

VAT Guidelines for Bad Debt Relief claims

Guidelines for Bad Debt Relief claims (hereinafter referred to as the “**Guidelines**”) were issued recently by the VAT Department in terms of the provisions of the Tenth Schedule of the VAT Act (Cap. 406 of the Laws of Malta). Such provisions empower the Commissioner to give directives as to the circumstances in which it may be made and the documents or other evidence that should be produced.

- **Conditions to be satisfied:**

In terms of the Guidelines the following conditions must be satisfied in order to claim bad debt relief as aforesaid:

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.
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.

- **The procedure to be followed in order to claim Bad Debt Relief:**

The Guidelines provide that an application to claim bad debt relief must be made by means of a registered letter addressed to the Commissioner.

Such letter must also provide:

- a copy of the relative final Court judgment;
- the date and number of any invoice issued for each supply to the customer, which is included in the claim;

- for each relevant supply, the amount which has been written off as bad debt; and
- the amount of the claim.

Each application received by the Commissioner as aforesaid will be examined by the Commissioner who shall accept or reject the claim and inform the applicant accordingly.

The Guidelines also provide the method to be adopted for the calculation of the claim and clarify other practical issues that may arise when claiming Bad Debt Relief for VAT purposes.

For further information in respect of any part of the Guidelines kindly contact:

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**The objective of this summary is to outline the principal elements of the Guidelines being summarized herein. Accordingly it is not intended to be provided by way of comprehensive and definitive advice. Readers should seek professional advice by contacting DFK Malta Tax & Consultancy Limited before acting upon any information included in this document.*