The Right to Deduct Input VAT
- Especially the Allocation of Deductions

General and fundamental issue
The right to deduct affects all those liable for VAT. The each stage deduction system is the cornerstone of VAT.

Economic significance
Circa 13% of EU’s own resources comes from contributions calculated from the Member States VAT base. In Finland, VAT creates around 41% of Finnish state taxes. The right to deduct has also great importance for the taxpayer.

How to allocate deductions?
Only input VAT from costs linked to taxable output transactions can be deducted. It is not always clear what costs can be seen as directly linked to a certain transaction. CJEU has defined a direct and immediate link as a condition for the right to deduct.

A single exempt transaction may also have an impact on the taxpayer’s right to deduct VAT related to costs that cannot be allocated to any particular output transaction (overheads or general costs).

VAT directive gives Member States a number of different possibilities to provide for the allocation of overheads in their legislation. These options will be compared in the research.

Value added tax is harmonised at the EU-level

DIRECT AND IMMEDIATE LINK

Costs of input purchased have to have a link to the taxable transactions if VAT is deductible.

Defined by CJEU

The link is purely economic not causal (C-124/12, AES-3C Maritza East 1). What does that mean in practice?

Research questions
1. What is intended to be taxable in VAT?
2. What is the taxable value-added?
3. How the costs of input purchased should be allocated from the point of view of the right to deduct?

Study also examines
- What are direct costs?
- What are overheads?
- How do activities outside the scope of VAT affect the right to deduct?

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