HMRC - VATSC58200 - Capital Contributions

These payments are made by companies to public or other projects with the intention of securing relief from Corporation Tax under the relevant sections of the Capital Allowances Act 2001. Whether the payments are within the scope of VAT will depend on if anything is given by the project in return.

The companies who make payments will normally expect to benefit in some way. The recipient may agree to do something of direct benefit either to the contributor or a third party such as granting a right, reserving production capacity or providing an option on future supplies. Indications of this should be found in the parties’ records. If there is no evidence of the recipient being obliged to provide a benefit in return for the payment then it should be treated as outside the scope of VAT.

Outside the scope example

One example of an outside the scope capital contribution is where a building developer gives a capital contribution to a transport authority’s proposed plan to improve the transport infrastructure in the builder’s development area. The builder will gain a general benefit from improved transport links making the place more desirable to live and so increasing the value of the buildings. However, the transport authority does not make a direct supply to the builder in return for the payment and so it is outside the scope of VAT.

Taxable example

If an oil company paid a capital contribution to the cost of building a new processing plant and received the right to reserved processing capacity as a condition of the payment, the contribution is consideration for a supply of that right by the processing authority and so is taxable.

(This content has been withheld because of exemptions in the Freedom of Information Act 2000)

Previous page

Next page