

# Itchy VAT law: can it be soothed by E-Archiving?



**Although VAT is considered a minor issue for financial institutions, the VAT law can be an unpleasant burden as it presents problematic obligations. Recently there have been several positive developments in this area. Let's have a look at the most important changes.**

In mid-2012, an amendment to the Slovak VAT law, Act 246/2012, was approved. Most financial institutions have since noticed an important new obligation arising from this amendment: the necessity to issue an invoice for their services to foreign entrepreneurs, while financial services provided to Slovak entities still remained unchanged, i.e. without an obligation to issue invoices. In most financial institutions this type of obligation creates headaches since they mean complete re-arrangement of their invoicing processes and software set-ups, as a result of the fact that prior to the amendment they had no obligation to issue invoices. However, at the end of the year, another amendment to the VAT Act was approved. Usually new changes mean new work on the customization of processes and software to be adopted in line with any new laws. Luckily, with Act 440/2012, lawmakers managed to eliminate the aforementioned obligations, in favor of businesses, by repealing them in the new Act.

Another inconspicuous change with a significant favorable impact on financial institutions, among others, was the deletion of the obligation to archive received VAT documents (invoices, import declarations etc.) in the form in which they were received. Until the end of last year, once a company received a hard-copy invoice, it had to store it as a hard copy. Upon receiving an invoice

electronically, the electronic version had to be stored for ten years for the purposes of potential tax inspection. Thus, considering developments in today's IT-oriented world, where all trends relate to automation, electronic formatting and other paperless methods preferred by companies in respect to archived files, one could have seen such obligations as obsolete.

**This solution not only saves physical space, paper, files and other tangibles, which results in saving money (not to mention improved environmental impact).**

With the latest amendment to the VAT Act, the purpose of the aforementioned deletion became obvious: to allow companies to make their own choices in regard to the storage format of VAT documents. While from a technical point of view the law might have been worded more clearly, explicitly stating this option, and not relying on the current provision leaving companies with the obligation to store received invoices. Thus, there remains potential for originals still having to be stored. With all the oral interpretation of

the abovementioned deletion, and the related promotion of this purpose from the side of the Slovak VAT authorities, further supported by documentation discussing the purpose of the proposed changes when registering a bill in the parliament, the intention of the lawmaker becomes clear: to stay up to date and ease administrative obligations.

As such, companies can export their hard copy files to extensive data-storage facilities. This solution not only saves physical space, paper, files and other tangibles, it also results in saving money (not to mention an improved environmental impact). This approach also represents a significantly easier orientation in stored documents, significantly easier matching of related sources of documents, lucidity and grounds for better control. From risk management and security points of view, electronic archives represent safer environment, where, with the right IT set-up, changes cannot be made without an official record by authorized person(s), or at least without being logged by the system.

On the other hand, for smaller enterprises not having sufficient funds to make an electronic

archive, this amendment opens up the option to simply print every document and store it in few boxes without having an impractical mixed archive, or fear of a potential challenge by authorities where all invoices, including those received electronically, were simply printed and stored.

This change opens doors to further simplification, e.g., to extend documents archived electronically to also serve corporate income tax and accounting archiving purposes. Despite the fact that the above mentioned option has only been effective for a few days, many companies have already started to explore the possibility of completely eliminating hard copy archives in the future. Pursuing this has meant contacting their software providers and tax advisors to find IT solutions that fulfill document-related obligations arising from accounting legislation, and serving not only VAT purposes but also accounting and corporate income tax purposes.

While it will be interesting to observe whether the practice of scanning received invoices or pure electronic storage will uncover new types of errors, abuse or other problems, everyone hopes that it will not result in the abolition of the option to choose the form of archived documents, or to the re-introduction of the old rules.



*Miriam Patiová  
Head of Indirect Tax,  
BDO Tax k.s.,*

