

VAT: RECOVERY OF VAT ON ROAD FUEL PURCHASED BY EMPLOYEES

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Vat Recovery on Fuel

Following a judgement by the European Court (Case-33/03) in March 2005 the Inland Revenue have introduced new arrangements for the recovery of VAT by companies on road fuel purchased by employees on behalf of the business. Recovery is only allowed where the fuel is used for the purposes of the business and the business holds an appropriate VAT invoice.



Background

Employees frequently purchase road fuel on behalf of their employer for use in their vehicle with the amount paid being reimbursed by their employer. The employer has then been able to reclaim the VAT paid on the fuel as the fuel is purchased as a business expense. The position of HMRC has always been that employers have a right to deduct where employees make purchases on behalf of the business and are then reimbursed by the business.

European Court Judgement

However, the European court found that this was incompatible with Article 17(2)(a) and Article 18(1)(a) of the Sixth Directive. The terms of the UK VAT Order did not ensure that the VAT recovered related solely to fuel used for the purpose of the taxable person's (the business) taxable transactions and also that the taxable person was not required to hold a VAT invoice in accordance with Article 22(3) of the directive. Although the case went against the UK the Court accepted that the employers are, in principle, entitled to deduct the VAT incurred.

New Arrangements for Recovery of VAT

Following the European Court decision the UK Government has repealed the previous VAT order and replaced it with the VAT (Input Tax) (Road fuel purchased by Employees) (Order) 2005. The new rules came into effect on 1 January 2006.

Under the terms of the new VAT order Employers will be able to continue to reclaim VAT Input Tax incurred by their employees on road fuel purchased for, and on behalf of, the business where the cost of the fuel is reimbursed to the employee. This can be done either on the actual fuel cost incurred by the employee or through the application of a mileage allowance calculated in terms of the business mileage travelled.

Under the new VAT Order, businesses can specifically only reclaim input tax on fuel purchased by their employees and reimbursed to their employees where the fuel was used for the purposes of the business. They are also required to hold VAT invoices in support of their claim for recovery of the input tax. The VAT Invoice can be a full VAT invoice or a less detailed VAT invoice where appropriate.

This article is intended to give general information only. If you are unsure if your arrangements fulfil the criteria relating to the recovery of input tax on road fuel purchased by employees please contact us to discuss your circumstances.

What does it mean to you?

1. You can continue to reimburse employees where they purchase fuel with their own funds and the fuel is for business purposes.
2. You are able to reclaim the input tax on the fuel as through it was purchased directly by the business.
3. You must obtain a valid VAT invoice in respect of the fuel purchased in support of your claim.
4. Where a mileage allowance is claimed VAT can be reclaimed on the fuel element of the mileage allowance. In this case, a VAT invoice must be held which covers the fuel element of the allowance paid.
5. It does not matter that the amounts on the invoice and the amount of the fuel element differ, it is sufficient to have invoices which total at least the amount of the fuel element of the mileage allowance (typically 12-14p per mile)

(Further information can be obtained from [VAT Notice 700/64](#) available from the HMRC website.)