

VAT changes for defined benefit schemes

➤ New treatment of VAT deduction on the management of pension funds – good news for employers?

Earlier this summer, HMRC made a welcome policy announcement. It would be changing its approach to the treatment of VAT deduction relating to the management of defined benefit (DB) pension funds. This change took place with immediate effect on and from 18 June 2025.

In short, employers can now in principle claim back all the VAT on investment management costs linked to DB pension funds. If trustees are providing asset management services and charging the employer, together with VAT, they can also now claim back all the VAT on their costs, if they are VAT-registered.

This is a significant shift in policy and a welcome simplification for employers and trustees alike.

Background

Prior to the CJEU case of PPG Holdings in 2014, HMRC's policy was that employers could recover input tax incurred on costs relating to the administration of their DB funds, but not those in relation to investment management costs, which were considered a cost of the trustees. However, following that case, HMRC changed its policy to allow employers to recover input tax incurred on investment management costs, provided that the employer could show evidence that they contracted and paid for the investment management services.

HMRC took the view that VAT on asset management services may have a direct and immediate link both to the trustee's investment activity and supplies made by the employer.

Various arrangements were put in place so that employers would be treated as receiving the investment management



services to achieve VAT deduction. Some of these were rather complex, for example, tripartite arrangements and VAT grouping. Where there was dual use of investment costs by both the employer and the trustees, HMRC required a method of apportionment on a fair and reasonable basis to determine how much input tax could be deducted by each party.

New policy for input VAT on DB scheme investment management costs

HMRC will no longer view investment management costs as being subject to dual use by the scheme trustees and the employer. Instead, just like administration costs, they will be

treated as expenses of the employer's business and, accordingly, deductible by the employer.

In addition, where trustees are supplying pension fund management services to the employer and charging for them, together with VAT, they will also be able to deduct input tax incurred for the purpose of providing those services, provided that they are VAT-registered.

What does this mean for you?

1. In appropriate cases, claims for underclaimed input tax should be submitted now, to protect against the four year time limit.

2. Businesses may need to propose new partial exemption special methods

to align their VAT recovery with the new policy, to reflect the increased input tax recovery.

3. Contractual arrangements with investment management service providers should be revisited, as it should be possible to simplify certain arrangements effectively.

4. Care will still need to be taken to conform with regulatory requirements, and avoid conflicts of interest.

5. Employers should ensure that they do not reclaim input tax without a VAT invoice addressed to them. It is not yet clear what contractual evidence HMRC will insist on to show the employer has received the asset management supplies.

HMRC states that it will publish further guidance this autumn.



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