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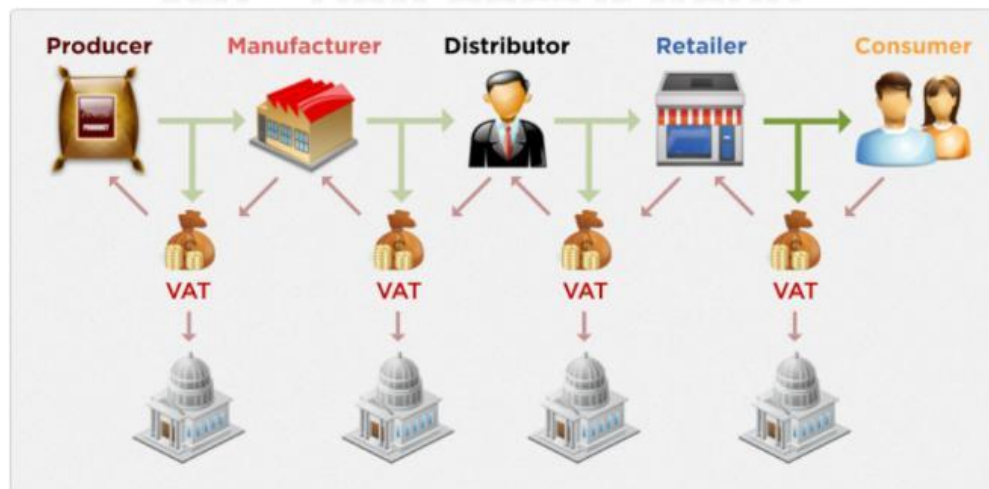
# **HOUSING PARTNERSHIP – PROPOSAL FOR RECOMMENDATION ON VAT**

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# VAT PRINCIPLES (1)

- ✘ VAT is a tax on turnover and is added at every stage of manufacture or process, based on the value added at each stage.

## VAT - How does it work?



Source: <https://truebluenz.com/2011/10/20/for-herman-cain-critics-difference-between-sales-tax-and-vat/>

- ✘ VAT taxes individuals, not businesses. So that while registered businesses must charge VAT to their customers (**output tax**), they may also reclaim (with a few exceptions) any VAT they pay to suppliers (**input tax**). The net amount is paid over to tax office or a trader claims a refund.

# VAT PRINCIPLES (2)

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- ✘ VAT is generally not a cost to a registered trader. The trader is, in effect, an unpaid tax collector working on behalf of tax office.
- ✘ A trader or customers who are not registered cannot reclaim input tax and as such suffers the full cost of purchases, including the VAT element.
- ✘ The deduction of VAT is strongly related to the taxed activity.

# VAT PRINCIPLES (3)

## Company 1

registered to VAT

**sell price = 125 EUR**

net price = 100 EUR

VAT = 25 EUR

net tax = 25 EUR

## Company 2

registered to VAT

**purchase price = 125 EUR**

net purchase price = 100 EUR

VAT = 25 EUR

net tax = 75 EUR - 25 EUR = 50 EUR

**profit = 200 EUR**

*(375 EUR - 75 EUR) - (125 EUR - 25 EUR)*

net price = 300 EUR

VAT = 75 EUR

**sell price = 375 EUR**

## Customer

**purchase price = 375 EUR**

No right to reclaim input tax !!!

# VAT PRINCIPLES (4)

## Company 1

registered to VAT

**sell price = 125 EUR**

net price = 100 EUR

VAT = 25 EUR

net tax = 25 EUR

## Company 2

not registered to VAT

**purchase price = 125 EUR**

net purchase price = 100 EUR

VAT = 25 EUR

net tax = 0 EUR

**profit = 175 EUR**

*300 EUR - 125 EUR*

**sell price = 300 EUR**

## Customer

**purchase price = 300 EUR**

**No right to reclaim input tax !!!**

# THE DEDUCTION OF VAT (1)

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- × Art. 1 / 2 of COUNCIL DIRECTIVE 2006/112/EC

The principle of the common system of VAT entails the application to goods and services of a general tax on consumption exactly proportional to the price of the goods and services, however many transactions take place in the production and distribution process before the stage at which the tax is charged.

On each transaction, VAT, calculated on the price of the goods or services at the rate applicable to such goods or services, shall be chargeable after deduction of the amount of VAT borne directly by the various cost components.

The common system of VAT shall be applied up to and including the retail trade stage.

- × Article 167 of COUNCIL DIRECTIVE 2006/112/EC

A right of deduction shall arise at the time the deductible tax becomes chargeable.

# THE DEDUCTION OF VAT (2)

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In addition the taxable person is entitled to deduct the VAT in so far as the goods and services are used for the purposes of:

- ✘ transactions carried out outside the Member State in which that tax is due or paid, in respect of which VAT would be deductible if they had been carried out within that Member State;
- ✘ transactions, where the customer is established outside the Community or where those transactions relate directly to goods to be exported out of the Community,
- ✘ transactions in which that tax is due or paid in other Member State.

[for details see art. 169 – 172 of COUNCIL DIRECTIVE 2006/112/EC]

# TRANSACTIONS EXEMPTED FROM VAT

Member States shall exempt the following transactions:

- ✘ the supply of a building or parts thereof, and of the land on which it stands, other than the supply before first occupation, of a building or parts of a building and of the land on which the building stands;
- ✘ the supply of land which has not been built on other than the supply of building land (*'building land' shall mean any unimproved or improved land defined as such by the Member States*);
- ✘ the leasing or letting of immovable property.

[Art. 135 /1 and art. 12 / 1 of COUNCIL DIRECTIVE 2006/112/EC]

Member States may allow taxable persons a right of option for taxation in respect of the these transactions. Member States may restrict the scope of that right of option.

[Art. 137 of COUNCIL DIRECTIVE 2006/112/EC]



# CONCLUSION

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- ✘ social (affordable) housing rent is usually exempted from VAT as the leasing or letting of immovable property,
- ✘ the land necessary to extend the number of social (affordable) housing may not be exempted from VAT as unimproved or improved land,
- ✘ the purchase of land is usually taxed with standard VAT rate (min. 15%, usually above 20%),
- ✘ the other investment cost are usually taxed with reduced VAT rate (min. 5%),
- ✘ the buyer may not deduct the input VAT because this purchase is not related to taxed activity,
- ✘ the input VAT from purchase of land becomes another investment cost.

# BUILDING LAND NOT EXEMPTED FROM VAT

**TOTAL INVESTMENT  
COST = 1,725**

## **BUILDING LAND**

purchase price = 625  
incl. VAT 25% = 125  
deducted tax = 0

## **OTHER INVESTMENT COST**

purchase price = 1,100  
incl. VAT 10% = 100  
deducted tax = 0

# BUILDING LAND EXEMPTED FROM VAT

**TOTAL INVESTMENT COST = 1,600**  
savings = ca. 7%

## BUILDING LAND

purchase price = 500  
incl. VAT = 0  
deducted tax = 0

## OTHER INVESTMENT COST

purchase price = 1,100  
incl. VAT 10% = 100  
deducted tax = 0

# TIC EXEMPTED FROM VAT

**TOTAL INVESTMENT COST = 1,500**

**SAVINGS = ca. 13%**

## **BUILDING LAND**

purchase price = 500

incl. VAT = 0

input tax = 0

deducted tax = 0

## **OTHER INVESTMENT COST**

purchase price = 1,000

incl. VAT = 0

deducted tax = 0

# **SOLUTION**

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**EXEMPTION FROM VAT  
THE PURCHASE OF LAND  
FOR THE SOCIAL (AFFORDABLE)  
HOUSING PROJECTS**

**THANK YOU FOR YOU ATTENTION !**

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