HMRC - VATSC21000 - Goods Which Are Business Assets

Assets may belong to a business but not be used for business activities in VAT terms. Any VAT incurred on the purchase of such an asset is not input tax and cannot therefore be reclaimed. Only assets used or to be used for the purpose of the business in VAT terms are included in the provisions of the VAT Act 1994, Schedule 4, paragraph 5. This includes assets on which input tax has only been partly claimed to reflect business/non business use of the asset.

Business assets for VAT purposes include assets used wholly or partly for exempt activities. Where input tax has been partly claimed, the asset is included in the provisions of the VAT Act 1994 Schedule 4, paragraph 5.

The above distinctions are made in accordance with Article 16 of the EC Principal VAT Directive. This provides that the application by a taxable person of goods forming part of his business assets for any non-business use, shall be treated as supplies made for consideration, where the VAT on the goods in question or the component parts thereof was wholly or partly deductible. The table at VATSC24000 shows when, in the UK, output tax is due in the different circumstances.

If a trader has forgotten to reclaim input tax on the purchase of a business asset which has later been disposed of, output tax is still due, since the input tax may be claimed subsequently.

Next page