

# VAT: Modernising the partial exemption special method application process

## Indirect Tax

21 November 2022

Following HMRC's launch of a new online application process when requesting a partial exemption special method, representatives from the CIOT met with HMRC's Partial Exemption team to discuss how the new system works and what benefits it brings to partially exempt taxpayers.

HMRC have modernised the application process for a partial exemption special method (PESM), with the recent launch of an online application ([tinyurl.com/ykztm69j](https://tinyurl.com/ykztm69j)) via a G-form. The online process digitalises the list of PESH requirements set out in Appendix 2 of VAT public notice 706: *Partial exemption* ([tinyurl.com/yys3akj7](https://tinyurl.com/yys3akj7)), in the 'What you need to upload' page of the online application. It is worth noting all of the requirements on this page as you need to have the right upload ready for the particular area of the online application before progressing to the next question.

The HMRC email addresses formerly used for PESH applications (including the COVID PESH email address) have been decommissioned. As stated in the public notice, those who are digitally excluded may still use the written application route.

Once a PESH application is submitted, there are several HMRC teams that may become involved. Initially this will be the PESH caseworker, though they may seek input from several sources: the Customer Relationship Manager (large businesses), an industry sector VAT specialist or partial exemption specialist, or from VAT policy. As the various VAT specialists can be in different locations, the online application creates a single focal point for the PESH application, meaning that the input is recorded in a single place, the officers all have access to the input from other teams,

and the timelines for actions are more visible. Whilst a written submission will go through a similar process, if the application has not included all the information requested in the online application or Annex A, this will slow the application down as HMRC will have to enter into correspondence to request that more information is provided.

The CIOT asked questions about how the online application may impact typical PESH experiences:

- **Agent involvement:** It was noted that if an agent completes the online application, the business is still responsible for making a fair and reasonable declaration. The signed declaration by the client can be uploaded via the G-form as part of the application process.
- **Impact to timelines:** There are experiences of PESH applications taking a long time to be approved, with some more extreme examples taking over two years. HMRC noted that receiving the online application via the G-form allows the application to be added to their database of method proposals, which greatly assists with the visibility of long running cases in the internal dashboard statistics and allows extra resources to be allocated.
- **PESH with exempt and non-business activities:** HMRC confirmed that the online application route can be used when a taxpayer wants a PESH for both exempt and non-business activities.
- **Adjusting a PESH:** Where a business changes (including changes to a group membership) and the method remains fair and reasonable, there is no need to request a new PESH. However, any changes which mean that the method is no longer fair and reasonable or where the client wants to use a different calculation will mean a new proposal is required.
- **Reasons for a PESH rejection:** The CIOT highlighted that it was crucial in communications to understand the reasons why a PESH application had been rejected, particularly for complex PESHs where it was rejected for only one or two areas of non-agreement. As the PESH can take a lot of time for the taxpayer and agent to prepare, understanding HMRC's precise reservations is important. HMRC said that they would always want to see correspondence clearly detailing the areas of concern and internal training supports that outcome.

If you have any feedback about the online application process for a PESH, do let us know at [technical@ciot.org.uk](mailto:technical@ciot.org.uk) with 'PESH online application' in the email title.

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