

CHAPTER 23

LAND AND BUILDINGS: ZERO AND REDUCED-RATING

23.1 Construction of buildings

The

- **first grant** of a
- **"major interest"** by a
- person constructing a building designed as a **dwelling or number of dwellings** or intended for use solely for a **"relevant residential"** or a **"relevant charitable"** purpose

is **zero-rated**.

A "relevant residential" purpose is a:

- home or institution providing residential accommodation for children, or personal care for the elderly or disabled; hospice; or
- residential accommodation for students; or
- monastery, a nunnery or similar establishment.

A "relevant charitable" purpose is for use by the charity but **not** in the course or furtherance of their business, or for use of a village hall.

Also covered by the zero-rating legislation is the first grant of a major interest by a person converting a **non-residential building into a building designed as a dwelling** or intended for use for a **relevant residential purpose**. This might be where someone is converting a warehouse building into flats.

A **"major interest"** is a **freehold or a lease exceeding 21 years**.

As an example, Wonky Builders build a brand new home on a beautiful executive estate which they then sell. They sell the freehold to Mr and Mrs Jones. Thus a builder of a new home makes a **first grant of a major interest** (i.e. freehold) in the building to Mr and Mrs Jones - this would be a **zero-rated sale** for Wonky Builders.

Group 5 of Schedule 8 covers two more principal supplies; both relating to the **costs of construction**.

The first of these supplies is the supply in the course of a qualifying construction of services related to the construction. For example, Wonky Builders contracts with a plasterer to plaster many of the houses on the building site. The plasterer would be supplying services related to the construction and those services could be zero-rated.

However, **zero-rating does not apply** to the **services of an architect, surveyor, consultant** or any person acting in a supervisory capacity. These costs will be standard-rated.

[VATA 1994, Sch 8, Group 5, Item 1a](#)

[VATA 1994, Sch 8, Group 5, Notes 4 & 6](#)

[VATA 1994, Sch 8, Group 5, Note 12B](#)

[VATA 1994, Sch 8, Group 5, Item 1B](#)

[VATA 1994, s. 96](#)

[VATA 1994, Sch 8, Group 5, Item 2](#)

Secondly, if that sub-contractor, as well as providing services, also supplies some materials - for example, he brings his own plaster or he supplies his own bricks - the supply of those building materials can be **zero-rated as well**.

[VATA 1994,
Sch 8, Group 5
Item 4](#)

The following additional provisions apply where all or part of a building is intended for use solely for a relevant residential or relevant charitable purpose;

No supply of services relating to a building (or part of it) can be taken as relating to a building unless it is **made to a person who intends to use the building (or part) for such a purpose**. The effect of this is that, although the main contractor can zero rate the construction of such a building, a **subcontractor must standard rate all supplies to the main contractor** on such building projects.

[VATA 1994,
Sch 8 group 5
Note \(12a\);](#)

Where all or part of a building is intended for use for a **relevant residential or charitable purpose**, a **supplier of services cannot zero rate the supply until the customer has given him a certificate** to that effect.

Where part of a building qualifies for zero-rating and part does not (e.g. shop premises with a flat over them), a supply relating only to the part within these provisions is to be treated as relating to a zero-rated building. Similarly, a supply relating only to the part outside those provisions is not zero-rated.

[VATA 1994,
Sch 8 Group 5
Note \(10\)](#)

In the case of **any other supply**, an **apportionment must be made** to determine the extent to which zero-rating applies.

Building work that relates to the fabric of the building affecting both qualifying and non-qualifying parts of the building must be apportioned, such as work to

- roofs;
- foundations;
- lifts; and
- building services that supply the whole building (e.g. wiring and plumbing).

23.2 Deduction of input tax

Where a taxable person constructing a building for the purpose of granting a major interest in the building, incorporates goods other than building materials in any part of the building, input tax on the supply is **excluded** from credit.

[SI 1992/3222,
Art 6](#)

Input tax on related services of installing the goods can be reclaimed, provided the services are separately identified and VAT is correctly charged by the person supplying them.

Input tax can be recovered on goods which are not incorporated into the building or its site (e.g. free-standing items). A separate supply takes place when these goods are sold with the building on which output tax must be accounted for at the normal rate.

Where input tax has been blocked on goods incorporated in a building, any onward supply of those goods is an exempt supply. This includes items incorporated in showhouses where these sales are not treated as part of the supply of the building.

Example 1

Consider the following four supplies and decide whether they are zero-rated or not. Tick as appropriate.

1. Sale of 99 year lease in Flat 3 of a 6 flat conversion of an old warehouse in Salford by the builder Splendid Homes Ltd.
2. Sale of freehold in Flat 2 in above development by Mr Smith who purchased it 3 months ago but never moved in due to job relocation.
3. Supply of plumbing services to Splendid Homes Ltd by Johnny Plumb who fitted central heating into Flat 3.
4. Supply of architect services to Splendid Homes Ltd in respect of the above development.

23.3 Protected Buildings

Some protected buildings also fall into the zero-rated category as outlined in Group 6 of Schedule 8.

[VATA 1994,
Sch 8 Group 6](#)

A protected building is;

- 1) a building designed to remain as or become a dwelling or is intended for use solely for a relevant residential purpose or a relevant charitable purpose; &
- 2) the building is either a **listed building** or a **scheduled monument**.

The first grant of a major interest by a person substantially reconstructing a protected building, is zero-rated.

Some protected buildings also fall into the zero-rated category as outlined in Group 6 of Schedule 8.

[VATA 1994,
Sch 8, Group 6,
Item 1](#)

A protected building is not to be regarded as **substantially reconstructed** unless **one or both** of the following conditions are fulfilled when the reconstruction is completed:

[VATA 1994,
Sch 8, Group 6
Note 4](#)

- At least $\frac{3}{5}$ ths of the cost of the reconstruction work would, if supplied by a taxable person, qualify for zero-rating as the supply of services (and materials) in the course of an **approved alteration**; and/or
- The reconstructed building incorporates no more of the original building than the external walls together with other external features of architectural or historic interest.

[VATA 1994, Sch 8, Group 6, Item 2](#)

The supply in the course of an **approved alteration** of a protected building of any services other than the services of an architect, surveyor or any person acting as a consultant or in a supervisory capacity, is zero-rated. This allows **zero-rating of the services of sub-contractors**.

An "approved alteration" is work for which there is **planning permission** and does not include work on repair or maintenance or any incidental alteration to the fabric of the building.

23.4 Reduced rate supplies

VAT is charged at the reduced rate of 5% on;

- (a) qualifying services supplied in the course of certain residential conversions;
- (b) qualifying services supplied in the course of renovating and altering certain buildings that have been empty for two or more years
- (c) building materials and certain electrical goods incorporated into a building by a builder who is also supplying services within (a) or (b) above; and
- (d) installation of energy-saving materials and the grant-funded installation of heating equipment or security goods or connection of a gas supply.

[VATA 1994, Sch 7A, Group 6](#)

[VATA 1994, Sch 7A, Group 7](#)

[VATA 1994, Sch 7A, Group 2 & 3](#)

[VATA 1994, Sch 7A, Group 6](#)

Residential conversions

VAT is charged at the reduced rate of 5% on qualifying services supplied in the course of certain residential conversions. The VAT liability of conversion work is summarised in the following table.

<i>Before conversion</i>	<i>After conversion</i>		
	Single household dwelling(s)	Multiple occupancy dwelling(s)	Relevant residential purpose building
Single household dwelling(s)	Standard-rated (unless the number of dwellings changes)	Reduced-rated	Reduced-rated
Multiple occupancy dwelling(s)	Reduced-rated	Standard-rated	Reduced-rated
Relevant residential purpose building	Reduced-rated	Reduced-rated	Standard-rated
Any building not listed above	Reduced-rated	Reduced-rated	Reduced-rated

Residential renovations and alterations

[VATA 1994, Sch 7A, Group 7](#)

The renovation or alteration of a single household dwelling that has not been lived in for two years or more is subject to VAT at the reduced rate of 5%.

The reduced rate is extended to the renovation or alteration of a building to be used solely for a relevant residential purpose (e.g. a care home) or a multiple occupancy dwelling (e.g. bed-sits), provided the premises have not been lived in for at least two years.

[VATA 1994, Sch 7A, Group 6, Item 2](#)

23.5 D-I-Y Housebuilders

A special VAT Refund Scheme puts D-I-Y builders and converters in a similar position to a developer selling a zero-rated property, by refunding them the VAT on their main construction or conversion costs.

Under the scheme, HMRC must refund any VAT chargeable on the supply of any goods used in connection with construction or conversion work where the following conditions are satisfied.

- (a) The work must comprise:
- (i) the construction of a building designed as a dwelling or number of dwellings;
 - (ii) the construction of a building for use solely for a relevant residential purpose or for a relevant charitable purpose; or

- (iii) a **“residential conversion”** i.e. the conversion of a non-residential building into either a building designed as a dwelling or a building intended solely for a relevant residential purpose.
- (b) The work is carried out lawfully and otherwise than in the course of furtherance of any business.
- (c) The goods are building materials which are incorporated in the building in question or its site. Refunds can be claimed on the building materials which would be zero-rated when supplied with the zero-rated work but not on those which would be standard-rated.
- (d) The claim is made within such time and in such form and manner, contains such information, and is accompanied by such documents as HMRC require.

Where a person carried out a residential conversion and arranges for the work to be done by someone else ('a contractor'), then provided

- (i) the condition in (b) above is satisfied, and
- (ii) the contractor is not acting as an architect, surveyor or consultant or in a supervisory capacity,

HMRC must, on a claim, **refund any VAT chargeable on any services** consisting of work done by the contractor.

The scheme can therefore be used to **reclaim VAT on eligible goods used to construct a new qualifying dwelling**, communal residential building or charity building, and on eligible goods and services used to convert a non-residential building into a qualifying dwelling or communal residential building.

The buildings must **not be intended to be used for business** purposes.

Builders' services in connection with the construction of a new building should be zero-rated. For conversions, a builder can sometimes charge VAT at the reduced rate of 5%.

A **claim pack** consisting of various forms is available from the National Advice Service.

Alternatively, claim forms can be printed from the HMRC website.

Only one claim can be made for each building.

The completed claim form and supporting evidence must be sent to HMRC no later than three months after the completion of the construction or conversion.

The claim will be **acknowledged within ten working days** and, if there are no further enquiries, **refunds will normally be made within 30 working days.**

The completed claim must be sent to the D-I-Y Builders and Converters VAT Refund Scheme Processing Unit covering the postcode for the building being claimed for.

Answer 1

- | | |
|--|-------------------------------------|
| 1. Sale of 99 year lease in Flat 3 of a 6 flat conversion of an old warehouse in Salford by the builder Splendid Homes Limited. | <input checked="" type="checkbox"/> |
| 2. Sale of freehold in Flat 2 in above development by Mr Smith who purchased it 3 months ago but never moved in due to job relocation. | <input type="checkbox"/> |
| 3. Supply of plumbing services to Splendid Homes Limited by Johnny Plumb who fitted central heating into Flat 3. | <input type="checkbox"/> |
| 4. Supply of architect services to Splendid Homes Limited in respect of the above development. | <input type="checkbox"/> |

The first supply was the sale of a 99 year lease; **a 99 year lease is a major interest**; in flat 3 of a six flat conversion of an old warehouse in Salford by the builder Splendid Homes. The supply of a major interest in a brand new home by the builder is **zero-rated**.

Item number 2 is the sale of a freehold in flat 2 in the development by Mr Smith who purchased it three months ago and the flat has never been lived in. It is a supply of a major interest and it is in a brand new home but the supply is being made by Mr Smith and he is not the builder of that home and hence it is **not a zero-rated supply**. This is clearly **not the first sale** and to be zero-rated it must be the first grant of a major interest.

Number 3 is the **supply of plumbing** services to Splendid Homes Limited by Johnny Plumb, the sub-contractor. This is not covered by the **zero-rated** legislation, as it was incurred on a conversion rather than a new construction. Conversion costs are only zero-rated when supplied to a Relevant Housing Association [Item 3, Group 5, Schedule 8]. The services will be reduced-rated under Sch 7A Group 6.

In number 4 we have a supply of **architect services** to the builder. Architect services were one of those categories of sub-contractor whose services could not be zero-rated so this is **not a zero-rated supply**.