

Property conversions and VAT

When does a meaningful start to a property conversion make all the difference to your VAT costs?



Our client was a property developer who acquired an office building for conversion into residential apartments.

The challenge

A significant amount of VAT was incurred on the acquisition of the building but this, together with VAT on all related professional fees, was correctly claimed in full based on the client's intention to make zero rated supplies of the newly converted apartments.

However, before any of the conversion works started, our client received a lucrative offer to sell the building to a housing association who would in turn undertake the conversion works themselves. The challenge was to ensure that the VAT already claimed on the acquisition of the building was not subject to a claw back by HM Revenue & Customs (HMRC) if the property was sold exempt from VAT to the housing association.

Opting to tax the property, in order to make a standard rated supply, might at first offer a solution. However, as the housing association was unlikely to be able to recover VAT, it would almost certainly have issued a certificate to our client to disapply its option to tax. The client faced having to make an exempt supply, and pay back all the VAT incurred on the property to date.

How did Blick Rothenberg help?

Firstly, we looked at the rules for 'person converting' status which confirmed that more than one entity is entitled to zero rate as the 'person converting'. It was therefore possible for our client to commence the conversion work and sell the property as a partly converted residential building eligible to be treated as zero rated. This would entitle our client to full input VAT recovery.

Upon sale of the partly converted building the housing association would complete the conversion and could, if it so wished, also sell the building zero rated as newly converted residential dwellings.



This meant VAT was not a cost to the seller (our client) or the buyer (the housing association), which was a 'win win' situation.



The outcome

The important factor was to ensure that the client had made a real and meaningful start to the conversion of the building. While this is not defined in law, HMRC simply states that a person has "been involved in physically converting the building". In our case, it was possible to evidence this and the sale of the property was correctly zero rated. This meant that VAT was not a cost to the seller (our client) or the buyer (the housing association). This was a 'win-win' situation which could have been very different had the sale been completed prior to any work being carried out as initially contemplated.



Alan Pearce

Partner
VAT

I +44 (0)20 7544 8884

E alan.pearce@blickrothenberg.com

Independent
Member of **B K R**
INTERNATIONAL

B R BLICK
ROTHENBERG

a CogitalGroup company

16 Great Queen Street
Covent Garden
London WC2B 5AH

I +44 (0)20 7486 0111
E email@blickrothenberg.com
W blickrothenberg.com