

Lennartz mechanism – latest news from HM Revenue & Customs

Many VAT registered businesses that have both business and non-business activities have made use of the Lennartz VAT accounting mechanism to achieve VAT savings on certain property related developments, e.g. the construction of new buildings and some extensions.

The mechanism operates as follows:

- The business can reclaim VAT on the costs which are to be used for both taxable business and non-business purposes.
- Output tax on the non-business use is repaid to HM Revenue & Customs on each VAT return for a period of up to 20 years.
- Over the period of the scheme a significant cashflow saving arises.

There have been a number of cases in the European Court of Justice over the past few years and as a result of one in 2009, HMRC has now decided to change their policy on the use of the Lennartz mechanism. This change precedes EU wide changes expected in 2011.

With effect from 22 January 2010, the use of the Lennartz mechanism is withdrawn for most projects. The only type of project which will still qualify is one where the use is a mix of taxable business and private use.

HMRC have also confirmed the following:

- Where VAT registered businesses have already received VAT repayments and output tax is being declared, they may continue to use the scheme until the end of the payback period.
- If a business wishes to opt out of the scheme, they should agree a fair way with HMRC of adjusting both their output tax and input tax accordingly.
- Where businesses have entered into binding commitments for projects on the expectation that they could use the Lennartz mechanism, they will need to discuss their

position with HMRC.

Action required

In most cases it is likely to be beneficial for those businesses that have already received repayments to remain in the scheme and in such cases they should continue to account for output tax in the usual way. However, each case will need to be considered on its merits.

If you have any queries on this matter then please contact your usual Liaison adviser or our free VAT helpline on 0800 700 652.

Sue White
VAT Manager
swhite@liaisonfs.com

Liaison Court, Vincent Road, Worcester WR5 1BW, England
t: +44 (0)845 603 9000 f: +44 (0)845 603 9001 e: info@liaisonfs.com w: www.liaisonfs.com