
EXPLANATORY NOTE

(This note is not part of the Regulations)

These Regulations, which come in to force on 1st November 2007 amend the Value Added Tax Regulations 1995 (S.I. 1995/2518) (“the Regulations”).

Paragraph 5(4) of Schedule 4 to the Value Added Tax Act 1994 (“the Act”) treats a supply of services (“relevant supply”) as occurring where goods, which are used for business purposes and on which VAT has been deducted by the business, are used for private or non-business purposes. These regulations insert Part 15A of the Regulations (regulations 116A to 116N) and provide for the calculation of the value of relevant supplies.

Regulation 116A provides that where a relevant supply of goods occurs during their economic life, the whole or part of the value of the supply which is referable to the use of the goods on or after 1st November 2007 is calculated in accordance with Part 15A of the Regulations.

Regulation 116B provides for the interpretation of Part 15A. The meaning of “goods” is extended to include land held or used for business purposes and references in the regulations to the ‘full cost of the goods’ is defined by reference of the cost of the goods upon which credit or repayment of VAT has been made by the person making the relevant supply or a predecessor.

Regulations 116C and 116D provide for the duration of the economic life of goods. The economic life of goods is 60 months. The economic life of land is 120 months but this is limited to the duration of the maker of the relevant supply’s interest in the land where that is less than 120 months at the time when first use of the land occurs.

Regulation 116E determines the value of a relevant supply. The calculation is by reference to a formula that applies the proportion of private or non-business use of the goods made during the prescribed accounting period in which the supply occurs to the proportion of the total cost of the goods attributable to the part of that period occurring within the economic life of the goods.

Regulation 116F varies the formula contained in regulation 116E for determining the value of a relevant supply where the accounting period in which the relevant supply occurs is preceded by one or more prescribed accounting periods when the goods were not used or made available for use for any purpose.

Regulation 116G provides for the commencement of a new economic life where a supply of goods or services is made which increases the full cost of the goods from that applying immediately before the supply. The commencement of a new economic life upon the first use of the goods after the supply giving rise to that life will not prejudice any existing economic life and will run concurrently with it for the remainder of the existing economic life.

Regulations 116H and 116I make provision for the value of relevant supplies of goods during their new economic life. Regulation 116H varies the formula in regulation 116E so that the value of a relevant supply made in respect of the goods is determined only by reference to the increase in the full cost of the goods resulting from the supply giving rise to the new economic life and the private or non-business use made of them during the new economic life. Regulation 116I provides that where a relevant supply occurs in relation to land or a building which has two or more economic lives at that time, the value of the supply is the total of the amounts calculated in accordance with regulation 116E as varied by regulation 116H as appropriate.

Regulation 116J provides that regulation 116L applies in relation to an economic life in respect of goods which have been put to private use or used, or made available for use, for non-business purposes before 1st November 2007 by the person described in regulation 116K or any of his

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predecessors. The person described in regulation 116K is the person who holds or uses the goods concerned for the purposes of his business on 1st November 2007.

Regulations 116L and 116M determine the duration of an economic life treated by that regulation as commencing on 1st November 2007 by reference to a formula that takes into account the value of relevant supplies arising from the use of the goods before 1st November 2007.

Regulation 116N permits a person who, within 2 years ending on 21st March 2007, has claimed VAT in respect of goods which he intends or expects will be put to private or non-business use during their economic life to withdraw whole of the claim (or the part referable to non-business use) provided the goods have not been used and the withdrawal is made in accordance with regulation 35 of the Regulations before 1st February 2008.

A full regulatory impact assessment of the effect that the change made by this Order will have on the costs of business is available at www.hmrc.gov.uk.