

**Italian Republic – VAT partial exemption claims - demonstrator cars**

In [Revenue & Customs Brief 43/10](#), HMRC announces that it has reviewed its policy on the partial exemption implications of 'Italian Republic' claims where the VAT-exempt sale of ex-demonstrator cars had incorrectly been treated as subject to VAT on the margin. Having previously accepted, on the basis of UK case law, that such exempt sales could be excluded from partial exemption calculations as 'capital assets', HMRC now considers that a subsequent ECJ judgment shows that to have been incorrect.

HMRC intends to revisit claims which have been paid and assess for input VAT, and will invite those with claims pending to submit adjustments to those claims to take partial exemption into account.

All affected businesses should obtain professional advice before they decide if, and how, they need to act on this announcement.

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