Bringing empty properties back into use – now less taxing!

**VAT Discounts on Renovating Empty Homes**

Bringing empty properties back into use can be costly particularly when extensive renovations are required. However, the Government has introduced a number of tax changes, which could potentially reduce costs. Additionally, if you are considering selling your empty property, changes to capital gains tax will mean that less capital gains tax is payable. See below for more information.

In most cases VAT is payable on the costs of renovating or adapting an empty home for re-use (currently @ 20%). But there are several circumstances in which VAT on building works is charged at a reduced rate or even zero-rated. If you are intending to renovate an empty home it is important that you understand them, because it is quite common for builders not to know about different VAT rates. This could lead to you being overcharged, and it can be difficult to reclaim overpaid VAT. The full guidance on VAT on building and construction is available from HMRC in HMRC notice 708, if you are employing builders, and HMRC notice 431C if you are carrying out work on a DIY basis.

**HMRC notice 708**

**VAT – residential properties empty for at least two years.**

With effect from 1 January 2008, renovations and alterations to residential properties that have been empty for at least 2 years will be eligible for a reduced VAT rate of 5%. This is a change from the previous position, which provides for a 5% reduced VAT rate on works of renovation and alteration to residential properties that have been empty for at least 3 years.

Contractors who are renovating residential properties that have been empty for at least 2 years as at 1 January 2008 should account for VAT at 5% on those supplies that take place on or after that date. Contractors should ensure they are fully aware of the tax rules when determining the time of their supplies. Further information on this reduced rate can be found in Section 8 notice 708 – VAT: Buildings and construction, available from the National Advice Service 0845 010 9000.

There is no equivalent reduced VAT rate for DIY work.

**VAT - Conversion of non-residential properties empty for ten years or more**

A developer or house owner can claim back all VAT charged on the renovation of a building that has been empty for 10 years or more, once the dwelling is sold. If the house owner retains the property for private residential use, they can make a claim for the VAT under the DIY Builders Refund Scheme available from Customs and Excise.

A ‘non-residential conversion’ is considered to take place when either: -

the building (or part) being converted has never been used as a dwelling or number of dwellings for a ‘relevant residential purpose’, or in the 10 years immediately before the sale or long lease the building (or part) has not been used as a dwelling or number of dwellings or for a ‘relevant residential purpose’

The building must be converted into a building either ‘designed as a dwelling or number of dwellings’ or intended for use solely for a ‘relevant residential purpose’. Details of what constitutes a “relevant residential purpose” can be found on the HMRC website www.hmrc.gov.uk VAT notice 708 paragraph 14.6
Examples of a ‘non-residential conversion’ include the conversion of

- a commercial building (such as an office, warehouse, shop),
- an agricultural building (such as a barn), or
- a redundant school or church,

into a building ‘designed as a dwelling or number of dwellings’. The conversion of a garage, occupied together with a dwelling, into a building designed as a dwelling is not a non-residential conversion.

You may be required to show that the building has not been lived in during the 10 years immediately before you start your work. Proof of such can be obtained from Electoral Roll and Council Tax records, utilities companies, Empty Property Officers in local authorities, or any other source that can be considered reliable. If you hold a letter from an Empty Property Officer certifying that the property has not been lived in for 10 years, you do not need any other evidence. If an Empty Property Officer is unsure about when a property was last lived in, s/he should write with his/her best estimate. Custom & Excise may then call for other supporting evidence [HMRC notice 708](#).

**Capital Allowances Scheme for “Living-Over-The-Shop” Schemes**

A scheme has been introduced to enable property owners and occupiers to claim up-front tax relief on the whole of their capital spending on the renovation or conversion of vacant or underused space above shops and other commercial premises to provide flats for rent.

Spending will qualify for the new 100 per cent capital allowances.

The scheme will focus on properties in traditional shopping areas and will be open to all property owners and occupiers, provided they have an interest in the property, in which the flats are to be created. It will be targeted as follows.

**To qualify the property must: -**

<table>
<thead>
<tr>
<th>Condition</th>
<th>Requirement</th>
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<tbody>
<tr>
<td>1</td>
<td>Have been built before 1980.</td>
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<tr>
<td>2</td>
<td>The property must not have more than 5 floors in total, including accommodation in the roof (but excluding any basements).</td>
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<td>3</td>
<td>The property must have been originally constructed so that the floors above the ground floor were primarily for residential use.</td>
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<td>4</td>
<td>The upper floors must have been either unoccupied, or used only for storage, for at least 1 year before the conversion work starts. The qualifying expenditure will be apportioned if part of the upper floors satisfies this test, and part does not.</td>
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<tr>
<td>5</td>
<td>The ground floor can have been originally either residential, or commercial, or mixed use. However, the whole or the greater part of the ground floor must, at the time the conversion work starts, be rated as follows for England and Wales:</td>
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A1 - broadly speaking, retail shops
A2 – financially and professional services
A3 food and drink
B1 – offices not in A2, R&D & industrial processes which can be carried out in residential areas
D1(a) – medical and health services, such as doctor’s surgeries and dental practices
**VAT and the installation of certain energy efficiency measures**

In addition, reduced rates of VAT apply to a number of types of building works, such as installing energy saving measures, adapting a building for a disabled person or works to convert a non residential building into a home. These discounts may apply to works to bring an empty homes into use. Further information on these discounts is available from HMRC. Further details and guidance are available from [HMRC notice 708/6](https://www.gov.uk/government/publications/hmrc-notice-708-6).

A reduced VAT rate applies to the installation of certain specified energy-saving materials in residential accommodation. The reduced rate applies to installation of:

- Central heating and hot water controls
- Draught stripping
- Insulation
- Solar panels
- Wind Turbines
- Ground source heat pumps
- Air source heat pumps
- Micro combined heat and power units; and
- Wood-fuelled boilers

For more information is available from the HMRC website [HMRC notice 708/6](https://www.gov.uk/government/publications/hmrc-notice-708-6).

**Rent a Room Scheme**

If you already have a lodger or are thinking about letting furnished rooms in your home, you can receive up to £4,250 a year tax-free (£2,150 if letting jointly). This is known as the Rent a Room scheme. The Rent a Room scheme is an optional scheme that lets you receive a certain amount of tax-free ‘gross’ income (receipts before expenses) from renting furnished accommodation in your only or main home. [Rent a Room](https://www.gov.uk/government/publications/hmrc-notice-708-6).

A lodger can occupy a single room or an entire floor of your home. However, the scheme does not apply if your home is converted into separate flats that you rent out.

Should you require any further guidance, then please contact your local [Empty Property Officer](https://www.gov.uk/government/publications/hmrc-notice-708-6).