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Short-term cut in VAT as of 1 January 2018 – there is need for action!

Dear Sir or Madam,

As a consequence of the rejected pension reform, a cut in VAT rates as per 1 January 2018 has been announced at short notice. Such an adjustment usually means a substantial effort for businesses (the media are estimating around CHF 200m per adjustment); however, this adjustment is unavoidable, as there will no longer be a constitutional basis for the old VAT rates, as of 2018. To give you an overview of what repercussions this will have for your company and what you must address in the short-term, we have compiled the most important questions and answers for you.

What are the new rates?

There will still be three VAT rates, and the allocation of the three rates will remain mostly unchanged. The old and the new rates are as follows:

	<i>previously</i>	<i>as of 01.01.2018</i>
Normal rate	8.0%	7.7%
Reduced rate	2.5%	Unchanged
Special rate for hotel industry	3.8%	3.7%

Which of these three rates is implemented when?

Determination is based on the date of supply or service, whereas the date of the invoice or the dates of payment are irrelevant. All supplies rendered up to 31 December 2017 are subject to the old rates, all supplies rendered on or after 1 January 2018 will then be subject to the new rates and invoiced accordingly. This allocation should be rather unproblematic when it comes to cash sales or single deliveries; however, the invoice must clearly show the date of delivery or the date of service.

The situation is considerably more complex when it comes to recurring supplies, or services rendered over a long period of time (e.g. newspaper subscriptions, half-fare travelcard). Generally, a service must be allocated on a pro rata temporis basis at both the new and the old VAT tax rates.

Example

Newspaper subscription from 1 October 2017 to 30 September 2018
--> three months under the old rate, nine months under the new rate.

The invoice must show the two partial periods separately. Should this not have happened, then the old (higher) tax rates need to be used.

For an advance purchase of supplies which are not rendered on a regular basis, but called upon according to demand (e.g. multiple-fare tram cards, purchase of a car including free maintenance up to 100'000km) the tax rate at the moment of the purchase applies. Should this still happen to be in 2017, then the old (higher) rates will apply, and should be invoiced.

What happens to revenue reductions?

Revenue reductions (i.e. discounts, cash discounts, sales refunds, etc.) need to be considered at the same rates that had been applied on the original invoice and on the original service.

Example

Invoice and date of service 15 December 2017 at 8%, the customer pays on 18 January 2018 and deducts 3% cash discount.
--> the cash discount needs to be considered at 8%.

The same applies for goods returned and retrospective cancellation of invoices.

How is the input tax deduction applied?

The input tax deduction is subject to the tax rates shown on the invoice.

If a supplier has originally applied a wrong tax rate and later amended the tax difference, then the customer needs to correct the already executed input tax deducted.

How will the VAT declaration be handled?

Based on the regulations mentioned above it is possible that invoices with the new rates could already be necessary as of now. For this reason a new declaration form will come into effect with the start of the 4th quarter 2017; it will show boxes side-by-side for both the new and the old rates. The turnovers have to be disclosed and divided accordingly. Correspondingly the accounting department needs to make provisions for separate tax codes for both the old and the new tax rates.

What needs to be taken into account when applying the flat-rate tax scheme?

The flat-rate tax rates are cut as follows:

<i>previously</i>	<i>as of 01.01.2018</i>
0.1%	unchanged
0.6%	unchanged
1.3%	1.2%
2.1%	2.0%
2.9%	2.8%

<i>previously</i>	<i>as of 01.01.2018</i>
3.7%	3.5%
4.4%	4.3%
5.2%	5.1%
6.1%	5.9%
6.7%	6.5%

The limits for applying flat-rate tax rates are equally reduced to a turnover of max. CHF 5.005m (previously CHF 5.02m) and to an amount of tax payable of max CHF 103'000 (previously CHF 109'000). However, a changeover from the effective method to flat-rate taxes is only possible once the applicable waiting period has expired. A general option to change is not provided this time.

What next?

It is recommended that you swiftly determine which measures are required for adjustments at your business, and when these are best implemented. We recommend a close look at the following questions:

1. Which adjustments to VAT codes are necessary in accounting?
2. Are any updates necessary for accounting software, to enable declaring on the new form?
3. When it comes to recurring or long-term supplies, how is a timely transition implemented?
4. Are any (advance) invoices already affected by the new tax rates? Are any taxes already invoiced at too high a level refundable?
5. Should there be a change from flat-rate tax to effective method, and is such a move permitted?

Further information about changes to VAT rates is available in the VAT Info 19 brochure published by the Federal Tax Authority.

This newsletter can only give you a rough overview of the complex issue of Value Added Tax. However, we would gladly be at your disposal, to help find the most appropriate solution for your situation, and to help you with the implementation of this solution.

Kind regards
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