

Factsheet 5 – VAT and Building Work

Introduction

Value Added Tax (VAT) is a tax on consumer spending. It is normally a percentage added to the total value of goods and services. The construction of new buildings and work to existing buildings is normally standard-rated at 17.5 per cent.

Note that architectural, surveying, consultancy and supervisory services are always standard-rated.

The construction reliefs are complex and you should contact the HM Revenue and Customs (HMRC) National Advice Service, tel 0845 010 9000 to discuss specific cases.

Are you a charity?

If you are registered with the Charity Commission, you are most definitely a charity. If you are not, your charitable status needs to be recognised by HMRC. If you are unsure about your status you can contact:

- the Charity Commission (England and Wales) www.charity-commission.gov.uk
- the Office of the Scottish Charities Regulator (Scotland) www.oscr.org.uk
- HM Revenue and Customs www.hmrc.gov.uk

Construction of annexes used for a charitable purpose

The construction of a new building intended to be used only for a relevant charitable purpose is zero-rated. Additions to existing buildings are normally standard-rated. But the addition can be zero-rated if all of the following conditions are met:

- 1 you are building an 'annexe' rather than an 'extension' or 'enlargement'
- 2 the whole annexe, or part of it, is intended for use only for a relevant charitable purpose
- 3 the annexe can function independently from the existing building
- 4 the annexe and the main building each have its own independent main access

The first condition, that an annexe is built, means that the new structure has only a very small physical connection with the existing building. It needs to be easily recognisable as a structure that would be separate building if the physical connection was not there or be a separate building some distance away.

The second condition, that the annex is used for a 'relevant charitable purpose', means that it is used by a charity for a charitable purpose or used as a village hall or for social or recreational facilities for a local community.

Remember that activities that do not make a surplus, or activities where any profit is used to further the aims and objectives of the charity can still be business activities.

The third condition, that the annexe is capable of functioning independently, means that the activities in the annexe can be carried out without reliance on the existing building. However, this does not include building services such as electricity and water supply.

The fourth and final condition, that the annexe and the existing building each have their own independent main access means that:

- the main access to the annexe must not be through the existing building
- the annexe must not create the main access to the main building

Qualifying buildings

Examples of qualifying buildings include:

- places of worship
- offices used by charities for administering non-business activities, such as the collection of donations

Examples of non-qualifying buildings include:

- youth group huts where the organisation charges a membership fee
- child nurseries where a fee is charged
- offices used by charities for administering business activities, such as fundraising events where an entrance fee is charged

Alterations to protected buildings used by charities

You may be able to zero-rate an alteration to an existing building if all of the following conditions are met:

- 1 work is carried out to a protected building
- 2 the work is an alteration and not repair or maintenance
- 3 the alteration is approved
- 4 the services are made in the course of the approved alteration of that building

The first condition, that the building is protected, means that it fulfils at least one of the following criteria:

- it is intended for use only as a residential building
- it is intended for use only for a relevant charitable purpose

And one of the following:

- a listed building
- a scheduled monument

You can find more information about listed buildings and scheduled monuments on the English Heritage website www.english-heritage.org.uk

The second criterion, that the protected building is being altered, means that its fabric, for example walls, roof, internal surfaces, floors or plumbing and wiring, is changed in a meaningful way. Works of repair or maintenance are always standard-rated.

You can find examples of alterations and repair or maintenance in *Notice 708 – Buildings and construction* which you can download from the HMRC website www.hmrc.gov.uk

The third criterion, that the alteration is approved, means that listed building consent has been given. If you carry out work on a listed building without obtaining listed building consent you are committing an offence.

The fourth condition, that work is carried out 'in the course of an approved alteration', means that any service closely connected to the alteration can also be zero-rated. So even if the work itself does not require approval it can still be zero-rated if it is closely connected to an approved alteration. An example would be the levelling of land to improve access to a building that is being altered.

Issuing a certificate

You will need to issue a certificate to the supplier of the building work declaring that the work is eligible for zero or reduced-rating. You can find a certificate template in *Notice 708 – Building and construction* which you can download from www.hmrc.gov.uk.

You need to issue the certificate before your supplier makes their supply. If you issue an incorrect certificate you may be liable to a penalty equivalent to the amount of VAT not charged. A penalty is not VAT and if you are registered for VAT you will not be able to recover it as input tax.

Changing the use of a certificated building

If you have obtained zero-rating for a certificated building you may need to account for VAT if the building ceases to be used solely for that purpose within 10 years of the completion date.

The use of a building changes when you:

- sell or lease the building to somebody who is going to use it for something else
- change your own use of the building

You will then have to pay the amount of VAT you originally saved minus 10 per cent for each year that has passed since the building was completed.

VAT reliefs for disabled people

Building work relating specifically to disabled people may also be zero-rated:

1 Ramps, doorways and passages

Constructing a ramp or widening a doorway or passage may be zero-rated if it helps disabled people to access the building. The building needs to be used by a charity or be the disabled person's own residence.

2 Bathrooms, washrooms and lavatories

Providing, extending or adapting a bathroom, washroom or lavatory that helps access for disabled people can be zero-rated if:

- the building is a disabled person's private residence
- in the case of a charity the building is residential accommodation or a day centre where at least 20 per cent of the people using the centre are disabled

A bathroom includes a shower room, a washroom means a room containing a lavatory or washbasin, but not a bath or shower or cooking, sleeping or laundry facility and a lavatory is a room containing a toilet and possibly a washbasin.

3 Washrooms and lavatories (but not bathrooms)

Providing, extending or adapting a washroom or lavatory can be zero-rated if:

- the work is necessary for the use by disabled people
- the work is carried out in a building, or part of a building used by a charity for relevant charitable purposes

4 Additional construction work relating to points 1-3

If you have constructed or extended a building in the course of zero-rated supply, and have occupied space which was previously part of another room, you may also zero-rate the service of restoring that room elsewhere in the building to its original size. For example, if you enlarge a WC to make it accessible and that makes the room next to it smaller, you may zero-rate the supply of

restoring that room to its original size.

5 Installation, repair and maintenance of lifts

The installation, repair and maintenance of lifts can be zero-rated if:

- the lift is installed to help a disabled person move between different floors of their private residence
- the lift is installed in a day centre or a building in which a charity provides either temporary or permanent residence for disabled people.

6 Preparatory work, restoration work and making good

Where zero-rated building work requires preparation and necessary restoration work, you can also zero-rate the supply of these activities.

For example, when widening a doorway, you can zero-rate the removal of bricks and mortar, the supply and fit of a wider door, the installation of a new frame and surround and the restoration of the immediate décor.

7 Goods supplied in connection with construction services

Goods supplied in connection with zero-rated building work may also be zero-rated.

You have to demonstrate to the builders' merchant that the actual building work will qualify for zero-rating.

However, the materials cannot be zero-rated if the building works will be carried out by a friend or relative for free, or in a DIY capacity by the disabled person or charity themselves. This is because there is no supply of zero-rated construction services to which the materials can be connected.

8 Auxiliary aids

Equipment or goods that have been designed for use by disabled people can also be zero-rated. Examples of this kind of equipment may be:

- Braille embossers
- incontinence products
- long handled pick up sticks
- text telephones
- whistling cups for visually impaired people
- white canes for visually impaired people
- vibrating pillows
- wheelchairs

Other products specifically zero-rated include:

- adjustable beds designed for disabled people
- stair lifts and chair lifts designed for use in connection with a wheelchair
- hoists or lifters designed for disabled people
- commode stools, commode chairs or devices with warm air drier and bidet jet incorporated, frames or other devices to help sitting on or rising from sanitary appliances.

Further guidance

HM Revenue and Customs

Charities helpline

Tel: 0845 302 0203

Website: www.hmrc.gov.uk

Publications

- *Notice 700 – The VAT Guide*
- *Notice 701/1 – Charities*
- *Notice 701/7 VAT Reliefs for disabled people*
- *Notice 708 – Buildings and construction*

All available to download from the HRMC website www.hmrc.gov.uk