

How significant tax savings can be obtained via the VAT and R&D tax systems for building contractors and developers; in a world of ever-advancing social technology, a good social media policy for firms to implement is now more imperative than ever before

Saving VAT on projects: what to consider

CASHFLOW

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When applying the VAT rules, it is often useful to consider a building project floor by floor.

The 5 per cent reduced rate of VAT is charged with newly converted properties, provided that a 'qualifying conversion' has been carried out and the works are 'qualifying services'.

A qualifying conversion arises when there is a changed number of dwellings. This is the case when, after the works, there is a different number of dwellings than immediately before the works.

For example, if a commercial property was converted into one apartment, provided the apartment meets all the tests for a dwelling, this will constitute a qualifying conversion definition.

Next, the qualifying services condition needs to be considered. This requires the contractor to

supply and incorporate building materials into the building in the course of the conversion works, to the fabric of the building and immediate site premises.

Similar to zero-rated construction services, there are detailed conditions as to the services supplied and the materials incorporated in the course of conversion to a dwelling which qualify for the 5 per cent reduced rate.

Energy-efficient

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There are conditions to meet, such as age of occupier, government benefits received, use of the property, among others; or if a new '60 per cent test' is met where the cost of the qualifying materials installed is less than 60 per cent of the VAT-exclusive value of the onward supply.

Qualifying items must be supplied and installed to achieve the 5 per cent reduced rate.

Grant-funded heating equipment qualifies for the reduced rate to the extent that the supply is grant funded.

The supply of energy-saving materials can assume zero-rating when incorporated into the construction of a new dwelling.

R&D and tax relief

Construction is not a sector that instantly springs to mind when R&D tax relief is discussed, however, there is a great deal of scope within it for companies to receive relief as a result of their innovation and it is always worth a closer look.

If the developer has changed or improved a traditional process, and applied it to the project, then

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the resources involved may qualify as R&D expenditure and contribute to a claim.

The use of new, lightweight and/or 'smart' materials is also worth exploring. The combination of these innovative materials and the new techniques could again contribute to an R&D claim.

The company does not have to actually invent these materials; it is their application that can qualify for R&D relief.

If the company has used the materials in a different way, to achieve a quicker, greener or less costly project, then that work could qualify for R&D relief.

Conclusion

There are often significant VAT savings to be made within property construction projects.

If VAT is incurred, then there is always the possibility of VAT recovery on that capital expenditure.

R&D tax relief is one of the UK's most generous tax reliefs yet many businesses are unaware of their entitlement to make a claim.

The average claim in the UK is £52,000, providing businesses with a much appreciated injection of cashflow or reduction in their Corporation Tax liability.

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