Reduced rate VAT for renovating empty residential premises.

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Property developers and tradespeople may benefit from reduced rate 5% VAT for works on residential properties that have been empty for the last two years.

The reduced rate covers some renovations and alterations for residential properties that have been entirely empty for the two years immediately before work starts.

The remainder of this article covers the specific conditions attached to the reduced rate.

However, relief may still be available for landlords willing to restructure by establishing a company to manage their property portfolio.

Mike Handley, Director and property investment expert at Flow explained, “Higher rate taxpayers currently enjoy 40% tax relief, but from 2020 that is likely to halve to 20%”. During the same period, corporation tax will decrease from 20% to 18% – making the management of a property portfolio through a business even more attractive.”

HMRC explains that services qualify for the reduced rate when four conditions are met:

**Condition 1.**
Alterations or renovations are made to ‘qualifying residential premises’.

**Condition 2.**
The premises have not been lived in for two years or more prior to work commencing.

**Condition 3.**
The services are ‘qualifying services’.

**Condition 4.**
Where necessary, the contractors conducting the work hold a valid certificate.

We tackle each of these areas in turn on the next few pages.
Condition 1.

Alterations or renovations are made to ‘qualifying residential premises’.

According to HMRC, ‘qualifying residential premises are’:

1.1. A single household dwelling;

1.2. A multiple occupancy dwelling that has been entirely empty for two years prior to work commencing;

1.3. A building, or part of a building, which, when last lived in, was one of a number of buildings on the same site that were used together as a unit for relevant residential purposes. You need not renovate or alter all of the buildings for the reduced rate to apply, but those that are renovated or altered must be used together as a unit solely for relevant residential purposes with a certificate issued (see next page).

“Landlords will pay tax on income, whereas companies only pay tax on profits”.

Mike Handley
Property Investment Expert
Condition 2.

The premises have not been lived in for two years or more prior to work commencing.

The premises have not been lived in for two years or more prior to work commencing.

The reduced rate only applies to renovation or alteration works if, in the two years immediately before the renovation starts, the qualifying residential premises have not been lived in.

You cannot reduce rate the renovation or alteration of an empty building within the grounds of an occupied home of institution. So if the premises is a building (or part of a building) which when last lived in was one of a number of buildings on the same site used together for a relevant residential purpose, then none of the buildings that make up the original unit must have been lived in for the two years immediately prior to work commencing.
How do I know if a building has been empty for two years?

You may be required to show proof, which can be obtained through:

2.1.1. Empty Property Officers in local authorities. If you hold a letter from an Empty Property Officer that certifies the property has not been lived in for two years you do not need any other evidence. If the Empty Property Officer is unsure, he should write with his best estimate. HMRC may then call for other supporting evidence.

2.1.2. Electoral Roll and Council Tax records;

2.1.3. Utilities companies;

2.1.4. HMRC also states that evidence can be sourced from ‘any other source that can be considered reliable’.

If a property has been used on an occasional basis (for example because it was used as a second home) in the two years prior to the commencement of the work it does not qualify.

What can I ignore?

You can ignore any:

- illegal occupation by squatters;
- non-residential use such as storage for a business;
- occupation by ‘guardians’. Guardians are people installed in a property by the owner to deter squatters and vandals. He or she may be paid to occupy the property or pay a low rent on terms that fall short of a formal tenancy.

Can people move into the premises whilst the work is being carried out?

Work can be reduced rated even if the premises are lived whilst work is being carried out, but only if the property is lived in from any day after the work starts.

Again the property must have been entirely empty for two years immediately before the work starts.

The rules vary slightly for ‘single household dwellings’.

If a single household dwelling has been empty for two years but is now lived in you can reduced rate services if the following conditions are met:

2.2.1. In the two years immediately before the occupier acquired the dwelling it had not been lived in;

2.2.2. No renovation of alteration had been carried out in the two years before the occupier acquired the dwelling (small works required to keep the property dry and secure can be ignored);

2.2.3. Only services supplied direct to the occupier qualify – subcontractors must standard rate their work;

2.2.4. Services take place within one year of the occupier acquiring the dwelling.

The above exceptions only apply to ‘single household dwellings’, not to multiple occupancy dwellings or buildings intended for relevant residential purposes.
Condition 3.
The services are ‘qualifying services’.

Any works of repair, maintenance (such as redecoration) or improvement (such as the construction of an extension or the installation of double glazing) carried out to the fabric of the dwelling may qualify.

You can also reduced rate works within the immediate site of the dwelling in connection with the:

- Means of providing water, power, heat or access;
- Means of providing drainage or security;
- Provision of means of waste disposal.

What is not included?

- Installing goods that are not building material, such as carpets;
- The erection and dismantling of scaffolding;
- The hire of goods;
- Landscaping;
- The provision of professional services, for example the work of architects, surveyors, consultants and supervisors.

Can I reduced rate work to garages?

If the premises qualify and works are renovated/improved at the reduced rate, the renovation, construction of, or conversion of a building into a garage can qualify provided the work is carried out at the same time as the work to the premises, and that the garage is intended to be occupied with the renovated or altered premises.

The provision of a hardstanding (ground surfaced with a hard material for parking vehicles on) cannot be reduced rated unless it is also used as an access.
Condition 4.

Where necessary, the contractors conducting the work hold a valid certificate.

To qualify for the reduced rate a certificate confirming sole use must be issued by the person or persons who will receive the renovation services. Importantly, for a building to qualify it must be used solely for ‘relevant residential purpose’ after the work has been completed. You must provide your contractor with a certificate to confirm this will be the case. You can read more about the certificates required at: http://www.hmrc.gov.uk/manuals/vconstmanual/VCONST18000.htm

Apportionment

If works extend beyond those which qualify then your contractor may apportion their charges on a fair and reasonable basis. If they decide not to make an apportionment then none of the work can be reduced-rated.
What next?

We firmly recommend that all property developers and contractors interested in exploring reduced rate VAT conduct further reading.


To speak with our expert team about establishing a Cloud solution tailored to your property business, please contact:

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