



**HM Revenue  
& Customs**

# VAT Output Tax Toolkit

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# Introduction

Tax agents and advisers play an important role in helping their clients to get their tax returns correct. This toolkit is aimed at helping and supporting tax agents and advisers in completing VAT Returns on behalf of their clients, although it may also be of use to anyone who is completing a VAT Return. It may also be of use to tax agents and advisers who do not complete their client's VAT Return but wish to use it as a source of reference when advising their client on VAT matters or for reviewing their client's VAT declarations at the year end.

This version of the toolkit was published in July 2014. The risks in this toolkit have been reviewed and updated where necessary. Its use is entirely voluntary.

The content of this toolkit is based on our view of how tax law should be applied. Its application to specific cases will depend on the law at the relevant time and on the precise facts.

Areas of output tax that it does not address include:

- second-hand schemes - for further information see **VAT margin schemes for second-hand goods, art, antiques etc**
- the Tour Operators Margin Scheme - for further information see **Public Notice 709/5 Tour Operators Margin Scheme**
- agency arrangements - for further information see section 22 of **Public Notice 700 The VAT Guide**
- group and divisional VAT registrations - for further information see **Public Notice 700/2 Group and divisional registration**

For further information on using this toolkit and reasonable care under our penalty system see **Toolkits to help reduce errors - essential information.**

For guidance on matters not dealt with in this toolkit you should refer to our full guidance:

**Public Notice 700** and **VAT Manuals - A to Z**

## Giving HMRC feedback on toolkits

HMRC would like to hear about your experience of using the toolkits to help develop and prioritise future changes and improvements. HMRC is also interested in your views of any recent interactions you may have had with the department.

**Send HMRC your feedback**

## Areas of risk within VAT output tax

Output tax is chargeable at the appropriate rate (including the zero rate) on any supply of goods or services made in the UK where it is a taxable supply made by a taxable person in the course or furtherance of any business. For VAT purposes, 'business' has a wide meaning and includes any activity that is mainly concerned with making supplies to other persons for a consideration. In most cases it will be clear whether an activity is a business activity for VAT purposes and whether the related income is therefore within the scope of VAT. Examples of income which is generally outside the scope of VAT include most grants, donations and compensation payments.

For further guidance in cases where the business status of a particular activity is unclear see **VBNB20000 - VAT Business and Non-Business activities.**

A taxable supply is a supply of goods or services made in the UK other than an exempt supply. A taxable person is a person who is, or is required to be, registered for VAT under the provisions of the VAT Act 1994.

A business is required to register for VAT when its taxable turnover has exceeded the threshold for compulsory VAT registration. There are two turnover tests for obligatory VAT registration, often known as the 'backward look' (which considers rolling annual taxable turnover at the end of each calendar month) and the 'forward look' (which considers anticipated taxable turnover in the next thirty day period alone).

If a business does not register at the correct time it will still be a taxable person for VAT purposes and in addition to being liable for any output tax due on its supplies it may also be liable to a penalty for late notification.

Some businesses which make, or intend to make, taxable supplies choose to register for VAT on a voluntary basis.

For further information see [How and when to register for VAT](#).

## Record keeping

Good record keeping is essential, as poorly kept records can mean that the VAT Return is prepared on the basis of inaccurate or incomplete information.

Output tax is potentially due on all supplies made for a consideration. Additionally, output tax may also be due in situations where no consideration is received - for example when any business assets are given away or put to private or non-business use. The accounting system should therefore be adequate to ensure that all relevant transactions are identified and accurately recorded.

For further information on record keeping see [Record-keeping fact sheet](#).

## Flat Rate Scheme

Smaller businesses may be authorised to use the Flat Rate Scheme (FRS) which simplifies the calculation required to complete a VAT Return. However, a number of errors may occur in operating the FRS. For example, a business may use an incorrect flat rate percentage or understate its flat rate turnover, which should include the value of all exempt supplies and dispatches to customers in other European Union (EU) states, as well as the VAT-inclusive value of all standard-rated, reduced-rated and zero-rated supplies.

## Supplies and liability

It is essential that all supplies made by a business are identified and the correct VAT treatment determined. Occasional, miscellaneous and incidental transactions can often be overlooked.

While some income (such as grants and donations) may not relate to the making of supplies by way of business and consequently be 'outside the scope' of VAT, it is important that it is recorded and the correct VAT treatment established, as it may indicate that the business has non-business activities and may not be able to reclaim VAT on any related expenditure.

A supply is only liable to UK VAT if it is made in the UK (it is 'within the scope' of UK VAT). There are specific 'place of supply' rules which determine where a supply is made for VAT purposes. These rules, particularly for services, can be complex. It is also important that supplies made outside the UK are correctly identified and recorded, as they may affect the entitlement to reclaim VAT incurred on related expenditure.

When a supply is made within the scope of UK VAT it is essential to establish and apply the correct VAT liability. There is no schedule of standard-rated supplies - a supply is standard-rated for VAT unless it is covered by the Reduced rate schedule, the Zero rate schedule or the Exemption schedule. The application of an incorrect liability is a common cause of output tax error.

For an overview of liability issues see [Rates of VAT on different goods and services](#) and [Trade sectors with special VAT rates, rules or concessions](#).

## Exports and dispatches

Goods that are exported outside the EU are eligible to be zero-rated. Similarly, supplies of goods that are sent to business customers in other EU states ('dispatches') are eligible to be zero-rated if the customer's valid EU VAT registration number is obtained and quoted on the sales invoice. However, before such supplies can be zero-rated, satisfactory documentary evidence of export or dispatch must be obtained within specified time limits.

## Credit notes and bad debt relief

Credit notes which reduce output tax are only valid for VAT purposes when issued to the customer to correct a genuine mistake or to reflect an agreed reduction in the value of the original supply. They should not be issued to adjust bad debts.

Bad debt relief (BDR) can only be claimed on debts which are more than six months old and when all necessary conditions for relief are met. Claims can often be made too early or when the conditions for relief are not fully met. A business may also overlook accounting for output tax where appropriate on payments received from debtors where BDR has previously been claimed.

## Business gifts and deemed supplies

If business assets on which input tax has been claimed are given away, or otherwise put to private or non-business use free of charge, there is generally a 'deemed supply' and output tax is due at the appropriate rate on the cost of the goods. Business gifts under £50 in value and not forming part of a series of gifts are excluded from this requirement. There are separate rules for specified assets purchased on or after 1 January 2011:

- land, buildings, and civil engineering works with VAT-bearing costs of £250,000 or more
- computers with VAT-bearing costs of £50,000 or more
- aircraft, ships, boats and other vessels with VAT-bearing costs of £50,000 or more

## Using links within the document

[Blue underlined text](#) are links within this document.

[Green bold text](#) are hyperlinks to external documents on the internet (access to the internet is necessary to view these).

We have a range of services for people with disabilities, including guidance in Braille, audio and large print. Most of our forms are also available in large print. Please contact any of our helplines if you need these services.

[hmrc.gov.uk/contactus/particular-needs.htm](http://hmrc.gov.uk/contactus/particular-needs.htm)

Client Name:

Period Ended:

## Checklist for VAT output tax

		Yes	No	N/A
<b>Record keeping</b>				
1	Have output tax records been reviewed for <a href="#">errors and omissions</a> ? <input type="text"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2	If the <a href="#">Flat Rate Scheme</a> has been used, has it been operated correctly? <input type="text"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Supplies and liability</b>				
3	Have <a href="#">all occasional and miscellaneous supplies</a> been included in the VAT Return calculation? <input type="text"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4	Has output tax been accounted for on the <a href="#">disposal of assets</a> when appropriate? <input type="text"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5	Has output tax been declared correctly on any <a href="#">self-billed invoices</a> received? <input type="text"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6	If the business undertakes cross-border transactions, have the <a href="#">place of supply</a> rules been correctly applied? <input type="text"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7	Has the business applied the correct <a href="#">VAT liability</a> to its supplies? <input type="text"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8	Have <a href="#">supplies relating to land and buildings</a> been treated correctly for VAT purposes? <input type="text"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9	If the business has <a href="#">opted to tax land and buildings</a> , has any related income been correctly treated? <input type="text"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
10	Is there <a href="#">supporting evidence for non-standard-rated supplies</a> ? <input type="text"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Yes No N/A

### Time of supply

- 11 Has output tax been declared at the [correct time](#)?
- 12 If [deposits](#) have been received, has output tax been declared when appropriate?
- 13 If the [Cash Accounting Scheme](#) is operated, has output tax been accounted for correctly?

### Value and calculation

- 14 Has output tax been [calculated](#) correctly on VAT-inclusive values, discounted amounts and mixed supplies?
- 15 Where [disbursements](#) have been itemised, have they been included in the value of the supply when appropriate?
- 16 Have [delivery charges](#) been treated correctly?
- 17 If a [retail scheme](#) is operated, has output tax been calculated correctly?

### Exports and dispatches

- 18 If [goods exported outside the European Union](#) have been zero-rated, has the specified evidence been obtained within the appropriate time limits?
- 19 If [goods dispatched to business customers in other European Union states](#) have been zero-rated, has the specified evidence been obtained within the appropriate time limits?

Yes No N/A

### Credit notes and bad debt relief

20 Have sales [credit notes](#) been correctly issued?

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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21 Have any adjustments for [bad debt relief](#) and bad debts recovered been made correctly?

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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### Business gifts and deemed supplies

22 Has output tax been accounted for on [business gifts](#) when appropriate?

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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23 Has output tax been accounted for on [assets put to private or non-business use](#)?

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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# Explanation and mitigation of risks

## Record keeping

### 1. Have output tax records been reviewed for errors and omissions?

#### **Risk**

Output tax errors can occur as a result of omission, misposting or misunderstanding when transactions are first entered in the records. In particular, sales invoices dated towards the end of a VAT Return period can sometimes be overlooked - for example if the VAT Return report within a computerised accounting system has been run before all relevant sales invoices have been posted.

#### **Mitigation**

Consider whether all relevant supplies made by the business have been identified and whether the level of calculated outputs is consistent with levels of expenditure and your understanding of the business.

A general review of output tax postings prior to submission of the VAT Return will often identify and eliminate many errors and omissions. Comparing the calculated output tax and net outputs totals, or reconciling calculated outputs values to other available turnover information (for example in management accounts), may also highlight significant omissions, as may comparing calculated output tax to the amount declared on the last return or on the return for the same period last year.

If a computer package is used to calculate VAT Return values, care should be taken to ensure that correct date ranges are set and that all relevant transactions within the VAT period date range are included.

Some computer accounting packages have integral VAT audit functions which can assist in identifying potential errors before a return is submitted.

#### **Explanation**

Common output tax errors include:

- manual, arithmetical and consolidation errors
- omitted or duplicated invoices
- sales invoices posted gross without extracting output tax on standard or reduced rate supplies
- output tax incorrectly calculated on VAT-inclusive amounts or on supplies subject to a settlement discount
- incorrect VAT liability codes being set within a computerised accounting system
- VAT and net values transposed
- sales credit notes incorrectly posted

VAT Return calculations should include all business activities of the registered person. While a business may keep separate financial records for different aspects of its business for commercial or other administrative purposes (for example a building contractor owning a number of rental properties which maintains separate records for its construction and property activities), all of its supplies should be included.

For further information on what to include in each box of a VAT Return see [VAT Returns: how to complete your VAT Return box-by-box](#).

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## 2. If the Flat Rate Scheme has been used, has it been operated correctly?

### Risk

An eligible business must receive authorisation from HMRC to operate the Flat Rate Scheme (FRS). If the tax-inclusive turnover (excluding the value of any capital assets sold) of a business operating the FRS subsequently exceeds the relevant limit - or it ceases to meet other eligibility criteria - it must leave the scheme.

A number of errors commonly occur in operating the FRS:

- using an incorrect FRS percentage
- omitting reduced-rated, zero-rated and exempt supplies from the FRS turnover to which the appropriate percentage is applied
- omitting to make necessary adjustments to the calculation if the applicable FRS percentages are changed during the course of a VAT Return period
- accounting incorrectly for output tax due on the sale of 'capital expenditure goods'

### Mitigation

Consider the tax-inclusive turnover (excluding the value of capital assets sold) and confirm that the business remains eligible to use the FRS.

If eligible, confirm that the FRS trade sector percentage appropriate to the main business activity has been used.

If the appropriate FRS percentage changes during the course of a VAT Return period (for example due to a change in the VAT standard rate), ensure that the FRS turnover for the period is separated correctly and the appropriate percentages applied. For further information see [What to do if your flat rate percentage changes](#).

For further information on FRS percentages see [Flat Rate Scheme percentage rates from 4 January 2011](#).

Confirm that the appropriate FRS percentage has been applied to the full FRS turnover, including reduced-rated, zero-rated and exempt supplies.

If applicable, ensure that the business reverts to the full FRS percentage rate at the end of its first year of VAT registration.

If 'capital expenditure goods' on which input tax has been claimed are sold while using the FRS, confirm that output tax has been declared at the appropriate VAT rate on the full value.

### Explanation

FRS turnover includes the VAT-inclusive values of all standard-rated, reduced-rated and zero-rated supplies. It also includes the value of all exempt supplies (such as property rent and sales and lottery commission) and the value of exports and dispatches to customers in other European Union states. It excludes the value of any supplies which are outside the scope of UK VAT.

If a business makes supplies included in two or more FRS trade sectors, it should apply the percentage appropriate to its main business activity as measured by turnover - it should not split its turnover or apply more than one percentage.

A newly VAT-registered business which uses the FRS is entitled to apply a one per cent reduction to its appropriate FRS percentage for the first year of its VAT registration (not the first year of using the FRS).

If 'capital expenditure goods' on which input tax has been claimed are sold while using the FRS, output tax should be declared outside of the scheme at the appropriate VAT rate on the full value. However, if a business sells assets on which input tax has not been claimed, their value should be included in the FRS turnover.

The value of outputs declared in box 6 of the VAT Return should include the VAT-**inclusive** value of flat rate turnover plus the value excluding VAT of any capital expenditure goods sold outside the FRS.

For further information see [Flat Rate Scheme for VAT](#).

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## Supplies and liability

### 3. Have all occasional and miscellaneous supplies been included in the VAT Return calculation?

#### **Risk**

It is essential that all relevant supplies made by a business are identified and output tax declared when appropriate. Many businesses make supplies outside their main trading activities. If such supplies are not invoiced or are invoiced outside the normal accounting procedures, the need to account for output tax can be overlooked. For examples of types of supply commonly omitted from VAT Return calculations see explanation below.

#### **Mitigation**

Consider whether the business has made any occasional or miscellaneous supplies and ensure that output tax has been declared when appropriate.

#### **Explanation**

Examples of supplies that can be overlooked include:

- cash sales
- sales of scrap
- incentive payments received from suppliers for meeting purchase or sales targets
- property income - see [Q8](#)
- management charges
- commissions for agency sales
- charges to sub-contractors for use of vans or tools
- supplies to staff - invoiced or by payroll deduction
- mandatory restaurant service charges (although tips and optional service charges are outside the scope of VAT if freely given)
- payphone and vending machine receipts
- recharges of costs to third parties
- disposals of assets used in the business - see [Q4](#)
- barter transactions

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## 4. Has output tax been accounted for on the disposal of assets when appropriate?

### **Risk**

Disposals of assets can often be invoiced outside the normal accounts receivable system and the need to account for output tax can consequently be overlooked. Additionally, when an asset is traded in part-exchange against the purchase of a new asset there are two transactions, a purchase and a sale, and the value of both should be accounted for in full.

### **Mitigation**

Identify any disposals of assets used in the business and ensure that output tax has been accounted for appropriately. If an asset has been part-exchanged, ensure that output tax has been accounted for in full.

### **Explanation**

When business assets are transferred as part of the transfer of a going concern (TOGC), there is normally no supply for VAT purposes and output tax should not be charged. Whether the circumstances of a particular transfer represent a TOGC for VAT purposes depends on the facts of the case. There are additional rules for new or unfinished buildings which would ordinarily be standard-rated and properties subject to an option to tax, when these form part of a TOGC..

For further information see [Public Notice 700/9 Transfer of business as a going concern](#).

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## 5. Has output tax been declared correctly on any self-billed invoices received?

### **Risk**

It is a legal requirement of VAT self-billing that the supplier and the customer have entered into a formal agreement under which the customer prepares and issues the self-billed invoice on the supplier's behalf, instead of the supplier issuing a VAT invoice for the supply. The agreement should be reviewed and renewed annually. A supplier in receipt of self-billed invoices may omit to account for the output tax shown on the self-billed invoice or incorrectly issue its own VAT invoices to customers subject to a self-billing arrangement. Self-billed transactions which are paid by direct bank transfer can also be overlooked.

### **Mitigation**

Establish whether the supplier business has entered into any self-billing arrangements. Ensure that output tax itemised on any self-billed invoices received has been correctly declared and that the correct VAT liability has been applied. Confirm that VAT invoices are not issued to customers by the supplier in respect of self-billed transactions.

### **Explanation**

VAT self-billing arrangements are commonly used where the customer is in a better position to determine the amount and value of the supply, such as scrap merchants, road haulage operators and construction businesses.

For further information on the rules relating to VAT self-billing see [Rules of self-billing](#).

A self-billing arrangement does not remove the supplier's responsibility to apply the correct VAT liability to its supplies. If a zero-rated or reduced-rated self-billed invoice is received, the supplier should confirm that this liability is correct. This can be a particular issue in the course of some construction projects, where zero rating through the issue of a certificate is restricted to the main contractor.

An arrangement similar to self-billing is based on the issue of 'authenticated receipts' and is used in the construction industry. The tax point for the supplier is the date that payment is received. The supplier is required to return a signed ('authenticated') copy of the receipt for the customer's input tax purposes.

For further information on self-billing see [Self-billing and VAT](#).

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## 6. If the business undertakes cross-border transactions, have the place of supply rules been correctly applied?

### Risk

The majority of businesses make most of their supplies to UK customers and their supplies are generally within the scope of UK VAT. However, supplies involving an overseas customer, or supplies of goods or certain services which take place outside the UK, may be outside the scope of UK VAT.

The VAT place of supply rules determine whether an individual supply is within the scope of UK VAT and whether output tax is therefore chargeable at the appropriate rate. The rules for the place of supply of services in particular can be complex, and it is important to establish the business status of the customer, the location of the customer and the exact nature of the services performed to identify the correct treatment.

### Mitigation

Establish whether there have been any transactions involving an overseas customer or supplies of goods or services taking place outside the UK, and ensure that the correct place of supply has been established and applied.

The correct application of the VAT place of supply rules may produce a different result to normal accounting treatment. Some transactions that are regarded as taking place in the UK for normal accounting purposes may, under VAT rules, be treated as being made elsewhere - and vice versa.

### Explanation

While there are general rules to determine where a supply takes place for VAT purposes, there are important exceptions to these, particularly in respect of services.

For further guidance on the place of supply rules for VAT see [Place of Supply - Goods Manual \(VATPOSG\)](#) and [Place of Supply - Services Manual \(VATPOSS\)](#).

The general place of supply rule for **goods** is that they are supplied where they are located. Consequently goods located in the UK are generally supplied within the scope of UK VAT even if the customer belongs outside the UK. There are exceptions to this rule relating to supplies of gas, electricity, heating and cooling, which are all classified as goods for VAT purposes.

The general place of supply rule for supplies of **services to business customers** (known as 'B2B') is that they are supplied where the customer belongs, while supplies of **services to non-business customers** (known as 'B2C') are generally supplied where the supplier belongs. 'Non-business customers' include private individuals, bodies such as charities and government departments which have no business activities and 'persons' receiving a supply for wholly private purposes. There are, however, significant exceptions to both the general B2B and B2C rules.

Supplies of most goods and services to UK customers and to non-business customers in other European Union (EU) member states are therefore within the scope of UK VAT and are subject to output tax at the applicable rate.

## Goods

The main types of supply of goods that are outside the scope of UK VAT are:

- supplies of goods which remain outside the UK throughout the transaction - even when both parties to the transaction are themselves in the UK
- supplies of goods installed or assembled outside the UK
- 'distance sales' of goods to non-VAT registered customers in another EU member state when the cumulative value of such supplies in a calendar year exceeds the 'distance selling' turnover limit specified by that state - the place of supply of goods in these circumstances is the member state in question and the UK supplier is required to register for VAT in that state and to account for local VAT

For further guidance see [VATPOSG3530](#).

## Services

The main types of supply of services that are outside the scope of UK VAT are:

- supplies of most services (other than specified exceptions) when they are supplied to business customers belonging outside the UK (applying the general B2B rule)
- supplies of certain services to non-business customers belonging outside the EU (which are supplied where the customer belongs)
- supplies of services relating to land, admission to events, and hotel accommodation and catering outside the UK which are supplied where the land is located, where the event takes place or where the hotel or catering service is provided, even when the customer belongs in the UK - such services supplied in the UK are within the scope of UK VAT irrespective of where the customer belongs
- supplies to non-business customers of services involving physical performance outside the UK, which are supplied where that physical performance takes place
- supplies to non-business customers of services of the transport of goods when that transportation takes place outside the UK - however, the intra-EU transport of goods is supplied in the EU member state where the movement of the goods commences

There are separate rules to determine the place of supply of services involving:

- passenger transport
- agents and intermediaries
- the hiring of means of transport
- telecommunications, radio and television broadcasting, and electronically supplied services

For further guidance on the place of supply of services see [Place of Supply - Services Manual](#).

A business supplying B2B services to business customers in other EU states is required to complete an EC Sales List for any calendar quarter in which such supplies occur. For further information on EC Sales Lists see [Reporting your EU sales using the EC Sales List \(ESL\)](#).

If a business makes supplies of goods or services outside the UK, those supplies may be subject to the local equivalent of VAT where they are supplied. It should be noted that there is normally no threshold for VAT registration for UK businesses supplying in other EU member states.

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## 7. Has the business applied the correct VAT liability to its supplies?

### Risk

The application of an incorrect VAT liability is a common cause of output tax error. While many businesses supply a consistent range of goods and services and encounter little difficulty in determining the correct VAT liability to apply, the liability of some supplies may be less clear-cut. Where the range of goods and services supplied is less settled, a business may need to establish the correct VAT liability for each individual supply.

In addition, if a business makes or intends to make exempt supplies, it is likely to be partly exempt and may not be able to recover all the input tax that it incurs in relation to those supplies.

### Mitigation

Consider the VAT liability applied to supplies, in particular where new products have been supplied or new projects commenced, and ensure that output tax has been accounted for at the correct rate when appropriate. For further information on VAT liability see [Rates of VAT on different goods and services](#).

If the business makes or intends to make exempt supplies ensure that a partial exemption calculation is carried out if appropriate. For further information see [Exempt and partially exempt businesses for VAT purposes](#).

### Explanation

There is no list of standard-rated supplies - a supply is standard-rated for VAT unless it is covered by the Exempt, the Reduced rate or the Zero rate schedule. See section 29 of [Public Notice 700 The VAT Guide](#)

For liability issues relating to land and buildings see [Q8](#).

If the business has opted to tax land and buildings see [Q9](#).

The correct application of the reduced rate, the zero rate or exemption may depend on certain evidential conditions being met - see [Q10](#).

Where a single price is charged for separate supplies of goods and/or services with different VAT liabilities, a 'mixed supply' occurs. In such cases the consideration should be fairly apportioned between the components at different rates. Supplies representing a single economic aim should not, however, be artificially separated into component parts with different liabilities. For further guidance see [Supply and Consideration Manual \(VATSC\) VATSC80000](#).

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## 8. Have supplies relating to land and buildings been treated correctly for VAT purposes?

### Risk

Supplies of land and buildings and the related VAT liability issues can be complex. While such supplies are generally exempt from VAT, there are significant exceptions. For example a business may have opted to tax some or all of the land and buildings in which it has an interest. If such transactions are overlooked, or an incorrect VAT liability applied, output tax can be declared incorrectly and/or input tax claimed in error.

Additionally, if exempt supplies of land and buildings are made or anticipated, a business is likely to be partly exempt and may not be able to recover the related input tax.

## Mitigation

Establish whether the business has made supplies relating to supplies of land and buildings during the period. If so, ensure that the correct VAT liability has been identified and applied. Where the business has opted to tax some or all of the land and buildings in which it has an interest see [Q9](#).

Where a business issues property rental invoices, confirm that any ancillary charges (such as insurance, service charges or rates) have been correctly treated for VAT purposes. In general terms, such charges should follow the liability of the rental supply itself - for further information see paragraph 11.7 of **Public Notice 742 Land and property**.

If the business makes or intends to make exempt supplies, ensure that a partial exemption calculation is carried out if appropriate. For further information see **Exempt and partially exempt businesses for VAT purposes**.

## Explanation

Supplies which grant a right over land or a licence to occupy land are generally exempt from VAT (unless an option to tax has been made, see Q9 below). There are, however, significant exceptions in relation to new buildings, dwellings and buildings for charitable or other residential use.

For further information see section 3 of **Public Notice 742 Land and property**.

Additionally, some property supplies are always standard-rated:

- gaming, fishing and timber rights
- hotel and holiday accommodation, seasonal caravan pitches and camping facilities
- parking and the storage or mooring of ships or aircraft

For further information on land and buildings see **Public Notice 742 Land and property**.

For further information on partial exemption see **Exempt and partially exempt businesses for VAT purposes**.

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## 9. If the business has opted to tax land and buildings, has any related income been correctly treated?

### Risk

Although many land transactions are exempt from VAT, a business may choose to opt to tax its interest in a particular piece of land. For VAT purposes the term 'land' includes buildings. For an option to tax to be valid, a business must both decide to opt to tax a particular piece of land and notify that option to HMRC in writing. Once a business has opted to tax an individual piece of land or building, it must normally treat any supplies it makes in relation to it as standard-rated and account for output tax on any related income. A business may overlook an option to tax that it has made and omit to account for output tax when appropriate.

An option to tax relates to an individual business's interest in land. It is a common misunderstanding for a business to assume that an individual building is itself 'opted' and that if their landlord has charged VAT on rent, then any sub-let they make is also automatically subject to VAT. In such circumstances the sub-let is exempt unless the business itself opts to tax.

For further information on option to tax procedures and a range of necessary forms see **Public Notice 742A Opting to tax land and buildings**.



## **Mitigation**

Where a business has opted to tax land or buildings, confirm that a valid notification of the option to tax has been made, namely that the business has taken a conscious decision to opt and has subsequently notified that decision. Also any resultant output tax has been declared on related income where appropriate.

To ensure that any options to tax which are made are not overlooked, it is recommended that the business maintains a list of the land and buildings it has opted to tax, recording the details of both the properties in question and the date on which the decision to opt was made or permission to opt was received.

## **Explanation**

In some circumstances an option to tax is not effective and the supply remains exempt. For example, an option is not effective if land or buildings are to be used for certain residential or charitable purposes, or in relation to certain supplies between connected persons when the lessee is not able to recover all the VAT it incurs on its expenditure.

In some circumstances a business needs to apply to HMRC for permission to opt to tax. For example, if a business has made exempt supplies of the land and buildings during the 10 years prior to the date the option takes effect or alternatively it intends to make exempt supplies of the land and buildings after the option is to take effect.

For further information on option to tax procedures and a range of necessary forms see **Public Notice 742A Opting to tax land and buildings**.

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## **10. Is there supporting evidence for non-standard-rated supplies?**

### **Risk**

If a business treats any of its supplies as reduced-rated or zero-rated, exempt from VAT or outside the scope of VAT, sufficient evidence should be retained to demonstrate that the treatment applied is correct.

For certain supplies there are specified evidential requirements - see explanation.

### **Mitigation**

If reduced-rated, zero-rated, exempt or outside the scope supplies are made, consider whether sufficient evidence is held to support the treatment applied. Where certificates or eligibility declarations are specified, ensure that these have been obtained and retained.

### **Explanation**

A business should consider the evidence it has to support the VAT liability it has applied to its supplies. For example, if a builder has supplied zero-rated or reduced-rated construction services, it should consider retaining copies of relevant building plans, planning permission and any other relevant supporting documents.

In certain circumstances there are specified evidential requirements before a supply can be correctly zero-rated or reduced-rated. For goods that are exported outside the European Union (EU) or dispatched to another EU state - see [Q18](#) and [Q19](#).

Certificates are required to support the zero rating of the construction of a relevant residential or a relevant charitable building. Relevant residential purposes generally relate to a range of institutional accommodation other than dwellings. Relevant charitable purposes relate to the non-business activities of a charity or village halls and similar buildings operated by a charity. Certificates are also required in respect of reduced rate residential conversions to be used for a relevant residential purpose. Certificates are issued by the developer and permit zero rating by

the main contractor only - their sub-contractors must standard rate their charges. For further information see section 16 of **Public Notice 708 Buildings and construction**.

Certain goods and services are eligible for zero rating when supplied to disabled persons or to charities for the use of disabled persons. There is no general relief from VAT for all supplies to disabled persons and the eligibility of an individual supply should be checked carefully. The supplier should ask individuals and charities to provide a written declaration stating their eligibility. For further information and a suggested eligibility declaration see **Equipment and vehicles for disabled people might be free of VAT**.

- The purchase with charitable or donated funds by an eligible body of certain equipment for medical, scientific and similar use may be zero-rated. It is recommended that the supplier asks customers to provide a written declaration of eligibility. For further information see **Public Notice 701/6 Charity funded equipment for medical, veterinary etc uses**
- Some goods and services supplied to visiting US and NATO forces for official purposes may be relieved from VAT. For further information on eligible supplies and evidential requirements see **Public Notice 431 Visiting Forces**

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## Time of supply

### 11. Has output tax been declared at the correct time?

#### Risk

A business needs to ensure that output tax is declared at the correct time. While the correct tax point will often be the date that an invoice is issued, this is not always the case. In particular, the need to account for output tax on advance or stage payments received before an invoice is issued can be overlooked.

#### Mitigation

Ensure that all relevant transactions have been included in the appropriate return period. In particular, if advance and stage payments have been received confirm that output tax has been declared at the correct time if appropriate.

#### Explanation

The tax point ('time of supply') is the time at which output tax must be declared. The basic tax point for **goods** is usually the date when they are sent to or removed by the customer, or, if the goods are supplied without being moved, when they are made available for the customer's use. The basic tax point for **services** is the date when the service is performed and is normally taken as the date when all the work except invoicing is completed.

The basic tax point is, however, overridden and an actual tax point created if a business either issues a VAT invoice or receives a payment before the basic tax point, or issues a VAT invoice up to 14 days after the basic tax point.

If a business supplies services (or some types of goods such as water, electricity and gas) on a continuous basis or under a contract which provides for stage payments, a tax point is created every time it issues a VAT invoice or receives a payment, whichever happens first. If a business issues 'requests for payment' or similar documents which are not VAT invoices, it should issue a VAT invoice when payment is received.

Where appropriate, a VAT invoice must be issued within 30 days of an actual or payment tax point occurring.

Businesses which for commercial reasons wish to issue sales invoices periodically (for example to issue a single invoice to each customer at the end of each month) may apply to HMRC for approval to use what is known as an 'accommodation' tax point.

If the payment for a supply is in the form of an adjustment in annual accounts (for example in respect of management charges), the tax point is the date the accounts are approved, provided no previous tax point has occurred.

For further information on time of supply see [When transactions take place for VAT purposes](#).

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## 12. If deposits have been received, has output tax been declared when appropriate?

### Risk

The term 'deposit' is often used to describe a payment received in advance of the making of a supply. Deposits that are intended to be set off against the full purchase price create a tax point when received and output tax should be declared when appropriate.

If, however, a deposit is taken as security for the safe return of an item (for example against tool or equipment hire) it does not create a tax point. Forfeited security deposits represent compensation and no output tax is due.

### Mitigation

Establish whether the business has taken any deposits. If so, confirm that output tax has been accounted for when appropriate.

### Explanation

Where a deposit is refunded, for example if a contract is cancelled by agreement before any supply or part-supply is made, any output tax initially declared can be reversed. If a deposit is forfeited before a supply is made, it generally represents compensation for breach of contract (which is outside the scope of VAT) and any initial output tax declaration can be reversed.

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## 13. If the Cash Accounting Scheme is operated, has output tax been accounted for correctly?

### Risk

While the calculation of output tax under the Cash Accounting Scheme is usually straightforward, a number of errors commonly occur:

- continuing to use Cash Accounting when the scheme's taxable turnover tolerance limit has been exceeded
- calculating output tax by applying the VAT fraction to a payment which is received net of deductions such as Construction Industry Scheme deductions or agents' commissions
- omitting to declare output tax on barter or contra transactions

The tax period in which a business joins or leaves the Cash Accounting Scheme presents a particular risk, as the necessary transitional adjustment can be overlooked or miscalculated, resulting in the duplication or omission of output tax.

## Mitigation

Confirm that the business remains eligible to use the Cash Accounting Scheme and that the scheme has been operated correctly. If the business joins the Cash Accounting Scheme in a period, review the calculation to ensure that output tax declarations are not duplicated on supplies previously accounted for on an invoice basis. Equally, when a business leaves the Cash Accounting Scheme, ensure that output tax is accounted for on the next return in respect of any unpaid invoices.

## Explanation

If a business adopts the Cash Accounting Scheme, it must use it for the whole of its business except:

- goods sold under lease purchase, hire purchase or similar terms
- where the business issues a VAT invoice for which full payment is not due within six months of the date of issue
- where the business issues a VAT invoice in advance of making the supply

Output tax on such supplies should be accounted for under the normal tax point rules.

The acquisition of goods from suppliers in other European Union states and the purchase of other goods subject to a mandatory reverse charge must also be accounted for outside the Cash Accounting Scheme.

The tax point for sales by credit or debit card is when the relevant sales voucher is issued, not when payment is subsequently received from the bank or institution issuing the card. Cheque payments are deemed to be received on the date that the cheque is received or the date shown on the cheque, whichever is later.

For further information on the Cash Accounting Scheme see [Cash Accounting Scheme for VAT](#).

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## Value and calculation

### 14. Has output tax been calculated correctly on VAT-inclusive values, discounted amounts and mixed supplies?

#### Risk

In most cases the output tax due on a supply is calculated by applying the appropriate percentage to a price that has first been decided without VAT and the VAT invoice shows these separate amounts. However, output tax sometimes has to be calculated from a payment received or from a price in which the VAT is already included. Output tax due on a VAT-inclusive price is calculated by applying the VAT fraction to the amount charged, not by multiplying by the relevant percentage rate.

The calculation of output tax can be more complicated when discounts are offered, or a single price is charged for a number of supplies with more than one VAT liability (a 'mixed supply') See explanation below.

## **Mitigation**

Ensure that the VAT fraction has been applied correctly to calculate output tax due on VAT inclusive amounts. Confirm that output tax has been calculated correctly, particularly when discounts are offered or the business makes supplies with more than one liability.

For further information on calculating output tax and using the VAT fraction see [Calculating VAT for VAT-inclusive and VAT-exclusive prices](#).

## **Explanation**

If a business offers a discount on condition that the customer pays within a specified time, output tax is calculated on the discounted amount even if the customer does not take up the offer.

A 'mixed supply' occurs where a single price is charged for separate supplies of goods and/or services with different VAT liabilities. In such cases the consideration should be fairly apportioned between the components at different rates. Supplies representing a single economic aim should not, however, be artificially separated into component parts with different liabilities. For further guidance see [VATSC80000](#).

There is a special scheme for businesses dealing in some second hand goods under which output tax is calculated with reference to the difference between purchase and sales prices. For further information see [VAT margin schemes for second-hand goods, art, antiques etc](#).

Businesses buying in items such as passenger transport and accommodation for resale as a package are required to account for these under the Tour Operators Margin Scheme. For further information see [Public Notice 709/5 Tour Operators Margin Scheme](#).

If a transaction is conducted in a foreign currency, monetary values must be converted to sterling for VAT purposes. For further information see [Foreign currency transactions and VAT](#).

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## **15. Where disbursements have been itemised, have they been included in the value of the supply when appropriate?**

### **Risk**

In some professions (such as accountancy and law) it is common for the supplier's incidental costs to be separately identified as 'disbursements' on sales invoices. If these costs have been incurred by the business in the course of making its own supply (for example its own travel and subsistence costs), they must be included in the value of that supply when calculating output tax.

If, however, the business merely pays amounts to third parties as the customer's agent and recharges the precise amounts paid out (for example a solicitor paying Stamp Duty on a client's behalf) it may be able to treat them as disbursements for VAT purposes and exclude their value when calculating output tax.

### **Mitigation**

Ensure any disbursements have been correctly treated for VAT purposes.

### **Explanation**

For further information on disbursements see [Costs passed on to clients - disbursements and VAT](#).

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## 16. Have delivery charges been treated correctly?

### Risk

If a business makes a charge for the delivery of goods ('postage and packing') and the terms of the contract require that the goods are delivered or posted, there is no separate supply of delivery, even if the charges are separately itemised, and the delivery charges follow the VAT liability of the delivered goods. For example, in these circumstances UK delivery charges for newspapers or books will be zero-rated while those for chocolates or flowers will be standard-rated.

While some delivery charges made by the Post Office are themselves exempt from VAT, their onward supply in connection with delivered goods should not generally be treated as an exempt disbursement.

### Mitigation

If delivery charges have been made, confirm that output tax has been declared appropriately.

### Explanation

If a business makes a separate contractual arrangement to deliver goods (for example, if an optional delivery service is available at extra charge to a customer requesting it) or arranges to deliver somebody else's goods, there is a separate supply of delivery services which is standard-rated to UK addresses.

If a business sells unused and valid UK postage stamps at face value, the supply is exempt.

For further information on delivery charges see [Public Notice 700/24 Postage and delivery charges](#).

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## 17. If a retail scheme is operated, has output tax been calculated correctly?

### Risk

A business which makes retail sales and cannot reasonably be expected to account for output tax on the normal invoice basis is eligible to use one of a range of retail schemes to calculate its output tax. All standard retail schemes have upper turnover limits for their use. A business which exceeds the turnover limit for the retail scheme it employs must change to a scheme for which it is eligible. A business which is not eligible to use a standard retail scheme must agree a 'bespoke' retail scheme with HMRC or account for output tax in the normal way.

All retail schemes require that a detailed record of daily gross takings (DGT) is kept. This must record each individual transaction as it occurs, including any necessary adjustments for items such as goods taken for own use.

Common errors in operating retail schemes include:

- understating the DGT as a result of cash payments and drawings made from the till
- continuing to use a standard retail scheme when the relevant turnover limit has been exceeded
- not accounting for output tax due on non-retail sales (such as commissions and wholesale transactions) outside the scheme
- incorrectly identifying and recording the liability of sales made under the Point of Sale Scheme. This may be due to staff error, mislabelling or setting an incorrect VAT liability within an electronic pricing system
- not carrying out an annual adjustment calculation when required
- using inaccurate or outdated mark-ups to calculate expected selling prices

## Mitigation

If a retail scheme is used, confirm that the business is eligible to use it. Ensure that an adequate DGT record is retained and that the output tax due has been calculated correctly. If the retail scheme operated by the business specifies an annual adjustment, ensure that it is carried out on the appropriate VAT Return.

## Explanation

If a business operates a retail scheme and makes adjustments to its DGT (for example, a newsagent in respect of newspaper delivery charges), a record of how the amount is calculated should be retained and the basis of the adjustment reviewed to ensure that it remains accurate.

An adaption of the Point of Sale Scheme is available to catering businesses with a taxable turnover of less than £1million which are unable to record the liability of each transaction as it occurs. This adaption specifies that a new representative sample of supplies at different rates - for example hot takeaway and cold takeaway food sales - should be taken for each return period.

If goods for resale are destroyed or stolen prior to their supply, appropriate evidence such as insurance claims or police reports should be retained. If business takings are stolen after a supply has been made, output tax should not be reduced.

For further information on all retail schemes see [VAT retail schemes](#).

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# Exports and dispatches

**18. If goods exported outside the European Union have been zero-rated, has the specified evidence been obtained within the appropriate time limits?**

## Risk

When goods are exported outside the European Union (EU) they can be zero-rated. However, in order to zero-rate the supply businesses are required to obtain and retain, within set time limits, satisfactory commercial or official evidence that the goods in question have been exported.

A supply of goods to another UK business, or to an overseas business also established in the UK, which is then responsible for their export, cannot be zero-rated as an export. The appropriate rate of UK VAT should be charged.

## Mitigation

Ensure that satisfactory evidence of export has been obtained within the appropriate time limits. Particular care needs to be taken when the customer or the customer's agent is responsible for collecting the goods.

## Explanation

Satisfactory commercial evidence of export would include original commercial transport documentation such as road transport documents (CMRs), certificates of shipment, or air and sea waybills.

Alternatively a business can obtain official evidence in the form of a goods departed message (GDM), a Single Administrative Document (SAD) endorsed by Customs at the point of exit from the EU, or the confirmation of the discharge of a New Computerised Transit System (NCTS) movement. For further information on types of export evidence see sections 5 and 6 of [Public Notice 703 VAT: Export of goods from the United Kingdom](#).

Official or commercial evidence must clearly identify the goods, the supplier, the value, the destination, the mode of transport and the route of the movement. It must be supported by supplementary evidence such as original orders, correspondence, insurance and payment documentation.

Businesses are required to obtain necessary official or commercial evidence of the export within three months (this time limit is extended to six months where the goods are sent for processing or incorporation prior to export). If it is not obtained within these time limits, output tax must be declared. If valid evidence of export is subsequently obtained, an appropriate output tax adjustment may be made on the VAT Return covering the date on which the evidence is received.

For further information see **Exports, dispatches, supplying goods abroad: charging VAT**.

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## 19. If goods dispatched to business customers in other European Union states have been zero-rated, has the specified evidence been obtained within the appropriate time limits?

### Risk

When goods are delivered ('dispatched') to business customers in other European Union (EU) states they can be zero-rated. However, in order to zero-rate the supply the supplier must obtain and retain, within set time limits, satisfactory commercial evidence that the goods in question have been dispatched. Additionally, the supplier must obtain the customer's valid VAT registration number (including the 2-letter country prefix code) and show this on its sales invoice.

### Mitigation

Ensure that satisfactory evidence of zero-rated dispatches has been obtained within the appropriate time limits. Particular care needs to be taken when the overseas customer or the customer's agent is responsible for collecting the goods.

Ensure that sales invoices for EU dispatches quote the customer's valid EU VAT registration number. To check the validity of a quoted EU VAT registration number see **VIIES VAT number validation**.

### Explanation

Satisfactory commercial evidence of dispatch should include original commercial transport documentation from the carrier responsible for removing the goods from the UK, such as road transport documents (CMRs), certificates of shipment, or air and sea waybills. The evidence must clearly identify the goods, the supplier, the value, the destination, the mode of transport and the route of the movement. It must be supported by supplementary evidence such as original orders, correspondence, insurance and payment documentation.

Necessary commercial evidence of dispatch must be obtained within three months (this time limit is extended to six months where the goods are sent for processing or incorporation prior to dispatch). If it is not obtained within these time limits, output tax must be declared. If valid evidence of export is subsequently obtained, an appropriate output tax adjustment may be made on the VAT Return covering the date on which the evidence is received.

For further information see section 5 of **Public Notice 725 The single market**.

If goods are supplied to private individuals and other persons who are not registered for VAT in other EU member states, output tax at the appropriate UK rate should normally be charged. However, if the cumulative value of such supplies in a calendar year to customers in another EU state exceeds the turnover threshold specified by that state, the supplier is required to register for VAT in the EU state in question. This is generally known as 'distance selling'.



Businesses making zero-rated dispatches to customers in other EU states are also required to complete EC Sales Lists. For further information see [Reporting your EU sales using the EC Sales List \(ESL\)](#). Additionally, businesses making EU dispatches above a set threshold must also provide more detailed information on Intrastat Supplementary Declarations - for further information see [Intrastat](#).

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## Credit Notes and bad debt relief

### 20. Have sales credit notes been correctly issued?

#### Risk

A sales credit note may be raised incorrectly or reduce output tax when this is not appropriate. For example:

- a credit note is raised but it is not issued to the customer
- a credit note is issued that shows an amount of output tax when the original invoiced supply was zero-rated or exempt
- a credit note is incorrectly issued to adjust for a bad debt - see [Q21](#)
- a credit note reducing output tax is posted when the output tax charged on the original invoice was not actually declared

#### Mitigation

Ensure that any sales credit notes have been correctly issued and that the VAT treatment is consistent with the original sales invoice.

#### Explanation

To be valid for VAT purposes a credit note must:

- be issued to the customer
- reflect a genuine mistake or overcharge or an agreed reduction in the value of the original supply and normally be issued within one month of this being discovered or agreed
- give the customer value in terms of a genuine entitlement to a refund or an offset against the value of future supplies
- include an explanation of the reason for its issue and details of the original sales invoice credited

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### 21. Have any adjustments for bad debt relief and bad debts recovered been made correctly?

#### Risk

VAT bad debt relief (BDR) claims are often made too early or when the conditions for relief are not fully met. In addition, if full or part payment is received after BDR has been claimed, the need to account for the related output tax may be overlooked.

#### Mitigation

Review BDR claims to ensure that the scheme conditions are met. Ensure that output tax is accounted for when appropriate on any payments received from debtors for which BDR has been previously claimed. Any payments received from a customer should generally be allocated to their oldest outstanding debt. However, if the customer specifies that a payment is for a particular supply and pays for that supply in full, the payment should be allocated to that supply.

## Explanation

When a supply on which output tax has been declared remains unpaid six months after the date of supply or the due date for payment (whichever is the later), a business is generally entitled to claim BDR. The conditions for claiming BDR are:

- the output tax in question has been declared and paid.
- the debt has been written off in the day-to-day accounts and transferred to a separate bad debt account.
- the value of the supply must not be more than the customary selling price.
- the debt must not have been paid, sold or factored under a valid legal assignment

If only the VAT element of an invoice is disputed and remains unpaid (for example if the liability applied to a supply is challenged by the customer), BDR cannot be claimed on the whole of the disputed VAT amount. The part payment received represents VAT-inclusive consideration, so only the VAT element of the unpaid amount (calculated by applying the VAT fraction to it - see [Q14](#)) is eligible for relief.

For further information on bad debt relief see [Bad debts: how to reclaim the VAT](#).

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## Business gifts and deemed supplies

### 22. Has output tax been accounted for on business gifts when appropriate?

#### Risk

Business gifts are given in a wide range of situations such as seasonal gifts to trade customers or long service awards and retirement gifts to employees. Output tax is generally due on the cost of all business gifts on which input tax is recoverable. However, output tax is not due if the cost of the gift and any others given to the same recipient doesn't exceed £50 in the same year.

#### Mitigation

Review records for evidence of business gifts and ensure that output tax has been accounted for when appropriate.

#### Explanation

If an item is purchased to be given to a relative or friend it is not generally a business gift and output tax is due irrespective of the value.

For further information see [Business entertainment, business gifts and benefits](#).

Output tax is generally not due on promotional business samples given free of charge. For further information see [VATSC03500](#).

If a business offers goods or services as a 'gift' on condition that someone buys something or otherwise provides something in return, they are not true gifts for VAT purposes and may constitute a barter transaction. For further information see [Discounts, vouchers, special offers and VAT](#).

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## 23. Has output tax been accounted for on assets put to private or non-business use?

### **Risk**

When a business asset on which input tax has been claimed is put to private or non-business use, either permanently or temporarily, there is normally a 'deemed supply' for VAT purposes and output tax should be declared on the cost of the supply. If the change of use is permanent, the deemed supply is one of goods. If the change is temporary the deemed supply is one of services. For example, if an office computer is put to private use or an extension to a private dwelling originally designated as an office is re-designated as a bedroom, a deemed supply occurs and output tax is due.

### **Mitigation**

Establish whether any business assets have been put to private or non-business use. If so, ensure output tax is accounted for appropriately.

For further information on how to value a deemed supply and on when output tax should be declared see [Private use of goods or services, self supply and VAT](#).

### **Explanation**

If input tax has been apportioned at the time of purchase to reflect anticipated private or non-business use, no subsequent output tax adjustments are required to reflect temporary private or non-business use (unless the input tax was incurred on or after 1 January 2011 and the asset in question is subject to the Capital Goods Scheme (CGS) - see below).

Where input tax recovery is not allowed - for example in respect of most cars available for private use or business entertainment expenditure - no subsequent output tax adjustments are required.

Some assets having mixed business and private use (or exceptionally use wholly outside the purposes of the undertaking) may be accounted for under the 'Lennartz approach' The Lennartz approach allows a business purchasing an asset with mixed business and private use to claim input tax in full at the time of purchase and to account for output tax over the specified life of the asset to reflect the full cost of that use. With effect from 1 January 2011 the Lennartz approach cannot be adopted in respect of the purchase of land, buildings, aircraft, ships, boats and other vessels.

For specified assets purchased on or after 1 January 2011 which are covered by the CGS, input tax adjustments are required to reflect changes in levels of non-business and private use as well as changes in levels of taxable and exempt use. From 1 January 2011 the CGS applies to purchases of land, buildings and civil engineering works with VAT-bearing costs of £250,000 or more, and purchases of aircraft, ships, boats, other vessels and computers with VAT-bearing costs of £50,000 or more.

For further information on the January 2011 changes see [Revenue & Customs Brief 53/10](#).

Output tax may also be due on stocks and assets on hand when a business cancels its VAT registration - for further information see [Accounting for VAT when your registration is cancelled](#).

There are special rules for private use of cars and fuel provided for cars - for further information see [Cars and motoring expenses: reclaiming VAT](#).

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