Proskauer

UK Tax Round Up

September 2025

Welcome to the September 2025 edition of our UK Tax Round Up. Amidst the flurry of rumours regarding tax rises and changes that may or may not be announced in the Budget on 26 November, September has been a relatively quiet month in terms of actual developments. The Supreme Court did however hand down its judgement in the long-running *Prudential* VAT case, and in *Collingwood* the importance of properly drafted legal agreements was considered by the First-tier Tribunal.

VAT due on services invoiced and paid after member leaves VAT group

In *Prudential Assurance Company Ltd v HMRC*, the Supreme Court (SC) has clarified how the UK's VAT grouping rules interact with the "time of supply" rules that determine when a supply is treated as being made. The judgement confirms that where services are invoiced after a company leaves a VAT group, VAT may be chargeable even if the services themselves were performed during the period of group membership. We reported on the decision of the Court of Appeal (CA) here.

As explained in our earlier summary, the dispute concerned deferred performance fees payable under an investment management agreement where the investment manager left the Prudential VAT group before a contingent payment became due. HMRC treated the later invoicing of those fees as a taxable supply, whereas Prudential argued that the services had been performed while both parties were in the same VAT group and should therefore have been disregarded.

The CA upheld HMRC's position, holding that the rules on continuous supplies meant that the time of supply was when the contingent consideration became due, not when the underlying services were performed.

The SC has now dismissed Prudential's further appeal. The SC confirmed that "supply" must be interpreted consistently across applicable VAT rules and placed particular emphasis on the compatibility of the continuous supply provisions with EU law, framing them as reflecting a deliberate policy choice to align the time of supply with the chargeable event. The SC also rejected Prudential's reliance on the earlier BJ Rice decision (also described in our previous CA report), which it confined narrowly to its own facts.

Importantly, the SC disagreed with HMRC's submission that services can continue to be treated as "continuous" after performance has ended. However, it held that the continuous supply rules can still apply to contingent fees, so that a payment triggered after performance has ceased is deemed to be supplied at that later point — meaning VAT was chargeable once the manager had left the VAT group.

From a practical perspective, businesses planning a VAT group reorganisation should, where possible, ensure that outstanding amounts for services supplied during membership are invoiced and paid before a member leaves the group Where this is not feasible, for example, with long-term performance fees, the potential VAT cost should be factored into the commercial decision on timing.

Sponsorship payments subject to income tax despite assignment of intellectual property rights to a company

In *Collingwood v HMRC*, the First-tier Tribunal (FTT) dismissed an appeal by the cricketer Paul Collingwood (PC) concerning the tax treatment of sponsorship payments he received under a series of agreements with sporting brands and other sponsors. The case is a reminder that attempts to divert sponsorship or endorsement income to a personal service company will not be effective where the individual remains the contracting party and the services are performed personally.

The sponsorship agreements provided for payments in return for PC's promotional activities, including the use of branded equipment, appearances at events, and the use of his name, image, biography and photograph. The agreements were made with PC personally, and the payments were directed to him. However, these payments were not included in his income tax returns on the basis that PC had assigned certain intellectual property rights to a limited company, of which he was the sole shareholder and director. The purpose of this assignment was to route sponsorship and publicity income through the company, so that profits could be subject to corporation tax rather than income tax and potentially extracted more tax-efficiently.

HMRC treated the sponsorship payments as taxable income from PC's cricketing activities (i.e. income from a trade, profession or vocation) or, in the alternative, as other taxable income akin to employment income. It argued that the income belonged to him personally, since he was named in the contracts and required to perform the services himself. The company had no contractual rights or obligations.

PC contended that the assignment meant the income should be taxed on the Company, not him. He also argued that HMRC's silence in earlier years created a legitimate expectation in his favour.

The FTT rejected these arguments. It held that the sponsorship agreements clearly named PC as the contracting party, and there was no evidence that the rights or obligations under those agreements had been validly assigned to the company. In fact, two of the agreements expressly required the sponsors' consent for assignment, and PC had adduced no evidence of such consent. Nor was there evidence that the payments were ever made to the company's bank account or that the Company was otherwise involved in the arrangements. Even though the payments were included in the company's accounts, this could not displace PC's personal contractual entitlement. The tribunal also observed that no witnesses had been called who could explain the drafting of the agreements or how they operated in practice.

On the legitimate expectation point, the tribunal confirmed that it had no jurisdiction to entertain a public law challenge in a statutory tax appeal. It added that even if such an argument were available, it would have failed; HMRC had not made any clear or unambiguous representation on which PC could reasonably rely, and its earlier treatment appeared to have been based on an incomplete understanding of the facts.

This case underlines that tax treatment follows the contractual and legal reality of agreements, not how they are accounted for. It also highlights the importance of contemporaneous documentation and evidence when seeking to support a particular tax treatment and serves as a reminder of the limits of the FTT's jurisdiction in public law matters.

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