

FOCUS ON

VAT Boost for Student Accommodation

Recent announcements by HM Revenue & Customs (HMRC) will see a relaxation in the complexity and cost of VAT and student accommodation.

Previously it has only been possible for construction businesses to zero-rate their services when the developer certifies that he will use the building solely for relevant residential purposes ("RRP"). This can be very difficult to establish for the developer and the VAT consequences are enormous if he issues an incorrect certificate. The developer can incur penalties up to 100% of the VAT due.

In many cases it is not possible for the developer to get the construction costs zero-rated as RRP because the developer will be leasing on the property as an investment and not using the property himself for RRP. Therefore, the developer has to try and recover the VAT (at 20%) on the basis that he will be able to zero-rate the lease to his tenant.

Again, this can be difficult to achieve and results in a potentially very large irrecoverable VAT cost for the developer. In addition it can take a considerable amount of time and therefore uncertainty about whether the VAT can be recovered.

It is welcome news that HMRC has taken a pragmatic approach to this matter and has recently clarified how VAT rules relating to "dwellings" might also apply to student accommodation.

This would enable the construction costs to be zero-rated for VAT purposes, without the need for a certificate. This removes a big area of risk from a student accommodation development.

Zero-rate conditions

Essentially, the accommodation must meet the following four conditions:

1. Consist of self-contained living accommodation (minimum of 2 rooms) and include:
 - Kitchen;
 - Bathroom;
 - Sleeping area;
 - Living area;

“*It is welcome news that HMRC has taken a pragmatic approach to this matter and has recently clarified how VAT rules relating to “dwellings” might also apply to student accommodation..*”





2. Have no provision for direct internal access from the dwelling to any other dwelling or part of a dwelling;
3. The separate use of disposal of the dwelling is not prohibited by the terms of any covenant, statutory planning consent or similar provision; and
4. Statutory planning consent has been granted in respect of that dwelling and its construction or conversion has been carried out in accordance with that consent.
5. On a £40m construction contract it is worth carefully considering the impact of the above changes. Having certainty from the outset that VAT of £8m may be mitigated through ensuring certain conditions are met, would have a considerable impact on the project.

Contact Us

Our VAT specialists have extensive experience on advising about such matters, so if you are a developer or constructor in this area, please contact us to discuss how our experts may be able to help you.



Alison Horner
Partner

E: alison.horner@mhlip.co.uk
T: 01733 568 491



Visit our website:
www.macintyreHUDSON.co.uk

MHA Macintyre Hudson is the trading name of Macintyre Hudson LLP, a limited liability partnership, registered in England with registered number OC312313. A list of partners' names is open for inspection at its registered office, 201 Silbury Boulevard, Milton Keynes MK9 1LZ. Registered to carry on audit work in the United Kingdom and regulated for a range of investment business activities by the Institute of Chartered Accountants in England and Wales. An independent member of MHA, a national association of UK accountancy firms. The term 'partner' or 'partners' indicates that the person (or persons) in question is (or are) a member(s) of Macintyre Hudson LLP or an employee or consultant of its affiliated businesses with equivalent standing and qualifications. Partners and directors acting as administrators or administrative receivers contract as agents and without personal liability. Further information and links to the respective regulators and appointed individuals' qualifications can be found via our website www.macintyreHUDSON.co.uk/information.html

MHA Macintyre Hudson is an independent member of Baker Tilly International. Baker Tilly International Limited is an English company. Baker Tilly International provides no professional services to clients. Each member firm is a separate and independent legal entity and each describes itself as such. MHA Macintyre Hudson is not Baker Tilly International's agent and does not have the authority to bind Baker Tilly International or act on Baker Tilly International's behalf. None of Baker Tilly International, MHA Macintyre Hudson, nor any of the other member firms of Baker Tilly International has any liability for each other's acts or omissions. Arrandco Investments Limited is the registered owner of the UK trade mark for Baker Tilly and its associated logo.