

## DEVELOPED PRACTICE OF THE NATIONAL REVENUE AGENCY RELATED TO THE VAT TREATMENT OF WARRANTY REPAIRS

We would like to draw your attention to the developing practice of the revenue authorities regarding taxation with VAT of warranty repairs covered by foreign producers. The National Revenue Agency issued already several rulings (Ruling 26-00-37 / 27 December 2007, 96-00-370 / 23 September 2008, 20-25-197 / 18 September 2008 and 2606 / 04 February 2008) stating that a warranty repair service charged by a Bulgarian company (the Wholesaler) to the producer of the respective goods shall be subject to 20% Bulgarian VAT.

The understanding of the revenue authorities is based on the rule that “work on movable goods” shall be subject to VAT in the country in which the work is actually performed (i.e. Bulgaria). The revenue authorities consider that the relief provided by the Bulgarian VAT Act (Art. 129) does not apply to the transaction between the Wholesaler and the foreign producer.

Our opinion is that in the mentioned case there should be no taxable supply if the Wholesaler could present documental evidence that the:

- (1) the warranty repairs were performed by a person authorized by the producer of the goods, and
- (2) the producer is not established in Bulgaria, and
- (3) the warranty repair costs are at the account of the producer.

Notwithstanding our opinion, please be informed that it is very likely that during future tax audits the revenue authorities follow the approach suggested in the mentioned rulings.

The purpose of the information in this paper is only to point out the approach of the Bulgarian revenue authorities regarding the VAT treatment of warranty repairs. Therefore the information herein above is not exhaustive.

Should any questions about the application of the rulings arise, please do not hesitate to contact us on telephone number: 943 37 00, fax number: 943 37 07, e-mail: [office@afa.bg](mailto:office@afa.bg) or at the postal address: 1504 Sofia, 38, Oborishte Str.