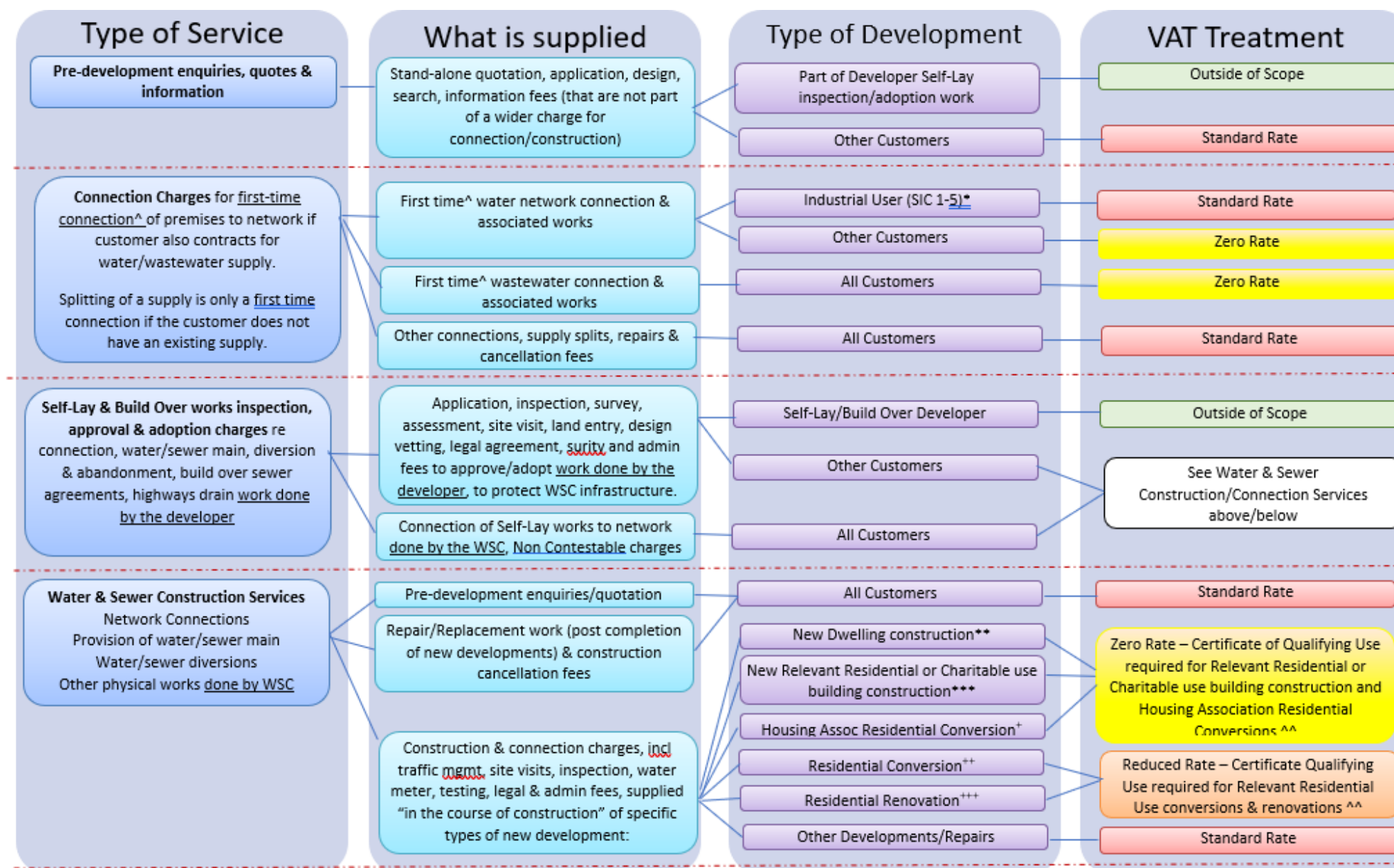
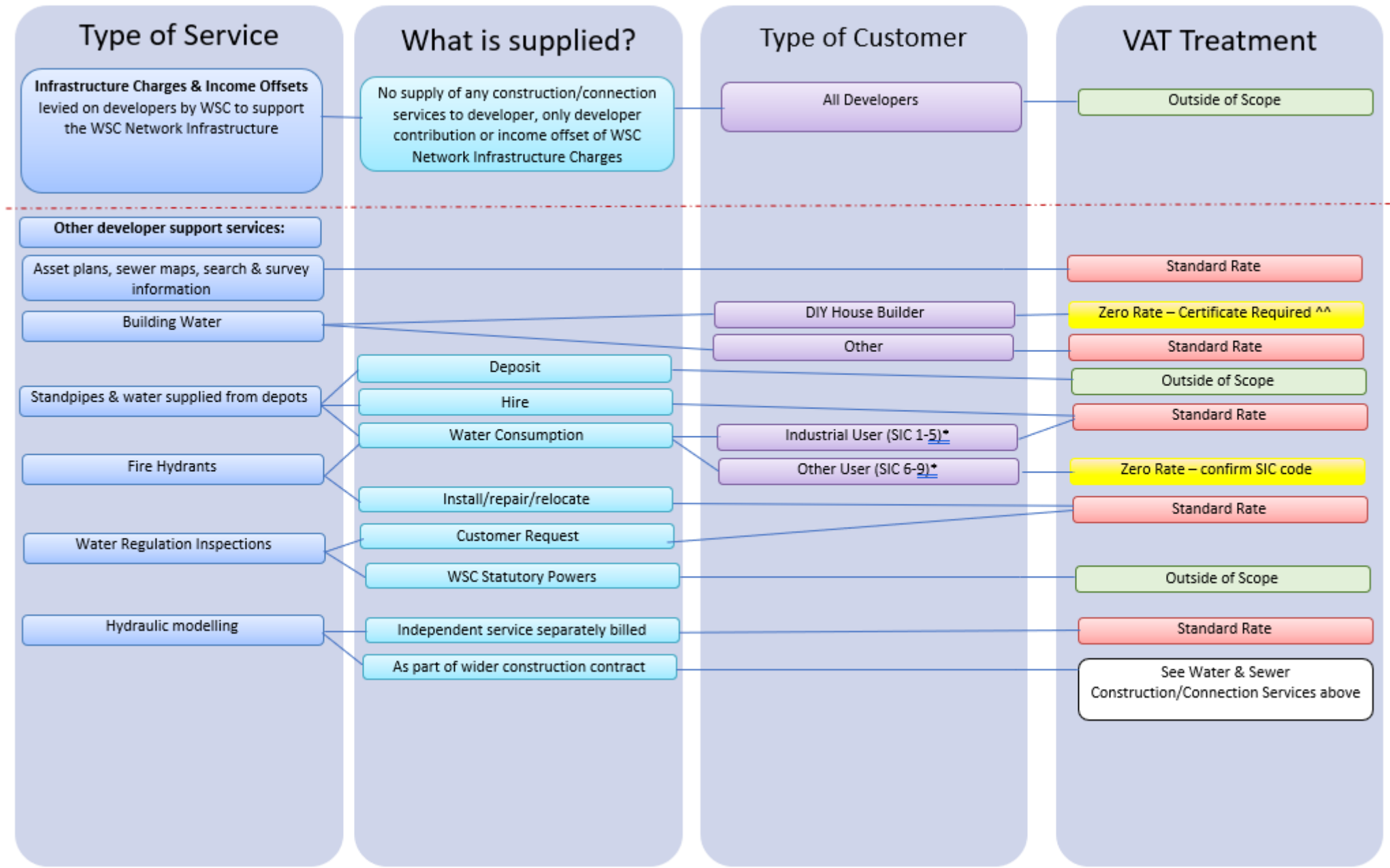


DEVELOPER SERVICES – VAT TREATMENT OF CONSTRUCTION SERVICES - DECISION TREE

This decision tree is for guidance only, for full details of the VAT treatment of construction services consult [HMRC VAT Notice 708:Buildings & Construction](#)





Notes re Qualifying Conditions

***Relevant Industrial Use (SIC 1-5) Customer** – a user is classified as Industrial if their principal activity falls in groups 1 to 5 of the 1980 Standard Industrial Classification list, which covers:

1	Energy and water supply industries
2	Extraction of minerals and ores other than fuel; manufacture of metal, mineral products and chemicals
3	Metal goods, engineering and vehicle industries
4	Other manufacturing industries
5	Construction

Further information is available on the [Source for Business Website](#)

****New Dwelling Construction** – qualifies for VAT Zero Rate if:

- The building will be a residential dwelling (that includes a holiday home designed as a dwelling) and is built from scratch (the ground up), or,
- Only uses a single façade of a pre-existing building and the remainder of the building is demolished before the work starts on the new build dwelling,
- A new dwelling is constructed against an existing building so that they share a wall but no internal access between them,
- An existing building is enlarged/extended to create additional dwelling/(s), again with no internal access between them,
- A garage is built, or a building is converted into a garage at the same time as the dwelling that it is constructed
- Includes construction of residential caravan parks and Houses of Multiple Occupation (HMO)

What does **NOT** qualify as a new build dwelling:

- A granny or other annexe which cannot be used or sold separately does not qualify as a new build
- Partially demolished existing building which is incorporated into a new build
- A building to house a swimming pool, gym etc is not a dwelling

*****Relevant Residential or Charitable Use building construction** – must fall into one of the following categories to qualify for VAT Zero Rate:

- Home or other institution providing residential accommodation for children (VCONST15200)
- Home or other institution providing residential accommodation with personal care provision (i.e. washing, eating etc) due to age, disablement, past or present alcohol, drug addiction or mental disorder. Assisted living accommodation qualifies where planning permission is for the construction of dwellings (C3 planning use) or construction of a care home (C2 planning use) and accommodation is constructed at the same time as the care home that will provide the personal care (VCONST15250). *Accommodation that is constructed in the grounds of existing care or old people's homes under C2 planning use doesn't qualify for the zero rate.*
- Hospices that provide accommodation (VCONST15300)
- Residential accommodation for students, school pupils, members of armed forces (VCONST15400) and recognised religious or faith groups (VCONST15500)
- An institution which is the main residence of at least 90% of all residents i.e. nurses home, police house, alms-houses (VCONST15550) but NOT a hospital, prison, hotel, inn or similar establishment
- For use by a Charity other than for commercial/business activity (i.e. to deliver its charitable objectives) or as a village hall or similar providing social or recreational facilities for the local community. The Charity must be registered with the appropriate regulator and evidence of charitable status obtained such a Charity Commission Registration or HMRC (CTY001) Recognition. A Community Amateur Sports Club (CASC) is not a charity for VAT purposes.
- A Certificate of Qualifying use must be provided by the Relevant Residential or Charitable User of the Building to apply a Zero or Reduced VAT Rate**

+Housing Association Residential Conversions – qualify for VAT Zero Rate if:

- Conversion of a Non-Residential building to Residential use by the Housing Association

- b) The return of a residential building that has been empty for at least 10 years back to residential use by the Housing Association
- c) **A Certificate of Qualifying use must be provided by the Housing Association**

++Residential Conversions – qualify for VAT Reduced Rate if:

- a) Single occupancy dwelling is converted into a multiple occupancy building (i.e. made into flats) or vice versa, (i.e. there is a change in number of self-contained dwellings) or,
- b) A non-residential building i.e. an office or agricultural building is converted to a self-contained dwelling/s, HMO or Relevant Residential Use building*** (Certificate of Qualifying Residential Use required).
- c) It does not include the construction or granny or other annexes or additional bedroom (as the work must convert a non-residential building or change the number of self-contained dwellings).
- d) Where qualifying conversion work takes place at the same time as other work that is unrelated to changing the number of dwellings an apportionment must be made. e.g. renovation of 3 storey building, each floor contains one flat, but on the top floor, the one flat is made into 2 flats, only work on the top floor would qualify for reduced rate VAT.

+++Residential Renovations – qualify for VAT Reduced Rate if:

- a) The building has been empty for at least 2 years before the work starts (proof of non-use such as an empty property officers report should be obtained).
- b) It is a dwelling or is intended for Relevant Residential Use*** (Certificate of Qualifying Residential Use required).

^First-Time Connections to Network – HMRC updated guidance in 2013 to confirm that where a supplier contracts with the customer to supply the mains water and this requires a first-time connection to that water network, the connection charge is ancillary to the supply of water and so can be zero-rated where the supply is to a domestic or Non-Relevant Industrial User* (SIC 0, 6-9). This treatment is in addition to the new construction rules but only applies where the connection and the supply of mains water is provided by the same supplier. Therefore, if the WSC were to only carry out the connection work without also supplying the mains water the connection charge would be Standard Rated unless the connection is supplied in the course of construction of a new development that qualifies for a Zero or Reduced rate, under the Water & Sewer Construction Services rules.

^^Certificates of Qualifying Use – are required where a Zero or Reduced Rate of VAT is applied in connection with directly contracted construction works to Relevant Residential or Charitable use building *** users or to DIY House Builders. However, certificates can only be issued by these types of customer to main contractors, so if the WSC is sub-contracted to the main contractor it cannot accept a certificate issued by the qualifying user and VAT should be charged at Standard Rate (unless the Water & Sewer Construction Services rules apply a different treatment).