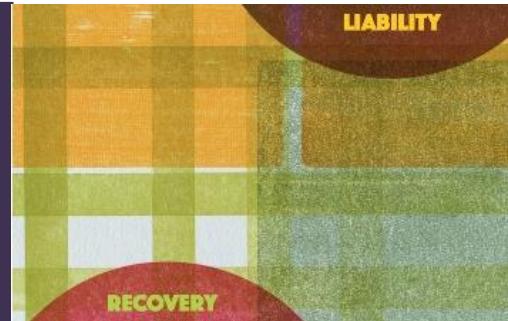


VAT Pension Fund Management



VAT liability

Pension fund management may not seem that interesting but it's been a hot topic in the world of VAT recently.

VAT recovery

The source of the interest is a succession of court cases (PPG Holdings, Wheels Common Investment Fund and ATP Pension Services) that examined two important matters:

1. Should pension fund management charges be subject to VAT?
2. If the charges do attract VAT how much of it can be recovered by the employer?

The final outcome of each case and the implications for UK VAT have been publicised by HMRC in a series of Revenue & Customs Briefs, available on the HMRC section of the gov.uk website.

The main points to emerge

1. VAT liability

The VAT liability of pension fund management services depends on the type of pension scheme. Management of direct contribution schemes (also known as money purchase) is exempt from VAT. UK VAT law must, therefore, be changed to reflect this and pension fund managers can claim refunds of overpaid VAT from HMRC (subject to the normal four year cap and partial exemption). The refunds must then be passed onto the employer businesses. Management of defined benefit schemes (also known as final salary schemes) remains subject to VAT at the full 20%.

2. VAT recovery

As the management of direct contribution schemes is exempt, there should be no VAT on the fees. If VAT is being charged it must be refunded by the manager rather than being claimed from HMRC. Management of defined benefit schemes remains subject to VAT. However, the amount of VAT that the employer can recover from HMRC may now be higher as it should no longer be restricted to set-up and administration costs, and will now include costs of managing the assets of the scheme as well.

The employer business will need a VAT invoice addressed to it in order to make a claim for recovery and will, therefore, need to be party to the agreement with the fund manager. HMRC has confirmed that a tripartite contract involving the employer, trustees and manager is an acceptable means of achieving this.

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The employer must also pay for the service but not seek reimbursement from the trustees as that would be regarded as an onward VATable supply which would cancel out the VAT recovery benefit. HMRC confirms that it would, instead, be acceptable for the employer to pay lower contributions.

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Specific advice should be obtained before taking action, or refraining from taking action, on any of the subjects covered



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