

An amendment to the Value Added Tax Act came into effect as of January 1st, 2023, allowing for a reduction of VAT and the tax base in the event of a total or partial non-payment for a taxable supply the claim on which is declared irrecoverable. Most generally, the conditions for reducing tax that must be met simultaneously are: (i) an invoice must have been issued; (ii) the parties to the transaction must not be related entities; (iii) no transfer (cession) of receivables must be in effect; (iv) the supplier must be able to prove that efforts have been made to collect the receivables; (v) the supplier must have notified the recipient in writing that a receivable is deemed irrecoverable.

The VAT Act defines when a receivable can be deemed irrecoverable. This is allowed in one of the following circumstances: 1. at the end of the third year for a claim with a three-year limitation period or of the fifth year for a claim with a five-year limitation period as from the moment when such a claim became callable; 2. when a valid and effective court ruling determines that such a claim or part of it is not due, whereby the receivable is deemed irrecoverable only with respect to the part of the claim not due; 3. the claim is extinguished by force of law; 4. following completion of enforcement proceedings, the claim has remained wholly or partially unrecovered; 5. bankruptcy proceedings against the debtor have been wound up by force of an approved restructuring plan that provides for partial non-satisfaction of the supplier's claim, whereby the claim is deemed irrecoverable to the extent of the portion thereof that remains unsatisfied; 6. a 365-day period has expired for a claim of up to BGN 600 as from the moment when such claim became callable; 7. the debtor has been struck off following completion of bankruptcy or liquidation proceedings.

When the conditions listed above are met, the reduction of VAT and the tax base is put into effect by issuing a credit note.