

Credit notes and debit notes

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1.1. Credit notes and debit notes

A *credit note* is a form or letter sent by a seller to a buyer, stating that a certain amount has been credited to the buyer's account.

A *debit note* is a form or letter sent by a seller to a buyer, which charges the buyer to increase the payment on the previously issued account (or accounts).

For credit and debit notes, the same rules apply to INTRASTAT, so the term *credit notes* are used below:

Generally credit notes are issued in a different time period than the initial invoice usually to correct a mistake such as: an overstated invoice amount or the correct discount rate was not applied or goods break down while still under guarantee or the goods are returned.

All received/issued credit notes are reported in VAT forms, however only certain credit notes are used to correct the original INTRASTAT forms!

WHAT TO DO when a PSI receives/issues a credit note?

Firstly, you need to answer the following questions:

1. What is the reason for issuing a credit note?
2. Is there a physical movement of the goods (to which the credit note relates) between Croatia and another EU member state?
3. Is the PSI obliged to report in INTRASTAT for both flow of goods (arrivals and dispatches) or only for one flow of goods (arrivals or dispatches)?

Depending on the answers to these three questions, different rules shall apply for INTRASTAT and can be explained in examples that most often appear in practice:

Example 19: *The Croatian PSI orders 100 pieces of merchandise from EU supplier, 100 pieces are stated on invoice but only 80 pieces of goods are physically delivered. EU supplier issues credit note for 20 pcs.*

Physical movement of goods is realized only once (from EU supplier to HR buyer). In this case, the same rules apply for all PSIs (whether they are obliged to report for one or both flow of goods):

- If the EU supplier issues the invoice and the credit note in the same calendar month - the PSI should immediately report in original INTRASTAT form the arrival of 80 pieces, Nature of transaction code 11.
- If the EU supplier issues the invoice in one calendar month and the credit note in another calendar month - the PSI should submit the substitute form for the reporting period when the goods were originally received (in this example for the previous month) reporting the arrival of 80 pieces, Nature of transaction code 11.

Example 20:

The Croatian PSI orders 100 pieces of merchandise from EU supplier, 100 pieces are stated on invoice but 120 pieces of goods are physically delivered in January. In February Croatian PSI returns 20 pieces of goods and EU supplier issues a credit note for 20 returned pieces.

In this case there are two physical movements – first from EU supplier to Croatian buyer and second from Croatian buyer to EU supplier (returned goods). The procedure regarding INTRASTAT depends whether the PSI is obliged to submit INTRASTAT forms for both flow of goods or only for one flow of goods:

- PSI is obliged to report for both flow of goods (arrivals and dispatches) – submit INTRASTAT arrival form for 120 pieces of goods, Nature of transaction code 11, Reference period: January, and also submit INTRASTAT dispatches form for 20 returned pieces of goods, Nature of transaction code 21, Reference period: February.

❑ **Important Note!** Reference period for returned goods is the calendar month of physical dispatch/arrival (*PSI should not wait the moment of receiving the supplier's credit note* because, theoretically, the supplier is allowed to issue the credit note several months after the goods have been returned. In all cases where the calendar month within which the dispatch or arrival of the goods and returned goods differs significantly from the month recorded for fiscal purposes (credit notes are recorded for fiscal purposes), the calendar month of physical dispatch should be used as the reference period (discrepancies in INTRASTAT and VAT data in this case are methodologically justified).

- PSIs obliged to report only for one flow of goods (arrivals or dispatches) – submit the original INTRASTAT arrival form for all 120 pieces of goods, Nature of transaction code 11, Reference period: January, and **after receiving the supplier's credit**

note (in February) the PSI should submit the substitute INTRASTAT form for the Reference period: January, with correct data on arrival (only 100 pieces of goods were physically arrived in Croatia, Nature of transaction code 11).

Example 21:

The Croatian PSI orders 100 pieces of merchandise from EU supplier, 100 pieces are stated on invoice but 120 pieces of goods are physically delivered in January. 20 extra pieces of goods are not returned to EU supplier – they will be destroyed on the territory of the Republic of Croatia. EU supplier issues a credit note for 20 destroyed pieces.

In this case there is only one physical movement of the goods - from EU supplier to Croatian buyer. The procedure regarding INTRASTAT is unique for all PSIs:

- If the EU supplier issues an invoice and a credit note in the same calendar month - all 120 pieces must be registered in INTRASTAT form since all 120 pieces have physically arrived in Croatia, the Reference period is January. The difference is in the Nature of transaction code: 100 pieces of goods should be reported using Nature of transaction code 11 and the 20 returned pieces of goods should be reported using Nature of transaction code 30.
- If the EU supplier issues an invoice in one calendar month and a credit note in another calendar month – the PSI should submit the original INTRASTAT arrival form for all 120 pieces of goods, Nature of transaction code 11, Reference period: January, and **after receiving the supplier's credit note** (in February) the PSI should submit the substitute INTRASTAT form for the Reference period: January, with correct data on arrival:
 - ☐ 100 pieces of goods using the Nature of transaction code 11, and
 - ☐ 20 pieces of goods using the Nature of transaction code 30.

Example 22:

In February, Croatian PSI receives goods and the related invoice from EU supplier, value 100.000 kn. An overview of the goods revealed defects in the part of the goods. On March 5th, the PSI receives a credit note for an inadequate part of February's goods, which approves a reduction in the payment for 20.000 kn.

In this case there is only one physical movement of the goods - from EU supplier to Croatian buyer. The procedure regarding INTRASTAT is unique for all PSIs:

- Since the deadline for submitting INTRASTAT forms is the fifteenth of the calendar month following the end of the reference month, the PSI is able to report arrival on INTRASTAT form for February, invoice value 80.000 kn (invoice amount minus credit note amount).

1.1.1. Correction of an item less than or equal to 5% of the original value reported

In cases when PSI receives/issues a credit note stating a correction of:

- ☐ **Value of the goods** - the correction results in a change of the original invoiced (Field 19) and statistical value (Field 20) of an item of less than or equal to 5% ($\leq 5\%$) and at the same time **less than 100.000 kn;**
and/or
- ☐ **Net mass** - the correction results in a change of the original quantity (Field 17) of less than or equal to 5% ($\leq 5\%$);
PSI is not obliged to report such corrections by submitting substitute INTRASTAT form.

In practice the above stated means that PSIs are obliged to submit the substitute INTRASTAT form in cases when correction of invoice and statistical value is more than 100.000 kn, even though the correction is less than or equal to 5% of the original value of the initially reported item in the original INTRASTAT form.

1.1.2. Cases when credit notes are not used to correct INTRASTAT forms

In addition to examples of credit note procedures, there are also general guidelines for situations where received/ issued credit notes are not required to be recorded in INTRASTAT forms:

- ☐ Credit notes for granted discount or rebate for the entire contract or for all pre-performed transactions (which cannot be determined by individual deliveries) are not reported to INTRASTAT and do not require adjustment of the value.
- ☐ Credit notes for granted discount on payment methods (e.g. discount, advance payment, prepayment, etc.) or discounts agreed upon between the supplier and the buyer are not reported for INTRASTAT.
- ☐ A credit note issued for delays in delivery of goods is not reported to INTRASTAT.
- ☐ A credit note issued as a bonus or a discount at the end of a certain period (e.g. at the end of the year or at the end of the quarter, etc.) or a credit note issued as a bonus for good results will not reflect the value of the goods reported in INTRASTAT form. Therefore, such credit notes are not reported for INTRASTAT.
- ☐ Credit notes issued for transfer prices adjustment.

1.1.3. Credit notes issued for TRANSFER PRICES

A transfer price is the price at which divisions of a company transact with each other, such as the trade of supplies or labor between departments. When divisions are required to transact with each other, a transfer price is used to determine costs. Transfer prices tend not to differ much from the price in the market because one of the entities in such a transaction loses out; they start either buying for more than the prevailing market price or selling below the market price, and this affects their performance.

When transfer pricing occurs, companies can book profits of goods and services in a different country that may have a lower tax rate. In some cases, the transfer of goods and services from one country to another within an interrelated company transaction can allow a company to avoid tariffs on goods and services exchanged internationally. The international tax laws are regulated by the Organization for Economic Cooperation and Development (OECD), and auditing firms within each international location audit financial statements accordingly. (<http://www.investopedia.com/terms/t/transferprice.asp>)

Although the adjustment of transfer prices is formally stated on credit notes (these credit notes are to be recorded on VAT forms) – PSIs in Croatia are **not obliged to report** credit notes issued for the purpose of adjusting the transfer price of goods in INTRASTAT forms!