Expert Accounting and Finance

VAT-efficient supplies to directors and employees

You and your fellow directors require newer, better IT equipment now that you all frequently work from home. To receive a discount, the business will purchase it in quantity and then distribute it to each employee. Which approach to this is the most VAT-effective one?

Supplies made to staff

When you provide clients with goods or services in exchange for payment (payment of some kind), as a VAT-registered business, you must charge VAT unless the supplies are exempt from or not subject to the tax. Business gifts, or the transfer of products without receiving anything in return, are likewise subject to VAT.

These regulations also apply to supplies given to your staff members or the directors of the business.

VAT on supplies to staff

For VAT purposes, purchasing the equipment and allowing an employee or director to use it privately or keeping it permanently counts as a supply.

Example 1

Acom Ltd. employs a number of people who use IT equipment for their jobs. It purchases the machinery and gives the staff ownership right away. The VAT that Acom paid on the purchases may be reclaimed. However, because the transfer to the employees constitutes a supply, Acom is required to report VAT on the equipment's worth at the time of the transfer. This is equal to the purchase price in HMRC's perspective, therefore the VAT that Acom was able to claim is matched by the amount that it must account for. Therefore, the VAT position is unfavourable.

Delayed transfer

Although it counts as a supply, as we've already indicated, lending equipment to an employee or director and allowing them to use it for personal use can be more tax-efficient than transferring it right away.

Tip 1

It's more VAT-efficient for you to lease equipment to your workers/directors initially and transfer ownership later than it is to acquire the equipment and deliver it to your personnel right away when there will be private use by employees.

Example 2

Acom spends £9,000 on IT equipment and claims £1,500 in VAT back. After two years, it gives the employees ownership rather than just lending them the equipment. Workers using the equipment privately while Acom is the owner of it counts as a service supply, and the amount of the employees' personal usage of the equipment must be deducted from VAT. Personal use is likely to be little in this example; Acom pegs it at 10%. The cost of the IT equipment depreciates over a two-year period by £4,500, or 60% of the initial cost.

	VAT claimable	VAT payable
VAT reclaimed on IT	£1,500	
VAT on private use *		£90
VAT on transfer *		£600
Totals	£1,500	£690

** Depreciation £4,500 x private use rate 10% x VAT 20%*

***Transfer value £3,000 x VAT 20%*

VAT summary

The latter clearly has an advantage when comparing the VAT positions of example 2 (transfer of equipment after usage) and example 1 (immediate transfer of equipment to the employees). In our example, the savings amount is £810, however the VAT savings would vary depending on the volume of private usage and the depreciation rate. There is more VAT savings the lower the first and higher the second.

It is more VAT efficient for your firm to keep ownership of the assets until they have depreciated if you give employees (or directors) with equipment for business use but permit private use. The amount of VAT you must account for will be lower than the VAT you were able to reclaim on the purchase price if you later transfer ownership to the employee.