



UHY Ross Brooke
Chartered Accountants

In the know: VAT

Summer 2025



Helping you prosper



In the know is our ongoing series designed to keep you up to speed with the latest regulatory updates, tax developments and policy changes that could impact you or your organisation. From evolving legislation to shifts in compliance requirements, we'll highlight what's changing, why it matters and what action, if any, you need to take. Timely, relevant and clearly explained, these updates will ensure you stay informed and prepared.

June brought a renewed focus on VAT following HMRC's recently published updates and consultations. Particular emphasis has been placed on how VAT is administered, monitored and potentially reformed. From subtle regulatory shifts to targeted enforcement action and suggested VAT relief extensions, now is the time for businesses and charities alike to consider the impact these developments may have on them.

Below is a summary of HMRC's latest announcements and what they could mean in practice.

Final VAT returns: regulatory clarity on extension powers

As of 14th June 2025, HMRC now has formal regulatory powers to extend the time required for submitting a final VAT return for a person or business that is no longer liable or entitled to be VAT registered. This marks a significant clarification, as HMRC has historically exercised this discretion on an administrative basis.

The change, introduced by The Value Added Tax (Amendment) Regulations SI 2025/578, updates the long-standing SI 1995/2518 and embeds more flexibility into the regulatory framework. It is fair to say that this is much more than just a legal housekeeping matter. It addresses a recurring issue where businesses, particularly those facing complex closures, were penalised for late final VAT returns despite the circumstances.

By making such extensions regulatory, HMRC is attempting to prevent the automatic generation of late filing penalties and interest notices, which can cause additional stress and costs for businesses already facing the challenges of winding down. For businesses in the process of deregistration, or advisers supporting them, this extension is a welcomed reassurance and underscores the importance of proactive and transparent communication with HMRC.

VAT interest rates adjusted following base rate drop

Following the Bank of England's recent base rate reduction to 4.25%, HMRC's interest rates on VAT payments have been adjusted:

- Since 28th May 2025, the interest rate payable to HMRC on late VAT payments has reduced slightly to 8.25%
- The interest on VAT repayments from HMRC also decreased to 3.25% from the same date.

These changes reflect the ongoing sensitivity of tax interest rates to broader monetary policy. For businesses facing tight cashflow or operating in sectors with volatility, these rate changes can influence the decision-making around payment scheduling and repayment expectations. The cost of missing a VAT deadline, while slightly reduced, still remains high.

Similarly, businesses owed repayments may want to bear in mind the lower return now available, especially if dealing with long-standing VAT reclaims or large capital project-related input VAT. As always, staying on top of filing and payment dates remains critical to avoid unnecessary expenses.

VAT grouping in the care sector: targeting avoidance

In Revenue & Customs Brief 2 (2025), HMRC confirmed it is reviewing and putting the residential care sector on notice regarding its use of VAT grouping arrangements. The Brief reflects HMRC's scrutiny of cases where state-regulated care providers form VAT groups with unregulated welfare service providers to reclaim input VAT on costs related to otherwise VAT-exempt welfare services.

While it is true that VAT groups can and do serve legitimate commercial and administrative purposes, HMRC suggests some arrangements are being structured to achieve tax advantages not intended by legislation.

As a result of this, HMRC has confirmed it will:

- Use its powers to refuse new VAT group registration applications designed to facilitate such VAT grouping structures; and
- Investigate existing VAT groups where they know or suspect VAT avoidance.

Though this new approach is set up to target, identify and address VAT avoidance, it is important to remember that VAT grouping remains a valid structure when used appropriately and for business reasons.

Affected providers should now assess whether they are complying with HMRC's VAT grouping requirements. Those in the care sector, including local authorities, Integrated Care Boards and private providers, should consider seeking a VAT health check, particularly if their group structure includes non-regulated entities.

Consultation: extending VAT relief on business donations to charity

HMRC is currently consulting, until 21st July 2025, on extending the existing VAT relief for goods donated by businesses to charities. At present, relief is only available when goods are donated (to charity shops, for example) for onward sale.

The proposed changes would expand the relief to also cover the following:

- Goods donated for onward free distribution by the charity. For example, hygiene products given to people in need
- Goods donated for use in the charity's own operations. For example, laptops used in delivery of its own services.

If implemented, these proposals could potentially remove a key disincentive for businesses wanting to donate surplus stock, rather than destroying or discounting it. The VAT currently due on such transfers often deters donations.

This is a potentially transformative policy for the charity sector and will bring about welcome savings for charities. Additionally, it may also lead to a significant increase in donations, particularly of usable goods that charities can deploy to beneficiaries or in their own organisation.

Charities were encouraged to engage with the consultation and share examples of how the relief would benefit them. For example, if you have ever turned down a donation due to VAT implications, HMRC wanted to hear from you.

For businesses with ESG or sustainability strategies, this consultation was worth nothing, as future tax relief could create further incentives to divert usable stock away from waste and toward social good.

VAT treatment of charity fundraising events

In Revenue & Customs Brief 3 (2025), HMRC has issued updated guidance on the VAT treatment of fundraising events held by charities and qualifying bodies. This follows the Upper Tribunal's decision in *Yorkshire Agricultural Society* ([2025] UKUT 00004), which clarified which events will qualify for VAT exemption under Group 12, Schedule 9 of the VAT Act 1994.

This update is particularly relevant for organisations that regularly rely on fundraising events to generate charitable income.

The Upper Tribunal ruling confirmed that:

1. The primary purpose of the event must be fundraising. However, fundraising does not need to be the sole purpose, meaning that events can still qualify for exemption if fundraising is one of multiple primary purposes.
2. Although the legislation requires that events be 'promoted as being primarily for the raising of money,' the word 'primarily' should be disregarded. What matters is that the fundraising nature of the event is clearly communicated in the promotion, not how heavily it is emphasised as a primary purpose.

While the Upper Tribunal offered this clarification, HMRC's policy remains consistent: charities must ensure the event is genuinely intended to raise funds as a primary purpose and that this intention is reflected in how it is publicised and promoted. If a charity or other qualifying body decides that an event has more than one primary purpose, this must

be able to be evidenced, and clearly explained why they cannot be separated in terms of importance. Objective documentary evidence is required to prove the event was organised as a fundraising event, and not that there was simply an intention to obtain more income from the event.

Importantly, profit alone is not enough. Events that happen to make money, but were not specifically organised with fundraising in mind, will not qualify for the exemption, and the Upper Tribunal has agreed with this interpretation. Similarly, HMRC continues to distinguish genuine fundraising events from regular trading activities. For the exemption to apply, events must be distinct and out of the ordinary, not semi-regular or continuous commercial activities.

The long-standing limit of 15 events of the same kind in the same location per fiscal year remains in place. Exceeding this threshold (ie. holding 16 or more such events) means all events still become taxable.

Additionally, the anti-competition clause in the legislation continues to apply. If an event is deemed likely to significantly distort commercial competition with other providers offering similar events which do not benefit from VAT exemption, the VAT exemption can be denied.

Charities and qualifying bodies are advised to review **HMRC's updated guidance** and apply this when determining the VAT treatment of any fund-raising events going forward.



New verification system for licensed goods moving into or out of Northern Ireland

From 28th June 2025, HMRC will implement a new verification process for licensed goods moved into or out of Northern Ireland by import, export or transit. The existing Automatic Licence Verification System (ALVS) will be replaced by the Certificates Exchange System (CERTEX) for Northern Ireland.

This change introduces a key procedural update for businesses trading in licensed goods such as plants and plant products, certain food and feed items, live animals and fluorinated gases.

Under CERTEX, the data provided on your declaration must exactly match the information on the relevant licence or certificate. Any inconsistencies, however minor, could trigger a notification from the Customs Declaration Service (CDS). This may lead to delays in goods movements, inspections, or the temporary holding of goods at the border.

To avoid disruption, persons affected should now:

- Review the new format for entering licence information, as this may differ from the previous process;
- Ensure data accuracy and consistency between declarations and the actual licence or certificate for the goods being moved into or out of Northern Ireland;
- Engage with the Trader Support Service (TSS) if you are using TSS for your licensed goods movements, as they may be able to assist in resolving any issues or delays quickly.

For movements covered by the UK Internal Market Scheme, eligible licensed goods can continue to be moved under the Internal Market Movements process, which remains unaffected by this change.

This update is a timely reminder of the importance of robust customs processes when dealing with licensable goods. Businesses moving such goods in or out of Northern Ireland from 28th June onwards should review their current procedures to ensure they are ready for the transition to CERTEX.

New policy for VAT recovery on costs related to the management of pension funds

HMRC recently issued Revenue & Customs Brief 4 (2025) (on 18 June 2025) announcing a further significant policy change in the VAT recovery position for the management of pension funds.

In summary, HMRC will no longer require VAT on asset management costs to be apportioned between the employer and pension fund, as from 18 June 2025, investment costs will not be viewed as being for dual use. Consequently, the VAT incurred will be the employer's and so recoverable by the employer, subject to the normal VAT recovery rules.

This will be particularly relevant to and welcomed by businesses which operate defined benefit pension schemes for employees, to pension administration and asset management service providers, pension fund trustees and pension providers.

Background and historic VAT position

Historically, HMRC allowed employers funding occupational pension schemes to recover VAT they incurred on costs relating to the day-to-day administration of those funds (as business overheads), but not on costs relating to the management of investments made by the fund. In cases where a single invoice was received covering both types of cost, HMRC generally allowed a 70:30 split between investment management and administration respectively and VAT to be recovered on the 30% proportion by the employer accordingly.

However, HMRC updated its policy following the Court of Justice of the European Union (CJEU) decision in 'Fiscale Eenheid PPG Holdings BV cs te Hoogezand (C-26/12) (PPG)'. The case itself concerned an employer's entitlement to recover VAT paid on services relating to the administration of defined benefit pension funds and the management of the assets of the fund. The ECJ held that where there is a direct and immediate link between the pension fund costs and the employer's business, the VAT incurred by the employer on pension fund administration and fund management is recoverable.

As this differed significantly from HMRC's position at the time, HMRC issued Revenue and Customs Brief 43 (2014) in November 2014 to confirm that as a result of the CJEU decision, employers may recover VAT on investment costs provided they could evidence they contracted for and paid for the supply in relation to an occupational pension and were in possession of a valid VAT invoice.

HMRC policy to 17 June 2025 – dual use

Under HMRC's policy to date, employers implemented different arrangements to achieve VAT recovery on the costs of administering occupational pension funds and managing their assets. In particular:

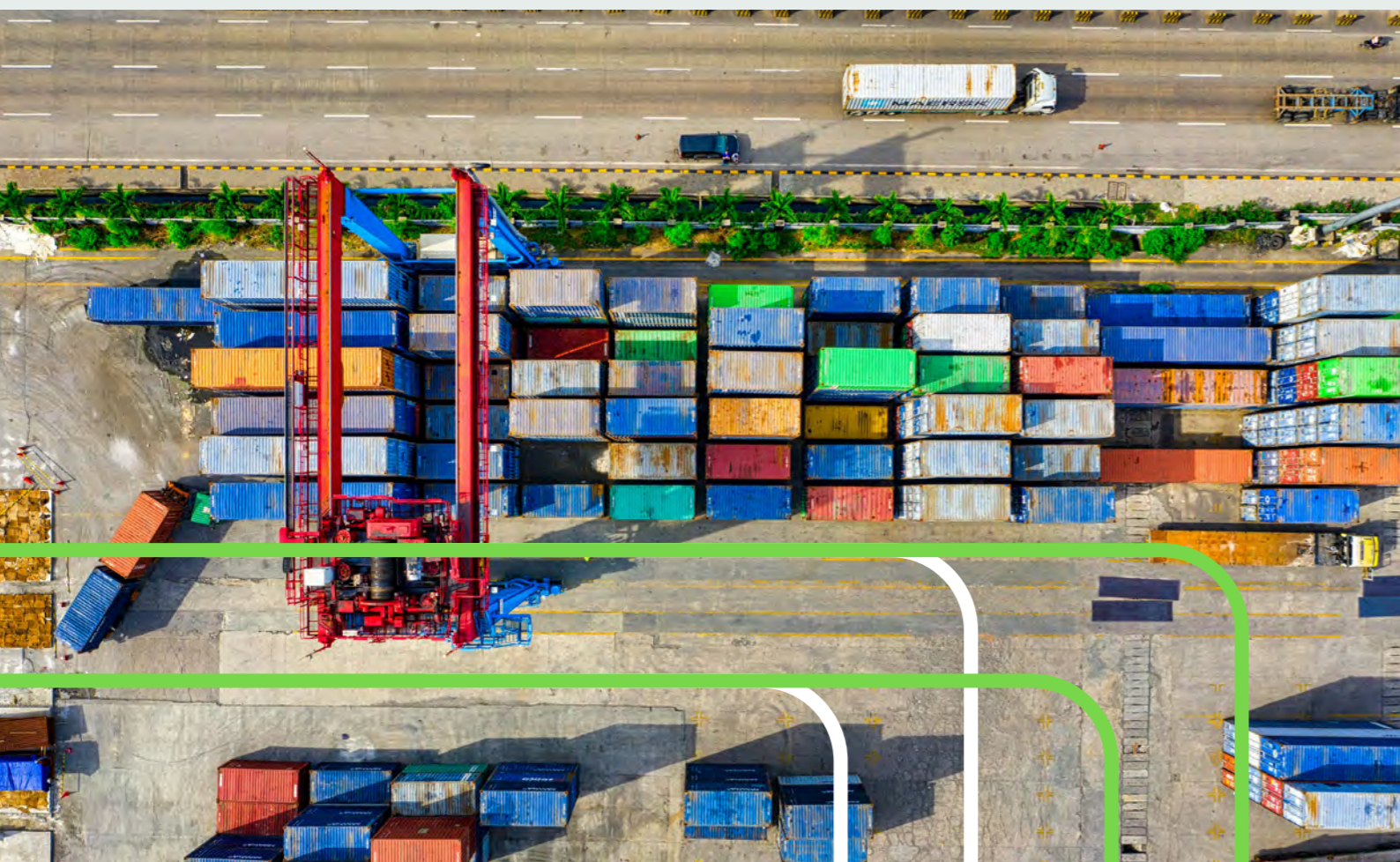
- the pension trustees supplying administration services to an employer; or
- VAT grouping

In both cases, HMRC considered the VAT incurred on asset management services may have a direct and immediate link to the trustee's investment activity and the supplies made by the employer provided it was used by the employer to make those supplies. This resulted in dual use of investment costs by the employer and the trustees of the fund.

Where there was dual use of investment costs by an employer and the trustees, HMRC required a method of apportionment to be applied on a fair and reasonable basis to determine how much input tax could be deducted by each party.

New policy on dual use from 18 June 2025 onwards – key changes

From 18 June 2025 onwards, HMRC will no longer view investment costs as being subject to dual use. Instead, all the associated input tax incurred will be seen as the employer's and recoverable by the employer, subject to normal VAT recovery rules. This change in approach by HMRC should simplify the VAT accounting as it will remove some of the prior complexity and could also bring significant additional VAT recovery, depending on your particular situation.



In cases where trustees are supplying pension fund management services to the employer and charging for them, they will be able to recover input tax incurred for the purpose of providing those services, provided they are VAT-registered. Any VAT recovery by the trustees will be subject to the normal 4-year recovery rules.

What is the impact on existing partial exemption methods?

Affected businesses may need to consider and propose new partial exemption special methods (PESMs) to ensure their VAT recovery reflects HMRC's new policy. Any new PESMs approved by HMRC will take effect from the start of the tax year in which the PESH was submitted.

Application and next steps

The policy change has applied from 18 June 2025, however HMRC stated that it will publish guidance to explain the policy change by autumn 2025. Presumably, HMRC's existing guidance at for example, VIT44600, VIT44650, VIT45420-40 will also be shortly updated accordingly.

The precise impact and VAT benefit for those businesses affected will depend on how HMRC's policy change will be applied by HMRC in practice. For example, in which circumstances HMRC will consider supplies of administration and investment management services to be actually received by the employer itself. It will still be important for employers to demonstrate that they are the recipient of the investment services where this is the case, and to continue to ensure the contractual and invoicing arrangements fully reflect this position. Alternatively, in cases where the pension scheme is the party actually receiving and contracting for investment services, the scheme may be the one recovering the VAT instead (subject to the normal VAT rules).

It is hoped that HMRC's further awaited guidance will be helpful, informative and will clarify any uncertainty on the above aspects to enable businesses to implement the changes easily.

In the meantime, if you are affected by these changes and would like further guidance on how the changes in this article may impact your business, please contact your usual UHY VAT adviser.

The next step

These VAT developments, though diverse in what they cover, encompass several common themes: clarity, compliance and targeted reform. Whether updating rules to reflect practice, adjusting financial parameters, cracking down on avoidance or seeking feedback on supporting the charity sector, HMRC remains active across the VAT landscape.

Now is the right time to review your VAT policies, check your VAT grouping structures and ensure you are well-positioned to respond to any changes ahead.

If you would like tailored support or advice on any of the topics discussed within this update, your local VAT specialist is here to help.



Sean Glancy
VAT partner
s.glancy@uhy-uk.com
+44 20 7216 4674



Lisa Burnside
VAT director
l.burnside@uhy-uk.com
+44 20 7767 2687



UHY Hacker Young Associates is a UK company which is the organising body of the UHY Hacker Young Group, a group of independent UK accounting and consultancy firms. Any services described herein are provided by the member firms and not by UHY Hacker Young Associates Limited. Each of the member firms is a separate and independent firm, a list of which is available on our website. Neither UHY Hacker Young Associates Limited nor any of its member firms has any liability for services provided by other members.

UHY Ross Brooke (the "Firm") is a member of Urbach Hacker Young International Limited, a UK company, and forms part of the international UHY network of legally independent accounting and consulting firms. UHY is the brand name for the UHY international network. The services described herein are provided by the Firm and not by UHY or any other member firm of UHY. Neither UHY nor any member of UHY has any liability for services provided by other members.



<http://www.linkedin.com/company/ross-brooke-limited-chartered-accountants-newbury>



<https://www.facebook.com/UHYRossBrooke>

This publication is intended for general guidance only. No responsibility is accepted for loss occasioned to any person acting or refraining from actions as a result of any material in this publication.

© UHY Hacker Young 2025

www.uhy-rossbrooke.com

Helping you prosper