

VALUE ADDED TAX

DATE: 1ST MARCH 2017

ISSUE NO. 5

VAT RECLAIM

When buying a new home from a builder or developer, VAT is not added to the price and, in recognition of this fact, the VAT authorities have made special arrangements for people building their own homes, enabling them to reclaim any VAT they may have paid on construction materials purchased for their new home during the build period.

There is no need to register for VAT, and the regulations for reclaiming VAT are quite simple and straightforward. They are set out in VAT Notice 719, entitled "VAT refunds for 'do-it-yourself' builders and converters" which is obtainable from the Customs & Excise VAT office.

You will need to send for a 'Claim Pack', which contains leaflets as well as the required claim forms, and your claim must be submitted within three months of completion of the build. The VAT office's procedures are quite straightforward, but you will need to familiarise yourself with what is involved at an early stage in order to ensure that you keep all the invoices and records which you will later require to complete your claim. All invoices and/or receipts should be made out to you personally as the self-builder and, because a refund can be substantial, it is essential to keep all your financial paperwork in good order.

VAT PAYABLE

The VAT you will end up paying will be dependent upon your chosen method of construction, i.e. use of main contractor, project management, self-build or a combination of these methods, as explained below. VAT is payable on materials. It is **not** payable on labour only, or on 'supply and fix' contracts. Beware paying VAT in error, as this cannot later be reclaimed as part of your DIY refund.

- **Main Contractor**

If you engage a main contractor to undertake the whole build for you, he will reclaim the VAT paid on materials supplied by him, and his invoices to you will be zero-rated. However, there may still be some items that you decide to buy yourself, e.g. bathroom fittings, and you will be able to reclaim the VAT on these yourself at the end of the project.

- **Building Set**

With regard to the building set itself, provided Scandia-Hus provides a 'supply and fix' service, i.e. supplies the building set materials and also undertakes the erection of the structural frame, VAT will be levied only on materials **not** installed as part of the shell erection contract. This would include second fix joinery, rainwater goods, etc. These items usually account for 25% – 30% of the total value of the building set, and VAT at the standard rate will be payable on these items only. However, this can be reclaimed on completion of the project.

Should you decide not to use the services of one of Scandia-Hus' erection teams, VAT will be charged on the total cost of the building set. Although this will have an effect on your cash flow, the VAT will be fully reclaimable at the end of the project as part of your DIY refund.

- **Project Management**

Whether you plan to manage your own build and employ sub-contractors, or whether you intend to use a sole contractor, you do **not** have to pay VAT on labour. Also, where you use builders and sub-contractors who both 'supply and fix', VAT should not be charged, so make sure that their invoices to you are zero-rated.

You will, however, be required to pay VAT on any materials that you buy yourself, e.g. bricks, tiles, sanitaryware, etc. This can all be reclaimed at the end of the project, but if you engage e.g. a plumber, tiler or bricklayer to 'supply and fix', their invoices should be zero-rated.

Make sure that they are, as if you have out of ignorance already paid an invoice complete with VAT, this cannot be reclaimed later as part of your DIY refund. In such an instance your only hope would be to go back to the sub-contractor and ask for the VAT element back. File everything carefully, and scrutinize each bill as it comes in to make sure that it is addressed accurately and shows the VAT element correctly.

- **Self-Build**

As with 'project management builds', self-builders who manage their own project have to pay VAT on construction materials as they go along, but they too are able to reclaim it in one 'hit' on completion of the whole project.

VAT RECLAIM RULES

- **Materials**

Most materials are zero-rated only if supplied as part of the construction services. VAT will be charged on the supply of materials only. The general rule is that if you are likely to remove the item, should you move house, then you will **not** be able to re-claim the VAT. If, however, the material(s) become part of the essential fixtures of the house, then you will be able to reclaim the VAT. Thus, for instance, you cannot reclaim VAT on carpets, but you can on flagstones.

You cannot claim the VAT back on white goods, such as cookers, hobs, washing machines, refrigerators, dishwashers etc. even if they are built in. Doorbells, electrically operated doors or gates, as well as aerials and satellite dishes are also excluded. There are other exceptions, but these are a few which one might have expected to fall within the scheme.

In addition you cannot reclaim the VAT on some quite unexpected materials; amongst these are the purchase or hire of tools and equipment, including skip hire and temporary fencing.

- **Professional Services**

You cannot reclaim the VAT on professional services, such as architects' or surveyors' fees, or any fees for management, consultancy, design or planning. However, as most of these services are included in the Scandia-Hus 'package' they will be recoverable as part of our supply and fix service.

- **Buildings Built for Business Reasons**

New buildings intended for occupation by the self-builder are covered by the reclaim scheme, but if you are constructing the house with the intention of selling or letting it, or for some other business reason, you cannot use the scheme. However, this does not affect the self-builder's right to work from home, and it does not affect any subsequent sale or letting of the property. It is the first use that is the governing factor.

- **Extensions**

Extensions to - or conversions of - existing dwellings do not qualify under the reclaim scheme.

- **Outbuildings & External Works**

Your claim can include VAT paid in respect of boundary walls, drives, patios, garages, conservatories, etc., provided these are built at the same time as the main dwelling. However, do bear in mind that you can make one claim only. You will therefore need to take this into account when planning your build programme. Obviously, depending on your chosen method of construction, the VAT can amount to a considerable sum. It is therefore worth trying to get back as much as you possibly can, even if it means delaying your official completion and the subsequent submission of your VAT reclaim until all ancillary work has also been finished.

One further point, if you are planning to manage the build yourself, when drawing up your budget it is advisable to show your costings to include VAT, although you will eventually get it back. This may seem somewhat illogical but the reason is that the refund is made after your build is complete. It must therefore be regarded as a bonus, not something that will help cash flow. It is however, a very useful bonus, and most self-builders find that the VAT refund seems to work out to be exactly the right amount required for the purchase of curtains and carpets!

VAT CLAIM SUBMISSION

When your build is completed, in order to reclaim your VAT, you will need to produce proof to Customs & Excise that your house has been finished. As mentioned above, you make one claim only, and it must be submitted within three months of receiving a certificate that the building is completed. A completion certificate from the building inspector or a letter from the building society will be acceptable proof. Once you have formally completed, you will not be able to claim back VAT on materials subsequently purchased.

When you make your claim, take care to collate all the invoices that you have so carefully collected, and either take them to the VAT office yourself and get a receipt for them there and then, or send them off by registered post. Keep copies of everything – claims have been known to go astray - and make enquiries if you do not receive an acknowledgement within 14 days.

As mentioned above, the VAT reclaim procedures are quite straightforward, but if you are unsure about anything, do not hesitate to contact your local VAT office for advice. You will find them most helpful and, provided you keep to the procedures set out in VAT Notice 719, submit your claim on time - with all your invoices properly listed - and answer any questions promptly, your claim should be processed within approximately one month.