Indirect tax treatment of bad debts: a multijurisdictional analysis

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Lachlan Wolfers

Global Head of Indirect Taxes
KPMG International
T: +852 2685 7791
E: lachlan.wolfers@kpmg.com

Executive summary

The current challenges that societies and businesses face around the world in light of the Novel Coronavirus (COVID-19) pandemic are significant and unprecedented. The extent to which businesses and consumers will fall into default and be unable to settle debts on a timely basis is expected to grow significantly, even despite exceptional levels of government stimulus, subsidies and other forms of support.

In most jurisdictions, businesses which are registered and account for VAT/GST (and other similar forms of indirect taxes) on an accruals basis will often be required to account for output tax in the same tax period as an invoice is issued to a customer. If that invoice is not paid and a bad debt arises in a subsequent tax period, then potentially the business will either have to absorb that VAT/GST as a real cost, or alternatively, they will be entitled to 'write back' the VAT/GST previously accounted for. The extent and administrative ease with which the VAT/GST previously accounted for may be effectively reversed may give rise to either permanent or cash flow impacts for affected businesses. Given VAT/GST is levied on gross revenue, any irreversible VAT/GST liabilities arising from bad debts could have a crippling impact on businesses.

From a policy perspective, there are really two main schools of thought around the treatment of bad debts. On the one hand, those jurisdictions which do provide bad debt relief implicitly recognize that businesses should not be required to ultimately bear VAT/GST in circumstances where the business does not receive the related income. On the other hand, those jurisdictions which do not provide bad debt relief seemingly believe that government should not be required to contribute back its tax revenue due to the default of another party. In between these two extremes lies a range of jurisdictions which impose significant conditions around proof of the irrecoverability of the debt before the VAT/GST may be reversed, including limitations where a debt has been sold or factored.

Recognizing the importance of these issues and the differing treatments across the world, KPMG member firms have contributed these summary tables to provide a quick snapshot for multinational businesses on the impact of VAT/GST and other similar forms of indirect taxes on bad debts. It is hoped that by doing so, jurisdictions which either do not provide relief for bad debts, or impose cumbersome processes or administrative conditions, may recognize the importance of considering changes to their indirect tax systems.

This document contains high level guidance only. The specific impacts will always depend on the individual circumstances involved. Specific professional advice should always be sought, and no decisions or actions should take place based on the general information provided here.

	Is bad debt relief available in your jurisdiction for VAT/GST purposes?	What are the main conditions for applying such relief? (For example, any minimum time period, any requirement to reflect the bad debt for accounting purposes etc.)?	Do prior VAT/GST returns need to be corrected if VAT bad debt relief is claimed, or can the adjustment be reflected in a current return?	Is there a requirement to issue a bad debt relief notice (or 'credit note') to the debtor?	Where bad debt relief can be claimed in your jurisdiction, is the debtor similarly required to correct the related input tax credits previously claimed?
Australia	Yes. A 'decreasing adjustment' (i.e. reduction in output tax) may be claimed, where a taxable supply has been made, in respect of which the whole or part of the consideration has not been received and the amount has been written off as a bad debt, or is overdue for at least 12 months. The adjustments must be reversed if payment is ultimately received Division 21 of the GST Act *(A New Tax System (Goods and Services Tax)* Act 1999) and Goods and services Tax Ruling 2000/2 refer.	As before. The amount must have been written off as a bad debt in the financial accounts, or have been overdue for at least 12 months.	No. The supplier may adjust the current period return. The adjustment is included in the GST return for the period in which the debt is written off in the accounts, or the 12 month period lapses.	No. Bad debt adjustments are required to be attributed to the tax period in which the parties become 'aware' of the adjustment. There is no formal documentation required. In practice, there is usually some correspondence if a debt is written off, therefore giving rise to the awareness, or the 12 month time limit will govern the point of awareness and attribution.	Yes. Similar adjustments, to reduce input tax on purchases, are required if an acquisition has not been paid for, or the supplier notifies the recipient that debt has been written off.
Austria	Yes. VAT relief can be claimed on bad debts, if the agreed payment for a supply of goods or services subject to VAT has become irrecoverable.	Whether and when a receivable can be considered uncollectible will have to be decided according to the circumstances of the individual case. If the collectability of a receivable is merely doubtful, it is not yet possible to speak of un-collectability. According to the Austrian VAT guidelines no. 2388 the creation of a del credere post in the financial statements due to the doubtful nature of a claim does therefore not yet entitle the supplier to an adjustment of the tax base. This is due to the fact that the Austrian statutory accounting law applies the "prudence principle" which means, among others, that receivables must be disclosed at their lower value rather than at their higher value. According to the VAT guidelines only the insolvency of the debtor or the reduction of the payment due to a court decision or settlement, etc. constitute real cases of irrecoverability.	No. Adjust current return. The adjustments have to be made in the assessment period in which the irrecoverability occurred.	No. The entrepreneur whose claim has become wholly or partially irrecoverable can reduce the payment in the amount of the loss of the claim without having to inform the debtor of this. However, the tax office of the correcting entrepreneur (creditor) must inform the tax office of the insolvent entrepreneur (debtor) of the irrecoverability of the claim by means of a control report (see Austrian VAT Guidelines no. 2389).	Yes.
Bahrain	Yes.	The main conditions include: — 12 months period passed. — Write off in books. — Proof that sufficient efforts were made to collect the debt.	No. Adjust current return. Providing the amount is no more than USD 13,500 otherwise a new and separate return is required.	No.	No. Not provided as a condition in the Law.

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Belgium	Yes. According to article 77, §1, 7° of the Belgian VAT Code: *"VAT levied on the supply of goods and services is reimbursed up to the appropriate amount when the claim for the price is fully or partially lost".*	A reimbursement of VAT will only be made in case of a non-payment of the price due to: 1. Bankruptcy; 2. reorganization proceedings of the debtor (under the law on the continuity of undertakings); 3. any other reason than (1) or (2) above (e.g. disappearance of the debtor) and on the condition that it can be demonstrated that everything was done which is reasonably possible to recover the claim. Normally the tax authorities will not dispute the existence of the loss when the amount of the loss is accounted for in the Profit & Loss accounts and in so far such accounting entry is made at the time when the creditor "by means of all possible facts or legal remedies" can prove that its claim may be deemed (definitively) lost.	Adjust current return.	Yes. Reorganization proceedings or any other reason but not bankruptcy: — a credit note should be issued to the customer mentioning the VAT amount for which refund is asked; — taxable amount in box 49, VAT amount in box 64. On this credit note the following statement must be mentioned: "VAT to be repaid to the State to the extent to which it was originally deducted". If this statement is not included on the credit note, the tax authorities can refuse the refund of VAT to the issuer of the credit note. In case of bankruptcy: — no credit note to be issued (a corrective document should be drafted though for registration in the accounts); — the claim should be mentioned in the "refund register" of the company; — the VAT can be claimed back via box 62 of the periodical VAT return.	Yes. Unless in case of bankruptcy.
Brazil	Not applicable.				
Canada	Yes.	Where tax has been charged on a supply and its related account receivable becomes a bad debt, the vendor may claim bad-debt relief if the bad debt is written off in the businesses' books. Subsection 231(1) provides that the vendor may claim a deduction equal to the tax fraction of the bad debt written off.	Adjust current return.	No.	No. However the debtor may be assessed tax directly by the tax authorities.

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China	No. China's VAT system does not provide bad debt relief generally. The exception to this is lending activities incurred by financial institutions where it is possible to cease accruing output VAT on interest income after 90 days.	Not applicable.			
Croatia	Not applicable. Unilateral relief is not available. The relief can generally be obtained in the same way as any other correction of the VAT base which presumes that customer adjusts input VAT and informs the supplier of VAT adjustment.	The only condition is that statement on the input VAT correction is received from the customer confirming that the customer has adjusted input VAT in its VAT return.	Adjust current return. The VAT return for the period in which statement on the input VAT correction is received has to be amended.	Yes. If the tax base for the calculation of the VAT is changed, credit note should be issued.	Yes.
Cyprus	Yes.	Conditions include: — Earlier issuance of a VAT invoice in relation to the provision of services or supply of goods and accounting for the corresponding VAT in the relevant VAT period. — The supplier has taken all necessary actions and measures to recover the amount due from the debtor. — At least 12 months period should have elapsed from the time at which that the tax point occurred. The tax point is considered to be the time point output VAT becomes due based on the time of supply rules for services and or goods. — The claim for the bad debt relief must be made within 4 years from the time at which the tax point occurred. — To write off the relevant amount from the accounting records through the income statement (Profit & Loss Account). — It is important to note that the write off of bad debts in a provisional account will not be accepted by the Tax Department.	Adjust current return.	Yes. A letter must be sent to the debtor informing him that the bad debt relief procedure has been exercised.	Yes.

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Cyprus (Contd.)		Specifically, the deletion should be made in the income statement under the name "Bad Debts" with a corresponding entry in the debtor's own account or in a separate account called "Debtors written off in Income Statement". For easy and immediate identification in a tax audit, the input tax claimed from bad debts should be transferred to a special account called "input VAT account for bad debts". Where the debtor is a taxable person, he should be informed in writing within 7 days from the date of submission of the VAT return form on which the claim is made. Disclosure should also be made to the Tax Commissioner along with the debtor's VAT number. The necessary records / evidences regarding the bad debts relief procedure should be kept for a period of 4 years from the date of the submission of the relevant VAT return i.e. a separate file listing names, amounts, invoice numbers and period the claim was made as well as journal entries affected.			
Estonia	No.	Not applicable.			
Finland	Yes.	Bad debts can be deducted from the VAT base. Such relief shall be applied when one can assume that the debt is unlikely to be recovered and thus, can be recognized in accounting. In practice, a proof of e.g. bankruptcy of the debtor, failed collection of the debt or other information regarding insolvency of the debtor would be required. Accounting for a bad debt can be done anytime during the accounting period but no later than at the time of the financial statement.	Adjust current return.	No.	No.

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France	Yes. Please note that the bad debt relief only concerns the supply of goods. The tax point for services is the payment.	It is necessary to demonstrate the definitive loss and the taxpayer made all legal action to recover the cash.	Adjust current return.	Yes. A corrective invoice is needed.	Not Applicable
Germany	Yes.	A bad debt relief requires that the agreed consideration is not collectable (§ 17 (2) no. 1 German VAT law). According to German tax authorities an amount is deemed to be uncollectable if, from an objective point of view, it is predictable that the supplier cannot, due to legal or factual circumstances, recover the consideration (completely or partially). Whether consideration is not collectable in terms of § 17 (2) no. 1 UStG depends on the individual facts of the case. There is e.g. no minimum period which needs to be met mandatorily. In any case, the very fact of nonpayment despite a reminder can almost certainly not be deemed sufficient. In particular, a bad debt relief is given if the customer is insolvent.	Adjust current return.	No.	Yes.
Hungary	Yes. As of 1 January 2020, bad debt relief is available in specific circumstances. In the cases not meeting these conditions, a specific claim could potentially be submitted based on EU principles.	Bad debt relief is available on B2B transactions performed after 31 December 2015, if receivables are overdue for more than twelve months and the receivables are definitely irrecoverable (e. g. in the case of debt assignment, the relief is not available). Available only between independent parties. The parties were not subject to bankruptcy, liquidation or forced termination proceedings at the time of supply. The customer was not blacklisted on the publicly available database of the tax authority. A bad debt relief notice is to be issued by the supplier to the customer.	Adjust current return.	Yes. The minimum content of bad debt relief notice is prescribed by the Hungarian VAT Act.	Yes.

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Ireland	Yes.	Conditions include: 1. All reasonable steps have been taken to pursue the debt. 2. The debt is written off in the financial accounts. 3. The written off debt would be available for a deduction for corporation tax trading purposes. 4. The debtor and credit are not connected parties.	Adjust current return.	No.	Yes. The debtor would be obliged to repay to Revenue the VAT previously reclaimed if the corresponding invoice is unpaid within 6 months of the debtor taking an input VAT credit on that invoice in its VAT return.
Italy	Yes. In general, VAT relief can be claimed for bad debts if they are due to a customer's bankruptcy or insolvency and foreclosure procedures are unsuccessful.	Output VAT unpaid by customers who are undergoing bankruptcy and similar procedures is recoverable only at the end of the procedure. A foreclosure procedure is deemed to have been unsuccessful when: 1. Though ordered, a debtor's assets in the possession of third parties cannot be seized because there are no assets or receivables to seize; 2. Though ordered, moveable goods cannot be seized because goods are missing or because the debtor cannot be found; 3. After three unsuccessful attempts to sell the goods at public auction, the foreclosure procedure is terminated due to excessive costs.	Adjust current return. The adjustment should be reflected within the current annual VAT return.	Yes. The bad debt relief is in general exercised through raising a credit note to the debtor.	Yes. If the supplier raises a credit note, the debtor is obliged to adjust downward the input VAT.
Japan	Yes. Output CT incurred corresponding to loss for bad debt is creditable in the period the loss for bad debt becomes fixed.	The timing for CT credit is the same with the timing for deduction for corporate tax purposes. A loss recognition is also necessary for accounting purposes.	Adjust current return. It is creditable in the period the loss for bad debt becomes fixed. No need to correct prior period CT returns.	Yes. A compulsory loss incurred as a result of certain legal actions does not require a notice. On the other hand, a voluntary forgiveness, may be economically forced though, requires a notice.	No. Debtor is not required to treat a forgiveness as an adjustment to input CT.

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Luxembourg	Yes. Possibility to reclaim VAT recovery in respect of bad debts and adjusts the taxable basis.	The grand-ducal decree dated 21 December 1979 (Mem. A 1979, p. 2128) deals with the cases where regularizations of the taxable basis of the value added tax need to be carried out. Article 1 of the above mentioned grand-ducal decree rules that in case where there is an amount charged as remuneration (invoiced) which does not match the actual remuneration collected by the supplier, the Luxembourg VAT amount corresponding to the unpaid taxable basis must be regularized. This should for example be the case where there is a supplier granting a rebate, a discount or a reduction on the price charged or when the counterparty does not pay part or the totality of the price charged on the invoice. In this respect, the regularization must be carried out at the level of the supplier, as well as at the one of the recipient. The supplier has to adjust the taxable basis which has been charged to and finally paid by the recipient, while the latter should modify the amount of VAT he should be able to recover (if any).	Adjust current return. Based on article 2 of the grand-ducal decree, regularizations should be carried out at the end of the period during which the taxable basis has been modified.	No. This is not a requirement as such. However, it would be helpful to justify the regularization of the VAT, vis-à-vis the Luxembourg VAT authorities. Following article 6 of the grand-ducal decree dated 21 December 1979, any document amending the taxable basis should include a reference to the modified / to be modified invoice.	Yes. In the case where the supplier would finally be paid by its client (or would be paid more than initially reported at the time of regularization), an adverse regularization should subsequently be carried out.

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Malaysia	Yes.	Conditions include: — The bad debt needs to be written off in the accounts as bad debts. — The bad debt claim needs to be made within six years from the date the Sales Tax/ Service Tax is paid to the tax authorities. — The tax authorities may refund the whole or any part of the Sales Tax/ Service Tax after being satisfied that the taxpayer has properly established the claim. — The taxpayer needs to provide documents such as a copy of the invoice issued, documents showing that all reasonable efforts have been taken by the person to recover the payment.	Separate Refund Procedure. A claim for a refund in relation to bad debt shall be made in Form JKDM No. 2 together with supporting documents.	Yes. The taxpayer needs to provide documents showing that all reasonable efforts have been taken to recover the payment e.g. legal demand letter, a few request for payment emails / notices.	No.
Malta	Yes. The conditions for availing oneself of the Bad Debt Guidelines are very strict and difficult to apply in practice.	Conditions include: 1. Claim for bad debt relief may be made following a final Court judgement showing beyond doubt and to the satisfaction of the Commissioner that the debt can never be recouped. 2. The claim must reach the Commissioner by not later than twelve months from the date of delivery of the final judgement. 3. VAT in connection with the claim must have already been accounted for and paid to the Department. 4. All VAT returns and payments due as at the date of the claim must have been submitted by that date. 5. The debt must have been written off in the claimant's day-to-day VAT accounts and transferred to a separate bad debt account.	Adjust current return. An application to claim a bad debt relief must be submitted to the Commissioner for Revenue. The claimant may deduct the tax relative to the bad debt relief claim in the VAT return for the tax period following that in which the Commissioner has authorized the relief.	Not applicable.	Not applicable.

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Malta (Contd.)		6. The supply must have been made to the customer, or to a third party through the customer. 7. The value of the supply must not be more than the customary selling price. 8. The debt must not have been paid, sold or factored under a valid legal assignment.			
Mexico	Not Applicable. Mexico follows a cash flow basis to calculate VAT.				
Mongolia	No. Bad debt relief is not available.	This is not specifically regulated or clearly defined in the laws.	Not applicable. Bad debt relief is not available.		
Netherlands	Yes. If a performed supply or service is not paid and will also never be paid, the Dutch tax authorities can be asked to refund the remitted VAT. The right to a refund arises on the date the cancellation, termination, full or partial non-payment takes effect.	Entitlement for VAT bad debt relief arises when it is established that a receivable will (partially) not be paid. Ultimately one year after the payment due date the receivable qualifies for VAT bad debt relief. The bad debt relief should be claimed in the VAT return period during which the right for VAT bad debt relief arises.	Adjust current return. The adjustment should be included in the VAT return of the period in which the bad debt arises or the one year term expires. Please note that if a receivable has been transferred (e.g. as a result of factoring or cession), it is not allowed to reclaim VAT in the Dutch VAT return. Instead a refund request should be filed (via a special form).	No. Please note that there is a liability to remit Dutch VAT to the Dutch tax authorities if a receivable for which Dutch VAT bad debt relief was claimed will be fully or partially paid.	Yes. A VAT taxable person who has reclaimed input VAT on payables, shall repay the reclaimed amount of input VAT proportionally, at the time when it is determined that the receivable will not be paid partially or in full. VAT is in any case due one year after the payment has become due and payable (insofar it has not yet been paid).
New Zealand	Yes.	The bad debt must be written off for accounting purposes.	Adjust current return.	No.	No.
Norway	Yes.	The loss must be confirmed and it must relate to the inability to pay (insolvency) and not the unwillingness to pay. Further details are included in the VAT regulation Section 4-7-1.	Adjust current return. The bad debt is claimed by adding the relevant amount as input VAT on the current VAT return. We recommend to include information about this on the relevant VAT returns.	No.	No.

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Poland	Yes.	Conditions include: 1. Supplier who does not receive payment for its invoice within 90 days from the date of payment is entitled to recover VAT paid to the Tax Office. 2. Other material and formal conditions must be met (e.g. the debtor must not be in liquidation / bankruptcy, special notification to tax office must be made, etc.)	Adjust current return. Once the invoice is paid, the supplier should include the output VAT again in its VAT settlements.	Yes. Notification in the VAT return is required (including data of the debtor).	Yes. The debtor is obliged to adjust (decrease) the amount of deducted input tax. What is more, there is an obligation to adjust (decrease) VAT even if the supplier did not benefit from bad debt relief.
Qatar	Not applicable. VAT has not yet been introduced in Qatar yet. As a consequence of the current COVID-19 crisis, it is very likely that the introduction will not happen as per 1 January 2021.				
Singapore	Yes.	Businesses need to ensure that the following conditions are met: 1. GST has been accounted for and paid to the Comptroller; 2. The whole or part of the debt has been written off in the accounts; 3. The amount has been outstanding for the period of 12 months or more from the beginning of the date of supply OR the debtor has become insolvent before the 12-month period; 4. Reasonable steps are taken to recover the debts (e.g. issuance of reminder notices and attempt to collect the debts via email or telephone); 5. The value of supply is equal or less than the open market value; and 6. Form "Bad debt relief: Checklist for self-review of eligibility of claim" is completed and maintained as part of its record-keeping.	Adjust current return. Adjust in current quarter.	No. See the previous conditions.	Yes. A debtor is required to repay the input tax previously claimed if it does not pay the supplier within 12 months of the due date of the payment.

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Slovakia	No.	Not applicable.			
South Africa	Yes.	The supply must have been a standard rated supply and the debt has to be formally written off in accordance with the accounting policies - there is no formal time limit.	Adjust current return.	No.	Yes. If payment has not been made for a supply within 12 months the taxpayer has to reverse the input tax credit claimed - the supplier adjusts the output tax by claiming bad debt relief.
Sweden	Yes. The assessment of whether a bad debt relief has occurred should be made for each specific debt. Therefore, the seller isn't entitled to a bad debt relief on collective bad debts. Also, a disputed claim is not sufficient to make a bad debt relief claim.	The supplier must be able to show that it is likely that the payment will not be received from the customer. According to the Swedish tax authority the following may be circumstances that indicate a bad debt relief: 1. The debt should be older than a normal credit period. 2. The debtor is bankrupt or insolvent and it is determined that the debt cannot be paid. 3. There is evidence that the bad debt exists, and that the debtor is bankrupt or insolvent e.g. an investigation report from the Enforcement Authority in Sweden which shows that the debtor has no assets. According to the Swedish tax authority, unpaid claims that are less than SEK 1,000 could be treated as a bad debt relief, even if the supplier has not been able to prove that the customer is unable to pay. However, it is required that at least 8 months have passed since the claim was due for payment and that both a payment reminder and a debt collection claim have been issued.	Adjust current return. Adjustments due to a bad debt relief should be made for the accounting period during which the bad debt relief has been or should have been posted to the books according to generally accepted accounting principles. Usually in the same period as the occurrence of bad debt relief.	No.	No.

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Switzerland	Yes. There is no bad debt relief if the associated financial risk is transferred entirely to a factor by way of assignment of the debt.	No transfer of the full financial risk to a factor by way of assignment. In practice, bad debt relief in accordance with the relevant and accurate accounting manual is accepted, however there is no formal legal basis to allow bad debt relief prior to a completed debt prosecution procedure. Also, there is a legal provision to say that there is no bad debt relief unless an original invoice has been revoked and the revocation notice is received by the invoicee.	Adjust current return.	Yes.	Yes.
Turkey	Yes.	When the receivable becomes bad debt according to Tax Procedural Law article 322, related VAT of the receivable amount is treated as deductible VAT in the VAT return.	Adjust current return.	No.	Yes.
United Kingdom	Yes. As a general rule, bad debt relief must be claimed within 4 years and 6 months of the later of the date payment was due and payable or the date of supply.	The main conditions are: 1. You must already have accounted for the VAT on the supplies and paid it to HMRC. 2. You must have written off the debt in your day to day VAT accounts and transferred it to a separate bad debt account. 3. The value of the supply must not be more than the customary selling price. 4. The debt must not have been paid, sold or factored under a valid legal assignment. 5. The debt must have remained unpaid for a period of 6 months after the later of the time payment was due and payable and the date of the supply (one year after the date of supply for supplies made from 1 April 1989 to 31 March 1992), and	Adjust current return. The bad debt relief adjustment should be made to the current VAT return.	No.	Yes. Where input tax has been previously recovered and not paid within 6 months, this input tax should be repaid to HMRC.

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United Kingdom (Contd.)		6. If the goods were supplied before 19 March 1997, ownership must have passed to your customer, or through the customer to a third party. 7. For supplies made to a VAT-registered customer between 26 November 1996 and 30 April 1997, you must send a notice to them. A copy of the notice must also be retained.			
United States	Yes. States usually provide sales tax relief for tax remitted to the state on amounts that later become uncollectible.	Three general conditions: 1. The amount must be written off as uncollectible on the taxpayer's federal income tax return; 2. The uncollected tax must be documented as uncollectible in the taxpayer's books and records; and 3. Adequate documentation must be maintained.	Adjust current return. Generally, states allow an adjustment for bad debts to be take on the current return, subject to audit. Amended returns are generally not required.	No.	Not applicable.

Contact us

Lachlan Wolfers

Global Head of Indirect Taxes
KPMG International

T: +852 2522 6022
E: lachlan.wolfers@kpmg.com

home.kpmg/socialmedia