

VAT ON PROPERTIES

Within the property sector there are many VAT issues, each will depend on the exact nature of the supply.

The basic position is that the majority of the property transactions are exempt from VAT. Therefore the associated input tax can not be recovered. Though, in some cases this is subject to partial exemption rules.

New Builds

Property intended for relevant residential use, charitable use and dwellings

A new build is Zero rated, which means that all builders and subcontractors do not charge any VAT on their supply of labour only or fixed contracts.

The builder or subcontractor will have to pay the vat on the purchase of materials, they will be able to reclaim this, either on a quarterly basis or on a monthly basis, or any such period that has been agreed with HMRC.

Commercial Property

The construction cost of a new commercial building is liable to standard rate.

If the building was to be disposed of which is less than three years old, then the sale is charged at the standard rate, even if the property is not opted-to-tax.

If the property is over 3 years old then the sale is exempt for VAT unless the property has been opted-to-tax.

Many commercial property owners want zero-rated or standard-rated sales to ensure that the input VAT incurred on the construction costs can be recovered in full.

Existing Buildings

Those wanting to renovate, refurbish or extend an existing dwelling have to pay out VAT at the full rate on any contracts, supply and fix, labour only or materials only, and this is not recoverable.

However, in some, circumstances the VAT can be reduced or Zero rated.

Refurbishing empty premises to be used as a residential property

If a dwelling has been empty for more than two years then a VAT-registered builder or subcontractor can obtain permission from HMRC to charge a reduced rate of 5% on their work and therefore, reduce the burden on paying VAT for taxable supplies.

Converting non residential property into a dwelling

The conversion of a non-residential building into a house or flats will usually qualify for the 5% VAT rate. The reduced rate also applies to conversions that change the number of dwellings, converting flats into one house, or a single property into multiple apartments.

Alterations to protected buildings

Prior to 1 October 2012 work undertaken of an approved alteration to a protected building was treated as zero-rated. With effect from 1 October 2012 zero-rate has been withdrawn.

Though, to mitigate the impact of the change transitional relief will apply until 30 September 2015. This means that a supply of an approved alteration will be standard rate with effect from 1 October 2012 unless they qualify for:

1. continued relief under the transitional rules, or
2. Zero-or reduced rating under another part of the VAT law

Whether you are a contractor, developer or a DIY builder, we will be happy to advise on how best you can benefit from the VAT reliefs that are available for construction projects, please get in touch should you want to discuss this further.

This guide is for general information only and is not intended to be advice to any specific person. You are recommended to seek competent professional advice before taking or refraining from taking action on the basis of the contents of this publication. The guide represents our understanding of the law and HM Revenue & Customs practice as at February 2016, which may be subject to change.