

Small companies and VAT: threshold increased up to 15.000€

Small VAT payers performing an economic activity, can if they wish fall within the special VAT scheme for 'small companies'. As from 1 April 2014 the threshold to qualify as a 'small company' will be increased up to 15.000€. In this way they can avoid a lot of administrative hassle. Disadvantage is that they cannot longer deduct VAT paid on their purchases. We make a balance between the pro's and con's.

Small company: maximum turnover 15.000€ (as from 1 April 2014)

'Small companies' are companies with a maximum annual turnover of 5.580€ (this threshold will be increased as from 1 April up to 15.000€). It doesn't matter whether the 'small company' is a company, a self-employed person or a liberal profession. Even a not-for-profit organization qualifies.

A number of transactions are excluded: transfer of new buildings, the accidental supply of new means of transport, the supply of tobacco products, supply by fishermen of their catch in a communal fish market, supplies by non-residents and real estate work. Companies performing these activities are in any case excluded from the special scheme. Even if their annual turnover does not exceeds the threshold.

Finally, companies working in the catering sector and obliged to issue a receipt to their customers with a registered cash register, are also excluded from the system.

Attention: 'small company' here is completely different from the notion 'small company' as defined in article 15 of the Company Law Code, which is of importance for a number of special schemes in the company income tax.

How is the turnover of the company calculated?

The turnover (for this scheme) consists out of: the amount of the transactions which would be subject to VAT if they were performed by a normal VAT payer + the amount of the following exempt transactions: export and intracommunity supplies + the amount coming from the following exempt transactions when they are not ancillary: transactions related to immovable property, financial transactions and (re)insurance services.

The following transactions are not taken into account when calculating the turnover: transfer of material or immaterial company assets, transactions excluded from the scheme, transactions made by farmers, other exempt transactions than mentioned above and transactions made abroad.

Pro: less administrative obligations

A huge advantage for a number of small companies is that they will be subject to less administrative obligations. They should not file monthly or quarterly VAT returns, keep no sales and purchase ledger.

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But the advantage is decreased by ...

This does not stand in the way that a small company still has to fulfill some administrative obligations:

- Draft and keep a table of fixed assets: this is necessary to make a 'revision' later if you (again or for the first time) would change from the special scheme for small companies to the standard scheme;
 - File an annual sales listing;
 - Issuing sales invoices for transactions which cannot fall within the scope of the special scheme;
 - Quote the following mention on all sales invoices: "Small company subject to the special VAT exemption scheme. VAT not applicable".
- Pro: no VAT to be charged on your turnover

A small company is not subject to VAT and should not charge VAT on its supplies of goods or services. It should not pay any VAT to the Treasury.

Contra: no VAT deduction

A consequence of the exemption scheme is the absence of the right to deduct VAT.

Contra: possible 'revision' to be made

When changing from the standard scheme to the special exemption scheme, you should 'revise' the VAT on fixed assets for which the revision period has not been expired. For standard fixed assets the revision period is five years, for immovable property fifteen years.

The revision is obligatory since you have deducted the VAT in the past, but you do not have right to deduction for the period that you are considered a 'small company'.

Example

Your company falls under the normal VAT rules. You buy a machine for 10.000€ and pay 2.100€ VAT, which you can deduct immediately. After two years you decide to opt for the special exemption scheme for small companies. The revision period has not expired (only two of the five years are over). So you should revise 3/5 of the deducted VAT: $2.100 \times 3/5 = 1.260\text{€}$. This VAT was unduly deducted in the year of the purchase of the machine: you should pay it back to the Treasury.

But the disadvantage is softened by ..

The revision also works the other way. In other words: if you change from the special exemption scheme to the standard scheme, you can make a revision in your advantage.

Example

You are a small company and you buy office furniture for 3.000€ + 630€ VAT. You do not have right to deduct VAT. A year later you opt for the standard scheme. You now are a normal VAT payer with right to deduct VAT. The revision period has not expired. So you can still deduct a part of the VAT on the office furniture: $630 \times 4/5 = 504\text{€}$.

An option scheme

Companies meeting all conditions will in principle be subject to the special exemption scheme. If you do not want that, you should let it know.

As a consequence of increasing the threshold, companies which were no small companies in the past will now become small companies. In order to deal with their situation, the following solution was introduced. A company is subject to the special exemption scheme for small companies as from:

- 1 April 2014: a company which had an annual turnover of maximum 15.000€ last year can, based upon an administrative concession, fall within the special scheme as from 1 April 2014, but should apply to do so ultimately on 21 March 2014 with the competent VAT office;
- 1 July 2014: a company which has a turnover of maximum 15.000€ will automatically be subject to the special exemption scheme for small companies, but can still opt for the standard scheme by communicating this choice to the competent VAT office before 1 June 2014;
- 1 January 2015: a company can during the last quarter of 2014 and ultimately before 15 December 2014 apply with the competent VAT office to fall within the special scheme as from 1 January 2015.

If you opt for the normal scheme this implies: charging and deduction VAT, complying with administrative obligations (e.g. periodical returns), ...

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