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# INPUT VAT RECOVERY

April 2023  
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## AGENDA

- The concept of the 'Right of Deduction'
- Principles of fiscal neutrality
- Rules governing exercise of the right of deduction
- Restriction on the right of deduction – *Blocked Items*
- Proportional deduction
- Capital Goods Scheme



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## LEARNING OBJECTIVES

- Understand **input tax** and **output tax**
- Be aware of the **conditions** in order to be entitled to deduct input VAT
- Understand the difference between **deductible** and **non-deductible** input VAT
- Be aware of the difference between **exempt** and **taxable transactions** and the associated right to deduct input VAT
- Describe and explain **other restrictions** on the right of deduction
- Calculate the **proportional deduction**
- Be aware of the **necessity to adjust deductions** made
- Know how to **exercise** the right of deduction



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## Legal Basis

Council Directive 2006/112/EC ("VAT Directive")

Articles 167 - 192

Malta VAT Act (Chapter 406 of the Laws of Malta)("VATA")

Articles 22 and 23; Tenth Schedule

Implementing Regulation 282/2011

Article 52



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## The Concept of the 'Right to Deduct'

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## The Concept of the 'Right to Deduct'

The deduction system incorporate in EU VAT Law has been designated to **relieve business from the burden of the VAT payable or paid** in the course of their economic activities.

The common system of VAT consequently ensures that all economic activities (whatever their purpose or results provided that they are themselves subject to VAT or give rise to a right to claim input VAT), are **taxed in wholly neutral way**.

This is based on the principle of **tax neutrality** provided for the EU treaties and is interpreted in a number of CJEU Case Laws



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## Rules governing exercise of the right of deduction

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## Output Tax & Input Tax'

In the supply chain, one must distinguish between Output Tax and Input Tax ...



### OUTPUT TAX...

... of a person registered under Article 10 is the tax on supplies and on intra-community acquisitions that becomes **chargeable during a period and for which that person is liable.**

### INPUT TAX...

... of a taxable person is the **tax paid by that person on goods or services purchased for his business activities ...**



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## Who has a right to recover Input VAT?

### Article 168 of the VAT Directive

In so far as the goods or services are used for the purposes of taxed transactions of taxable person, the taxable person shall be entitled, in the Member State in which he carries out these transaction, to deduct...

### Article 23 of the VATA

Every person registered under Article 10 of the VATA, who furnishes tax return for a tax period shall have the right to deduct from output tax for that period...



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## Who has a right to recover Input VAT?

### Article 9 of the VAT Directive provides...

A *taxable person* is a person who, regularly and independently carries on an economic activity, whatever the purpose or result of that activity.

An *economic activity* means an activity carried on by a person, other than an employee acting as such and consisting of:

Exploitation of tangible and intangible property

The provision by a club or similar activity, of facilities to its members for a subscription

The admission of persons to any premises for a consideration

Any trade or business

Any profession or vocation

The provision of any person services



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## Who has a right to recover Input VAT?

### Article 5 of the VATA provides...

Activities of a *public authority* acting in the exercise of the functions assigned to it by law **shall not** be deemed to be an economic activity **except** as and to the extent provided in the First Schedule to the VATA and except where such treatment as non-taxable legal person would lead to **significant distortions in competition**.



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## Who has a right to recover Input VAT?

Other activities that *shall not* be considered as economic activities for VAT purposes, include:

Activities carried out by persons in an **employed capacity**

**Holder of an office** (such as individual Director)

**Donations**

Disposal of **personal effects**

**Holding of shares in a Company** (except where the shareholders are involved in the management of that Company)

**Exploitation of subsidiary**



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## Check Point Questions

**Determine the status of the person in the below scenarios:**

- |                                                                                                                               |                                                                                                                     |
|-------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------|
| <p>I. During 2022, ABC Limited solely held shares in XYZ Ltd</p>                                                              | <p>I. ABC Limited is acting as a <i>pure holding company</i> and shall be treated as a non-taxable legal person</p> |
| <p>II. As from 2023, ABC Limited was involved in XYZ Limited management, and invoices XYZ Limited a yearly management fee</p> | <p>II. ABC Limited is carrying on an economic activity and as such is acting as a <i>taxable person</i>.</p>        |
| <p>III. During 2023, Mr. Borg invoiced ABC Limited for his services as a Director</p>                                         | <p>III. Mr. Borg is considered to be a <i>holder of an office</i>, which transaction is outside scope of VAT.</p>   |



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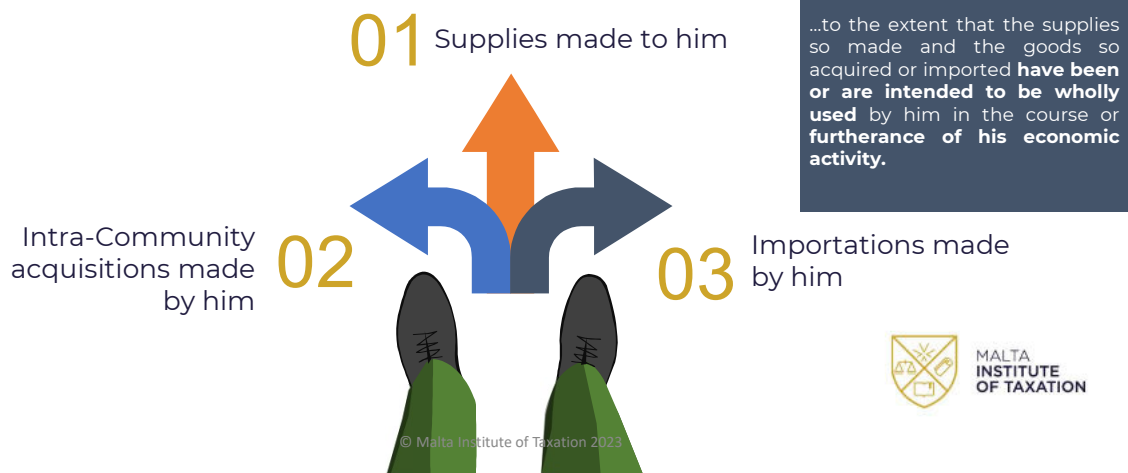
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## What can be deducted?

Article 22(2) of the VATA provides;

**For a taxable person registered under Article 10 to the Malta VAT Act ('VATA'), the INPUT tax is the tax that becomes chargeable on:**



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## What can be deducted?

A taxable person registered under Article 10 is entitled to recover input VAT that is attributable to supplies made or intended to be made by him of:

Article 22(4) to the VATA

01	02	03	04
Taxable/Exempt with credit supplies;	Supplies which take place outside Malta which had they been in Malta, would have been deemed to be taxable or exempt with credit supplies;	Supplies taxed outside Malta which had they been made in Malta would have been deemed to be exempt without credit supplies (for gaming operators);	Exempt without credit (Insurance and financial services providers) where customer is established <u>outside EU</u> .
Article 168 of VD Article 169 (b) of VD	Article 169 (a) of VD	Malta Only	Article 169 (c) of VD



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## Check Point Questions

**Determine whether the below are *qualifying supplies***

- |                                                                       |                                                                        |
|-----------------------------------------------------------------------|------------------------------------------------------------------------|
| I. ABC Limited offers professional services to local and EU customers | I. ABC Limited supplies are treated as <i>qualifying supplies</i>      |
| II. XYZ Limited offers insurance services to EU                       | II. XYZ Limited supplies are not treated as <i>qualifying supplies</i> |
| III. XYZ Limited offers insurance services to Non-EU                  | III. XYZ Limited supplies are treated as <i>qualifying supplies</i>    |



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## Input tax may be claimed subject to:

- Transactions duly recorded and accounted for in VAT records;
- Supported by a tax invoice for goods or services supplied to him (local supplies);
- Supported by a tax invoice for goods acquired under an intra-Community acquisition;
- Supported by a documents of importation (indicating him as *importer of record*) in respect of the tax on importation;
- Documents referred to above are held and can be produced, if requested, to the Commissioner for Revenue;
- Claimed in the tax return, when the right to deduct arose;
- It is not a blocked item under Item 3 to the Tenth Schedule of the VATA;



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## Tax Invoice

Article 50 of the VATA provides...

Every person registered under Article 10 to the VATA who makes a supply, other than an exempt without credit supply, to another person who identifies himself for the purpose of that supply by means of a VAT identification number, shall provide that other person with a tax invoice, issued in accordance with the Twelfth Schedule to the VAT.



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## Tax Invoice

A document shall not constitute a tax invoice unless:

- All the particulars required by the Twelfth Schedule to the VATA, are properly and fully stated; or
- The invoicing requirements set out in the VAT Directive are fully complied with.



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## Tax Invoice

### Main contents of a *Tax Invoice*

- Date of issue
- Sequential number
- Details of supplier – *such as name, address and VAT Number*
- Details of customer – *such as name, address and VAT Number*
- Quantity / Nature of goods / Nature of services rendered
- Date on which the supply was made / Date on which a payment on accounts was made
- Taxable Value
- Applicable VAT rate
- VAT amount payable

The above is not the full list of contents of a tax invoice. The full list of contents may be found by making reference to the Twelfth Schedule to the VATA



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## Tax Invoice

No input tax deduction is allowable if one is in receipt of a 'cash register receipts' or a 'grey fiscal receipt'.



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## When does the right of deduction arise?

- At the time the deductible tax becomes chargeable – *refer to the Fourth Schedule of the VATA*
- In case of supplies under *cash accounting*, when payment of the (input) tax is made to the supplier



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## How is the right of deduction exercised?

Domestic Supplies & Exports		Value - €	Output Tax - €
Taxable Goods/Services @ 18%	18	10000.00	23 1800.00
Taxable Services @ 7%	18a	0.00	23a 0.00
Taxable Goods/Services @ 5%	19	0.00	24 0.00
Exempt with Credit / Exports	20	0.00	25 € 1,800.00
Exempt without Credit	21	0.00	
Sub-Total	22	10,000.00	26 € 1,800.00

Domestic Purchases & Imports		Value - €	Input Tax - €
Taxable Purchases for re-sale @ 18%	27	0.00	34 0.00
Taxable Purchases for re-sale @ 5%	28	0.00	35 0.00
Exempt Purchases for re-sale	29	0.00	
Capital Goods	30	0.00	36 0.00
Services & Overheads @ 18%	31	6500.00	37 1170.00
Services & Overheads @ 7%	31a	0.00	37a 0.00
Services & Overheads @ 5%	32	400.00	38 20.00
Sub-Total	33	6,900.00	39 € 1,190.00

If the input tax for the period exceeds the output tax = **EXCESS CREDIT**

If the output tax for the period exceeds the input tax = **TAX PAYABLE**

Excess Credit	42 € 0.00
Excess Credit B/F	44 € 0.00
Tax Payable	45 € 610.00



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## How is the right of deduction exercised?

What happens if EU foreign VAT has been incurred?

Foreign VAT is paid by taxable person, who is not established in a particular Member State, in which he purchased goods or services or imported goods, subject to VAT in that Member State.

### Example

ABC Ltd a company registered for VAT purposes in Malta, pays for accommodation in France for two of its staff, who were sent there to meet potential clients. French VAT was incurred on such accommodation.



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## How is the right of deduction exercised?

What happens if EU foreign VAT has been incurred?

- EU foreign VAT cannot be claimed back through the Malta VAT Return

Article 171 of the VAT Directive provides that:

- VAT shall be refunded to taxable person *who are not established* in the Member State in which they purchase goods and services or import goods subject to VAT but who are *established in another Member State*, in accordance with the detailed rules laid down in Directive 2008/9/EC

As a reply to the example in the previous slide; ABC Ltd may submit a request for a refund with the French tax authorities, within the prescribed time and in accordance with Directive 2008/9/EC.



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## How is the right of deduction exercised?

Article 171 of the VAT Directive also provides that:

- VAT shall be refunded to taxable person *who are not established within the territory of the Community*, in accordance with the detailed implementing rules laid down in Directive 86/560/EEC



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## Restrictions on the right of deduction – *Blocked Items*

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## Restrictions on the right of deduction – *Blocked Items*

- Tenth Schedule of the VATA provides a list of items which are not classified as input tax...



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## Restrictions on the right of deduction – *Blocked Items*

- 1 The supply to that person or intra-community acquisition or importation by that person of:
  - Tobacco or tobacco products;
  - Alcoholic beverages;
  - Works of art, collectors' items and antiques;
  - Motor vehicles, vessels or aircraft including, the supply thereof for hire or leasing arrangements;
  - Goods and services for repairing, maintain, fuelling and keeping any item to which the above point applies

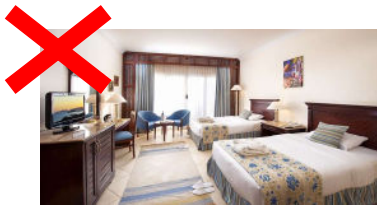


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## Restrictions on the right of deduction – *Blocked Items*

- 2** The supply of any goods or the intra-community acquisition or importation of any goods used in the provision by that person of receptions, entertainment or hospitality



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## Restrictions on the right of deduction – *Blocked Items*

- 3** The supply of any goods or services or the intra-community acquisition or importation of any goods used in the provision by that person to his employees (or in case of a body of persons, to its officers) of transport or entertainment...

...provided that this provision shall not apply to transport provided by that person to his employees on vehicles with a seating capacity of not less than seven.



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## Restrictions on the right of deduction – *Blocked Items*

...except when supplied to taxable persons for the purpose of resale or provision of services in the course of their economic activity.

### Example

Tobacco and beverages agents/retailers, vessel or aircraft chartering, art galleries and studios.



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## Check Point Questions

### Determine whether a deduction is possible in the below instances:

- I. XYZ Limited pays for employee lunches every Friday
- II. XYZ Limited pays on a daily basis a mini-bus company for the transport of its employees, to and from work
- III. XYZ Limited incurs an accommodation expense for a Director who came to Malta for business meeting.
- I. Employee lunches are treated to be 'entertainment' and are blocked and thus, cannot be deducted.
- II. To the extent that the mini-buses are of a seating capacity of not less than seven, the expense may be deductible
- III. Accommodation is treated to be 'hospitality' and is blocked item and thus, cannot be deducted.



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## The Concept of the 'Reverse Charge Mechanism'

- Reverse charge mechanism is a *simplification measure* whereby, the *liability to account for the payment of VAT* on a particular transaction is shifted from the supplier to the *customer*
- Through this simplification measure, the supplier is *spared from the obligation to register* for VAT purposes in Malta, which would otherwise result in a number of administrative burdens.



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## The Concept of the 'Reverse Charge Mechanism'

Reverse charge is basically 'self charging' VAT

For taxable persons registered under Article 10 to the VATA, one may exercise the right of deduction for the 'Neutrality of VAT'



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## The Concept of the 'Reverse Charge Mechanism'

### SELF CHARGING VAT

Intra-Community and Non-EU Trade		Value - €	Output Tax - €
Exempt IC Supplies of Goods and Supplies of Services where customer is liable for the tax	1	0.00	
Supplies of Goods and Services where Place of Supply is outside Malta - EU and Non EU	2	0.00	
IC Acquisitions of Goods and Services received from other EU Member States	3	0.00	6 0.00
Goods and Services received where Place of Supply is Malta other than those reported in Box 3	4	0.00	7 0.00
Sub-Total	5	0.00	8 0.00

Reverse Charge		Value - €	Input Tax - €
IC Acquisitions of Goods for re-sale	9	0.00	13 0.00
Services received from EU Member States where the purchaser is liable for VAT	9a	0.00	13a 0.00
IC Acquisitions of Capital Goods	10	0.00	14 0.00
Goods and Services Received where Place of Supply is Malta	11	0.00	15 0.00
Sub-Total	12	0.00	16 0.00

(8 - 16) 17 € 0.00

### EXERCISING THE RIGHT OF DEDUCTION

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## The Concept of the 'Reverse Charge Mechanism'

Intra-Community and Non-EU Trade		Value - €	Output Tax - €
Exempt IC Supplies of Goods and Supplies of Services where customer is liable for the tax	1	0.00	
Supplies of Goods and Services where Place of Supply is outside Malta - EU and Non EU	2	0.00	
IC Acquisitions of Goods and Services received from other EU Member States	3	5,000.00	6 900.00
Goods and Services received where Place of Supply is Malta other than those reported in Box 3	4	0.00	7 0.00
Sub-Total	5	5,000.00	8 900.00

Deductions of Self Charged VAT		Value - €	Input Tax - €
IC Acquisitions of Goods excluding Capital Goods	9	0.00	13 0.00
Services and goods received from EU Member States where the purchaser is liable for VAT	9a	5,000.00	13a 900.00
IC Acquisitions of Capital Goods	10	0.00	14 0.00
Goods and Services Received where Place of Supply is Malta	11	0.00	15 0.00
Sub-Total	12	5,000.00	16 900.00

(8 - 16) 17 € 0.00



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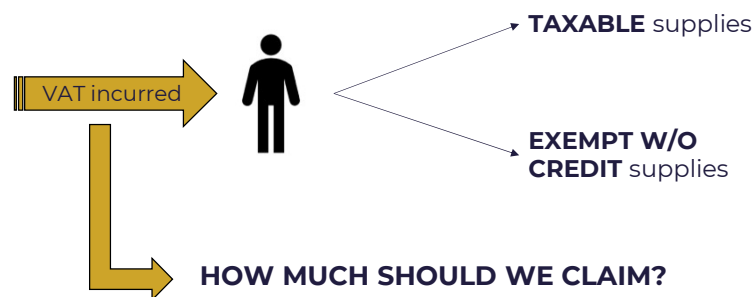
## Proportional Deduction

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## Proportional Deduction

Where a **taxable person registered under article 10** makes **both taxable and exempt without credit supplies** he shall claim the input VAT incurred which is attributable to both his taxable and exempt without credit supplies in the **proportion** of his taxable to exempt without credit supplies.



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## Proportional Deduction

In terms of Item 5 to the Tenth Schedule of the VATA:

- |    |                                                                                                                                                                                                          |             |
|----|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|
| 1. | Any input tax of a person registered under article 10 for a tax period which is <b>exclusively attributable</b> to supplies to which article 22(4) applies shall be allowed as a credit for that period; | FULL        |
| 2. | Any input tax which is <b>exclusively attributable</b> to supplies other than those referred to in paragraph (1) shall not be allowed as a credit;                                                       | NO<br>RIGHT |
| 3. | Any input tax for a tax period which is <b>attributable both to supplies to which article 22(4) applies and also to other supplies</b> shall be partially allowed as a credit for that tax period.       | PARTIAL     |



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## Proportional Deduction

### EXAMPLE – First Part

A fuel service station operator, apart from selling fuel and car accessories, sells car insurances.

His annual turnover from fuel and car accessories amount to €600,000 whilst his turnover from sale of insurance policies amounted to €200,000.

- He purchased:
  - A computerised system to be utilised for both operations;
  - Refurbished a small office from where he sells insurances;
  - Installed a fuel leak detector system for the station fuel storage tanks



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## Proportional Deduction

EXAMPLE – First Part

### QUESTIONS:

1. Is input VAT incurred, fully deductible?
2. If not, indicate which input VAT is deductible and which is not?





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## Proportional Deduction

EXAMPLE – First Part

	Supplies	Type for VAT purposes	Attribution	Deductible
	Insurance Services	Exempt w/o Credit	Refurbishment	NO RIGHT
	Fuel & Car Accessories	Taxable Supplies	Fuel leak detector	FULL
			Computerised System	PARTIALLY

- Refurbished a small office from where he sells insurances;
- Installed a fuel leak detector system for the station fuel storage tanks;
- A computerised system to be utilised for both operations.



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## Proportional Deduction

How to calculate the Partial Attribution ratio:

In terms of Item 6 to the Tenth Schedule of the VATA:

- A. The total value of supplies to which **article 22(4)** applies made by that person during all the tax periods ending during a calendar year, divided by the total value of supplies made by that persons during those tax period;

Supplies which give rise to right of input VAT – **Qualifying Supplies**

**Partial  
Attribution  
ratio**

=

Total Value of **Qualifying Supplies**  
made during a calendar year

Total Value of **All supplies** made  
during a calendar year



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## Proportional Deduction

How to calculate the Partial Attribution ratio:

When calculating the partial attribution formula, the following values must be excluded from the value of the supplies made by that business:

- I. The value of any supply of capital goods used in his economic activity;
- II. The value of self-supplies;
- III. The value of any supply which is not made by a taxable person acting as such

Item 6(2)(b) – Tenth  
Schedule - VATA



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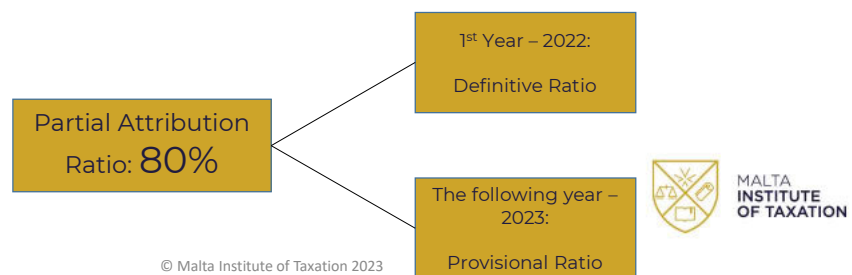
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## Proportional Deduction

How to calculate the Partial Attribution ratio:

In terms of Item 6 of the Tenth Schedule to the VATA:

- B. The result obtained under paragraph (A) shall be the **definitive ratio** for the year referred to in that paragraph and the **provisional ratio** for the following year;



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## Proportional Deduction

### EXAMPLE – Second Part

A fuel service station operator, apart from selling fuel and car accessories, sells car insurances.

His annual turnover from fuel and car accessories amount to €600,000 whilst his turnover from sale of insurance policies amounted to €200,000.

He purchased:

- A computerised system to be utilised for both operations;
- Refurbished a small office from where he sells insurances;
- Installed a fuel leak detector system for the station fuel storage tanks



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Proportional Deduction

How to calculate the Partial Attribution ratio:

Partial  
Attribution  
ratio

=

Total Value of **Qualifying Supplies**  
made during a calendar year

Total Value of **All supplies** made  
during a calendar year

=


€600,000

€800,000

x

100%

75%

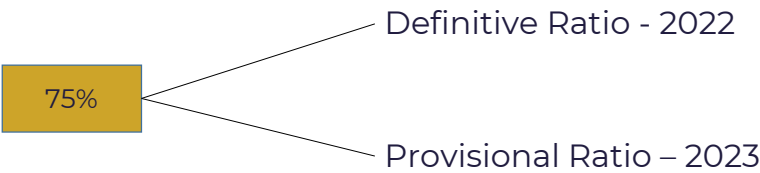


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Proportional Deduction

How to calculate the Partial Attribution ratio:



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## Proportional Deduction

How shall we calculate the Partial Attribution ratio for 2023?



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## Proportional Deduction

How to calculate the Partial Attribution ratio:

In terms of Item 6 of the Tenth Schedule to the VATA:

- C. The input tax credit of that person for each tax period ending during a calendar year shall be calculated provisionally by multiplying the value of the input tax of that person for that tax period by the provisional ratio;

**During the period from January to March 2023, a taxable person incurred €10,000 of VAT. Assume, that the definitive ratio for 2022 is 75%.**

$$€10,000 \times 75\% = €7,500$$



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## Proportional Deduction

How to calculate the Partial Attribution ratio:

In terms of Item 6 of the Tenth Schedule to the VATA:

- D. The total input tax credit of that person for all tax periods ending during a **calendar year** shall be calculated definitively by multiplying the total input tax for those period by the definitive ratio for that year;

**For year ending 31 December 2023, after recalculating the partial attribution ratio, it has been determined that the definitive ratio for that year was 70%.**

**How shall we go about this?**

$$€10,000 \times 70\% = €7,000$$

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## Proportional Deduction

How to calculate the Partial Attribution ratio:

In terms of Item 6 of the Tenth Schedule to the VATA:

- E. The **difference** between the total input tax for the tax periods ending during a year calculated provisionally and the definitive calculation for that year shall **represent tax due by that person or deduction;**

...shall be accounted for in the tax return for **the first tax period that ends** in the **year following** that for which the provisional calculation was made.



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## Proportional Deduction

How to calculate the Partial Attribution ratio:

Initially, €7,500 of input VAT has been claimed in the VAT return covering from January to March 2023;

In principle, €7,000 of input VAT should have been claimed, since the definitive ratio for 2023 is 70%;

Therefore, as a result of the above, €500 is due to the Commissioner for Revenue (CfR)



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## Proportional Deduction

When to adjust:

...shall be accounted for in the tax return for **the first tax period that ends** in the **year following** that for which the provisional calculation was made.

The €500 has to be adjusted in the period covering January to March 2024 – **the first tax period ending in the following year.**

Box 40 of the Malta VAT Return

Adj in favour of Dept  
40 € 0

Adj in your favour  
41 € 0

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## EXAMPLE – Third Part

## Proportional Deduction

A fuel service station operator, apart from selling fuel and car accessories, sells car insurances.

His annual turnover from fuel and car accessories amount to €600,000 whilst his turnover from sale of insurance policies amounted to €200,000.

He purchased:

- A computerised system to be utilised for both operations;
- Refurbished a small office from where he sells insurances;
- Installed a fuel leak detector system for the station fuel storage tanks

He incurred input VAT as follows:

- €4,000 on computerised system;
- €2,000 on the refurbishment;
- €500 on fuel leak detector.



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## Proportional Deduction

Calculate the total input VAT that the operator may claim.

- |                                      |                              |
|--------------------------------------|------------------------------|
| ▪ Refurbishment (Office – Insurance) | <b>NO RIGHT OF DEDUCTION</b> |
| ▪ Fuel leak detector                 | <b>FULL RIGHT - €500</b>     |
| ▪ Computerised system                | <b>€4,000 x 75% - €3,000</b> |

**TOTAL = €3,500**



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# Proportional Deduction

How to account for VAT in the Malta VAT return using the partial attribution methodology.



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# Proportional Deduction

## Examples

ZD Ltd received a legal service from a legal firm established in Italy, amounting to €5,000.

Intra-Community and Non-EU Trade		Value - €		Output Tax - €	
Except IC Supplies of Goods and Supplies of Services where customer is liable for the tax	1	0.00			
Supplies of Goods and Services where Place of Supply is outside Malta - EU and Non EU	2	0.00			
IC Acquisitions of Goods and Services received from other EU Member States	3	5,000.00	6	900.00	x
Goods and Services received where Place of Supply is Malta other than those reported in Box 3	4	0.00	7	0.00	x
Sub-Total	5	5,000.00	8	900.00	

Deductions of Self-Charged VAT		Value - €		Input Tax - €	
IC Acquisitions of Goods excluding Capital Goods	9	0.00	13	0.00	x
Services and goods received from EU Member States where the purchaser is liable for VAT	9a	5,000.00	13a	900.00	x
IC Acquisitions of Capital Goods	10	0.00	14	0.00	x
Goods and Services Received where Place of Supply is Malta	11	0.00	15	0.00	x
Sub-Total	12	5,000.00	16	900.00	
			17	€	0.00



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## Proportional Deduction

### Examples

ZD Ltd received a legal service from a legal firm established in Italy, amounting to €5,000. Such services are considered to be a general cost.

Assume that ZD Ltd recovers input VAT on a PA basis and its provisional ratio is 60%

Intra-Community and Non-EU Trade		Value - €		Output Tax - €	
Exempt IC Supplies of Goods and Supplies of Services where customer is liable for the tax	1	0.00			
Supplies of Goods and Services where Place of Supply is outside Malta - EU and Non-EU	2	0.00			
IC Acquisitions of Goods and Services received from other EU Member States	3	5,000.00	6	900.00	X
Goods and Services received where Place of Supply is Malta other than those reported in Box 3	4	0.00	7	0.00	X
Sub-Total	5	5,000.00	8	900.00	
Deductions of Self-Charged VAT		Value - €		Input Tax - €	
IC Acquisitions of Goods excluding Capital Goods	9	0.00	13	0.00	X
Services and goods received from EU Member States where the purchaser is liable for VAT	9a	5,000.00	13a	540.00	X
IC Acquisitions of Capital Goods	10	0.00	14	0.00	X
Goods and Services Received where Place of Supply is Malta	11	0.00	15	0.00	X
Sub-Total	12	5,000.00	16	540.00	
				17 (€)	360.00



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## Proportional Deduction

### Alternative method of Partial Attribution

In the absence of any such transactions refer to, or where they were insignificant in amount, the deductible proportion shall be estimated provisionally, under the supervision of the tax authorities, by the taxable person on the basis of his own forecasts.

*Direction is to be given by a notice in writing*



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## Capital Goods Scheme

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### Capital Good Scheme

#### Basic Principle

A taxable person is entitled to deduct input VAT incurred on the acquisition of capital goods at the time of acquisition.

#### Scope

Over the life of the asset, there may be situations whereby the asset is used for different purposes or possibly the business of the taxable person changes which might lead to an unjustified advantage or disadvantage relating to the amount deducted initially by the taxable person.



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## Capital Good Scheme

Definition – Article 2(1) of Subsidiary Legislation (S.L.) 406.12

- 'Capital Good' refers to all tangible fixed assets which can be used on a long-term basis as working tools or other means used for the carrying on of an economic activity;
- Small equipment, working tools, office furniture and packaging materials (even if they can be used more than once);
- Where their price, or open market value, is **less** than €1,160 are **not considered** to be capital goods.



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## Capital Good Scheme

*Input tax on capital goods* means input tax on operations related to the realisation, the transformation or the improvement of capital goods.

The following is **not** considered as input tax on capital goods:

- A. Input tax paid on the **repair or the maintenance** of capital goods as well as the purchase, the intra-Community acquisition or the importation of spare parts used for such operations;
- B. Input tax paid for the **renting of capital goods**, and more generally input tax paid for the giving up or the granting of the use of such goods.



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## Capital Good Scheme

For the purposes of these regulations, unless the context otherwise requires –

“**period of reference**” means, in the case of:

- Capital goods (excluding immovable property), a period of five (5) years; and
- Immovable property, a period of twenty (20) years



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## Capital Good Scheme

What is the Capital Goods Scheme?

- The Capital Good Scheme is a mechanism for **regulating the amount** of Value Added Tax reclaimed over the adjustment period of a capital goods.
- Adjustments to input tax that have been claimed on capital goods arise **as a result of changes** to the intended use of the asset on which a deduction was taken. A change **involving an alteration** to the nature of the use of a capital asset will trigger an adjustment.



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## Capital Good Scheme

How does it work?

Initial deduction of input VAT on capital good according to manner and extent of right of deduction

Circumstances which triggers an adjustment to the initial deduction

During a **period reference**:

1. 5 years of capital goods other than immovable property;
2. 20 years for immovable property

ADJUSTMENT  
REQUIRED



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## Capital Good Scheme

Circumstances which trigger an adjustment to the input tax on CG

- Change in use of capital good (e.g. private use or not attributable to taxable activity)
- Change in the elements used for calculation of the deducted input vat
- Capital good ceases to exist within the framework of the enterprise
- Taxable person becomes a non-taxable person or only carries operations in respect of which the VAT is not deductible



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Thank you

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