HMRC - VATSC77400 - Whether Supplies Are Goods Or Services: Permanent And Temporary Use Of Assets

Goods which are assets of the business, for example stock, company vehicles, furniture etc, are sometimes permanently disposed of/transferred, or temporarily applied to a non-business use.

Similarly, goods which are not business assets but are held by the business on a temporary basis as business assets (for example goods on hire) may also be temporarily applied to a non-business use.

This paragraph deals with the determination of when the application/disposal of assets will be supplies of goods and when they will be supplies of services. For more information on the application/disposal of business assets please see VATSC20000 and VATSC27000.

Permanent applications

Permanent applications are:

assets sold (for example fixed assets)

assets taken into private use (for example an item permanently transferred to personal use)

assets given away (for example gifts and samples).

The permanent application of business assets to non-business use is a supply of goods (VAT Act 1994, Schedule 4 paragraph 5(1)).

Business gifts and samples are excluded from the provisions of Schedule 4, paragraph 5(1), when they fulfil certain conditions (see VATSC20000). The transfer of business assets to another member state of the EU under the VAT Act 1994 Schedule 4, paragraph 6, is dealt with in VATSM - The Single Market.

By virtue of VAT Act 1994, Schedule 4, paragraph 9, land is treated as goods forming part of the assets of a business for the application of Schedule 4, paragraphs 5 to 8. As a result, free disposals etc of land are treated as supplies, subject to the remaining provisions of Schedule 4, paragraph 9.

Temporary applications

Temporary applications are assets or goods used for non-business purposes (for example an item used by employees for their private use or an item loaned outside the business).

The temporary application of business assets to non-business use is a supply of services (VAT Act 1994, Schedule 4 paragraph 5(4)).

Where applications of assets are made for a consideration they are normally supplies made in the course of business and output tax will be due. However some applications will be made for no consideration. If these were not deemed to be supplies for VAT purposes the effect of this would be that goods are being enjoyed by the recipient tax free. To overcome this, VAT Act 1994, Schedule 4 paragraph 5 deems supplies of assets which are made for no consideration to be treated as supplies made in the course of business and thus liable to output tax.

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