

Council Directive 2006/112/EC of 28 November  
2006 on the common system of value added tax

TITLE X

**DEDUCTIONS**

CHAPTER 2

**Proportional deduction**

*Article 173*

1 In the case of goods or services used by a taxable person both for transactions in respect of which VAT is deductible pursuant to Articles 168, 169 and 170, and for transactions in respect of which VAT is not deductible, only such proportion of the VAT as is attributable to the former transactions shall be deductible.

The deductible proportion shall be determined, in accordance with Articles 174 and 175, for all the transactions carried out by the taxable person.

- 2 Member States may take the following measures:
- a authorise the taxable person to determine a proportion for each sector of his business, provided that separate accounts are kept for each sector;
  - b require the taxable person to determine a proportion for each sector of his business and to keep separate accounts for each sector;
  - c authorise or require the taxable person to make the deduction on the basis of the use made of all or part of the goods and services;
  - d authorise or require the taxable person to make the deduction in accordance with the rule laid down in the first subparagraph of paragraph 1, in respect of all goods and services used for all transactions referred to therein;
  - e provide that, where the VAT which is not deductible by the taxable person is insignificant, it is to be treated as nil.

*Article 174*

1 The deductible proportion shall be made up of a fraction comprising the following amounts:

- a as numerator, the total amount, exclusive of VAT, of turnover per year attributable to transactions in respect of which VAT is deductible pursuant to Articles 168 and 169;
- b as denominator, the total amount, exclusive of VAT, of turnover per year attributable to transactions included in the numerator and to transactions in respect of which VAT is not deductible.

Member States may include in the denominator the amount of subsidies, other than those directly linked to the price of supplies of goods or services referred to in Article 73.

2 By way of derogation from paragraph 1, the following amounts shall be excluded from the calculation of the deductible proportion:

- a the amount of turnover attributable to supplies of capital goods used by the taxable person for the purposes of his business;

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- b the amount of turnover attributable to incidental real estate and financial transactions;
- c the amount of turnover attributable to the transactions specified in points (b) to (g) of Article 135(1) in so far as those transactions are incidental.

3 Where Member States exercise the option under Article 191 not to require adjustment in respect of capital goods, they may include disposals of capital goods in the calculation of the deductible proportion.

#### *Article 175*

1 The deductible proportion shall be determined on an annual basis, fixed as a percentage and rounded up to a figure not exceeding the next whole number.

2 The provisional proportion for a year shall be that calculated on the basis of the preceding year's transactions. In the absence of any such transactions to refer to, or where they were insignificant in amount, the deductible proportion shall be estimated provisionally, under the supervision of the tax authorities, by the taxable person on the basis of his own forecasts.

However, Member States may retain the rules in force at 1 January 1979 or, in the case of the Member States which acceded to the Community after that date, on the date of their accession.

3 Deductions made on the basis of such provisional proportions shall be adjusted when the final proportion is fixed during the following year.