



# Building Projects and VAT

*A guide for charity trustees*

# Introduction

## **BLUEPRINT FOR VAT – NAVIGATING PITFALLS AND ADDING VALUE**

Many assume that if an organisation has a charitable purpose, VAT will not apply to any activity. The VAT rules that relate to building and development projects can be complex, and charities are not exempt.

This guide will help trustees, treasurers and project managers to:

- Understand which types of building projects may qualify for VAT relief
- Consider the impact of any potential VAT cost for a planned building project
- Ensure adequate funding is made available.

The guide specifically covers building works. But if your project involves the purchase of land and buildings, there are other VAT issues you will also need to consider.

## **PLANNING BUILDING AND DEVELOPMENT PROJECTS**

For any building and development project, it is first important to understand the main objectives for construction and if the use of the building is likely to change in the future. In some situations, applying VAT relief is not always the right answer.

For example, if you obtained zero rating on the construction costs because the building is to be used for a **'Relevant Charitable Purpose'**, the use of the building must be monitored over a ten-year period. Any change of use in that building within the ten years could trigger VAT registration and an amount of VAT to pay to HMRC under the 'self-supply' legislation.

With any VAT planning, it is important to get specialist advice as early in the process as possible. This will ensure the project is structured not only in a VAT efficient manner, but also using the correct, robustly defensible approach based on the aims of the charity.



# Summary

## THINGS TO THINK ABOUT

- **Prepare a plan:** Have a clear understanding of what the building will be used for – this will help an advisor to determine whether you qualify for VAT relief.
- **Document key decisions:** Keeping formal minutes of Trustees' meetings where planned use is discussed and agreed (along with any changes or developments) can avoid issues later on proving intention.
- **Seek advice early:** VAT is a transaction tax – it is difficult to mitigate VAT once the transaction has taken place.
- **Increase budget with VAT savings:** VAT costs are typically high when undertaking construction projects – any mitigation can save significant sums that can be invested in the project to offset any increases in the costs of materials and labour.
- **Pick the right relief:** The distinction between the various reliefs is often complex. Take advice, as more than one relief may be available to you, and one may be better for your project than another.

## WORKING WITH YOUR CONTRACTOR

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Keep in mind that you are likely to need the co-operation of your contractor and professional team (providers of architectural, surveying, consultancy or supervisory services) to ensure that VAT reliefs are maximised and applied legitimately.

Submitting incorrect or inaccurate details when seeking VAT relief can result not only in an unexpected VAT cost, but also a financial penalty and reputational damage.

# Glossary

## DWELLING

VATA1994, Sch 8, Group 5, Note 2

Consists of:

- a. self-contained living accommodation;
- b. no provision for direct internal access from the dwelling to any other dwelling or part of a dwelling;
- c. the separate use, or disposal of the dwelling is not prohibited by the term of any covenant, statutory planning consent or similar provision; and
- d. statutory planning consent has been granted in respect of that dwelling and its construction or conversion has been carried out in accordance with that consent.

## RELEVANT RESIDENTIAL PURPOSE (RRP) BUILDING

VATA1994 Sch 8, Group 5, Note 4

A building for use as –

- a. a home or other institution providing residential accommodation for children;
- b. a home or other institution providing residential accommodation with personal care for persons in need of personal care by reason of old age, disablement, past or present dependence on alcohol or drugs or past or present mental disorder;
- c. a hospice;
- d. residential accommodation for students or school pupils;
- e. residential accommodation for members of any of the armed forces;
- f. a monastery, nunnery or similar establishment; or
- g. an institution which is the sole or main residence of at least 90 per cent of its residents, except use as a hospital, prison or similar institution or an hotel, inn or similar establishment.

## RELEVANT CHARITABLE PURPOSE (RCP) BUILDING

VATA1994, Sch 8, Group 5, Note 6

Means use by a charity in either or both of the following ways, namely –

- a. otherwise than in the course or furtherance of a business;
- b. as a village hall or similarly in providing social or recreational facilities for a local community.

## ANNEX

VATA1994 Sch 8, Group 5, Note 17

Is intended for use solely for a relevant charitable purpose and –

- a. the annexe is capable of functioning independently from the existing building; and
- b. the only access or where there is more than one means of access, the main access to:
  - i. the annexe is not via the existing building; and
  - ii. the existing building is not via the annexe.

# Useful resources

This guide, co-produced by [vatadvice.org](http://vatadvice.org) and **CAF Bank**, offers an introduction to VAT issues for charitable organisations to consider when planning building works. It is prudent to take professional advice from a legal advisor and/or VAT expert before entering into contractual commitments.

## ABOUT CAF BANK

CAF Bank offers flexible loans for UK-incorporated charities and social purpose enterprises, looking to grow their impact or deliver their sustainability ambitions. Owned by a major UK charity, Charities Aid Foundation (CAF), we are driven by a social purpose and trusted by customers with over £1 billion of deposits. Our experienced relationship directors meet every borrower, to understand their business model, financial position and vision for the future. We will make sure you're aware of the potential risks associated with borrowing, and help you consider if loan finance could be a suitable funding option for your organisation's project.

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W. [www.cafonline.org/loans](http://www.cafonline.org/loans)

Telephone calls may be monitored or recorded for security/training purposes. Lines are open Monday to Friday 9am - 5pm (excluding English bank holidays).

## ABOUT VATADVICE.ORG

Founded in 1994, the team at [vatadvice.org](http://vatadvice.org) has well over 100 years' VAT experience, specifically helping membership and non-profit organisations navigate the complexities of VAT. As well as large, high-income organisations, we frequently work with small- and medium-sized enterprises, providing cost-effective VAT advice. With a variety of expertise, from land and property, partial exemption, charity VAT reliefs and HMRC disputes, we have seen and guided clients through a plethora of VAT related challenges and opportunities. We can help with VAT registration and compliance matters, building projects and property acquisition and VAT recovery.

T. 01223 628 733

E. [enquiries@vatadvice.org](mailto:enquiries@vatadvice.org)

W. [vatdvice.org](http://vatdvice.org)

Should you wish to explore this topic further, we recommend the following resources:

- Ethical Property Foundation – [propertyhelp.org/](http://propertyhelp.org/)
- HMRC VAT Manuals – [www.gov.uk/government/collections/vat-manuals](http://www.gov.uk/government/collections/vat-manuals)
- Charity Tax Group – [www.charitytaxgroup.org.uk/tax/vat/](http://www.charitytaxgroup.org.uk/tax/vat/)



**FIND OUT MORE**

Visit [www.cafonline.org/caf-bank](http://www.cafonline.org/caf-bank)

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Charity assets may be at risk if you do not keep up with the repayments for a mortgage, loan or any other debt secured on them.

If you're thinking of consolidating existing borrowing, you should be aware that you may be extending the term of the debt and increasing the total amount you pay.

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