

ECJ ruling regarding input tax recovery in case involving business use of a jointly owned house:

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The ECJ has ruled that where a person purchases a house, or has a house built and he uses one room in that building as an office for the purposes of carrying out a business activity, he is entitled to make deductions of VAT under Art 17 EC Sixth VAT Directive, in proportion to the business use of the property. This case will be of interest to businesses incurring input tax on property used for both business and non business purposes.

Practical implication

UK VAT law specifically precludes a person from acquiring a good for business and personal use and then recovering the input VAT whilst paying output VAT in respect of the personal element. This appears to be in contradiction to the governing EC Directive but we will need either enforcement action by the EC Commission against the ECJ or a UK business to take a successful challenge to the ECJ to reverse this.