



VAT: refunds to strategic highways companies

Who is likely to be affected?

The strategic highways company which is proposed to be established under section 1 of the Infrastructure Bill.

General description of the measure

This measure will refund to the strategic highways company the VAT incurred on certain services which it outsources.

Policy objective

To ensure that irrecoverable VAT does not act as a barrier to the outsourcing of services from the public sector to the private sector where this would result in efficiencies of scale.

Background to the measure

Government departments can reclaim the VAT incurred on certain services which they and their executive agencies have outsourced. The Highways Agency is an executive agency of the Department for Transport and thus the VAT it incurs on the purchase of any listed services is included in the Department for Transport's claim.

On 1 April 2015 the activities of the Highways Agency will be transferred to a strategic highways company. Since this company will not be an executive agency of the Department for Transport, and since it too will not be engaged in any substantial business activities, the existing legislation will not permit it to recover VAT. This measure will amend UK legislation to enable the new company to recover VAT, just as the Highways Agency does via the Department for Transport.

Detailed proposal

Operative date

This measure will have effect on and after 1 April 2015.

Current law

Section 41(3) of the Value Added Tax Act 1994 (VATA) refunds VAT incurred by government departments on supplies of goods and services to them, or importations or acquisitions made by them, in so far as the Treasury directs and provided the purchases are used for non-business purposes. A government department includes its executive agencies.

Sections 41(6) and 41(7) of the Value Added Tax Act 1994 have the effect of deeming other bodies to be government departments for these purposes.

Proposed revisions

This measure will add to the list in section 41(7) VATA a strategic highway company appointed under section 1 of the Infrastructure Act 2015, which the Government expects to be passed before 1 April 2015.

Summary of impacts

Exchequer impact (£m)	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	-	nil	nil	nil	nil	nil
	This measure is not expected to have an Exchequer impact.					
Economic impact	The measure is not expected to have any economic impacts.					
Impact on individuals, households and families	<p>The measure is expected to have no impact on individuals or households as it is only concerned with VAT for one publicly funded body.</p> <p>The measure is not expected to impact on family formation, stability or breakdown.</p>					
Equalities impacts	The measure is expected to have no equalities impact.					
Impact on business including civil society organisations	<p>The measure is expected to have no impact on businesses or civil society organisations.</p> <p>It will only impact on the highways company that will take over from the Highways Agency.</p>					
Operational impact (£m) (HMRC or other)	There will be no significant operational impact.					
Other impacts	Other impacts have been considered and none have been identified.					

Monitoring and evaluation

As only one body is involved, this measure will be monitored through information collected on its tax returns and communication with it.

Further advice

If you have any questions about this change, please contact Graham Spencer on 03000 585822 (email: graham.spencer@hmrc.gsi.gov.uk).