Annex 2

Flow charts for condition 3 of the automatic permission conditions in Box D, paragraph 5.2.

The flow charts below are designed to assist with the application of condition 3 of the automatic permission conditions in Box D, paragraph 5.2.

This condition consists of two requirements. The first requirement looks at the supplies you intend or expect to make, the outputs. The second requirement, if applicable, looks at the recovery of the VAT you incur on your costs or purchases, the inputs.

Following the flowcharts are a series of notes clarifying some of the terms used in the flowchart. Neither the flowchart or the notes form part of the automatic permission condition and do not themselves have legal force, they are provided for guidance only.
First (outputs) requirement – Condition 3, Box D, paragraph 5.2

Do you intend or expect to make opted supplies of the property (see note 1) to a person connected with you (see note 2)?

Yes

Do you intend or expect any of your opted supplies of the property (see note 1) to be made under an agreement (eg a lease) that was made before the option to tax has effect?

Yes

Do you expect the connected person to be entitled to deduct at least 80% of the VAT you charge him on the opted supplies?

Yes

Do any exempt supplies under this agreement relate (at least in part) to occupation of the property after the option to tax has effect (eg a lease premium, a prepayment of rental)?

Yes

Are all such exempt supplies ‘permissible’ exempt supplies (see note 3)?

Yes

You have met this requirement. Now consider the second (inputs) requirement.

No

You have not met this requirement and you now need to formally apply for permission (see paragraph 5.5 and 5.6 of this notice). Do not consider the second (inputs) requirement.
Second (inputs) requirement - condition 3, Box D, paragraph 5.2

Do you intend or expect to use any part of the capital expenditure for making exempt supplies?

- **NO**

Do you expect to get extra input tax credit (see note 4) on your capital expenditure (see note 5) on the property as a result of opting to tax?

- **YES**

Are all of these exempt supplies:

- Supplies conferring a credit to input tax (see note 6), and/or
- Supplies to someone not connected with you, within paragraphs 5 to 11 of Schedule 10 of the VAT Act 1994 (see note 7) and/or
- Permissible exempt supplies (see note 3) and/or
- Finance supplies falling within Group 5 of Schedule 9 of the VAT Act 1994 that are incidental to your business activities (eg bank interest)?

- **NO**

Under your partial exemption method do you expect the irrecoverable VAT on the capital expenditure to be £5,000 or less?

- **NO**

You do **not meet** automatic permission condition no 3. Unless you meet one of the other automatic permissions conditions, you must apply for written permission before you can opt to tax, see section 5 of this notice.

- **YES**

Can you obtain a refund of VAT on expenditure used for such purposes under sections 33, 33A or 41(3) of the VAT Act 1994 (eg if you are a local authority, a free entry museum or a government department)?

- **NO**

You **meet** this Second (inputs) requirement. If you have also met the First (outputs) requirement then you have satisfied automatic permission condition no 3 and can opt to tax without obtaining prior permission.