Partial exemption and the capital goods scheme: call for evidence response

Indirect Tax

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A joint survey of members provided valuable insight for a joint ATT and CIOT response to the call for evidence on simplification of partial exemption and the capital goods scheme.

HMRC released a call for evidence on 18 July to explore ways to improve the operation of partial exemption and the capital goods scheme (CGS) following the findings of the 2017 Office of Tax Simplification VAT review.

The ATT and CIOT have submitted a joint response to this call for evidence based on the results of a detailed online survey for members. In total, over 260 responses were received to this survey; many thanks if you were one of those.

Survey results showed strong support for raising the partial exemption de minimis limit, which has stayed the same since its introduction in 1996. However, our response notes that this alone would not be a simplification, as businesses would still need to carry out calculations, allocate costs to taxable, exempt or residual categories, etc. The ATT and CIOT would therefore like to see a higher limit combined with other measures; for example, the introduction of a simpler test based on total expenditure.

The survey identified three key messages regarding simplification of partial exemption special methods:

- Reduce the timescales involved with the approval process.

- Adequately resource the Tax Avoidance and Partial Exemption (TAPE) team within HMRC to deliver responses to timescales.
- Upskill the staff in the TAPE team.

There was limited support for allowing partial exemption special methods to be applied without HMRC approval, mainly due to concerns over lack of certainty. There was, however, more support for increased use of sectoral frameworks.

With regards to the CGS, our survey showed strong support for raising the land and property threshold, which has not been increased since the introduction of the CGS in 1990 and is therefore massively out of line with current commercial property values. There was also support for removing computer equipment from the CGS.

The joint ATT and CIOT response can be found on the respective websites, together with full details of the survey results.