

VAT: approved alterations to listed buildings

VAT Information Sheet 10/12

August 2012

1 Introduction

1.1 Who should read this Information Sheet?

Businesses supplying construction services in the course of an approved alteration to a protected building (including the supply by the business supplying these services, of building materials which are incorporated into the building).

Anyone making a first grant of a major interest (eg, a sale or long lease) of a substantially reconstructed protected building.

This guidance should be read in conjunction with [Notice 708 on Buildings and construction](#) (published on the HM Revenue & Customs (HMRC) website), which it updates and supplements as appropriate.

1.2 What is this Information Sheet about?

Following changes announced at Budget 2012, this Information Sheet provides guidance on how to establish the correct VAT liability of approved alteration work of protected buildings. The liability of other construction services is covered in [Notice 708](#).

1.3 When do the changes take effect?

The changes affect supplies of approved alterations to protected buildings and first grants of a major interest in a substantially reconstructed protected building that are made on or after 1 October 2012.

1.4 Why have these changes been introduced?

The changes remove the anomaly whereby the approved alteration of protected buildings are zero-rated but their repair and maintenance (and the alteration of other types of building) are standard-rated. The VAT treatment of approved alterations to protected buildings has been a major source of

confusion, resulting in a high volume of taxpayer query and frequent error. These changes remove the need to try to distinguish between alteration and repair or maintenance, and remove the incentive to alter, rather than repair, listed buildings.

2 VAT Liability of approved alterations to protected buildings

2.1 What is a 'protected building'?

For VAT purposes a protected building is a listed building or scheduled monument that is (or will become on completion of the work):

- a dwelling;
- a residential building such as a nursing home or student accommodation; or
- a building used by a charity for non-business purposes such as a place of worship, village hall, certain school buildings etc.

More information on what constitutes a protected building can be found in Section 9 of [Notice 708](#).

2.2 What are the current rules (prior to 1 October 2012)?

Although works of repair and maintenance to all buildings are standard-rated, approved alterations to a protected building are zero-rated. Alterations to other types of buildings are standard-rated. More information on what constitutes an approved alteration can be found in Section 9 of [Notice 708](#).

Zero-rating also applies to the first grant of a major interest by a person substantially reconstructing a protected building. A major interest means the freehold (or in Scotland the absolute interest) or a lease for over 21 years (not less than 20 years in Scotland). More information on when a building is a substantial reconstruction can be found in Section 10 of [Notice 708](#).

2.3 What are the new rules (from 1 October 2012)?

The zero rate of VAT for approved alterations to protected buildings will be withdrawn from 1 October 2012 (see para 2.4 below).

The zero rate will also be withdrawn for the first grant of a major interest in a substantially reconstructed protected building in circumstances where the zero-rating relies on three-fifths of the work being approved alterations (see para 2.5 below).

To mitigate the impact, a transitional relief will apply until 30 September 2015, where the conditions set out in section 3 below are met.

2.4 Approved alterations - rules from 1 October 2012

The zero rate for approved alterations to protected buildings and associated building materials will be withdrawn from 1 October 2012. These supplies will be standard-rated from 1 October 2012 unless they

- qualify for continued zero-rating under the transitional rules (see section 3 below); or
- qualify for zero- or reduced-rating under another part of the VAT law (see para 2.10 below)

2.5 The first grant of a major interest in a substantially reconstructed protected building - rules from 1 October 2012

The zero rate for the first grant of a major interest in a substantially reconstructed protected building will be restricted from 1 October 2012. Up to 1 October 2012 zero-rating applies to reconstructions where 3/5ths (measured by cost) of works are approved alterations or where the building is reconstructed from a shell. From 1 October 2012 zero-rating will be limited to the first grant of a major interest in a protected building substantially reconstructed from a shell (more information on this can be found in Section 10 of [Notice 708](#)).

2.6 What types of building are affected?

The changes apply to all protected buildings and will affect listed residential dwellings and listed buildings used for charitable and other residential purposes.

2.7 Do the changes apply to listed places of worship?

Yes, the changes apply to listed places of worship. However following discussions with the Church of England, on behalf of all faith groups, the Chancellor announced that after the VAT change comes into effect, the Government will extend the scope of the Listed Places of Worship Grant scheme so that it covers alterations as well as repairs. More information on how the scheme will operate is available on the DCMS website [Listed Places of Worship Grant scheme](#).

2.8 Are there any changes to the VAT treatment of repair and maintenance work to protected buildings?

No. Repair and maintenance work has always been liable to the standard rate of VAT and this will continue.

2.9 I am substantially reconstructing my home, which is a listed building. Does the work qualify for zero-rating as a substantial reconstruction?

No. The zero-rating for a substantially reconstructed protected building applies only to the **first grant of a major interest** in the reconstructed building. Until 1 October 2012 however (or until 1 October 2015 if it qualifies for the transitional provisions - see paragraph 3 below), the work may qualify for zero-rating as an approved alteration to a protected building.

2.10 Are there any other reliefs available for work to listed buildings?

Yes. The changes only affect the zero-rating for protected buildings. There are no changes to other zero and reduced rates for construction work. A full list of these is set out in paragraph 2.1 of [Notice 708](#). These include:

- A zero rate for conversion of any non-residential building into a dwelling or dwellings or into a relevant residential building for a housing association. See Section 6 of Public Notice 708
- A reduced VAT rate of 5 per cent for conversions of non-residential buildings into qualifying dwellings or communal residential buildings and for conversions of residential buildings to a different residential use. See Section 7 of [Notice 708](#).

- A reduced VAT rate of 5 per cent for the renovation or alteration of empty residential premises. See Section 8 of [Notice 708](#).
- A reduced VAT rate of 5 per cent VAT for the installation of energy saving materials, grant funded heating system measures and qualifying security goods. See [Notice 708/6](#) on Energy-saving materials (published on the HMRC Website)
- A zero rate for some construction work to suit the condition of people with disabilities. See section 6 of [Notice 701/7](#) on VAT reliefs for disabled people (published on the HMRC website).

3 Transitional arrangements

3.1 When do the transitional arrangements apply?

Under the transitional arrangements, zero-rating will continue to apply until 30 September 2015, where the conditions set out below are met.

Approved alterations - the transitional rules apply to works which are within the scope of:

- A 'relevant consent' applied for before 21 March 2012; or
- A written contract entered into before 21 March 2012.

First grant of a major interest in a substantially reconstructed protected building - the transitional rules apply to the first grant of a major interest in a substantially reconstructed protected building where 3/5ths of the work (by cost) relates to approved alterations:

- If those approved alterations are within the scope of a 'relevant consent' applied for before 21 March 2012 or of a written contracts entered into before 21 March 2012; or
- If 10 per cent of the substantial reconstruction (measured by cost) was completed prior to 21 March 2012.

3.2 What is a 'relevant consent?'

For most buildings relevant consent means listed building consent. However many listed places of worship are exempt from the usual listed building

controls under s60 of the Planning (Listed Buildings and Conservation Areas) Act 1990. For listed places of worship with this ecclesiastical exemption 'relevant consent' means whatever consent for the approved alterations is required by the competent authority eg, for works on Church of England buildings, a 'faculty'.

3.3 What is meant by a 'contract'?

The contract referred to in the transitional arrangements is the written contract with the builder, not the architects' plans, planning permission etc.

3.4 Does the transitional relief apply to private dwellings and churches?

Yes, the transitional relief applies to all qualifying listed buildings.

3.5 Do the transitional rules apply to projects underway on 21 March 2012?

The transitional rules for approved alterations may be applied subject to having evidence of an application for listed building consent made before 21 March 2012, or evidence of a written contract for the alterations in place before 21 March 2012. For the first grant of a substantially reconstructed building (meeting the 3/5 approved alterations test) the same evidence or evidence that 10 per cent of the reconstruction work was completed prior to 21 March 2012 is required.

3.6 Do the transitional rules apply where fundraising was at an advanced stage prior to 21 March 2012 (but no listed building consent was applied for and no written contract was in place)?

No. The transitional rules only apply in the circumstances set out above.

3.7 My builder completed 10 per cent of the approved alteration work on my property before 21 March 2012. Will the work carried out up to 30 September 2015 be zero-rated?

The 10 per cent rule applies only to the zero-rating of first grant of a major interest in a substantially reconstructed property where 3/5ths of the works

constitute approved alterations. The approved alterations to your property will only benefit from the transitional arrangements if either you can show you applied for listed building consent before 21 March 2012 or that a written contract was entered into before 21 March 2012, and that the works carried out were within the scope of the listed building consent or contract.

3.8 What determines the date of a grant of a major interest in a building for the purpose of the transitional rules for substantial reconstructions?

A major interest in a building will be granted on the date of completion of the sale or transfer of title. So where the date of completion of the sale or the transfer of title occurs before 30 September 2015 then zero-rating can apply under the transitional rules where the other conditions are met

Where a deposit is received in relation to a first grant of a major interest in a substantially reconstructed protected building qualifying for the transitional rules, then the normal tax point rules apply and the deposit can be zero-rated if paid before the end of the transitional period and the other conditions are met.

4 Evidence of zero-rated entitlement under the transitional arrangements

4.1 What evidence is required to zero-rate an approved alteration to a protected building up to 30 September 2015?

In order to obtain zero-rating under the transitional rules, persons carrying out approved alteration works must be able to show that the relevant consent was applied for before 21 March 2012 or that a written contract for the work was in place before 21 March 2012, **and** that the works performed are included within the scope of the consent or contract.

Acceptable evidence would include copy of the relevant consent. If the consent is dated as given before 21 March 2012, other evidence is not needed otherwise one of the following should be held:

- Evidence of posting or delivery of the relevant application prior to 21 March 2012; or
- Acknowledgement from the relevant authority of receipt of the relevant application by 21 March 2012.

Or

- A copy of the contract for the works including proof that this was entered into before 21 March 2012.

4.2 What evidence is required to demonstrate that 10 per cent of the substantial reconstruction work was completed prior to 21 March 2012?

Acceptable evidence of the substantial reconstruction completed before 21 March 2012 would include surveyors' estimates, works schedules, evidence of invoicing or payment applications for completed works prior to 21 March 2012 and commercial documentation which clearly indicates the amount of reconstruction work completed on a date before 21 March 2012.

4.3 What evidence is needed to zero-rate an approved alteration to a listed place of worship up to 30 September 2015?

The builder will need to be satisfied that the relevant permission under the ecclesiastical exemption had been applied for prior to 21 March 2012 and has not expired, and that the works are within the scope of that application. It may be helpful if a copy of the application, (eg for works on Church of England buildings, the faculty application), is provided to the builder along with the certificate confirming the building is to be used for a relevant charitable purpose.

Alternatively, the approved alteration will be zero-rated where it is within the scope of a written contract in place before 21 March 2012.

4.4 Who is responsible for determining if VAT is charged?

It is the responsibility of the builder to apply the correct rate of VAT and to ensure they can provide satisfactory evidence of the entitlement to any zero-rating.

5 Changes to listed building consent and contracts after 21 March 2012

5.1 Minor change to a planning application or contract

Where there is satisfactory evidence of an application for relevant listed building consent made before 21 March 2012, but the plans need to be changed as a result of problems discovered in the course of building works, it is likely that fresh listed building consent will be required. In these circumstances where a fresh application is made and granted after 21 March 2012, HMRC accept that minor changes will follow the same VAT treatment as if they were included in the pre 21 March 2012 application. Where new works are added to a fresh planning application that increase, extend or alter the scope of the pre 21 March 2012 application, these additional works will not fall within the transitional relief.

The same will apply to changes to a written contract entered into before 21 March 2012.

5.2 What is considered a minor change to a planning application or contract?

A minor change is one where the original intention has not changed but minor amendments become necessary as a result of new developments.

Examples of minor changes:

- Original listed building consent is for a large window but during the course of construction it is realised that such a large window would make the wall unstable so a fresh application is made replacing the large window with two smaller windows.
- During construction excavations reveal an obstacle which necessitates the repositioning of a door or a change in the shape of the building without increasing the original size of the planned works.

Examples of changes which are not minor:

- The addition of a first floor extension to the original plan for a single storey extension.
- An increase in the original area of a planned extension.
- The addition of a new feature which is an addition to, rather than a replacement of a feature of, the original plan.

5.3 Amendments made after 20 March 2012 to listed building consents applied for before 20 March 2012 - treatment of works covered by the original application

For the purpose of applying the transitional rules, where works are included in a listed building consent application made before 21 March 2012 and are subsequently incorporated into a fresh application made after 21 March 2012, those works included in the pre-21 March application will be eligible for zero-rating under the transitional rules.

5.4 Purchase of a property with listed building consent for approved alterations - treatment of approved alteration works under the transitional rules

When a protected building is sold with listed building consent which was applied for before 21 March 2012, then the approved alterations work covered by that consent can still be treated as zero-rated under the transitional rules notwithstanding the change in ownership of the building.

6 Work spanning the transitional period

6.1 Approved alterations to a protected building carried out up to 30 September 2012?

Approved alterations work performed up to 30 September 2012 can continue to be zero-rated.

6.2 What about contracts which start before 30 September 2012 but finish on a later date?

If the approved alterations do not qualify for zero rating under the transitional arrangements, you must make a fair and reasonable apportionment between the value of works completed up to 30 September 2012 and the value of

works carried out from 1 October 2012. VAT will apply to all works carried out from 1 October 2012.

If the approved alterations qualify for zero-rating under the transitional arrangements, then all approved alterations completed by 30 September 2015 will be zero-rated.

Where the approved alterations qualify for the zero rate up to 30 September 2015 as above but works continue after this date you must make a fair and reasonable apportionment and charge VAT on the value of work carried out from 1 October 2015.

6.3 If I deliver materials in September 2012 to be installed in October 2012 can I zero-rate the materials even if the installation work is not covered by the transitional arrangements and is standard-rated?

No. Materials associated with approved alterations are only zero-rated when they have been installed prior to 1 October 2012.

6.4 What happens if I make or receive a payment for approved alteration services in September 2012, but the services are not performed until October 2012?

If a prepayment is made before 1 October 2012 (the date of the change in VAT treatment) for approved alterations work performed or building services incorporated after 1 October 2012, a special anti-forestalling charge applies on work carried out from 1 October onwards, equal to VAT at the standard-rate. This charge is due on 1 October 2012 and is accounted for in the same way as VAT. See separate guidance on anti-forestalling.

6.5 How is VAT applied to retention payments relating to the transitional period?

VAT will be due according to when the work was completed regardless of when the release is requested. If it is a general retention for work completed either side of the change then a fair apportionment between the rates should be made.

6.6 What happens on a substantial reconstruction where I do not make the grant by 30 September 2015?

Where a first grant of a major interest has not been made by the end of the transitional period then its supply after that date will not be zero-rated for VAT purposes. Any building works which have not been zero-rated as approved alterations will have been standard-rated. If VAT on such works has been recovered as input tax on the assumption that the works were to be used to make a zero-rated first grant, then that VAT will need to be repaid. See [Notice 706](#) on Partial Exemption.

6.7. What happens on a substantial reconstruction where the grant is made prior to 30 September 2015 but the works are not completed until sometime after that date?

Under the 3/5ths test the first grant of a major interest in a substantially reconstructed protected building is zero-rated if 3/5ths of the reconstruction by cost is an approved alteration.

Works completed after the 30 September 2015 do not qualify as approved alterations for VAT purposes. So for the first grant to be zero-rated under the transitional rules, the value of the approved alterations work completed before 30 September 2015 must be 3/5ths of the projected costs of the reconstruction. If the first grant has been zero-rated in anticipation of the 3/5ths of the projected costs of the reconstruction being approved alterations and the actual proportion is lower then the grant is not zero-rated. If no option to tax has been exercised then the supply is exempt. Any related input tax may be restricted, and any VAT previously recovered may need to be repaid. See [Notice 706](#) on Partial Exemption.

7 Who can I contact for further information?

If you have a query for which you have been unable to find the answer within this VAT Information Sheet please contact the VAT Helpline on Tel 0845 010 9000.

The Helpline is available from 8.00 am to 6.00 pm, Monday to Friday.

If you have hearing difficulties, please ring the Textphone service on 0845 000 0200.