

VAT – Reception and advertising costs, VAT deductible?

On October 12 the Belgian tax authorities published a decision from the Court of Appeal of Liège in which the non-deductibility of the VAT relating to reception costs is confirmed. This is no surprise! The Court decision, however, leaves room for a VAT deduction provided these costs simultaneously have an advertising nature. To be explored in detail?

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According to article 45, §3, 4° of the VAT-code, no VAT deduction is allowed on reception costs. The Court of Appeal stipulates that reception costs are to be defined as costs incurred for receipt and welcoming, if necessary linked with entertainment and amusement, of visitors (not linked to the company), such as clients and suppliers, with the purpose of continuing or strengthening the business relationship.

The Court does not rule out that this kind of representation may also have an advertising nature. Indeed, in case the purpose of the activity is to mainly and directly inform the (potential) buyer about the existence and particularities of a product or service with the intention to promote sale, it could have an advertising nature thus allowing the VAT-deductibility.

In the case at hand, the Court recognizes the fact that the costs relating to publicity, next to the entertainment and amusement, offered to the invitees of the event, qualify as strictly professional and not as reception costs as such.

When reading this Court decision we tend to conclude that the advertising nature of the reception costs give rise to the VAT deductibility of these costs. The Court does however not provide guidelines to determine the VAT deductible part. We believe this needs to be done on a reasonable basis.

Should you have incurred or will incur these costs, do not hesitate to contact our VAT-department. Our experts are pleased to guide you.