fall under the insolvency law provisions, being subject to a restructuring plan or bankruptcy procedure.

STEP 3

Check whether all the conditions to perform the VAT adjustments are observed (status of the client, time limits set by the law to perform the adjustment) and document all the adjustment cases.

STEP 4

Perform the VAT adjustment in your next VAT return!

How can we help?



- ✓ Checking your list of clients with bad debts and establish whether VAT adjustments may be performed in relation to them;
- ✓ Gathering the relevant documents to support the VAT adjustments performed, i.e. provide you all the documents your company needs to present during a VAT audit in relation to bad debt adjustments;
- ✓ Assistance during the process and fill-in the gaps in case some documents are hard to access or the status of some clients is uncertain.

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