

Value Added Tax Act (Chapter 406, Laws of Malta)

Increase of Threshold for Small Traders (LN 163/2018) – Explanatory Note

What is this document about?

As announced in the Budget for 2018 the turn-over threshold under which service providers remain eligible for registration under article 11 has been increased from €14,000 to €20,000 in a period of 12 calendar months. The purpose of this explanatory note is to explain the impact of this change on the affected taxable persons.

Who should read this Explanatory Note?

This document may be of interest to persons who, while registered under article 11, may be interested to remain so registered in spite of an increase in their turn-over. It may also be of interest to persons who, while registered under article 10, may be interested to become registered under article 11 as “exempt persons”.

What is the legal basis for the change referred to in this Explanatory Note?

The VAT Act provides that taxable persons who make taxable supplies or exempt with credit supplies have to register under article 10 of the Act and would subsequently charge VAT on their supplies (where these are taxable) and would, consequently, have the right to claim credit for input tax incurred on their purchases, where such right arises.

On the other hand, article 11 provides for an option that, where those persons who provide taxable supplies or exempt with credit supplies do not exceed the stipulated thresholds (as per Part One, 6th Schedule to the VAT Act), they may opt to register under article 11 instead of article 10. In that eventuality, such persons would not charge VAT on their supplies but they would not be eligible to claim credit for input tax incurred on their purchases.

In virtue of Council Implementing Decision (EU) 2018/279 of 20th February 2018, by means of LN 163/2018 of 22nd May 2018, the thresholds for taxable persons whose economic activity principally consists in the supply of services of a high value added (low inputs) shall, with effect from 1st July 2018, be increased as follows:

- Entry threshold from €14,000 to €20,000
- Exit threshold from €12,000 to €17,000

Impact on the operators

Taxable persons registered under article 11

In terms of the 6th Schedule to the VAT Act, taxable persons registered under article 11 have the obligation, at the beginning of every calendar quarter, to assess whether their turn-over during the previous relevant period of 12 calendar months, would have exceeded the Entry Threshold. For the purpose of such exercise, in order to assess the eligibility to remain registered under article 11, as from the 1st July 2018, the said Entry Threshold shall no longer be calculated at €14,000 but at €20,000.

Naturally, where a person would qualify to remain registered under article 11, he would always have the option to convert his registration to article 10 at any time.

Taxable persons registered under article 10

In terms of the 6th Schedule to the VAT Act, taxable persons registered under article 10 cannot change their registration to article 11 before they would have been so registered under article 10 for 36 full calendar months. In that case, they may opt to change their registration provided that their turn-over for a relevant period of 12 calendar months would not have exceeded the Exit Threshold. For that purpose, as from 1st July 2018 this shall be calculated at €17,000 instead of €12,000.

Needless to say, where a person would convert his registration from article 10 to article 11, he shall become liable to adjustments of any input VAT that he might have claimed on any stock forming part of his economic activity in terms of the 2nd Schedule to the VAT Act. Moreover, in the case of any input tax credits claimed with respect to capital goods, he shall become liable to adjustments of input VAT in terms of the conditions as per the *Value Added Tax (Adjustments Relating to Input Tax on Capital Goods) Regulations* (S.L. 406.12).

Disclaimer

Please be aware that the above notes are published for information purposes and as guidance for further exploration. Utmost care has been taken to ensure that the information given is correct. Notwithstanding this, it is to be pointed out that they are not legally binding and should not serve as a legal document providing legally binding rulings. If you require further information you are advised to either refer to the legal text or contact the Office of the Commissioner for Revenue with specific details.

The Commissioner for Revenue reserves the right to substitute, alter or withdraw these notes as necessary at any time.

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