

Can you reduce VAT on your self-build development?

*If you are thinking about converting a property, start by looking at whether there is scope to cut the 20% VAT rate down to just 5%. **Gerry Myton**, Harwood Hutton's head of indirect taxation, explains...*



The 5% reduced rate of VAT is available for a wide range of residential conversions. It can apply to:

- **Conversion of a non-residential building**, such as a barn, church, warehouses or offices, into a dwellings or series of dwellings
- **Conversions involving a change in the number of dwellings within the building** i.e. conversion of a house which creates additional dwellings, or conversion of multiple occupancy dwellings into one house
- **Renovation or refurbishment of a residential property** that has been unoccupied for more than two years.

This reduced VAT rate is often overlooked, yet incurring costs at 5% rather than 20% VAT can dramatically reduce the construction budget or alter the profit for a self-builder or developer. For example, on a £200,000 project, VAT incurred could be reduced from £40,000 to £10,000.

The reduced 5% VAT rate covers costs relating to not only the fabric of the buildings such as the walls, roof, floors, stairs, doors, windows, plumbing and wiring, but also to the provision of facilities such as the water, power, heat and drainage and the installation of sanitary-ware, central heating, light fittings and fitted kitchen units.

If the builder undertakes the work and purchases materials on the owner's behalf, they should only charge VAT at 5% not just on the labour element but on materials. If you are using a main contractor it generally makes sense to purchase the materials through him. However, you must ensure he is aware of the reduced rate and invoices you accordingly.

Where the builder incorrectly charges VAT at the standard rate rather than the reduced rate, HMRC may refuse to pay the excess back (i.e. only refund 5% VAT not 20%). In such cases, it would be up to you, the owner, to recover the money from the builders, so it is imperative the tax treatment is considered upfront to ensure the correct amount of VAT is paid.

Builders should be getting this right by now but far too often we find the incorrect rate being applied to qualifying works. Contractors can be reluctant to apply the reduced rate to avoid any challenge from HMRC. It is imperative that you as the self-builder or property developer ensures the tax treatment is considered upfront, to ensure the correct amount of VAT is paid on the project.

DIY self-builds should also take note of the 5% rate. The VAT DIY scheme puts this category of developer in broadly the same position as a developer when converting a non-residential building into a dwelling. It means you can recover much of the VAT you incur on construction and conversion costs. Claims must be submitted within three months of completion and are scrutinised in detail by HMRC.

Note that not all costs for conversions are 5% rated. While the vast majority of the materials and labour costs are reduced rate, professional costs relating to services such as architects and quantity surveyors attract VAT at 20%, as will goods that are not building materials (such as kitchen appliances, carpets or fitted bedroom furniture). The application of the 5% is also not automatic and must be considered on a case-by-case basis as there can be conditions imposed by planning which could impact on the VAT treatment.

It's worth remembering that most tradespeople and contractors are not experienced in the reduced VAT rules on conversions. Do not take their advice or assume that if you get it wrong you will be able to get the VAT back at the end anyway. If you are at all unsure of any aspect of VAT on your project, you would be wise to engage the services of a professional to help you get it right.



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