

Vat Relief on New Buildings – What Do We Do Next?

Introduction

This guide explains what charities need to consider after receiving VAT zero-rating (VAT relief) on a new building or annexe funded by the Youth Investment Fund. While VAT relief may have applied at the time of construction, charities must continue to monitor how the building is used for 10 years after completion to ensure the relief remains valid. Changes in use can trigger a repayment of VAT to HMRC.

Commissioned by YIF Central Support, this guide was developed by Sayer Vincent, specialist charity accountants with extensive experience advising charities on VAT and capital projects.

This guide covers:

- When VAT zero-rating applies to new buildings and annexes
- The “10-year rule” and ongoing monitoring requirements
- How changes in building use can trigger a VAT charge
- How VAT repayments are calculated if relief is lost
- Key risk areas, including charging for activities, leasing space, or changes in funding
- Record-keeping requirements and the importance of trustee awareness
- When specialist VAT advice should be sought

The guide provides a practical overview to help charities protect VAT relief already received and avoid unexpected VAT liabilities. As the rules are complex and the amounts involved can be significant, organisations should seek specialist advice before making changes to how a building is used.

Key principles to understand

Your charity may have been able to claim VAT relief on its Youth Investment Fund funded project if you were constructing a new building, or an annexe that is being used for a relevant charitable purpose – meaning it is used either for:

- Non-Business activities
- As a village hall or similarly in providing social or recreational facilities for a local community

Relief would have been received via your supplier, who would have issued invoices with no VAT charged, rather than issuing invoices with VAT at the standard rate of 20%.

However, just because the charity was eligible for relief at the time the building was built, that doesn't mean that the charity has no more responsibilities. Under the '10 year rule', charities must continue to monitor the use of the building over the next 10 years following completion to ensure that they continue to qualify for the relief.

If the charity no longer qualifies for the relief, then this will trigger a VAT charge based on the relief obtained which is payable to HMRC. The amount repayable reduces based on the number of months remaining in the 10 year period following completion.

Example

ABC Charity incurred costs on a new building of £1 million, which were eligible for relief, saving the charity £200,000 of VAT. However, 4 years after completion, the building starts being used for non-qualifying activities.

As 6 years remain (72 months) the amount payable is £200,000 multiplied by 72 months/120 months equal to £120,000 of VAT which ABC Charity now must pay to HMRC.

As shown by the above example, the amount of VAT at stake can be very significant, so it is important that the trustees and management of any charity that have obtained relief ensure that the relief is taken into account whenever considering any change in how the building is used.

What do charities need to monitor?

There are a few key areas that charities need to monitor to ensure they remain eligible for the relief for the 10 years after their building is completed.

1 Retain records relating to the relief, including any advice obtained for at least 10 years

The charity must retain its records for at least 10 years to ensure it can justify the original relief claimed. Additionally retaining copies of any advice obtained at the time should ensure that any conditions that the charity needed to comply with around the use of the building are retained, and the trustees of the charity should ensure that new trustees are aware of this and the knowledge retained within the charity.

2 Sale or lease of the building

If the charity sells or leases part of the building, then a VAT charge may arise. Any charity considering selling or leasing all or part of their building should seek further advice to ensure that any VAT charge is identified.

3 Use of the building

The charity must continue to ensure that the building is used for non-business activities, or in a village hall like manner. HMRC allow up to 5% of the use of the building to be for non-qualifying purposes, and many organisations do have a low level non-qualifying use which must be kept below this limit. Charities should ensure that as part of their budget setting for future years they consider the following:

- Has the funding for activities run in the building changed? In particular, are any services now provided under a contract for services, rather than grant funded?
- Is the charity considering charging for any activity?
- **If relief was not under the village hall provisions** – Is the charity considering allowing other organisations (both charities and non-charities) to use the space?
- **If relief was under the village hall provisions** – has the level of use by the charity or any other individual user increased to an extent where this limits the ability of the community to make use of the building?
- If the charity identified that it had some level of non-qualifying use, how will it ensure this remains below 5%?

If the charity identifies any concerns from the above, they should seek further advice to ensure that any potential VAT liability is identified and correctly accounted for. Due to the potential complications of the above, charities may have to consider the need to change future plans if necessary to prevent a VAT liability arising and so should obtain this advice in advance of making any changes.