



VAT on UK Commercial Property – a summary

Definition

Value Added Tax (VAT) in the UK is currently **20%** and is charged on UK goods or services if they are **eligible** for VAT and if provided by an entity (person or company) that is **registered** (or should be registered) for VAT.

Basic Concept

Whilst everyone has to pay VAT on goods and services meeting the above definition, VAT registered entities must additionally **collect (and pay over to the HMRC)** VAT on their eligible sales.

VAT registered entities can **recover the VAT paid on their expenses**, but this must be in proportion to the amount of eligible goods or services they supply, meaning that the VAT on their expenses may be fully, partly or not at all recoverable.

Every quarter a **VAT Return** must be submitted to the HMRC which calculates how much VAT is due to or due from the HMRC. Therefore, in most cases (where VAT is fully recoverable) it is only a **cashflow** issue, and will be recovered within 3 months.

Commercial Property - Generally Exempt

In general, **freehold commercial property more than 3 years old** and residential property is **exempt from VAT**.

Therefore, landlords cannot charge VAT on the sale of the property or on the rent and equally cannot reclaim the VAT on their expenses.

Option to Tax

However for commercial property (but not residential), the owner can apply for an Option to Tax their property, making it eligible for VAT. This will enable them to recover VAT on their expenses.

As VAT will now be chargeable on the sale of the property and on the rent, both the buyer and the tenant will need to **ensure they are VAT registered** in order to be able to recover the VAT, and this should be a **straightforward process**.

Transfers of a Going Concerns (TOGCs)

In most cases, a commercial property investment with tenants in occupation can be considered to be a business in its own right, known as a **Going Concern**. Therefore the sale of a commercial property that is applicable to VAT can be treated as a Transfer of a Going Concern (TOGC).

TOGCs are **outside the scope of VAT** and therefore **no VAT is chargeable** to the buyer. The property and buyer will need to meet **several conditions**, and again, this is normally a straightforward process.

Conclusion

VAT is an area of UK taxation that many investors don't understand, and is sometimes the reason why they choose not to buy a property. The reality is that **in most cases any VAT issues can be quickly sorted** out via the methods outlined above, as long as the correct process is followed. Professional advice is very important, and we can recommend **good accountants and lawyers** whose fees are reasonable, and will always aim to oversee and guide you through your commercial property transaction.

The explanations above are only aimed to provide a background summary of the key issues regarding VAT on commercial property and should not be relied on when purchasing a property. You should seek professional advice from a certified accountant that considers your specific circumstances and we will be happy to assist you in this regard.