

Abel on Property

VAT for Property Developers



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40 years' experience





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1. Why VAT deserves your attention early



A developer's margin lives or dies on costs, and VAT is often the biggest single line you never budgeted for. Get it wrong one way and you pay VAT you did not need to pay. Get it wrong the other way and you cannot reclaim VAT you were entitled to.

I have watched developers finish a project, sit down with the final numbers, and realise the VAT answer they assumed at the start was wrong. By then the contracts are signed, the buyers have paid, and there is nothing left to fix.

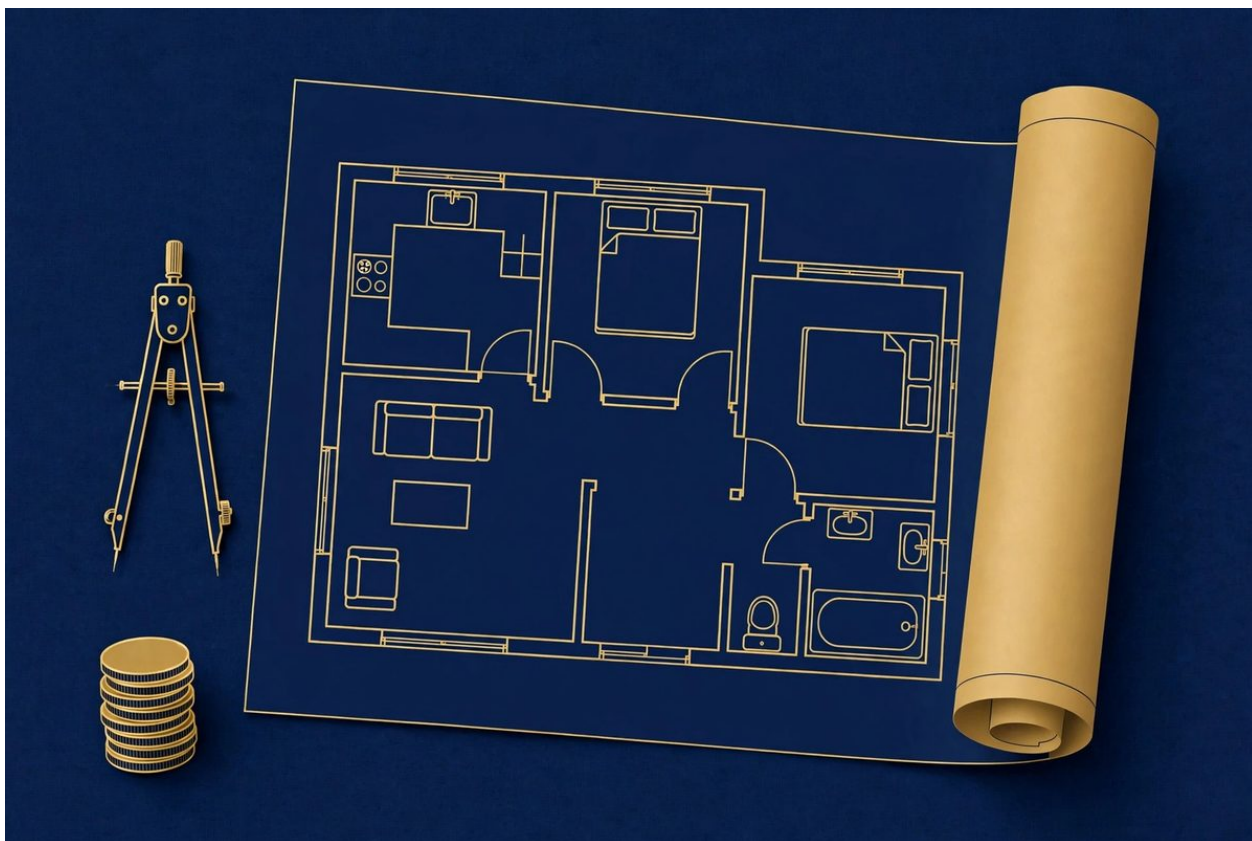
The golden rule is simple: ask the VAT question before you buy the site, before you start the build, before you sign the contract. After the work is done, the answer is often too late to change.

VAT is not an afterthought. On a development, it is part of the design — as much as the bricks and the beams.

***From my desk.** A developer once showed me his final numbers on a beautiful conversion — and the VAT line was £40,000 bigger than he had guessed. The build was perfect. The VAT question was never asked. The margin never recovered.*

Our note — Ask the VAT question before you buy the site. After the work is done, the answer is usually too late to change.

2. Brand-new builds



A genuinely new home gets the kindest VAT treatment of all. When you sell a brand-new residential building, you can usually charge no VAT on the sale — and still reclaim the VAT you paid on the build costs. That is a powerful combination, and it is there to encourage new housing.

But the building must truly qualify as new. Conversions dressed up as new builds do not count, demolish-and-rebuild has its own rules, and the detail matters more than the label you put on it.

Get advice at the planning stage, when the design can still be shaped. A small change to the plans early on can protect the VAT position for the whole project. A small mistake, left in the plans, can cost you the relief entirely.

From my desk. *On a new-build site I once worked with, a small design change at planning stage — moving one wall — protected the zero-rating for the whole project. One wall. That is how much the detail matters.*

Our note — A truly new home gets the kindest VAT treatment — but it must truly be new. Get advice while the plans can still change.

3. Conversions



Turning an old office, shop or barn into homes is a different story again. Some conversions qualify for a reduced rate of VAT on the building work — but only if the building and the project meet the conditions.

What the building was before, how long it stood empty, and what it becomes all matter. Change one of those facts and the VAT answer can change with it.

Conversions are where I see the most expensive mistakes. Two buildings that look identical can have completely different VAT answers. One qualifies; the other does not. The difference is in the paperwork and the history, not in the bricks.

Never assume. And never let the builder decide the VAT rate for you — that is your decision, and your risk.

From my desk. *Two developers, two identical-looking office-to-flat conversions, two different VAT answers. One had the paperwork to prove the building's history; the other did not. Same bricks, different tax.*

Our note — Two identical-looking buildings can have completely different VAT answers. On conversions, never assume — check.

4. Renovations and repairs



Work on an existing home — repairs, extensions, a new kitchen — is usually charged at the standard rate of VAT. There is no mystery there, and most of the time that is simply the cost of the job.

But some renovation work gets gentler treatment. Work on homes that have stood empty for a long time, or on run-down properties being brought back into use, can sometimes qualify for a reduced rate. The conditions are strict: how long the property stood empty, what the work covers, and who does it all count.

The paperwork matters as much as the work itself. You will need evidence — proof the property was empty, clear invoices, the right certificates. Ask before you start, get the answer in writing, and keep the evidence with the project file.

From my desk. *A client renovating a house that had stood empty for years nearly paid the standard rate on everything. We checked the conditions, gathered the evidence, and the reduced rate applied. The evidence was the whole battle.*

Our note — Some work on long-empty homes can qualify for a reduced rate — but the conditions are strict and the evidence must be kept.

5. Should you register for VAT?



There is a registration threshold, and it moves from time to time — so always check the current figure rather than relying on what it was last year.

But here is what many developers miss: you do not have to wait until you hit it. You can register voluntarily, and many developers do.

Why would you? Because a registered developer can reclaim the VAT on build costs, and on a big project that can be a serious sum — money that would otherwise sit inside your costs and eat your margin.

The trade-off is real too. Registration means VAT returns, deadlines, penalties if you miss them, and proper bookkeeping from day one. It is a commitment, not a trick. Weigh it up for your own project before you jump — and talk to us first.

***From my desk.** I have seen developers wait until they 'had to' register, leaving tens of thousands of reclaimable VAT sitting inside their costs. Voluntary registration is not for everyone — but everyone should ask the question.*

Our note — You can register for VAT voluntarily, below the threshold, to reclaim VAT on build costs. But registration brings returns and deadlines — weigh it up.

6. The option to tax, in plain words



Normally, selling or letting property is exempt from VAT. Exempt sounds good, but it has a sting: if you do not charge VAT, you usually cannot reclaim the VAT on your costs. On a big refurbishment, that sting can be enormous.

The option to tax is exactly what it sounds like. You choose — you opt — to charge VAT on certain commercial property, usually so you can reclaim the VAT on a big development or refurbishment. Used well, it can save you a fortune.

But there are two catches, and they are both big. First, once you opt, you are locked in for a long time — this is not a decision you can undo next month. Second, whoever buys or rents from you has to pay the VAT, which can make your property harder to sell or let.

This is a one-way door for years. Never walk through it without advice — and never let anyone talk you into it over the phone.

***From my desk.** The option to tax is the one I worry about most. A developer opted on advice that sounded confident over the phone, and spent the next two decades charging VAT his buyers resented. One call. Twenty years.*

Our note — The option to tax lets you charge VAT on commercial property so you can reclaim big input VAT — but it locks you in for years. Never opt without advice.

7. Records that keep you safe



Every invoice. Every contract. Every certificate, every valuation, every letter from your surveyor. Keep them all, keep them tidy, and keep them for as long as the rules require.

HMRC can ask to see your records years after the project is finished — long after you have forgotten the details and moved on to the next site. When they ask, the developer with the tidy file answers in an afternoon. The developer without one answers in months, and pays for the privilege.

Good records turn a VAT enquiry from a nightmare into a formality. Bad records turn a small question into a big bill. That is the whole story.

I tell every developer the same thing: the filing cabinet is part of the build. Treat it that way, from the first invoice to the last.

From my desk. When HMRC opened an enquiry on a developer's project, he handed over a file so tidy the officer closed it in a week. His neighbour on the next site, with a shoebox of receipts, was still answering questions a year later.

Our note — The filing cabinet is part of the build. Keep every invoice, contract and certificate — HMRC can ask years later.

What to do next



If this book has made you think, do not sit on it. Talk to us.

Call **020 3051 8236** or email **harish@abelaccounts.co.uk**.

We are Abel Accountants, 3 Hayley Court, Lodge Way, Ashford, Surrey TW15 3AH.

Bring your numbers with you. We will sit down together and work out exactly where you stand, in plain English, before you commit a single pound. One good question at the start is worth a fortune at the end.

Tax rules change. This guide is general information, not personal advice. Speak to us before you act.

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“Not all accountants are the same.”

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