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Builders to treat customer retentions as bad debts

The finance ministry has decreed that builders may reduce their taxable turnover by the amount of a customer retention that cannot be collected for two to five years, unless they could have satisfied their customer’s need for security with a bank guarantee.

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Builders frequently have to accept that customers retain part of the final payment due for a period of, typically, two to five years, until they can be sure that there are no hidden faults in the building. In October 2013, the Supreme Tax Court held that a builder was entitled to reduce his taxable turnover by the amount of such retentions, as though they were irrecoverable. The finance ministry has now followed with a decree allowing contractually agreed customer retentions for periods of between two and five years to be treated as bad debts, reducing VAT-able turnover in the period of issue of the invoice. However, the ministry adds that builders could avoid the problem by satisfying their customer's need for security with a bank guarantee. Accordingly, treatment of a customer retention as irrecoverable is conditional on the demonstration that a bank guarantee was not available in the circumstances. Normally, this presupposes refusal of the application.

The ministry also points out that treatment by the builder of part of the contract price as a bad debt leads to a corresponding reduction of the input tax deduction for the customer. However, the supplier is not obliged to inform the customer that he has treated part of the amount invoiced as irrecoverable, although it is open to the supplier's tax office to notify the tax office of the customer.

Schlagwörter

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