



Value Added Tax (VAT) and Pension Schemes – HMRC announces a significant policy change

Historically, HMRC's policy was that the 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.

However, there was a concession for services that covered a mixture of **both** administration and investment services. HMRC allowed employers to assume that 30% of the VAT related to administration services and was therefore recoverable.

Then from 2014, following a CJEU (Court of Justice of the European Union) ruling in July 2013, HMRC changed its policy again. This time to allow employers to recover VAT incurred on investment related services, (e.g. investment advice, management, brokerage, custody services), but only if they were **directly contracted and the employer paid for the services**.

HMRC did suggest strategies to help with VAT recovery, but their guidance was to continue to apply the 70:30 split on VAT recovery where there was a mixture of administration and investment services.

What has changed?

HMRC has introduced a simplified VAT policy and employers can now reclaim all the VAT on investment costs linked to the pension schemes.

Summary of the key changes:

Full VAT recovery for employers

Employers can now reclaim VAT on both administration and investment services related to defined benefit pension schemes without any special contractual arrangements in place. This aligns investment-related costs with how administration services costs have always been treated.

No more "Dual use" apportionment

HMRC has removed the previous need to split VAT recovery between employers and trustees in relation to investment related services. Under the new policy, all VAT on investment costs is entirely attributable to the employer, so long as normal VAT deduction rules are met.

Trustees VAT recovery (if VAT registered)

Trustees who supply and charge for pension fund management services to an employer will also be able to deduct VAT incurred for the purpose of providing those services, provided they are VAT-registered.



Retrospective claims

Employers may reclaim VAT on eligible pension related costs dating back to up to four years. This gives employers an opportunity to obtain significant refunds.

Guidance due in autumn 2025

HMRC intends to publish detailed guidance explaining this policy change in the autumn.

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

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