CT: Accountants Advisers

HMRC update: clarity on VAT recovery on services for private schools

HMRC has updated its guidance online to clarify the position in relation to the VAT recovery of services incurred before VAT registration.

The updated guidance now states that, subject to other conditions being met, the business can "recover a portion of the VAT relating to the taxable use after registration using a fair and reasonable method" even if it has used that service to make exempt supplies before registration.

For example, a private school may have incurred a VAT cost on purchase of a software product (a service) that was an annual subscription running from 1 September 2024 to 31 August 2025.

As the subscription is used to provide education services, it would be projected to be used in making exempt supplies for 4 months (1 September – 31 December 2024), and for taxable supplies for 8 months (1 January 2025 – 31 August 2025). Based on the updated guidance provided by HMRC, the school can recover a portion of the VAT incurred based on the amount of taxable use. The portion is calculated under a "fair and reasonable" method as follows:

- Taxable use for 8 months: 8/12 = 66.67%
- The 66.67% can be rounded up to the nearest whole number. This means that the school can recover 67% of the VAT on the subscription cost which was incurred before registration.

If the purchase is projected to have a mixed use in the future (70% taxable and 30% exempt), the recoverable percentage would be:

- Mixed use for 8 months: 8/12
- Taxable use within the 8 months: 70%
- Percentage recoverable: (8/12) x 70% (part taxable use) = 46.67%.
- The 46.67% can be rounded up to the nearest whole number. This means that the school can recover 47% of the VAT on the subscription cost which was incurred before registration

We consider that the above updated guidance clarifies the position for private schools calculating the VAT receivable position for pre-registration costs which relate to both exempt education (pre-1 January) and taxable education (post-1 January).

This may therefore give private schools the availability to reconsider input VAT incurred on pre-registration service costs (up to 6 months) and determine whether an additional input VAT claim can be made under the above clarified guidance.

Please do not hesitate to get in contact if you wish to discuss this updated guidance position from HMRC. Reach us via vat@ct.me.