

WHAT CONTRACTORS NEED TO KNOW ABOUT VAT – PART 2

In part 1 (factfile 9) I covered the basic VAT position on supply of construction services and zero rating of new buildings. In this factfile I deal with conversions of buildings.

BASIC POSITION

It should be remembered that the basic position is that you should standard rate the supply of construction services in converting a building.

PRINCIPLE EXCEPTIONS

1. **Conversion for a housing association of a non residential building into a dwelling or number of dwellings or for relevant residential purposes.** A typical example of this would be the conversion of an office block into flats. There are a number of requirements which need to be borne in mind:

a) the building must be non residential i.e. the building being converted has never been used as a dwelling or dwellings or has not been used for 10 years prior to the start of work.

b) If the conversion is to a relevant residential purpose the contractor will need a certificate confirming intended use.

c) sub-contractors services are not made directly to the relevant housing association and are not therefore zero rated.

2. **Conversion of premises to residential use or a different residential use will be charged at a reduced rate of 5%.** The conversion can be single household dwellings (e.g. flats), multiple occupancy dwellings (e.g. bed sits) or relevant residential purposes. An example would be the conversion of a large house into flats.

Where premises are already being used as single household dwellings, then in order to qualify, the works should not be mere refurbishment. There has to be the creation of more or less single dwellings. For example if the project merely alters the footprint of existing flats in the premises but no additional flats are created this will not qualify; If, however, four existing flats are converted into two larger flats this will qualify. In applying the rules the Revenue will split up what is genuinely a conversion and what is refurbishment on a floor by floor or flat by flat basis.

3. **Renovation or alteration of empty residential premises to form a dwelling or dwellings or for a use for relevant residential purposes will be charged at a reduced rate of 5%.** The premises have to be empty for two years prior to start of work and evidence of this has to be held. Thus a house which has been unoccupied for 5 years which is converted into two flats would qualify.

4. **Sale of a non residential building converted to a residential use.** Whilst the conversion of a non-residential building into dwellings is subject to standard rate or reduced rate VAT, this is mitigated if the dwellings are sold by the developer on a freehold or a long leasehold (125 years or more) basis. On the first sale the developer can zero rate the sale and thus reclaim the attributable VAT charged on the conversion by the contractor.

It should be noted that this fact file is only introductory and great care should be taken when advising of VAT treatment. Hopefully this fact file will be sufficient to recognise issues. Specialist advice should be taken on the actual treatment of supplies by a contractor.

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