Recovery of VAT on the charging of electric vehicles

Indirect Tax

27 January 2022

HMRC has published a Revenue & Customs Brief 1/22 that sets out HMRC's intention to review issues arising on the recovery of VAT when charging electric vehicles for business use.

Revenue & Customs Brief 1/22 (tinyurl.com/4v8evy8s) 'Reviewing how to claim VAT when charging electric vehicles for business purposes', sets out the key issues under review which are:

- the VAT recovery position where an employee is reimbursed by the employer for electricity for charging an electric vehicle for business use; and
- identifying simplification measures to reduce administrative complexities of accounting for VAT on private use of electricity.

The new paragraph 8.4 in VAT Notice 700/64 (tinyurl.com/33xyhhrt) also confirms that HMRC are reviewing the rules.

Why are the VAT recovery rules being reviewed?

Section 2 of Revenue & Customs Brief 1/22 refers to HMRC's earlier Revenue & Customs Brief 7/21 (tinyurl.com/25bnmm4e) 'VAT liability of charging of electric vehicles (EV)', and mentions that since the publication of RCB 7/21, HMRC and HMT had received representations from stakeholders. This included a representation by the CIOT, where we raised various points on both green taxation policy and VAT technical points.

What are the key issues for VAT?

1. VAT liability: There are different VAT rates applied to the supply of electricity used for charging electric vehicles depending on the location of the charging point.

Where the car is charged at home, the supply will normally be subject to the reduced rate of 5%, as it meets the definition for domestic use ‘premises’ set out in Note 5(g), Group 1 Schedule 7A to VAT Act 1994 or Note 6 Group 1 Schedule 7A to the VAT Act 1994. When charging an electric vehicle at the workplace or public place, this will normally be standard rated, as HMRC does not consider these supplies to meet the reduced rate definition of ‘any premises’ in Schedule 7A. It is not anticipated that the VAT liability position will form part of the current review.

2. VAT recovery: A key issue for the VAT recovery position is that under the current rules, where employees charge their electric vehicles at home and use those vehicles for business mileage, the VAT incurred on this electricity is not able to be recovered in expense claims. It is deemed to be private use, as it is supplied to the individual rather than the business.

An employee may charge their company electric vehicle at home, at the workplace and at some other public site when working away from the place of work. A simplified overview of the current VAT recovery position on the costs of electricity is set out in the table below. This shows that the administration on VAT accounting could be cumbersome, particularly when the car is used for both business and personal mileage.

Next steps

Once HMRC complete their review, there will be further updates published in guidance confirming any changes to current policy. In the meantime, if you have any feedback on the VAT recovery position for the charging of electric vehicles, please contact technical@ciot.org.uk.

Image

Location of electric vehicle charging point	VAT rate	Input VAT recovery position	Input VAT administration
Home	5%	None, as this cost is currently deemed to be all private use as it is supplied to the individual not the business	No VAT can be recovered by the business on any expense payment made to the employee for these costs
Workplace	20%	Business miles only	Apportion employer electricity bill for charging facilities
Public site	20%	Business miles only	0.67p per mile