

VAT in Construction Contracts

The provision of construction services is subject to VAT at standard rate with some exceptions. Exceptions include the zero rated projects and reduced-rated VAT of 5 percent on some projects. Smaller contractors are often not registered for VAT as they fall below the registration threshold. Such businesses are unable to recover VAT incurred on costs.

It is important to state in the construction contract whether or not VAT has to be paid on top of the contract price. In JCT Standard Building Contract the tender price is expressed as exclusive of VAT and the employer has to pay any taxes chargeable on top.

Which VAT rate should you charge?

Builders are required to charge the lowest rate applicable to the particular service. However, it is also possible to standard-rate the whole project. Construction of a new building work is standard rated at 20% VAT. Some exceptions apply to specific construction works as shown in the **TABLE 1**.

For retention payments the same rate applies as to the previous payments under the contract.

VAT on Building Materials

Builders' merchants charge VAT at the standard 20 percent rate on most products. Builders, however, charge VAT on building materials that they supply for project purposes or incorporate in a building (or its site) at the same rate as for their services. If their work is zero-rated or reduced-rated, then so are the building materials.

VAT Refund on New Builds

Construction of a new building will account for VAT exception only if it will be a qualifying building.

VAT refund on building materials and services applies when contractor is:

- Building a new home
- Converting a property into a home
- Building a non-profit communal residence- eg a hospice
- Building a property for a charity

The construction of building for VAT purposes is not always clear. In the cases where a party wall of pre existing building, the building is not demolished to the ground level. For instance, in the example when house is built between a row of terraced houses, the pre-existing house has to be demolished completely to ground level apart of the wall shared with the adjoining houses. However, if the contract include the redevelopment of the adjoining houses in a terrace, the party wall also has to be demolished for VAT exception. Please refer to the HMRC website for the exact definition of the qualifying buildings for VAT exceptions.



TABLE 1

CONSTRUCTION WORKS	RATE OF VAT
Construction of new qualifying dwellings and communal residential buildings, and certain new building used by charities	0%
Conversion for a housing association of a non-residential building into a qualifying dwelling or communal residential building.	0%
Conversion (other than for housing associations) of a non-residential building into a qualifying dwelling or communal residential building and conversions of residential buildings to a different residential use.	5%
Renovation or alteration of empty residential premises.	5%
Approved alterations to listed dwellings and communal residential buildings, and certain listed buildings used by charities (rate shown with effect from 1 October 2012)	20%
Alterations to suit the condition of people with disabilities.	0%
Installation of energy saving materials; and grant funded heating system measures and qualifying security goods.	5%
Development of residential caravan parks.	0%
First time gas and electricity connections	0%
Installation of mobility aids for the elderly for use in domestic accommodation	5%
Home improvements on domestic property situated in the Isle of Man	5%

VAT can be claimed on almost all building materials and equipment used for new dwelling. VAT can not be claimed on professional fees, delivery costs, equipment hire, any consumables like paints or brushes, kitchen appliances and carpets.

To obtain VAT refund:

- Ensure project eligibility
- Obtain valid VAT invoices
- Ensure to get the correct rates of VAT on invoices (VAT 20% on building materials, VAT 5% on some energy saving products, VAT 0% on labour)
- Ensure the zero rate VAT on the supply of labour only and the joint supply of labour and materials on new builds
- Ensure your claim is submitted within three months of completion

The claim has to be made when the project is completed. Project is completed when a Certificate of Completion is issued and building is habitable. When the project is complete any other services are

no longer eligible for the zero rate. Snagging is often carried out after works have been finished and a building is completed. These works form part of a zero-rated building contract, provided that same contractor carried out the initial building work and the snagging forms part of that building contract. If snagging is the separate service than work is to an existing building and standard VAT rate apply.

For refunds for DIY housebuilders use form VAT431C for conversions and form VAT431NB for new builds. To claim, your project must be eligible and lawful, for personal occupation by you or a family member and evidence of completion must be provided.

The claim has to include:

- bank information to receive the refund
- planning permission for the building project with a full set of building plans
- proof that the construction work got completed (e.g. local authority letter)
- invoices, tenders, or itemised estimations
- bills of sale and any relevant credit notes

The refund is usually made within 30 working days of sending in the claim.

There are special VAT exceptions or reductions for VAT-registered contractors that are not under DIY Housebuilders Scheme (incl. in Table 1):

- Renovations to dwellings empty for two years or more are eligible for the reduced rate of VAT of 5% via a VAT-registered contractor.
- Works involving a net change in the number of dwelling units are also eligible for the reduced rate of VAT of 5%. Examples include converting two cottages into one house or reverting three flats back into a house.
- Adaptations work to alter a house for someone who is disabled is zero rated for VAT
- Work for people over 60
- Home improvements to a domestic dwelling on the Isle of Man

Builders do not have to charge VAT on certain works including:

- civil engineering work to develop a residential caravan park
- approved alterations and substantial reconstructions to protected buildings
- converting a non-residential building into a house or communal residential building for a housing association
- constructing certain buildings used by charities for a 'relevant charitable purpose'

There are also certain other types of communal residential building that you don't have to charge VAT on, including:

- children's homes
- residential care homes
- hospices
- student accommodation
- school boarding houses
- armed forces' accommodation
- monasteries, nunneries and similar buildings

VAT for construction businesses is a complex area. For detailed information on this subject visit <https://www.gov.uk/government/publications/vat-notice-708-buildings-and-construction/vat-notice-708-buildings-and-construction>

(Source: gov.uk)