



# M+A Partners

## Reclaiming VAT and Private Proportions

- + Chartered Accountants
- + Tax Specialists
- + Business Advisers

The VAT rules for items that are for both business and personal usage can initially appear relatively straightforward, with the key stipulations being:

- + You can reclaim VAT on items you buy for use in your business, if you're VAT registered; and
- + If any items are also for personal use, you can only claim the business proportion of the VAT.

Essentially, for VAT purposes, the item is treated as if it were two assets – one within the business (the included part) and one outside it (the excluded part).

However, this seemingly simple rule is subject to some more complex conditions and specific exemptions.

### Methods for recovering VAT

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Businesses do have options when it comes to the method of calculating VAT on mixed use assets – the important part is deciding how to treat them at the time VAT is incurred on purchasing the asset. This will determine the extent to which the business can recover VAT, subject to any business use for making exempt supplies.

#### No recovery of input VAT

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Sometimes the decision is made not to include an asset within a business and therefore not recover any VAT incurred on the asset. This may be determined by simplicity of process, or if the business use of an asset is minimal or the amounts of tax involved are insignificant.

Once a business has made this choice, it cannot revisit the VAT that it incurred on the asset, even if the level of business use later increases.

## The Lennartz method

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If a business incurs expenditure on assets or goods that are going to be used for mixed business and private purposes, it has the option of treating the asset as wholly business for VAT purposes.

**Assets or goods can be treated as business for VAT purposes, despite them having mixed business and private use, if they are not related to:**

- + Business entertaining;
- + New cars (in most cases); or

**Incurred in relation to buying, constructing, or making:**

- + Immovable property (land, buildings and civil engineering works);
- + Ships, boats or other vessels; and
- + Aircraft.

This option is called the Lennartz mechanism and enables businesses to have full and immediate deduction of the VAT incurred. The VAT is then accounted for on the private use of the business asset in each prescribed VAT return period for the useful economic life of the asset, or a maximum of 5 years (whichever is less).

If the Lennartz mechanism is adopted, VAT will be due in full if the asset is disposed of. The reason for this is because the input tax on the purchase was claimed in full, even though part of the input tax was subsequently paid out as output tax (based on the private use), therefore you are required to charge VAT on the whole sale price of the asset.

## Apportioning the input tax

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Most of the time, if a business pays VAT on assets it intends to use for business and non-business or private purposes, it will have to apportion the VAT incurred. The business can then only recover the part that related to business use (subject to any partial exemption restriction).

Dividing the cost of something between business and private use is called 'apportionment'.

There is no law as to how the apportionment is arrived at. The only legal requirement is that there should be an apportionment that fairly and reasonably reflects the different purposes to which the goods or services are put. Ordinarily, a business will not propose a detailed method of apportionment, but will round in percentage terms based on a sample period.

**Examples of apportionment would be:**

- + You are a sole trade or partnership and work from home. Your office takes up 20% of the floor space in your house - you can reclaim 20% of the VAT on your utility bills; or
- + If you are a sole trade or partnership and you use the landline or a mobile phone for a mixture of personal and business calls and your business use comes to 60% of your total usage, then you would only be able to reclaim VAT on 60% of the cost.

**Inevitably there are exceptions to this rule, such as for mobile phones provided by employers:**

- + If you are an employer, you can provide staff and Directors with one smartphone each and, as long as the contract is in the employer's name, and there is some business use, then the phone can be used for both business and personal calls without restricting the VAT.

**Records must be kept to support VAT claims and evidence how the business proportion was arrived at. Businesses must also have valid VAT invoices.**

## VAT claims for specific assets

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There are some assets that present additional complexities when it comes to claiming VAT on the business proportion, here we focus on cars and motoring and farmhouses.

The Capital Goods Scheme also needs to be taken into consideration when discussing input tax on high value capital assets, specifically where these assets are used for both business and non-business purposes. A brief overview of the scheme is detailed in this factsheet, with further guidance by clicking [here](#).

### Cars and motoring expenses

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**Here are some specific rules to be aware of when it comes to cars and motoring expenses:**

- + Input tax cannot be claimed on the purchase of most cars;
- + The recovery of VAT incurred on leasing a car which is available for private use should be restricted to 50%;
- + If input tax is recovered on the purchase of fuel for cars, the business must either prepare and retain adequate mileage records to demonstrate that fuel has only been provided for business journeys or declare the appropriate output tax fuel scale charge for each car; and
- + Generally, all VAT incurred on vehicle repairs and maintenance can be claimed, as long as there is some business use of the vehicle.

### Farmhouses

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Extra vigilance is required when it comes to reclaiming VAT in the agricultural sector, with farmhouses in particular causing confusion.

Farmhouses are inherently a mix of business and private-use, as they are an essential element of the farm business and also a private residence. If a farm business is VAT registered, and the below criteria apply, HMRC will accept a claim of between 40% and 70% of the input tax (depending upon the size and scale of the farmhouse in relation to the size of the farm).

- + The building is a typical working farmhouse;
- + The work done is in the nature of repair and maintenance of the farmhouse.
- + The business is a full-time farming activity; and

There are exceptions to this where the costs relate to areas of the farmhouse that are exclusive to domestic accommodation, are in pursuit of personal interests of the residents or in connection with non-business activities.

**Mistakes in reclaiming VAT can result in costly errors and professional guidance should be sought to determine the correct private proportions.**

# The Capital Goods Scheme

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The Capital Goods Scheme (CGS) may apply if specific items are acquired, created or constructed for use in a business and VAT is incurred on those items.

The CGS takes into consideration the fact that the use of an asset may vary over the years – so input tax can be adjusted on an annual basis to reflect changes in the mixture of taxable and non-taxable use.

## Assets that are included in the scheme include:

- + **Land, buildings and civil engineering work** that cost £250,000 (excluding VAT) or more. This includes buying land, a building or part of a building or civil engineering work; constructing a building or civil engineering work; or refurbishing, fitting out, altering or extending a building or civil engineering work;
- + **Computers and computing equipment** that cost £50,000 (excluding VAT) or more; and
- + **Aircraft, ships, boats and other vessels** that cost £50,000 (excluding VAT) or more.

## Adjustment period

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**An adjustment period is the time over which you review the extent the capital item is used in making taxable supplies. HMRC set out the adjustment periods as:**

- + Land, buildings and civil engineering works have an adjustment period of 10 intervals;
- + Computers and computing equipment have an adjustment period of 5 intervals; and
- + Aircraft, ships, boats and other vessels have an adjustment period of 5 intervals.

Where there is a change in the proportion of use for taxable purposes for any year, in comparison with the use during the initial 12 months, an adjustment of a proportion of the VAT reclaimed will be required.

**The CGS presents some relatively complex rules and a business may either fail to identify assets subject to the scheme, or make errors in the CGS calculation – professional advice can be sought to help ensure the scheme is used correctly.**





## How M+A Partners can help

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In many businesses, personal and business finances are closely linked, and input tax may be claimed incorrectly on expenditure which is partly or wholly for private or non-business purposes. 'Business purpose' can be a complicated area in relation to input tax.

**M+A Partners'** VAT specialists provide professional guidance on apportioning VAT incurred for business and non-business purposes and partial exemption calculations.

Any apportionment method implemented for ongoing costs should be reviewed regularly and employed as part of the bookkeeping process. Our team ensures business and private usage is accurately recorded and applied to all relevant invoices, helping to avoid any administrative burdens or costly HMRC investigations and fines.

**To find out more about how we can assist with your VAT obligations, please get in touch with our experts below or email [enquiries@mapartners.co.uk](mailto:enquiries@mapartners.co.uk)**



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# Partners

**Our Vision** - to be the firm of choice,  
through our team fulfilling their potential  
and delivering exceptional client service

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