



## VAT on supplies of land & property

The VAT treatment of supplies of land and property is a complex area and, due to the high values of typical property transactions, it is extremely important to get it right. Whilst this factsheet covers the basics of VAT on land and property, we recommend that you take professional advice that is tailored to your situation.

### The default position

Although there are many exceptions to this default position, the grant of any interest in land or the right to occupy land is exempt from VAT. This means that no VAT is charged on the supply, and that input tax incurred on purchases relating to the supply, subject to meeting certain criteria, cannot be reclaimed.

### The most common exceptions

The following list is not exhaustive, but it contains the most frequently encountered exceptions to the VAT exemption explained above.

The **freehold sale of a new commercial building** (e.g. a shop, warehouse, factory or office) is standard-rated. For this purpose, a building is 'new' if it was completed less than three years before the sale. It should be noted that leasehold sales of a new commercial building remain VAT-exempt, subject to the option to tax (see below).

The first grant of a **new dwelling**, by the person who constructed it, is zero-rated. A grant could either be the sale of a freehold or the creation of a lease.

**Accommodation in hotels**, inns, boarding houses and similar businesses is standard rated.

**Holiday accommodation** is standard rated. For this purpose, 'holiday accommodation' is any accommodation in a building, hut, caravan, houseboat or tent



that is advertised as suitable for holiday or leisure use. It is irrelevant whether the property qualifies as a Furnished Holiday Letting or not.

**Pitches for tents and caravans** are standard-rated.

**Facilities for parking vehicles**, with a few exceptions, are standard rated.

Facilities for **self-storage** of goods are standard-rated.

### Option to tax

A landlord who lets commercial property is making an exempt supply and, in many situations, cannot reclaim the VAT incurred on purchases relating to the supply. In this situation it may be beneficial for the landlord to opt to tax their interest in the land or building. If an option to tax is made, future supplies of the property will be standard rated, meaning input tax relating to the supply can be reclaimed.

For an option to tax to be valid, the taxpayer must notify HMRC. Form VAT1614A can be emailed to HMRC, although they no longer acknowledge their receipt of the notification.

Opting to tax a property can be a complex decision and care should be taken because once an option is made it can only be revoked in very limited circumstances.

As a point of note, the option to tax does not apply to a building itself; it applies to a person's interest in a building. Therefore, if a person sells an opted building, it would not automatically be opted to tax in the hands of the new owner.

### Further information

For general information on the VAT treatment of land and buildings see <https://www.gov.uk/guidance/vat-on-land-and-property-notice-742>

Guidance on the option to tax can be found here: <https://www.gov.uk/guidance/opting-to-tax-land-and-buildings-notice-742a>