

VAT - HMRC's response to the impact of COVID-19 on Partially Exempt Charities

In our last newsletter we mentioned that we were expecting HMRC to make an announcement in relation to the impact of COVID-19 on partially exempt businesses including charities.

As expected, [HMRC has now published a Brief](#) setting out its position on the subject.

The purpose of partial exemption methods, both standard and special, is to ensure businesses, which make a mixture of taxable and exempt supplies recover a fair and reasonable proportion of their input tax.

HMRC's Brief sets out that where a business's taxable supplies have been adversely impacted by the pandemic, but are expected to get back to normal as restrictions ease, HMRC is likely to allow the business to use a recovery percentage based on its pre-pandemic taxable supplies. Alternatively, HMRC will look favourably on projected income as an appropriate method of apportionment where costs were incurred in relation to an activity which was delayed due to the pandemic.

HMRC will be using an accelerated process to speed up the approval process for making pandemic-related changes to partial exemption methods.

Requests for such changes should be sent to the email address: PESMcovid19@hmrc.gov.uk.

For businesses using the standard method, HMRC suggests using the standard method override,



where it applies, rather than applying for a PESH (partial exemption special method). (This is relevant where the input tax recoverable under the standard method calculation differs from that calculated by the actual use of the input tax by £50k or 50% of the residual input tax and £25k).

For businesses using a special method, a Special Method Override Notice served by a business on HMRC will be considered by the accelerated process where the reason given is the impact of coronavirus.

The default time limit for such changes in method will be one tax year. If it becomes clear that this will not be sufficient, it will be necessary to apply for an extension. Normally special methods cannot be applied retrospectively but HMRC accepts that the pandemic is an exceptional circumstance and retrospective approval is, therefore, available.

HMRC will also be sympathetic to requests for changes to the recoverable percentage applied within any Capital Goods Scheme calculations where the business has been adversely impacted by the pandemic.

Partial exemption annual adjustments will need to be calculated over the next few months. If you would like any assistance with communicating with HMRC or with understanding what needs to be done, please contact Leila Ong at long@pem.co.uk.



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