

61.—(1) In this section—

“deductible supplies or activities” means the supply of taxable goods or taxable services, or the carrying out of qualifying activities within the meaning of section 59 (1);

“dual-use inputs” means movable goods or services (2), a deduction of tax shall not be made, or services related to the development of immovable goods that are subject to Chapter 2) which are not used solely for the purposes of either deductible supplies or activities or non-deductible supplies or activities;

“non-deductible supplies or activities” means the supply of goods or services or the carrying out of activities other than deductible supplies or activities;

“total supplies and activities” means deductible supplies or activities and non-deductible supplies or activities.

(2) Where an accountable person engages in both deductible supplies or activities and non-deductible supplies or activities, then, in relation to the person’s acquisition of dual-use inputs for the purpose of that person’s business for a period, the person shall be entitled to deduct in accordance with section 59 (2) only such proportion of tax, borne or payable on that acquisition, which is calculated in accordance with this section and regulations, as being attributable to his or her deductible supplies or activities and such proportion of tax is, for the purposes of this section, referred to as the “proportion of tax deductible”.

(3) For the purposes of this section, the reference in subsection (2) to “tax, borne or payable” shall, in the case of an acquisition of a qualifying vehicle (1)) be deemed to be a reference to “20 per cent of the tax, borne or payable”.

(4) For the purposes of this section and regulations, the proportion of tax deductible by an accountable person for a period shall be calculated on any basis which results in a proportion of tax deductible which—

(a) correctly reflects the extent to which the dual-use inputs are used for the purposes of the person’s deductible supplies or activities, and

(b) has due regard to the range of the person’s total supplies and activities.

(5) The proportion of tax deductible may be calculated on the basis of the ratio which the amount of a person’s tax-exclusive turnover from deductible supplies or activities for a period bears to the amount of the person’s tax-exclusive turnover from total supplies and activities for that period but only where that basis results in a proportion of tax deductible which is in accordance with subsection (4).

(6) Where it is necessary to do so to ensure that the proportion of tax deductible by an accountable person is in accordance with subsection (4), the accountable person shall—

(a) calculate a separate proportion of tax deductible for any part of that person's business, or

(b) exclude, from the calculation of the proportion of tax deductible, amounts of turnover from incidental transactions by that person of the kind specified in paragraph 6 of Schedule 1 or amounts of turnover from incidental transactions by that person in immovable goods.

(7) The proportion of tax deductible as calculated by an accountable person for a taxable period shall be adjusted in accordance with regulations if, for the accounting year in which the taxable period ends, that proportion does not—

(a) correctly reflect the extent to which the dual-use inputs are used for the purposes of the person's deductible supplies or activities, or

(b) have due regard to the range of the person's total supplies and activities.