



LOOK BEFORE YOU JUMP!

John Crawford from the UK's leading independent VAT consultancy warns of the dangers when converting countryside property for light industrial use.

All landowners will look at ways of generating new forms of income from their rural property, which may of course include the change of use, refurbishment and letting of redundant buildings. The VAT chargeable on the conversion of properties can range from 0% to 17.5% depending upon the specific circumstances. This may include change of use, the conversion of a listed building or the conversion of a previously unoccupied building.

With many rural buildings currently being converted for alternative use, the VAT legislation on property intended for commercial occupation is a far more complicated matter all together. In fact the VAT implications on property being converted for 'light industrial' use may present the landlord with a blind alley from which it may be difficult to escape once the intention has been made.

Before embarking on any commercial venture to derive additional revenue from property with previous use, or the regeneration of redundant property, it is important to understand the options available. The conversion of countryside buildings for light industrial use, including all materials, and professional fees will carry VAT at the standard rate of 17.5%

When converting property for light industrial use and letting out to private tenants, the landlord may make a written election to Customs & Excise, which will allow him to add VAT to the rent but will also allow for the full recovery of VAT on the associated costs. How the landlord rents the property and the kind of tenant he is targeting is a crucial consideration that needs attention before making this one-way election to Customs & Excise.

VAT legislation allows the landlord to elect to register for VAT depending on the project. Tenant owners of new small businesses may be attracted to renting light industrial space in rural locations because of cheap rentals. Start-up businesses may not be VAT registered and be attracted to locations where rental does not include VAT. Furthermore, landlords may initially attract some tenants by not charging VAT and offering an all encompassing serviced rate.

A practical example of how the current VAT legislation can affect a typical commercial conversion project may involve a landlord who has two structures he wishes to convert for a more practical commercial use.

Property A

A modern steel frame and concrete block barn he wishes to convert and let as two self-contained industrial units for either storage or light industrial use.

Property B

A stable yard of 10 loose boxes the landlord wishes to convert into two- man starter units, where he would attract micro businesses on a serviced rental basis.

in terms of the registration for VAT. However, a number of units grouped around a fully enclosed concourse would be viewed as one building.

Property 'A', being larger, would potentially attract a more established business, which almost certainly would be registered for VAT. The landlord may elect to register the project of converting the building for VAT. This means he would be able to recover the VAT on all conversion costs, including materials, labour and professional fees. He would therefore be required to charge VAT on all commercial rentals.

Property 'B' has been converted with the intention of letting the space to start-up businesses. It may be correct to assume that a start-up business may be cash sensitive and not registered for the recovery of VAT. The landlord may therefore elect not to register the conversion of this property for VAT. He can therefore not recover VAT on any material costs, labour or professional fees.

Whilst the two projects may be viewed as integral parts of an overall business, they may be viewed independently and separately. Be warned though, as the election for VAT registration does carry a 3 month cooling-off period before the election becomes irreversible, after which the registration will stand for 20 years.

The smart move is to think about the project carefully, consider all the implications before committing your intention to HM Customs & Excise.

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Providing the buildings are not physically connected but are in close proximity to each other the landlord may elect to view them differently