

Deductible Expenses - Can I deduct this?

Now more than ever there should be a general concern to know your business taxation. We know this is tough but worth the effort because proper planning will save you money and generates value for the shareholder or entrepreneur and ultimately on the income statement. **Tax regulations** change so often that they are quite hard to follow, along with the Tax authority's opinion and the Courts decisions.

In this sense, it is essential to be regularly informed and updated in order to know to what extent **taxes** are **deductible** or which tax benefits might be applicable and to what extent; or at least to know how to do it in order not to have any trouble with the Tax Authorities. You can also achieve this with a good Tax Advisor. In this respect we would like to offer an outline to the tax system and provide you with a series of relevant, above all how it could affect your business in a positive way.

VAT and requirements for the deductibility

In this first chapter we would like to focus on VAT and the requirements for the deductibility of the same. What is meant by deduction? First of all, you must note that the tax deductibility constitutes an essential pillar that sustains the VAT. Neutrality is essential for companies and professionals involved in the various stages of production and are obtained by from the deduction of VAT on the acquisition or importation of goods and services. In a perfectly neutral system, only the final consumers should be subject to VAT and each good or service that is acquired in a business for a subsequent delivery of a goods or services should generate deductible VAT or VAT. However, the VAT system is not perfect and certain Legal requirements are demanded. **Deductibility Requirements** The deduction regime is regulated within the articles 92 to 114 of the VAT Act, establishing the following requirements: Subjective requirements: professionals and companies subject to VAT are in title to deduct VAT that they support, even if they become VAT taxpayers sporadically

- Objective requirements:

1. Deductible percentage: professionals and companies are allowed to deduct a certain percentage (normally 100 %) of the VAT from transactions within Spain (except the Canary Islands), Such as the purchase of goods and services, import of goods, consumption, operations with a reverse charge, acquisition of intercommunity (EU) goods andetc
2. Operations entitling deduction: it is required that the transactions giving rise to the tax deduction rate for the taxpayer is applied to any of the following operations: - Sale of goods and services subject and not exempt to VAT. - Sale of services exempt, but included in the taxable amount of the imports. - Exports - Intra- Community sale of goods - In the case of random sale of transportation goods (cars, trucks, etc.) until the limit of VAT charged in case of not being exempt.

- Limits of the deduction: companies and professionals would not be able to deduct VAT if the goods or services do not affect their economic activity. Otherwise VAT would not be entirely deductible.
 - Special rule for investment Goods: in case of investment goods, such as real estate investment, the deduction would go in relation to the effects of the business over time. With regards to the VAT regulation, it considers that a good investment is considered where their use will extend over a period of time of over a year or costing over 3.006 €.
 - Special rule applicable to vehicles: there is a 50% presumption of deductibility on the purchase of these goods, unless proven otherwise. However, there is 100 % deductibility for commercial agents, taxis, driving school vehicles, private security vehicles, etc. However the latest Courts questioned this rule generalized by the tax authorities.
 - Prohibition deductibility: there are certain goods and services which will not be considered deductible, such as jewelry, food, drinks, tobacco, entertainment or services for customers or third parties, or where appropriate travel, hotels and restaurants unless the income tax legislation so permits it.
 - Formal requirements: VAT would only be deductible if the professional or company has the required documentary evidence, such as the original invoices or the sealed customs document in the case of importations (DUA).
 - Temporary requirements:
 1. Start of deductibility: generated at the time of accrual.
 2. Exercise to claim VAT: generated at the time of filing your tax returns
3. Loss of right to claim: Lost after 4 years of accrual.

Conclusion

Nowadays, it is essential that every professional and company is aware of the Tax System and implements proactive policies to obtain the best possible outcome from their Tax returns. As a simple example, the greater number of invoices you can recover in your business activity, the lower the amount you have to pay to the tax office and considering that as from September 1st VAT increases by on average by 11.6% (from 18 to 21 %), being able to reach an increase of 262.5 % (from 8 % to 21 %) in the provision of some services. Being a Tax Advisor I know exactly what to do. However you may not, therefore please do not hesitate to contact us if you need further assistance.