

# Input value added tax

Persons registered for VAT are entitled to deduct the input value added tax from their value added tax calculated from the taxable value of their taxable supply, i.e. the value added tax to be paid on goods or services which the taxable person acquires or receives from another person liable to VAT for the purposes of their taxable supply, and the VAT paid or to be paid by the taxable persons on imported goods.

## Example

In September, a sole proprietor (a person liable to VAT, the general procedure of value added tax accounting) purchased goods in the amount of 64 euros (taxable value), where to the value added tax 12.80 euros ( $64 \times 20\% = 12.80$ ) was added.

The sole proprietor resold the goods in September for 96 euros (taxable value of the goods), where to the value added tax 19.20 euros ( $96 \times 20\% = 19.20$ ) was added.

In the value added tax return for this period of taxation the sole proprietor may deduct the value added tax (12.80 euros) to be paid on the goods purchased from another person liable to VAT from the value added tax (19.20 euros) calculated on the taxable value (96 euros) of his/her taxable supply.

In this example the sole proprietor:

- ✓ calculated value added tax in the amount of 19.20 euros ( $96 \times 20\%$ );
- ✓ calculated input value added tax in the amount of 12.80 euros ( $64 \times 20\%$ );
- ✓ submitted the value added tax return (for September) by 20 October and by the same time paid 6.40 euros ( $19.20 - 12.80 = 6.40$ ) into the bank account of the Tax and Customs Board.

The sole proprietor declared the value added tax in the value added tax return as follows:

Acts and transactions taxable at the 20 % value added tax rate, including	1	96.00
Total VAT (20% from box 1 + 9% from box 2 + 5% from box 2 <sup>1</sup> )	+ 4	19.20
Total amount of input value added tax allowed to be deducted by law	- 5	12.80
The value added tax due (box 4 + box 4 <sup>1</sup> – box 5 + box 10 – box 11)	+ 12	6.40

The value added tax on services received from a foreign person engaged in business in a foreign state,

on goods acquired from a person liable to value added tax in another Member State of the EU and on the acquisition of other goods whereon value added tax is calculated pursuant to the Estonian Income Tax Act may be deducted as the input value added tax.

At the same time, a sole proprietor shall take into consideration that if he/she uses goods or services both for the purposes of his/her business taxable supply and for the purposes not related to business (the activity as a natural person), then he/she may deduct the input value added tax on the goods or services used for the purposes of transactions related to the taxable supply in business only (**VAT Act, § 29 (4)**).

Input value added tax may be deducted from such goods or services only that have been acquired in the period when the sole proprietor is registered as a person liable to value added tax. Input value added tax may not be deducted if goods or services are used for the purposes of supply exempt from tax or for purposes other than business.

Beginning from 1 December 2014 the Value-Added Tax Act has been amended. Amendments are related to the deduction of input value added tax on automobiles purchased and for the expenses made for such expenses. Besides, the definition of an automobile is provided in the VAT Act to which the restrictions on deduction of input value added tax shall apply. Upon acquisition, the restriction on deduction of input value added tax is applied to the automobiles acquired after 1 December 2014. The restriction means, in particular, that upon acquisition of an automobile to be used for business purposes or for use under the contract for use, the input value added tax may be deducted not more than fifty per cent. This restriction is also applied to goods acquired and services received for such an automobile, even if the automobile has been acquired before 1 December 2014. Upon acquisition of automobiles, the restriction of input value added tax is not applied if an automobile is acquired with a view to resale.