

HMRC updates guidance on VAT deduction for DB schemes

June 2026

Following the publication of a [policy paper](#) announcing a change to VAT deduction on the management of DB pension funds in June 2025, HMRC has now revised its [VAT Manual](#) (“the Manual”) to explain the position in more detail.

Background

VAT generally applies to goods and services that are bought and sold for use or consumption in the UK. Businesses account to HMRC for the amount of VAT they charge (“output tax”) less any VAT they incur on their own expenses (“input tax”). The basic rule is that there needs to be a direct and immediate link between the input amount and the output supply for a business to obtain a deduction.

As pension schemes make predominantly exempt supplies for VAT purposes (ie no VAT is chargeable) there are limits on the amount of VAT they can recover.

HMRC’s original position

In 2012, HMRC issued [VAT Notice 700/17](#) (“the Notice”) which confirmed that an employer’s management of its own pension scheme formed part of its “normal business activities”, but that the scheme’s investment activities did not. This meant that an employer could:

- claim input tax for “management” services, such as collecting contributions, paying pensions and taking advice on reviewing the scheme and implementing changes to it
- *not* recover VAT on “investment” services, such as taking advice connected with making investments or brokerage and custodian charges.

The “70/30” simplification

Where a supplier issued a single invoice covering both management and investment services, by way of simplification, HMRC allowed employers to treat 30% of the costs as being referable to management services (so recoverable). If the employer did not believe this to be a fair proportion, they could provide evidence for a different allocation to HMRC.

Having initially announced that the 70/30 simplification would be withdrawn following the *PPG* case (see immediately below), HMRC ultimately changed its mind, so this simplification continued to be available. But, against the backdrop of more recent developments (see “Where are we now?” below), it is currently unclear whether this will remain the case. This is therefore “one to watch”.

What changed?

In the July 2013 decision in *PPG Holdings BV*, the CJEU ruled that a Dutch employer with DB pension schemes was, as a taxable person, entitled to deduct the VAT paid on services relating to the management and operation of a pension fund set up for employees and former employees (ie both day-to-day management costs and investment management fees). The CJEU confirmed that input tax recovery is permitted where there is a “direct and immediate link” between the cost of these services and the employer’s economic activity as a whole.

Following *PPG*, HMRC changed its policy approach, announcing that employers would be entitled to recover VAT on *some* pension scheme investment management activities. This was dependent on there being a “direct and immediate link” between the supply received and the taxable supplies the employer made.

Post PPG



VAT recovery options

As a consequence of the PPG case, HMRC revised its guidance on the alternative arrangements for VAT recovery that could be adopted by employers and trustees. In particular, it provided the following options:

- under a tripartite arrangement, the third-party supplier of administration and investment services would contract with the trustees and the employer. The aim was to ensure that the employer would be the recipient of the third party's supplies (and as such, entitled to treat the VAT charged on those services as its input tax)
- scheme trustees supplying scheme "management" services to the employer
- VAT grouping – if the scheme trustees could be added to the employer's VAT group, third party services would be treated as made to the representative member of the VAT group and input tax would be deductible according to the VAT group's overall input tax recovery position.

Further policy change

On 18 June 2025, HMRC **announced** a further policy change. From that date, employers could claim back **all** the VAT on investment costs linked to pension funds and HMRC would no longer view such costs as being subject to "dual use" (ie where the costs benefited both the employer and the trustees, VAT had to be apportioned "on a fair and reasonable basis"). Where trustees were providing pension fund management services to the employer (and charging for them), they could also claim back VAT on their costs provided they were VAT-registered.



If you have any questions on any of the above, or would like further information, please speak to your usual Sackers contact.

Where are we now?



On 4 June 2026, HMRC issued revised pages of the Manual. Under its updated guidance, for an employer to recover VAT in relation to its DB occupational pension scheme either:

- the employer must contract with the provider directly (holding a valid invoice and evidencing payment), or
- the trustees must make a taxable charge to the employer for running the scheme. This will require the trustees to be VAT registered, either separately or by VAT grouping with the employer.

Action



In a nutshell, HMRC appears to have narrowed the options available to employers for recovering VAT in relation to their DB occupational pension schemes. As action may be needed to help preserve and/or optimise VAT recovery, DB trustees and employers should liaise with their tax advisers about the impact of this policy change as soon as possible.

What about DC schemes?



Provided they have certain characteristics, DC schemes fall within the VAT exemption for "special investment funds" (a term derived from EU law). As a result, "management" and "investment" services supplied to both trust and contract-based DC schemes will generally be exempt from VAT.