VAT ALERT

# VAT CAPITAL GOODS SCHEME - SIMPLIFICATION MEASURE

AUGUST 2026

**HM Revenue & Customs recently announced significant changes to the VAT Capital Goods Scheme (CGS), that had been awaited for decades. The changes are designed to reduce the administrative burden on VAT-registered businesses and took effect from 29 July 2026.**

VAT incurred on expenditure on certain capital assets must be recovered in accordance with the CGS. The purpose of the CGS is to ensure that VAT recovery on high value, long life capital assets reflects their taxable use over time.

Under the scheme, businesses acquiring capital assets for their taxable business activities are entitled to recover the input tax incurred, subject to the normal rules.

However, where the extent to which the assets are used for taxable activities changes over a set period, the CGS requires adjustment to the input tax reclaimed to reflect the change in use. This ensures that VAT is only recoverable to the extent to which the asset is used in making taxable supplies.

**What exactly has changed and why?**

Assets previously covered by the CGS included the following:

- A computer or item of computer equipment if the capital expenditure was £50,000 or more.
- Land, buildings and civil engineering works if the capital expenditure was £250,000 or more.

The announced simplification introduced two significant changes to the scheme. From 29 July 2026, the following changes have taken effect:

- Computers and items of computer equipment will be removed from the list of assets covered by the scheme.
- The expenditure threshold for land, buildings and civil engineering work will increase from its current value of £250,000 (exclusive of VAT), to £600,000 (exclusive of VAT).

The government has stated that the objective is to simplify VAT administration and remove the need for many businesses to undertake complex CGS calculations and annual adjustments.

In doing so, it has also recognised that the £250,000 property threshold had remained unchanged

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since the scheme was introduced in 1990 and no longer reflected the significant increase in property values and inflation over that period. The increase to £600,000 is, therefore, intended both to reduce administrative burdens and to ensure that the scheme is targeted at larger capital projects.

**Effect of the changes**

The CGS requires businesses to monitor the use of certain high-value assets over a number of years and adjust the amount of VAT recovered if the taxable use of those assets changes. For land and buildings, the adjustment period is typically ten years.

By increasing the threshold to £600,000, many smaller property acquisitions, refurbishments and construction projects that would previously have fallen within the CGS will no longer be subject to these ongoing compliance requirements. Businesses will therefore avoid the need to:

- maintain CGS records;
- perform annual CGS calculations;
- monitor changes in use over a ten-year period; and
- adjust historic VAT claims if property use changes in the future.

It is important to note that the new £600,000 threshold will apply only where qualifying expenditure is first incurred on or after 29 July 2026. Projects that have already incurred expenditure before that date will remain subject to the previous £250,000 threshold and CGS rules. Therefore, CGS assets that were brought into the scheme under the previous thresholds will continue through their normal adjustment periods. For land and buildings, this means the ten-year adjustment period continues to apply.

Whilst most businesses will welcome the reduction in compliance obligations, there is a potential downside. Assets valued between £250,000 and £600,000 will no longer benefit from future CGS adjustment opportunities.

Therefore, businesses expecting their taxable use to increase over time will lose the ability to recover additional VAT through future annual CGS adjustments.

The £50,000 CGS threshold for aircraft, ships, boats and other vessels remains unchanged.

Please contact Catherine Thompson or Sharon Gillies should you have any questions or require further information.

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