RESEARCH NOTE 6

Indirect Taxes, Invoice Systems, and Input Tax Deductions

in Canada, Australia, Germany, and France

August 14, 2026

1. Introduction

Research Note 5 reviewed how Japan's Invoice System (the Qualified Invoice Retention Method) treats input tax deductions on taxable purchases from tax-exempt businesses, and compared this with the United States, which uses single-stage taxation, and the United Kingdom, which uses multi-stage taxation but sets an exceptionally high exemption threshold.

This research note extends that work to four countries—Canada, Australia, Germany, and France—which, like Japan, operate a multi-stage, invoice-credit value-added tax (VAT/GST), yet have developed distinctive designs of their own for accommodating tax-exempt and small businesses. Canada and Australia operate Commonwealth-style Goods and Services Taxes (GST), while Germany and France operate small-business schemes based on the EU VAT Directive (2020/285). What is striking is that although all four stand on the same "invoice method" ground as Japan, each is designed so that transactions with tax-exempt businesses do not unreasonably increase the buyer's tax burden.

This note sets out the structure of the indirect tax systems of these four countries, the actual treatment of input tax deductions on procurement from small and tax-exempt businesses, and the methods used to accommodate the non-profit and public interest sectors, in order to continue the examination of the challenges and countermeasures surrounding Japan's Invoice System.

2. Actual Conditions Under GST/HST in Canada

2.1 Basic Structure of the Federal GST/HST and Its Relationship with Provincial Taxes

Canada levies a federal Goods and Services Tax (GST) at a rate of 5% under a multi-stage, invoice-credit method (Canada Revenue Agency, 2026). As in Japan, the United Kingdom, and France, a business calculates its tax liability by deducting the tax paid on its purchases (input tax) from the tax received on its sales (output tax)—the mechanism known as the deduction of prior-stage tax, or the Input Tax Credit (ITC).[1]

Indirect taxation at the provincial and territorial level falls into three patterns. First, in five provinces including Ontario, the GST and the provincial tax are combined into a Harmonized Sales Tax (HST) levied at 13–15%. Second, in four provinces—British Columbia, Saskatchewan, Manitoba, and Quebec—a separate provincial sales tax (PST; known as the RST in Manitoba and the QST in Quebec) is levied alongside the federal 5% GST, and this PST is in principle not recoverable as an input tax credit. Third, in Alberta and the three territories (Yukon, the Northwest Territories, and Nunavut), neither HST nor PST applies and only the federal 5% GST is levied (Canada Revenue Agency, 2026; ExpenseFlow, 2026). Unlike the single-stage US model, the GST/HST component is designed along lines extremely close to Japan's consumption tax.

2.2 Procurement from Small Suppliers and Input Tax Deductions

Canada's Excise Tax Act classifies a business whose taxable sales over the four most recent consecutive calendar quarters are CAD 30,000 or less (approximately 3.2 to 3.3 million yen) as a "Small Supplier" and relieves it of the

1 Input Tax Deduction: Under a multi-stage consumption tax, VAT, or GST, the mechanism by which a business calculates its tax liability by subtracting "the tax it paid at the time of purchase" from "the tax it received at the time of sale". It is the basic rule that prevents the "cascading of tax" (double collection through multi-stage taxation), whereby tax would otherwise be levied repeatedly on the same value added.

obligation to register for GST/HST (Excise Tax Act, s.148; Insight Accounting CPA, 2026). This threshold differs from Japan’s 10 million yen line in both level and character.

Because small suppliers bear no registration obligation, they do not charge GST/HST to their customers. When a buyer (a registered business) purchases from such a small supplier, no tax appears on the invoice in the first place; consequently, even though the buyer cannot claim an input tax credit, the Japanese-style double burden of "having paid a tax-inclusive price yet being denied the deduction" does not arise.

Small suppliers may nonetheless register voluntarily, and once registered they can recover ITCs on the GST/HST incurred on their own purchases (BookZero, 2026; bizfund.ca, 2026). Businesses facing heavy capital expenditure in their start-up phase thus have the option of registering deliberately in order to obtain refunds.

2.3 Accommodation for Charities and Non-Profit Organizations (NPOs): The Net Tax Calculation Method and the Public Service Bodies’ Rebate

In Canada, charities and NPOs are subject to a more generous small-supplier threshold than ordinary businesses: CAD 50,000 over four consecutive quarters (Hogg, Shain & Scheck, n.d.).

More distinctive still is the "net tax calculation method for charities",[2] which most registered charities use. Under this method a charity charges and collects GST/HST on its taxable supplies in the ordinary way, but remits only 60% of the tax collected to the public treasury; in exchange it generally forgoes ordinary ITCs (other than on purchases of real property and capital assets) (Marcil Lavallée, n.d.).

In their place, charities may apply for the GST/HST Public Service Bodies’ Rebate (the "PSB rebate")[3] and receive a refund, calculated at a prescribed rebate rate, on the full amount of input tax that cannot be recovered as ITCs. The standard federal rebate rate for charities and qualifying NPOs is 50%, while higher rates are set by type of organization—100% of the federal portion for municipalities and 87% for hospital authorities, for example (Canada Revenue Agency, 2026; Tohme Accounting, 2025). Unlike the UK and US approach of "not taxing in the first place", this mechanism applies ordinary taxation and then supports the public interest sector from the expenditure side through refunds—a design philosophy that offers an alternative model.

3. Actual Conditions Under GST in Australia

3.1 Basic Structure of the Registration Threshold (AUD 75,000 in General; AUD 150,000 for Non-Profits)

Australia has operated a multi-stage, invoice-credit Goods and Services Tax (GST) at a rate of 10% since its introduction in 1999. Registration becomes mandatory once a business’s GST turnover has reached AUD 75,000 over the past 12 months or is projected to do so over the coming 12 months; for an organization qualifying as a "Not-for-Profit Organisation (NFP)", however, the threshold is relaxed to AUD 150,000 (business.gov.au, 2026; Australian Taxation Office, 2026). NFP here is a broad category that does not depend on legal form: an organization need only self-assess that it satisfies certain non-profit requirements, such as not distributing profits to its members, and no formal registration or endorsement—unlike the "endorsed charity" status discussed below—is required. As in Canada, the threshold for non-profit bodies is set higher than that for ordinary businesses, in contrast to Japan’s single 10 million yen line.

Businesses below the threshold may register voluntarily. Because registration allows them to claim GST credits (the equivalent of input tax deductions) on their purchases, businesses in a start-up phase with substantial capital investment sometimes choose to do so (Sprintlaw Australia, 2026; SetupMyCompany, 2026).

---

2 Net Tax Calculation Method: A special simplified alternative to the ordinary input tax deduction calculation. The organization remits a flat proportion of the tax received on sales (60% in Canada’s case) and is thereby relieved of detailed input tax calculations, but in exchange loses access to the ordinary input tax deduction itself.

3 Public Service Bodies’ Rebate: A scheme under which tax that could not be recovered through the input tax deduction is refunded by the state through a procedure separate from the tax return. It differs from an ordinary input tax deduction in being a refund—a mechanism resembling a subsidy—rather than a deduction.

3.2 Procurement from Unregistered Businesses and Input Tax Deductions

A business that is not required to register, and has not registered, cannot claim GST credits on its purchases, but equally charges no GST at all on its own sales (Australian Taxation Office, 2026). A buyer (a registered business) purchasing from such an unregistered business therefore faces no additional tax burden even though no input tax deduction is available, because no GST appears on the invoice to begin with. The structure is the same as in Canada and the United Kingdom.

It may also be noted that, alongside taxable supplies (10%), the Australian GST system distinguishes "GST-free" supplies (a 0% rate, with input tax credits still available) from "input taxed" supplies (no GST charged and no input tax credits available)—a distinction parallel to the UK’s zero-rated and exempt categories (SetupMyCompany, 2026).

3.3 Additional Accommodation for "Endorsed Charities" Within the Non-Profit Sector

Separately from the relaxed threshold available to NFPs generally, a more generous set of additional concessions is available to an "endorsed charity"—an entity formally registered as a charity with the Australian Charities and Not-for-profits Commission (ACNC)[4] and individually endorsed for GST concessions by the Australian Taxation Office (ATO). Just as Canada distinguishes "charities" from "NPOs" in its legislation, Australia likewise operates a two-tier structure: a broad NFP category requiring no registration or endorsement, and a narrower category of endorsed charities that have passed through ACNC registration and ATO endorsement.

These additional concessions centre on extensive GST-free treatment on the supply (sales) side. An endorsed charity may treat as GST-free its non-commercial activities supplied for "nominal consideration"—that is, where the consideration falls below a set proportion of market value (less than 75% for accommodation and less than 50% for other supplies) (Australian Taxation Office, 2026).

In addition, ticket sales for raffles and bingo conducted by an endorsed charity are GST-free, and for fundraising events there is an option to treat the event as a whole as input taxed (no GST charged and no input tax credits available). Branches of endorsed charities and similar bodies (non-profit sub-entities) may also each be treated as independently outside the registration requirement where their annual turnover is below AUD 150,000 (ABN Lookup, n.d.; Tax Window, n.d.). Unlike the US Section 501(c)(3) exemption certificate or Canada’s PSB rebate, the defining feature of the Australian design is that its additional concessions work principally through non-taxation on the supply (sales) side rather than through refunds on the expenditure side.

4. Actual Conditions Under Value-Added Tax (Umsatzsteuer) in Germany

4.1 The 2025 Fundamental Reform of the Small Business Scheme (Kleinunternehmerregelung, §19 UStG)

The "small business scheme" (Kleinunternehmerregelung)[5] laid down in §19 of the German VAT Act was fundamentally reformed with effect from January 1, 2025, as part of the transposition of EU VAT Directive 2020/285 into domestic law (IHK München, 2026; Steuernaut, 2026). Under the revised rules the thresholds are taxable turnover of €25,000 or less in the previous year and €100,000 or less in the current year, both on a net (tax-exclusive) basis—a substantial increase from the previous figures of €22,000 for the previous year and €50,000 for the current year, on a gross (tax-inclusive) basis.

A distinctive feature is that the current-year figure operates as a "hard limit": from the moment turnover exceeds €100,000, all transactions from that point onward are compulsorily moved to ordinary taxation (Regelbesteuerung) (sevdesk, 2026). From 2025 a new cross-border small-business scheme (§19a UStG) also allows the small-business exemption to be used in other EU member states (IHK Region Stuttgart, 2026).

4 ACNC and ATO: ACNC stands for the Australian Charities and Not-for-profits Commission, the body that examines and registers organizations for legal status as charities. ATO stands for the Australian Taxation Office, the body that individually endorses registered charities for tax concessions such as GST exemptions. The roles of the two are separate.

5 Kleinunternehmerregelung: Literally the "small business rule". It is the special provision of German VAT law corresponding to Japan’s tax-exempt business scheme.

4.2 Procurement from Small Businesses and Input Tax Deductions (Vorsteuerabzug)

A small business (Kleinunternehmer) does not state VAT on its invoices and charges only the tax-exclusive price. In return, the small business is itself entirely barred from claiming input tax deductions (Vorsteuerabzug) on the goods and services it purchases (Taxtify, 2026; Steuerberater-es, 2026). As with tax-exempt businesses in Japan, the tax incurred on purchases remains a final cost for the small business.

For the buyer (an ordinarily taxable business) purchasing from such a small business, by contrast, no VAT appears on the invoice in the first place, so no additional tax burden arises even though no input tax deduction is available.

4.3 The Reduced Rate for Public-Benefit Corporations (gemeinnützige Körperschaft) and Restrictions on Vorsteuerabzug

In Germany, corporations meeting the requirements of the Fiscal Code for public-benefit, charitable, or religious purposes (gemeinnützige Körperschaft) have their activities divided into four spheres—the "ideal sphere", the "asset management sphere", the "special-purpose operation" (Zweckbetrieb),[6] and the "commercial business operation"—with VAT treatment differentiated accordingly. Special-purpose operations, which realize the public-benefit purpose of the organization itself, are subject to the reduced rate of 7% rather than the standard rate of 19% (deutsches-ehrenamt.de, n.d.; ecovis-kso.com, 2024).

A public-benefit corporation may deduct the input tax it has paid only where the expenditure corresponds directly to sales in a taxable revenue-generating operation (or in certain special-purpose operations); no input tax deduction is available for expenditure corresponding to the non-taxable ideal sphere (Vereinsplaner, 2026). Applying a reduced rate to public-benefit activities themselves is a mechanism that has no counterpart in Japan’s consumption tax.

5. Actual Conditions Under Value-Added Tax (TVA) in France

5.1 The Basic Exemption Scheme (Franchise en base de TVA) and the Policy Turbulence of 2025–2026

France’s value-added tax (TVA, standard rate 20%) uses invoice-based multi-stage taxation, as Japan’s does, but provides a "basic exemption scheme"[7] for small businesses. As of 2026 the thresholds are differentiated by sector: €85,000 for sales of goods and the provision of accommodation, €37,500 for the provision of services, and €47,500 for lawyers, authors, and similar professions (Assistant-juridique.fr, 2026; Bpifrance Création, 2026).

These thresholds were the subject of major policy turbulence in 2025. The 2025 Finance Act provided for a reform lowering the threshold to a uniform €25,000 regardless of sector, but in the face of strong opposition from micro-business associations its entry into force was suspended repeatedly, and the uniform reduction was finally and permanently withdrawn by the law of November 3, 2025, leaving the previous levels in place (LégiFiscal, 2025; Service Public Entreprendre, 2025; Loi n° 2025-1044, 2025). The episode is instructive for Japan’s own deliberations on transitional measures, in that it shows how lowering an exemption threshold can become a political flashpoint bearing directly on the viability of micro-businesses.

5.2 Procurement from Tax-Exempt Businesses and Input Tax Deductions

A business covered by the basic exemption scheme does not state TVA on its invoices and charges only the tax-exclusive price. In exchange, it cannot deduct the TVA incurred on its own purchases (Bpifrance Création, 2026). A registered buyer purchasing from such a tax-exempt business therefore incurs no additional tax burden even though no input tax deduction is available, because no TVA was stated on the invoice in the first place.

---

6 Zweckbetrieb: Literally a "purpose operation". A concept in German tax law referring to activities—such as running a welfare facility—that a public-benefit corporation carries on in order to realize its own public-benefit purpose, as distinct from merely collecting membership fees and donations.

7 Franchise en base de TVA: Literally the "basic exemption from TVA". It is the special provision of French VAT law corresponding to Japan’s tax-exempt business scheme.

5.3 Accommodation for Non-Profit Associations (association loi 1901)

Non-profit associations formed under France's Law of 1901[8] are in principle outside the scope of commercial taxes, including TVA, provided that they are run on a disinterested, non-remunerated basis (gestion désintéressée) and do not compete with the private commercial sector (Service Public, 2025; macompta.fr, 2026).

Even where an association carries on revenue-generating activities incidentally, those activities are exempt from commercial taxes including TVA under the "exemption for accessory commercial activities" if three conditions are met: (1) the greater part of its activity is non-commercial; (2) its management is disinterested and unremunerated; and (3) the annual income from the revenue-generating activity in question does not exceed the threshold set by the General Tax Code (€81,051 for 2026, revised annually in line with prices) (Assistant-juridique.fr, 2026; Qonto, 2026; BOFiP, 2025). In addition, income from up to six fundraising events a year, and income from volunteer-run educational, cultural, sporting, and social activities provided exclusively to members, are exempt as a matter of course, irrespective of that threshold (LegalStart, 2026). Whereas Japan's tax-exempt business scheme is determined solely by the single formal criterion of sales volume, France combines several substantive criteria—non-profit character, disinterested management, the relative weight of the activity, and a monetary threshold—a striking contrast.

6. Conclusion

Table 1 below is a quick reference to the indirect taxes and exemption thresholds of Canada, Australia, Germany, and France.

Table 1: Indirect Taxes and Exemption Thresholds in the Four Countries at a Glance

Item	Canada	Australia	Germany	France
Tax	GST 5% (in some provinces HST 13–15%, or a separate PST levied alongside)	GST (10%)	Value-added tax (standard 19% / reduced 7%)	TVA (standard 20%)
Exemption threshold, general businesses	CAD 30,000 (four-quarter total)	AUD 75,000 (rolling 12 months)	€25,000 in the previous year and €100,000 in the current year	Services €37,500 / goods €85,000
Exemption threshold, non-profit and public interest bodies	CAD 50,000 (four-quarter total)	AUD 150,000 (rolling 12 months)	Reduced rate of 7% for special-purpose operations (same threshold applies)	Accessory revenue-generating activities €81,051 (2026)
Registration required?	Optional (registration allows ITC recovery)	Optional (registration allows GST credits)	Optional (registration moves the business to ordinary taxation)	Optional (registration allows TVA deduction)

8 Association loi 1901: The general term for non-profit associations established under France's law on the contract of association (loi relative au contrat d'association) of July 1, 1901. Close to Japan's NPO corporations, it is a legal form that citizens can establish relatively easily.

Table 2: Comparative Summary of the Indirect Tax Systems of Canada, Australia, Germany, and France

Comparison Item	Canada	Australia	Germany	France
Basic tax structure	Multi-stage taxation (invoice-credit method)	Multi-stage taxation (invoice-credit method)	Multi-stage taxation (EU-type VAT)	Multi-stage taxation (EU-type VAT)
Transactions with unregistered / tax-exempt suppliers	No tax is charged, so the buyer suffers no actual loss from the unavailable deduction	No tax is charged, so the buyer suffers no actual loss from the unavailable deduction	No tax is charged; the supplier itself also forgoes input tax deductions	No tax is charged; the supplier itself also forgoes input tax deductions
Presence of "tax" in transaction prices	Tax-exempt businesses invoice at tax-exclusive prices	Unregistered businesses invoice at tax-exclusive prices	Kleinunternehmer invoice at tax-exclusive prices	Tax-exempt businesses invoice at tax-exclusive prices
Special provisions for public interest and non-profit entities	Net tax calculation method plus the PSB rebate (refunds on the expenditure side)	AUD 150,000 threshold for NFPs generally, with GST exemption for non-commercial activities added for ACNC-registered, ATO-endorsed charities	Reduced rate of 7% applied to special-purpose operations	In principle non-taxable where the non-profit requirements are met, with a high threshold for accessory activities as well
Direction of recent reform	Threshold unchanged since 1991	No major change to the threshold in recent years	Threshold doubled in 2025; cross-border exemption scheme newly established	The 2025 reduction reform permanently withdrawn to protect micro-businesses

What this survey of four countries confirms—consistent with the trends identified for the United Kingdom and the United States in Research Note 5—is that in every one of them the structure whereby "purchasing from a tax-exempt or unregistered business causes an unreasonable surge in the buyer's tax burden" is avoided as a matter of system design (OECD, 2024).

- In **Canada**, small suppliers do not charge GST/HST, so buyers incur no additional burden from an unavailable deduction; in addition, charities benefit from a distinctive refund regime—the net tax calculation method and the Public Service Bodies' Rebate—that supports the public interest sector from the expenditure side.
- In **Australia**, unregistered businesses charge no GST in the first place, so buyers suffer no loss, and ACNC-registered charities enjoy extensive GST-free treatment of non-commercial activities under the nominal consideration test.
- In **Germany**, the fundamental reform of 2025 raised the Kleinunternehmer threshold in real terms (€25,000 for the previous year and €100,000 for the current year) and established a cross-border exemption scheme within the EU.
- In **France**, the government attempted a uniform reduction to €25,000 in 2025 but permanently withdrew it in the face of opposition from micro-businesses, and the previous high thresholds were retained.

Taken together, the four countries show that even where multi-stage taxation (the invoice method) is used, the practice under which tax-exempt and unregistered businesses do not add tax to their invoices is applied consistently, so that the Japanese-style double burden—"paying a tax-inclusive price yet being denied the deduction"—does not arise on the buyer's side. This reconfirms that the root cause of the friction following the introduction of Japan's Invoice System lies in the long-standing tolerance, under the "bookkeeping method", of a commercial practice in which tax-exempt businesses also transacted at tax-inclusive prices.

References

ABN Lookup (n.d.) Charitable tax concessions.

Assistant-juridique.fr (2026) Comment bénéficier de la franchise d'imposition des activités lucratives d'une association en 2026 ?

Assistant-juridique.fr (2026) Quels sont les seuils de franchise en base de TVA pour 2026 ?

Australian Taxation Office (2026) Registering for GST / GST concessions for not-for-profits / GST-free activities / GST registration for not-for-profits.

bizfund.ca (2026) GST Number in Canada: The Small Business GST/HST Guide (2026).

BOFiP – Direction générale des Finances publiques (2025) BOI-TVA-CHAMP-30-10-30-10, Organismes sans but lucratif.

BookZero (2026) GST/HST for Small Business in Canada: Complete Filing Guide (2026).

Bpifrance Création (2026) La franchise en base de TVA.

business.gov.au (2026) Register for goods and services tax (GST).

Canada Revenue Agency (CRA) (2026) GST/HST for businesses – Small suppliers / GST/HST Public Service Bodies' Rebate.

Charity Law Group (2026) How to Calculate the HST Rebate for Charities in Canada.

deutsches-ehrenamt.de (n.d.) Umsatzsteuer im Verein: Worauf Sie achten müssen.

ecovis-kso.com (2024) Ermäßigte Umsatzsteuer für gemeinnützige Zweckbetriebe.

Excise Tax Act, R.S.C. 1985, c. E-15 (Canada).

ExpenseFlow (2026) Canadian GST and HST: the complete guide for 2026.

Hogg, Shain & Scheck (n.d.) GST & HST for Charities & Not-for-Profit Organizations 101.

IHK München (2026) Umsatzsteuer für Kleinunternehmer.

IHK Region Stuttgart (2026) Kleinunternehmerregelung, Umsatzgrenzen, § 19 UStG.

Insight Accounting CPA (2026) HST Small Supplier Threshold Canada 2026.

Japan Association of Charitable Organizations (2026) Tax Reform Proposals for FY2027, Proposal III-4: "Permanent Extension of Transitional Measures for Input Tax Deductions under the Consumption Tax Invoice System".

LegalStart (2026) TVA et association : tout comprendre en 5 minutes.

Légifrance (2025) Loi n° 2025-1044 du 3 novembre 2025 visant à garantir un cadre fiscal stable, juste et lisible pour nos micro-entrepreneurs et nos petites entreprises.

LégiFiscal (2025) PLF 2026 : la franchise en base de TVA à 37.500 € sauf pour le BTP.

macompta.fr (2026) TVA et association : êtes-vous redevable ou exonéré ?

Marcil Lavallée (n.d.) Charities and GST/HST.

Ministry of Finance (2023) Overview of the Invoice System and Application of Transitional Measures.

OECD (2024) Consumption Tax Trends 2024: VAT/GST and Excise, Core Design Features and Trends. OECD Publishing, Paris.

Qonto (2026) Association et TVA : comment ça marche ?

Service Public (2025) Une association à but non lucratif peut-elle avoir une activité commerciale ?

Service Public Entreprendre (2025) Franchise en base de TVA : suppression du seuil unique d'exonération à 25 000 €.

SetupMyCompany (2026) GST registration in Australia: thresholds, accounting basis + BAS cycle (2026).

sevdesk (2026) Kleinunternehmerregelung 2025: Alles Wichtige zu den neuen Regeln.

Sprintlaw Australia (2026) ABN Threshold in Australia: What It Really Means / Not GST Registered in Australia?

Steuerberater-es (2026) Kleinunternehmerregelung 2026: die neuen Schwellen nach § 19 UStG.

Steuernaut (2026) Kleinunternehmerregelung 2026: Grenzen, EU-Regelung & Verzicht.

Tax Window (n.d.) Non-Profits And GST: What Charities In Australia Need To Know.

Taxtify (2026) Kleinunternehmerregelung 2026: 25.000 / 100.000 € Schwellen.

Tohme Accounting (2025) How to Claim Rc4034 GST/HST Public Service Bodies Rebate.

Vereinsplaner (2026) Umsatzsteuer für Vereine in Deutschland 2026.

Yoshiharu Shiraishi (Director, Department of Research)