

# Important VAT issues for Akelius

Sandra Rundström, 2011-03-21

Sectoral rules of tax must be utilized in a professional manner to avoid unnecessary tax costs. The rules can be difficult to understand and interpret. New special rules are constantly being added. This increases the risk of errors in VAT treatment.

Rules in the property sector are primarily concerned with real estate companies, construction companies and the public sector.

Sectoral rules means that tax treatment may be perceived as an administrative burden. Small errors can lead to significant additional costs in terms of increased administration, increased tax burden and high penalty fees in the form of tax penalties

## What is VAT?

We all pay VAT when purchasing goods and services. VAT is often baked into the price. A business pays VAT to the state. VAT can be, 25, 12 or 6 percent of the selling price without VAT.

When should you pay sales tax to the state?

To be obliged to charge VAT to your customers and pay sales tax to the state, the following conditions must be met:

- you sell (selling or removing) goods or services
- sales of goods or services subject to VAT
- sales are made in a business activity
- sales are made in Sweden.

Your business is considered to be professional if it counts as a business under the Income Tax Act. Other economic activities can be considered as professional if the turnover exceeds more than 30,000 sek. Generally there is non-charged Swedish VAT on services you provide in other countries.

Even if sales are made in Sweden, do not charge VAT on goods that you ship from Sweden to a buyer

- in another EU country who claim a valid VAT number (VAT number), instead, the buyer account for VAT in their country
- outside the EU (which is called export).

Conversely, when you buy VAT-free goods from a seller in another EU country, they have to calculate and pay VAT to the Swedish state.

## **Value Added Tax**

VAT paid by a seller is allowed to deduct the VAT paid on purchased goods and services. If a trader buys wood for 50 sek to make a chair for and then sells it for 200 sek, they need to pay the professional tax to the state on the amount of SEK 150 - that is, the value that has been added to the wood. The person who sold wood to the trader pays VAT at 50 sek. Schools and the health care industry and also non-profit making organizations are not usually VAT liable / accountable.

VAT that a trader adds to goods sold to someone else is called the output VAT (2611), while the VAT that the trader pays for a purchased good are called input VAT (2641). VAT is normally declared in tax returns.

In Sweden VAT is reported using two methods, the billing method and the accounting method, also called cash basis. The billing method means that the VAT on inbound and outbound invoices is entered in the accounts at the date of invoice. In the accounting method VAT is instead shown at the payment of the incoming and outgoing invoices. Exception is the last month of the year when even unpaid invoices are addressed to the accounts.

## **Voluntary tax in real estate**

Rental of property is not included VAT within the EU. This means that no VAT is levied on the rental of a property or an apartment.

Real estate companies in EU countries deduct VAT only if the company has specifically signed up for registration to the so-called voluntary tax. Deductions may be made only for expenses relating to the premises where the property has taxable tenants. VAT in these cases shall be added to the rent that the tenants pay.

The base for VAT deduction differs between real estate companies, and properties that the company's owns. Sometimes it includes the tenant's surface area in relation to the total surface area of the property, the tenant's share of the revenue or the tenant's share of the property's total volume. Within a property the calculation bases are not allowed to differ between different tenants.

If the tenant's share of the calculation basis is more than 95 percent of property 100 percent is allowed in deduction. For real estate companies, the same principal is used for the tax deduction for the entire company. This applies to all costs, also the operating costs. The rules for real estate means that housing often presents input VAT as a cost.

## **Deductibility**

If you charge VAT to your customers, VAT is not a cost for the company, because you generally have the right to deduct the VAT you pay on purchases for your business. You pay the difference between the VAT you charge on your sales (output VAT) and the VAT you pay on your purchases (input VAT). You may only deduct the VAT relating to your taxable activities.

In some cases, you may deduct the VAT you pay on your purchases even though you do not charge any VAT on your sales. It may be the case if you sell

- Medicines
- Ships for commercial shipping
- Production of member newsletters, staff magazines and the like
- Goods or services to countries outside the EU (called export)
- Goods to a trader in Europe who claim their VAT number.

Sales of almost all goods and services are subject to VAT, but there are some exceptions. If you sell the following goods and services do not charge VAT to the buyer:

- medical, dental and social care
- education at primary, secondary, college and university
- banking and financial services
- insurance
- Artist fees
- study association study
- medicines prescription or sold to hospitals
- ships for commercial shipping
- production of member newsletters, staff magazines and the like.
- lottery, betting and other forms of gambling
- purchase and rental of real estate (read more in Real Estate and Housing)
- artwork by the artist or the artist's estate sells them self for not more than SEK 300,000 for any taxable year.

## **Re-billing**

The definition of further billing is a cost that is paid by one part, and then billed to another part.

### Accounting

A cost that will be further billed should always be written off and when the cost is re-billed revenue should be booked.

Depending on what type of cost it is, the VAT must be handled in different ways.

### Re-billing without VAT

Generally, the principle when a cost is billed without VAT, the tax according to the cost is not allowed to be lifted. The tax in that case must be recorded as non-deductible. Since April 1st 2009, the part of the tax that is not deductible should be reported together with the net cost. In further billing the VAT will be included in the invoice amount. The book keeping should look as follows:

### Re-billing with VAT

When a cost is charged with VAT must all the input tax, attributable to the cost, be lifted. VAT must be reported on account 2641. The output VAT on re-billing is shown on the invoice.

### Handling of re-invoicing of various costs

The billing of goods or services incidental leasing of dwellings / not subject to VAT local contracts

Tenure of dwellings are generally exempt from VAT. This means that the cost of goods and services considered, as ancillary to this service should be invoiced without VAT. This applies also to the costs, which are dependent on a local contract where the tenant carries out no activity, which is subject to, or activity which is subject to VAT but there is no clause in the contract.

Examples of such costs are:

- Gas, water, electricity, heat
- Network Equipment for the reception of radio and television broadcasts
  
- Parking lots which are dependent on a housing contract or a local contract where the tenant carries out no activity which is subject to or activity which is subject to VAT but no clause in the contract
- Cost of keys, cylinder replacement

Moreover, the billing of goods / services exempt VAT.

Re-billing of a cost incurred of a tenant that not has considered fulfilling the obligations according to the lease is considered as damages. Re-billing such costs are excluded VAT. Examples of such costs are:

- The cost of excessive wear or damage to the apartment, which is usually clear from the survey records when you move out
- Eviction costs
- Cost of disturbance on call

Re-billing subject to VAT invoicing of goods / services

Re-billing to a cost of a goods or services that are not included in any agreement the cost will be invoiced with VAT. This applies also to other costs that will be re-billed and which are not exempt of VAT, even between companies within the group. Examples of such costs are:

- Cost of work in an apartment not included in the lease.
- Costs will be invoiced to another group company.

### **Garage revenues**

One important VAT issue for Akelius is the process for handling all the garage revenues. In the same way that Akelius rents out apartments, in the same way are we renting out *parking lots* for the tenants. However, there are some differences in the renting out process. If we rent out a garage space for an existing tenant there is no tax involved; but as soon as we rent out parking lots to a non-existing tenants of ours we how to lift *output* tax. This is a tax of 25% of the price.

1924	D 100%
2611	K 25%
3018	K 75%