

## **VAT capital goods scheme**

The VAT capital goods scheme affects input tax recovery in relation to high value capital assets by partially exempt traders and businesses where assets are used for both business and non-business purposes. The scheme aims to correct the amount of VAT recovered when the use of the asset in later years varies from that in the year of purchase, so over the adjustment period the VAT recovered reflects the actual use of the asset over that period.

The scheme does not apply to assets acquired for resale or any used for non-business purposes.

### **Assets included in the capital goods scheme**

The capital goods scheme applies to:

- land, buildings and civil engineering work;
- computers and computer equipment;
- aircraft, ships, boats and other vessels.

### **Land, buildings and civil engineering work**

The capital goods scheme must apply where expenditure of at least £250,000 (excluding VAT) has been incurred on:

- buying land, a building or part of a building, or civil engineering work;
- constructing a building or civil engineering work;
- refurbishing, fitting out, altering or extending a building or civil engineering work (such as roads, bridges, installation of pipes for connecting mains services, etc).

### **Computer and computer equipment**

As far as computers and computer equipment are concerned, the capital goods scheme only applies to individual items costing at least £50,000 (excluding VAT); VAT on smaller items can be reclaimed in the usual way. For example, a network costing more than £50,000 would not be within the scheme if the cost of each individual item is less than £50,000. Likewise, the scheme does not apply to computerised equipment, even if it cost more than £50,000.

### **Aircraft, ships, boats and other vessels**

The capital goods scheme applies where more than £50,000 (excluding VAT) is spent on purchasing, constructing, refurbishing, fitting out, altering or extending an aircraft, ship, boat or other vessel.

### **Adjustments under the scheme**

The VAT that can be reclaimed depends on the extent to which the asset is used over the adjustment period. The adjustment period is made up of 'intervals'. The number of intervals depends on the type of asset, as follows:

- computers: 5 intervals;
- ships and aircraft: 5 intervals;
- all other capital items: 10 intervals.

The first interval starts on the day on which the asset is first used and ends on the day before the start of the next partial exemption tax year. Subsequent intervals are normally in line with the partial exemption tax year.

The input tax is recovered in the first interval in the normal way. An annual adjustment is needed for subsequent intervals if the extent to which the asset is used in making taxable supplies is different to that in the first interval.

To calculate the adjustment required, it is necessary to determine the baseline recovery percentage (BRP). This is the deductible percentage of the input tax as a percentage of the total VAT on the asset. In later years, the recovery is adjusted for any changes in the partial exemption recovery percentage. VAT Notice 706/2 explains the adjustment calculation in detail.

### **Adjustment returns**

The adjustments are made annually on the second return following the partial exemption year end to which the adjustment relates.

**Partner note:** *Capital goods scheme* (VAT Notice 706/2)