



NEW VAT RULES FOR CHARITY BUILDINGS: ISSUE OR OPPORTUNITY?

HMRC have withdrawn a concession which has proved valuable to many charities. If you intend to construct any new buildings – it will be important for you to understand the impact of the loss of the concession, and the scope for obtaining buildings VAT free.

The Issue

A charity building used SOLELY for non-business purposes can be constructed VAT-free. The change concerns what incidental business use HMRC will permit without jeopardising the relief. Business use would generally providing goods or services for a fee.

Previously, charities could ignore up to 10% business use, but this has now been reduced to 5%. There are transitional rules for projects where a meaningful start to the building work has been made before 30 June next year. For such transitional projects it may be possible to use either 5% or 10%. The way in which the 5% can be calculated comes with less strings, and could in some limited cases be more useful than the old 10%.

HMRC have said that the change is not a revenue raising measure. Even if there are as many winners as losers, anything that makes budgeting less certain in the current climate must be unwelcome.

However, the real sting is that where 5% applies, the business use of the building must remain below 5% for 10 years or a clawback of some of the VAT originally saved becomes due.

Under the old regime, an increase in business use which was unforeseen when the building was first occupied, would not trigger this clawback. This was quite sensible, as it allowed for initiatives encouraging efficient use of charity buildings (eg community use of school buildings).

How we can help

So, if your charity is planning capital works, it is more important than ever to get expert professional VAT advice.

At Critchleys we can help. Our experienced VAT consultants have an impressive track record of helping clients save money on their VAT bills. Nobody wants VAT costs to be the driver for commercial decisions - and with our expertise at hand, they don't have to be.

Our consultants provide in-depth advice and guidance on all matters associated with VAT. Critchleys' VAT expertise, combined with the team's innovative approach and commercial know-how, deliver results which speak for themselves.

For more information please do not hesitate to contact Steve Chamberlain on 01865 261160 or Julian Borley on 01865 261158.