

Non business use of assets – Lennartz accounting

Revenue and Customs Brief 68/07 announces the publication of Information Sheet 14/07 containing guidance on the revised 'Lennartz' accounting regulations effective from 1 November 2007. Taxpayers may require specialist VAT advice to ensure compliance with these new provisions and with the associated partial exemption and capital items scheme provisions which will frequently accompany them.

Summary of main provisions

- determining the 'full cost' of an asset which is to be used for both business and non-business purposes;
- determining the 'economic life' of the asset (i.e. the period over which it will be necessary for the taxpayer to account for output VAT in respect of non-business use of the asset);
- the creation of a new 'economic life' for an asset whose value is increased by refurbishment, extension or other improvement works which would increase the 'full cost' if they had been incurred when the asset was created;
- determining the value of the output VAT due in respect of non-business use;
- how to deal with periods where the asset is not put to any use whatsoever; and
- transitional provisions for assets which were within the 'Lennartz' mechanism on 1 November 2007.

Comments

Information Sheet 14/07 contains practical guidance on HMRC's views as to how VAT should correctly be recovered and brought to account using the 'Lennartz' mechanism. It also contains some useful reminders, including:

- use of 'Lennartz' accounting is not mandatory and, where a taxpayer chooses to wholly or partly forego VAT recovery on an asset, the sale of that asset will be subject to VAT only to the extent that input VAT was originally recovered;
- there must be some business use of the asset which attracts VAT recovery: if the only business use would be exempt, 'Lennartz' accounting is not applicable;
- 'Lennartz' can be used not only for property, but for any asset provided that the input VAT would not be subject to 'blocking' (e.g. a motor car) and the asset was not supplied under a margin scheme; it can also be used for services (e.g. construction) which creates goods (e.g. a building) but not intangible assets such as software licences or intellectual property; and
- for 'Lennartz' purposes, a building and the land on which it stands can be treated as separate assets, even though this is contrary to UK land law.

The Information Sheet includes a number of worked examples of 'Lennartz' accounting in specific circumstances which will be of assistance to taxpayers. However, these are not exhaustive and it is likely that taxpayers will require specialist VAT advice relating to their own specific circumstances, particularly as many assets falling within the 'Lennartz' regime will also be subject to the partial exemption and capital items scheme provisions.