

## **2018: Introduction of Split-VAT in Romania**

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In January 2018, a system of separate Value Added Tax accounts (so called “Split VAT”) will come into force in Romania. The essential changes and consequences are as follows.

### **Content and Scope**

The Split VAT system requires the use of separate VAT accounts for all payments and revenues associated with Value Added Tax (input and output VAT). This means, among other things, that invoices for goods and services have to be paid to two separate accounts: the net amount to the business bank account, the VAT element to a separate VAT account.

This system applies to all VAT liable supplies of goods and services with place of supply in Romania and which are provided by individuals or companies VAT registered in Romania. This means that it is not only taxpayers resident in Romania who will be affected. Excluded are transactions of the reverse-charge-system and VAT special regimes (e.g. second-hand, agriculture, tourism).

Romanian Tax authorities will keep a register with all affected tax payers (ro: “*Registrul persoanelor ce aplică plata defalcată a TVA*”).

### **Separate VAT accounts**

Separate accounts will have to be opened with the Romanian state treasury or a commercial bank. Transactions in foreign currencies can only be done with banks. The IBAN of these VAT accounts have to contain the Romanian country code (RO) and the letter sequence VAT. Clients and suppliers will have to be informed about the opening of the account and the related fees for using it.

#### *VAT accounts with the government treasury*

The ordinance is not very clear whether opening an account with the treasury will be automatic or only upon request. Especially for non-residents this point has to be clarified promptly.

#### *VAT accounts with commercial banks*

Commercial banks can automatically open a VAT account for their existing VAT registered customers. The bank must provide the customer with information and terms, and the customer has the right to accept the new account within 90 days or decline it with no additional costs.

## **Use of the VAT accounts**

These split VAT accounts are to be used only for the VAT transactions stipulated in the ordinance, mainly:

- VAT received from own clients for invoiced goods and services
- VAT payments to suppliers on invoices received
- Own transfers of VAT included in cash or card payments received (within 7 days)
- Payment of the VAT payable amount to the state budget

Withdrawals from these accounts are not allowed.

## **Early adoption with incentives**

As of 1st October 2017, taxpayers can adopt the system on a voluntary basis, and will receive these tax incentives:

- 5% reduction of the corporate tax (or corporate tax for micro-business) in the fourth quarter of 2017
- cancellation of administrative fines on VAT payments outstanding as of 30th September 2017

## **Penalties**

Possible fines for VAT payments to the wrong account can be penal surcharges of 0.06% per day. This applies for a period of 30 days, after that the penalty is calculated as 50% of the VAT amount.

Failure to inform clients and suppliers about the VAT accounts can lead to fines of 2,000 – 4,000 RON.

## **Conclusion**

The implementation of this controversial system, only used in a few EU member states, aims to prevent VAT fraud and should reduce the difference between tax declared and tax actually paid. However, the scheme means a significant expense for the companies affected to establish the necessary conditions, plus continued extra expense to administer the system.

We can't assess the rising problems in practice – not least because of the short deadline till the new system comes into force on 1st January 2018. There is some doubt about the overall value of the purpose of the system for the State, set against the cost-ratio benefit for taxpayers.

## NOTES

### Background

In June 2017, the implementation of the Split VAT (*ro: "plata defalcată a TVA*) was first mentioned. In early August, the draft ordinance was published (planned Implementation: 01.09.2017), and then partially changed on 18.08.2017 (e.g. planned implementation: 01.01.2018). After a surprisingly quick decision-making process on 30.08.2017, the ordinance 23/2017 was published in the official journal the following day.

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