

VAT Capital Goods Scheme (CGS)

In respect of property the CGS applies to capital expenditure on land and buildings, civil engineering works and refurbishment acquired or carried out after 31 March 1990. The CGS applies to businesses which do not make exclusively taxable supplies. The scheme recognises that such items of capital expenditure may be used by a business over a number of years and that there may be variation over those years in the extent to which the items are used to make the taxable supplies. It provides a mechanism whereby the initial input tax claimed may be adjusted over a period of 10 years.

If the capital item is used wholly in making taxable supplies input tax is recoverable in full. If the capital item is used wholly in making exempt supplies, none of the input tax is recoverable. If the capital item is used for making taxable and exempt supplies, a proportion of the input tax may be claimed under the partial exemption rules. Where, subsequently, in the adjustment period for that item (10 years for land and property) there is a change in the extent of taxable use, an input tax adjustment has to be made to take account of this. If taxable use increases, a further amount of input tax may be claimed and, if it decreases, some of the input tax already claimed must be repaid.

The scheme applies to the acquisition of land and property on which VAT is charged, and the value of that property is £250,000 or more. Adjustments under the CGS are carried out on an annual basis.

Specific records must be maintained and retained in order to demonstrate to H M Revenue & Customs that the CGS has been applied correctly.