HMRC - VATSC03400 - Basic Principles And Underlying Law: Supply For No Consideration

Provision is made in UK law to implement the relevant parts of Articles 5 and 6 of the EC 6th VAT Directive (now Title IV of the Principal VAT Directive 2006/112) and treat certain transactions made for no consideration (that is free) as supplies for VAT purposes. These are:

the permanent transfer/disposal of business assets (VAT Act 1994, Schedule 4, paragraph 5(1))

the temporary application of business assets to a non-business use (VAT Act 1994, Schedule 4, paragraph 5(4))

the self-supply of goods or services (Treasury Orders, in the form of SIs, made under VAT Act 1994, Sections 5(5) and 5(6)).

A supply is also deemed to have taken place if assets are retained by a trader after deregistration (VAT Act 1994, Schedule 4, paragraph 8).

A supply also takes place where services are put to a private or other non business use - VAT (Supply of Services) Order 1993 (SI 1993/1507).

The above are deemed to be supplies for VAT purposes to prevent the goods or services being enjoyed tax-free by the final consumer. VAT would have been reclaimed on the purchase of the assets or services or on the costs incurred in acquiring or producing goods subject to a self-supply charge, but no output tax collected without the deeming provisions.

Further guidance on the supplies of goods and services for no consideration is contained in VATSC20000 and VATSC27000.

Previous page

Next page