Right to deduct input VAT

A taxable person has the right to deduct from the VAT calculated on his taxable transactions or acts input VAT on goods or services used for the purposes of his taxable supply for the same taxable period. A taxable person also has the right to deduct input VAT for the same taxable period for transactions or acts treated as non-supply related to business as provided for in subsection 2 of § 4 of the VAT Act and for goods or services used for the purposes of business carried out in a foreign state, except for transactions treated as supply exempt from VAT. (Subsection 1 of § 29 of the VAT Act)

According to general rule, input VAT cannot be deducted from goods and services purchased for the purposes of supply exempt from tax. Exceptions are insurance services and financial operations, upon the provision of which to a third country person the input value added tax may be deducted (subsection 1 of § 29 of the VAT Act).

Under certain conditions, input VAT paid on goods acquired before registration as a taxable person can also be deducted. Deduction of input VAT is permitted if the goods were acquired for the purpose of transfer (goods in a warehouse) or for the production of the goods to be transferred (manufacturing material). In this case, input VAT is deducted during the period in which the relevant goods are transferred as taxable supplies. Therefore, input VAT paid on the acquisition of goods before registration as a taxable person cannot be deducted if the goods were transferred before being registered as a taxable person. (Subsection 5 of § 29 of the VAT Act)

The input VAT on services received before registration as a taxable person can be deducted on the basis of an amendment to the VAT Act which entered into force on 1 March 2014 in the month of providing those services as taxable supply (subsection 5^1 of § 29 of the VAT Act).

There is also a right to deduct input VAT later in the case of fixed assets. In the case of fixed assets acquired before registration as a taxable person, the taxable person has the right to deduct input VAT upon subsequent use of such fixed assets, taking into account the actual proportion of the use of the fixed assets for taxable supply during the period of adjustment of input tax. With regard to fixed assets for which input VAT has been deducted, the principles of adjustment of input VAT set out in subsection 4 of § 32 of the VAT Act must be followed, i.e. if fixed assets are partially used for the purposes of supply exempt from tax, the deducted input VAT must be adjusted (subsection 5^2 of § 29 of the VAT Act).

If the goods or services are used for transactions in respect of which there is a right to deduct input VAT (subsection 1 of § 29), but also for purposes not related to business, the input VAT on the goods or services used only for the purposes of taxable supply can be deducted.

If, in the accounts of a taxable person, it is not possible to separate the input VAT for those two activities, the procedure for deduction of input VAT must be determined by a decision of the head of the tax authority at the request of the taxable person, taking into account the actual use of the goods or services (subsection 4 of § 29 of the VAT Act).

If a taxable person has deducted input VAT in whole or in part because, for example, self-supply was not known in advance, the subsequent use of the goods for private purposes must be taxed as self-supply (subsection 6 of § 2 of the VAT Act).

See also: **Partial deduction of input value added tax**

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