

---

## **VAT: LENNARTZ ACCOUNTING: RESTRICTING APPLICATION AND SECURING REVENUE**

---

### **Who is likely to be affected?**

1. Taxpayers buying land, property, boats and aircraft which are to be used for both business and private purposes, as well as taxpayers already using Lennartz accounting arrangements for any assets.

### **General description of the measure**

2. This measure will implement changes to the recovery of VAT for immovable property, boats and aircraft, implementing changes to EC VAT law made by the Technical Directive (Council Directive 2009/162/EU).
3. Revenue protection legislation will also be introduced to ensure that existing Lennartz accounting users continue to pay the VAT due under the accounting mechanism.
4. The legislation relating to recovery of VAT on directors' accommodation will then be redundant, as the implementation of the Technical Directive and related European case law will ensure that there is no entitlement to any VAT recovery on the private use of directors' accommodation. This legislation will be removed.
5. The Government will legislate for this measure in a Finance Bill to be introduced as soon as possible after the summer recess.

### **Operative date**

6. The changes to implement the Technical Directive and repeal the legislation relating to directors' accommodation will have effect on and after 1 January 2011. The revenue protection legislation will be treated as having always had effect.

## **Current law and proposed revisions**

7. Under existing arrangements, VAT on immovable property, boats and aircraft is recoverable upfront and in full on both the business and private use of the asset (subject to any partial exemption restriction). VAT is then payable over subsequent years in respect of the private use of the asset. This is known as “Lennartz” accounting. The changes introduced by this measure will ensure that VAT recovery is restricted only to the business use of the asset, excluding any private use by the taxpayer or the taxpayer’s staff. Changes to the capital goods scheme will also be introduced so that it will take account of changes in private use over subsequent years.
8. Until a change in policy arising from a European Court of Justice (ECJ) decision, many taxpayers were incorrectly permitted to use Lennartz accounting (see Revenue and Customs Brief 02/10). The revenue protection legislation introduced by this measure ensures that where such taxpayers choose not to unravel these arrangements, they have a statutory obligation to continue to account for the VAT due under the arrangements. The legislation will ensure that this position is treated as having always had effect.
9. Amendments will be made to the VAT Act 1994 (VATA) to:
  - provide a distinction between business input tax and non-business VAT;
  - ensure that for certain assets specified in the new legislation, VAT cannot be recovered in respect of private use or purposes other than those of a business from 1 January 2011;
  - provide a power to make regulations to treat non-business VAT as input tax;
  - provide enabling powers to introduce further regulations; and
  - ensure that VAT is not recoverable in respect of private use of directors’ accommodation.
10. Legislation will be introduced to ensure output tax continues to be paid where a credit was allowed in respect of a supply falling under paragraph 5(4) of Schedule 4 to VATA and to provide the detailed circumstances where this will apply as well as definitions. The legislation will be treated as having always had effect.
11. Amendments to regulations will be made as a result of these changes in due course and will amend the capital goods scheme to take into account changes in business/private use of an asset and other related matters.

## **Further advice**

12. This measure was previously announced at Budget 2010 and a version of this note was published as BN50. This note supersedes that version.

13.If you have any questions about this change, please contact the VAT Helpline on 0845 010 9000. Information about Budget measures is available on the HM Revenue & Customs website at [www.hmrc.gov.uk](http://www.hmrc.gov.uk)