Small companies and VAT: how to calculate the threshold?

Small companies are VAT exempt: they should not charge VAT on their supplies but can neither deduct the VAT they have paid themselves. A companies is 'small' for VAT purposes when the annual turnover is less than 25.000€. In this contribution we take a look at how the turnover should be calculated.

Threshold of 25.000€

Small companies are companies having a turnover (ex VAT) of less than 25.000€. At first sight this threshold is easy to calculate: adding the turnover of all individual transactions.

However it is not that simple, some transactions are explicitly excluded from the calculation. A company can have a threshold of 40.000€ (when all transactions are taken into consideration), but still be a small company, since for the calculation some transactions are not included, so the relevant turnover finally amounts to 20.000€ (below the threshold of 25.000€).

We take a look at what should and should not be included in the calculation.

Calculation of the threshold: transactions which are included

The turnover consists out of the amounts (ex VAT) of all taxable and VAT exempt supplies of goods and services.

Calculation of the threshold: transactions not to be included

Bank and financial transactions (which do not open VAT deduction) and insurance and reinsurance transactions (which are VAT exempt) are not taken into consideration provided they are ancillary.

Transactions not taken into consideration to calculate the turnover:

- transfer of tangible or intangible capital goods of the company;
- supply of a new building or real rights on a new building;
- supply of new means of transport to another member state;
- supplies of goods and services by a VAT payer not established in Belgium;
- import, intracommunity acquisitions and production of tobacco products;
- direct supply in the local vismijn of fish and shellfish;
- non-reported transactions (fraud);
- transactions made by landbouwers;
- supplies made abroad;
- the following VAT exempt transactions: publishing contract, supplies of stamps, tax and other seals and bets, lotteries and other change and money games.

Also possible income as employee and profits from the management of the private estate are not taken into consideration.

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Threshold for several persons performing one activity together

In case several persons perform an economic activity together in joint ownership or association, the turnover is calculated by adding the turnover they realize together.

Threshold for spouses each having their own activity

When spouses each perform a separate economical activity, the threshold is calculated separately irrespective of their matrimonial situation.

Formalities when exceeding the threshold

In case the total amount of the turnover exceeds the threshold during the year, the small company becomes subject to the normal rules as from the month in which the threshold was exceeded. A small company exceeding the threshold in September will have to charge VAT as of October. VAT is not retroactively due for the period from January to September.

The company should report the exceeding of the threshold itself to the competent VAT office.

Remark 1: start during the year

For companies starting an activity during the year, the threshold should be reduced in function of the duration of the activity of the company during the year of the start.

Remark 2: the 'small companies scheme' is not obliged

In order to be complete please note that the application of the small companies' scheme is not mandatory. In other words: a company having a turnover below 25.000€ and which is in fact a small company, can opt to apply VAT for the goods and services it supplies. In this case the normal VAT rules apply.

It is however not the purpose that companies constantly change, and one year use the small companies scheme and opt for the normal rules the next year. That is why the VAT payer after his choice for the standard rules, can only return to the small companies' scheme as from the 1 January following the third year for which the option was taken.