



Value Added Tax (VAT) and Pension Schemes – HMRC Announces a Significant Change to the Existing Guidance on VAT Reclamation

Background

Historically, HMRC's policy stated that sponsoring employers of occupational pension schemes could recover input tax (VAT) on costs relating to the administration services of their pension schemes, but **not** those relating to investment services.

HMRC's view was that, where an employer funds an occupational pension scheme, it was necessary to distinguish between the costs of the day-to-day administration of a scheme and investment related services. It considered investment services related **solely** to the activities of the pension scheme and VAT in respect of those services could **not** therefore be reclaimed by the employer.

However, as a concession, where a single invoice was received, covering both administration and investment services, HMRC would allow a 70:30 split, allowing VAT of 30% for administration services to be recovered.

Then from 2014, following a CJEU (Court of Justice of the European Union) ruling, HMRC changed its policy again to allow employers to recover VAT incurred on investment related services, but only if they were **directly contracted by the employer and the employer paid for the services**.

Then in June 2025, HMRC introduced a simplified VAT policy. They removed the previous need to split VAT recovery and all VAT on investment services was entirely attributable to the employer, so long as normal VAT deduction rules were met. Employers could then reclaim all the VAT on investment costs linked to pension schemes **without any special contractual arrangements in place**.

What is HMRC's new guidance?

HMRC has now issued revised guidance once again.

Direct Contract Requirement: HMRC's updated guidance now strictly requires that for an employer to recover VAT for administration or investment services, **the employer must be the direct contractual recipient of these services**, pay the service provider and hold a valid tax invoice made out in its own name.

Invoicing: If a services contract is between the trustees and a service provider (be they administration services or investment services), invoices must be issued to the trustees, thus **preventing an employer reclaiming the VAT on costs linked to a pension scheme**.



Possible solutions to VAT recovery

To allow an employer to reclaim VAT, trustees and employers may wish to consider the following:

- **VAT grouping** - this involves adding a corporate trustee to the employer's VAT group and enables employers to recover VAT paid by the trustee.
- **Register the pension scheme for VAT and on-charging** - the trustee registers for VAT, directly contracts with the investment services provider, but then makes a taxable "on supply" of those services to the employer. That is, they issue a VAT invoice to the employer, who can then recover the VAT.
- **Tripartite contract** - a contract between the employer, the trustees, and the service provider. The employer is then party to the contract, receives the services and pays the service provider directly enabling VAT recovery.

There are however, "pros and cons" in relation to the alternatives of a tripartite contract, registering a pension scheme for VAT, and VAT grouping.

Cartwright's comments

Given HMRC's recent and frequent changes to its position on VAT recovery, we strongly recommend that trustees and employers review the updated guidance on VAT recovery as soon as possible.

We further recommend that, if appropriate, specialist advice is taken from a tax or VAT expert in relation to any current structures and invoicing practices that may be in place to avoid increased costs for both pension schemes and trustees, as well as sponsoring employers.

If you would like to discuss this matter further, please get in touch with your usual contact at Cartwright.

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