

OPTION TO TAX LAND AND BUILDINGS



Whitepaper

Letting or selling property is exempt from VAT, subject to some nuances and exceptions (e.g. freehold sales of newly constructed commercial buildings are standard rated but leases of newly constructed commercial buildings are exempt). Given this the default approach is to not charge VAT on renting or selling commercial property and in turn you



are not able to recover the VAT on purchases. However, with reference to a particular property you can choose to "opt to tax" which means that any letting or sales activity will be standard rated (i.e. VAT will be charged at 20%).

SHOULD YOU OPT TO TAX

Opting to tax can be commercially advantageous as it will allow for the recovery of VAT on purchases, often a material factor should you be undertaking refurbishment works. However, one needs to take into consideration the impact on any future tenants or acquirers, particularly if they are not able to recover the VAT.



HOW TO OPT TO TAX

The date you select to opt to tax will be the effective date and this cannot be retrospective. Depending on certain criteria the option to tax may be automatic or require HMRC's permission (please contact



You can notify HMRC of your decision to opt to tax using this [link](#).

WHAT SHOULD BE YOUR POSITION WHEN PURCHASING A PROPERTY



The option to tax does not automatically pass with a building and as such should you look to purchase an opted property you would also need to exercise the option to tax. When looking to purchase a commercial property it is important to establish whether VAT is payable at an early stage to ensure this is budgeted for.

REVOKING THE OPTION TO TAX

If within six months of the effective date of your option to tax you change your mind then you can revoke your option to tax if you meet a number of conditions (including that no VAT has become chargeable) otherwise subject to further conditions you can seek to revoke the option to tax after twenty years.

This may be advantageous if you are looking to sell a commercial property by removing any VAT due on the sale and reducing the stamp duty land tax (chargeable on the VAT inclusive price).



Contact Chaddesley Sanford to arrange a call if you have any questions. You can call us on 0207 183 6088 or email us at enquiries@chadsan.com.

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