

## VAT, Charities and Buildings

### Charities can purchase construction services free of VAT in the following circumstances:

- The work comprises the construction of a new building or an approved alteration to a listed building; and
- The building is a 'qualifying building'.

### A qualifying building is one that is either:

- Designed as a self-contained dwelling
- Used as a residence by a community or institution
- Used by a charity as a village hall or for non-business purposes

In addition, a charity may purchase construction services VAT-free if they build a self-contained annexe to a building used for a qualifying purpose by a charity. A building or annexe may be used 10% for business purposes and still qualify for zero-rating by concession.

### Meaning of business

The meaning of 'business' is very wide for VAT purposes.

At one extreme, if all your activities are funded by grants and donations then your activities are probably 'non-business'. At the other extreme, if you carry on activities that generate income then you are probably in business for VAT purposes. If you lie somewhere in between then you may well need to seek professional advice.

There is usually VAT on the fees of professionals involved in a building project, such as architects and quantity surveyors. The main exception relates to design and build contracts. In a design and build contract the client deals with one party that provides the entire construction and design for a single price under a single contract. In these circumstances, the liability of that single price is determined by the liability of the underlying construction services. Therefore, in a design and build contract for, say, a new village hall built for a charity, there will be no VAT on the professional fees.

### Design and building contracts

Charities should always consider design and build contracts for major building projects.

### 'Mixed use' buildings

A VAT-registered charity that uses a building partly for taxable business and partly for non-business purposes has two choices:

- To claim an appropriate proportion of the VAT; or
- To claim all the VAT and account for the non-business use over the life of the building up to a maximum of 10 year

### How we can help

We act for many charities and our specialist VAT team regularly advises on the complex VAT issues affecting charities and buildings. Please contact us for further help.

For further information about James Cowper and how we may be able to assist you, visit

[www.jamescowper.co.uk](http://www.jamescowper.co.uk)

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