

The DIY Housebuilders Refund Scheme

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Introduction

This report provides a brief overview of the scheme available to individuals undertaking work to either build a completely new property, or to convert a non-residential property into a dwelling. Provided the intention is for that individual (or his close family) to live in the new accommodation, a refund of certain VAT may be claimed.

The report introduces the scheme, and the separate rules for the two scenarios – new builds and conversions, along with a HMRC sourced list giving examples of qualifying and non qualifying goods and services.

The relief is available where work is carried out by the intended user directly, or on his behalf by an appointed contractor.

The report is divided into two parts for the separate rules, with separate appendices for each.

DIY New Builds

Overview – DIY Construction of new residential property

When building a qualifying new residential property, VAT is incurred at 20% on materials purchased directly. If a new home is purchased from a property developer, the sale will be zero-rated, and so the aim of the scheme is to put the DIY builder in the same position as they would be had they purchased their home directly.

It is worth noting that, unlike the scheme for conversions, there is no scope to claim VAT back on services provided by a contractor where one is used. The only tax recoverable is that on direct purchases of materials.

Who can make a claim?

It may be appropriate to seek advice about a claim if you:

- have constructed a new dwelling to be used either by you or your relatives as a family home for residential or holiday purposes
- have bought a new building as a 'shell' from a developer and have fitted it out to completion, for either you or your relatives as a family home for residential or holiday purposes.
- have constructed a new building that is intended for use solely for either:
 - a Relevant Charitable Purpose
 - a Relevant Residential Purpose

If you are not intending that you or your family will live in the property, or use it for holiday purposes, but will either sell, let out, or put to some other business purpose, you CANNOT use this scheme.



What can be reclaimed?

Only the VAT incurred on building materials can be reclaimed. You cannot recover VAT paid on contractor's services. This is because services provided by a contractor in constructing a new home should have been zero-rated, and therefore no VAT should have been charged at all.

If VAT is in fact charged in error, HMRC will not make a refund to the DIY builder. Instead you would need to approach the contractor directly to request that they amend their VAT returns and refund you directly. There is a strict time limit for them to do this without incurring a penalty, and they are likely to refuse if this window has elapsed.

It is essential therefore to establish the zero-rating at the beginning of the work.

For a guideline list of allowable and non-allowable goods, please refer to Appendix B.



Making the claim

Upon completion, a repayment claim must be made on the appropriate form to HMRC within 3 months. In any event, if for any reason you cannot meet this deadline you **MUST** write to HMRC in advance and request an extension.

The claim must be accompanied by original invoices. The details of these invoices must be entered line by line onto the form in the appropriate section depending on the rate VAT was incurred at, and the total claimed entered into the summary section of the form. The invoices **MUST** be valid VAT invoices.

As a summary, the evidence to be sent with the form is as follows:

- Full Planning Permission Or Outline Planning Permission and Approval of Reserved Matters (Note: both documents are needed)

And

- Completion Certificate or other acceptable evidence
- A full set of building plans
- Original invoices filed in the same order as listed on the schedules

Appendix A1 – Eligibility Checklist (source HMRC)

1. Is the property that you have built a new build?

A new build is a building that has been constructed from scratch. In general, unlike a conversion, it will not incorporate any part of an existing building.

2. Is your claim for the fit-out and finish of a building shell?

If you have purchased your building as a 'shell' from a developer, or had the 'shell' built for you, you can claim back the VAT paid on the fitting out costs.

3. Has the work been done on a completed dwelling purchased from a developer, builder or private vendor?

You **cannot** claim for extra work that is done to a completed building that you have purchased from a builder or developer.

4. Has Planning Permission been granted for your new build?

To obtain a refund you **must** provide evidence that the works are lawful and you must provide a copy of the **Planning Permission**. This will either be:

- a **Full Planning Permission** or
- an **Outline Planning Permission** and **Approval of Reserved Matters**.

5. Do the terms of your Planning Permission (or similar permission) prevent the separate disposal or separate use of the new building from any other pre-existing building?

Before answering this question make sure you read all of the terms in your Planning Permission (or similar permission). The purpose of this question is to establish whether the work has created a new building in its own right. The building must possess that status independently from any other property.

If the building is an annexe, extension, or any other form of ancillary structure or building which cannot be disposed of or used separately from another property, then it does not have independent status and cannot qualify for a refund under this Scheme.

6. Has a Building Regulation Completion Certificate been granted by the local authority or by an approved inspector registered with the local authority building control?

A building is normally considered to be completed when it has been finished according to its original plans. Where there is doubt, it may be regarded as still being under construction until the date that the local planning authority issues a Certificate of Completion.

You should send the certificate to HMRC with your claim form.

7. Have you got your approved plans from your Local Authority?

These plans will show what your completed property looks like.

You will need to send HMRC copies of:

- the external elevations (what your property looks like on the outside)
- internal layout plans of all floors (what rooms your property contains).

8. Are you, or relatives, intending to live in the property you are claiming for?

The work that you have carried out must not be in the course or furtherance of any business activity. Typically, the reason why you have constructed the building should be because you, or relatives, are intending to live in it.

9. Are you claiming for any other building(s)?

In general, you cannot claim for any work that has been carried out on other buildings within the site as these do not form part of the eligible building work. Construction of a garage may in some circumstances be allowed if it is built at the same time as the rest of the property.

For expenditure on materials which is eligible for the scheme, please refer to appendix B at the end of the conversions scheme report. The lists given are identical for both.

DIY Conversions

Overview – Conversions of non-residential buildings

This Scheme allows you to claim VAT back on building materials you have purchased, and on the services of conversion, when you convert a previously non-residential property into a dwelling. If you buy a converted house from a property developer, you will not be charged VAT. This is because the sale of the house to you will be zero-rated. This allows the developer to recover the VAT paid on building materials during the build from HMRC.

If you convert the house yourself, you will not be able to benefit from the zero-rating. This Scheme puts you in a similar position to a person who buys a zero-rated converted property from a property developer. You may also recover VAT that you have paid on some services of conversion.

Who can make a claim?

It may be appropriate to seek advice about a claim if you:

- Convert a previously non-residential property into a dwelling to be used either by you or your relatives as a home for residential or holiday purposes.
- Convert a previously residential property for either you or your relatives, that has not been used as a dwelling for the last 10 years or more, into a home for residential or holiday purposes.
- Are looking to buy a converted building as a 'shell' from a developer and have fitted it out to completion, for either you or your relatives as a family home for residential or holiday purposes.
- Are looking at converting a building into another type of residence, for example a care home or children's home and there is no business motivation.

Conversions that don't qualify

You cannot claim under the scheme if you:

- Build an extension or other type of conversion that cannot be sold or used separately from another property.
- Convert a property that you intend to let out, or use for another business purpose.

What can be reclaimed?

If you are carrying out the work yourself, you will incur VAT at the standard rate of 20% on materials you procure from the wholesaler (e.g. builder's merchant). You will therefore be able to reclaim this 20% in full as far as it relates to materials. VAT incurred on other items, such as white goods, carpets, many electrical items etc. are not qualifying building materials.

If you are using a VAT registered contractor to carry out the works, they will most likely be responsible for purchasing the materials directly, incurring the 20% VAT charge. They must then charge their services to you at the reduced rate of 5%, and reclaim the difference on their own VAT returns. In this case, you can reclaim the 5% charged on the contractor's services.

It is vital that the correct 5% rate is actually charged on contractor's services, as HMRC will not issue a refund if the standard 20% has been applied. If this has happened, there will be no option but to approach the contractor directly and request that they amend their VAT account with HMRC, and reissue you with a correct invoice. There are strict time limits for doing this without penalty, and the contractor is likely to refuse if they will be penalised for making the amendment. Qualifying services for the purposes of the reclaim do not include someone acting in a supervisory capacity, broadly meaning a professional such as an architect, surveyor or consultant.

Additionally, it is important to note that to correctly apply the reduced 5% rate, the contractor will need to be provided with a signed certificate of intention of use, stating that the property will solely be used by the intending user for residential purposes.

Making the claim

Upon completion, a repayment claim must be made on the appropriate form to HMRC within 3 months.

In any event, if for any reason you cannot meet this deadline you **MUST** write to HMRC in advance and request an extension. The claim form itself includes two sections detailing the eligibility of the conversion by means of a number of questions regarding the prior use and intended use, and information about the property details before and after the work took place.

The claim must be accompanied by original invoices. The details of these invoices must be entered line by line onto the form in the appropriate section depending on the rate VAT was incurred at, and the total claimed entered into the summary section of the form. The invoices **MUST** be valid VAT invoices.

As a summary, the evidence to be sent with the form is as follows:

- Evidence that the building has been empty for 10 years or more before you started your works (if applicable)
- Full Planning Permission **Or** Outline Planning Permission **and** Approval of Reserved Matters
(*Note: **both** documents are needed*)

And

- Completion Certificate or other acceptable evidence
- A full set of building plans
- Original invoices *filed in the same order as listed on the schedules*

The content of the planning permission is likely to come under particular scrutiny. A claim will be rejected if the conversion appears to be unlawful in any way. In the *Bond* case, the conversion of part of an old factory into a flat was completed within the terms of the appropriate planning permission. However, although it was obtained retrospectively, the overall redevelopment of the factory did not have full planning permission at the time of the claimants works. The claim was rejected.

Another case highlighting the importance of the planning document occurred where a DIY Scheme claim was rejected because the barn conversion he undertook was in the grounds of his main residence and the planning consent decreed it could only be used for additional family occupation. In such circumstances, it may be possible to alter the planning application and consent; preferably before a claim is submitted to HMRC.

This last example would appear to preclude the creation of annexes or 'granny flats', or other buildings constructed within the grounds of a main residence, particularly if the planning document or similar covenant prevents the sale of the conversion as a separate entity from the main residence.

Appendix A – Eligibility Checklist.

1. Have you converted a non-residential building?

A conversion is a non-residential building that either has **never** been used for residential purposes or has not been used as such in the past 10 years. The results of your work must be to convert that non-residential building into a dwelling.

2. Have you carried out works to a building that has previously been lived in?

A building has been lived in if it has previously been **used as a dwelling**. This means that the building has been adapted or designed for use as someone's home and has been used in this way. The living accommodation need not have been self-contained or designed to modern standards.

3. Have you got evidence that the building has been empty for 10 years or more before the work started?

The 10-year rule requires that the building has not been lived in for at least 10 years **before the work started**. This means that you cannot live in the building at any time before the work starts as this will be counted as falling within the 10-year period.

If the building that you are converting has been lived in, you must produce evidence to show that no-one has lived in it for 10 years or more.

4. Are you 'fitting out or finishing' a converted non-residential building?

You may have purchased your conversion building (that is a building that has been converted not by yourself but by the developer from whom you have purchased it) as a 'shell', or had the 'shell' converted for you.

5. Has work been done on a completed conversion purchased from a developer, builder or private vendor?

6. Has Planning Permission been granted for your conversion works?

To obtain a refund you **must** provide evidence that the works are lawful and you must provide a copy of the **Planning Permission**.

7. Do the terms of your Planning Permission, or similar permission, prevent the separate disposal or separate use of the converted building from any other building?

The purpose of this question is to establish whether the work has created a new dwelling in its own right. The dwelling must possess that status independently from any other property. If the building is an annexe, extension, or any other form of ancillary structure or building which cannot be disposed of or used separately from another property, then it does not have independent status and cannot qualify for a refund under this Scheme.

8. Has a Building Regulation Completion Certificate been granted by the local authority or by an approved inspector registered with the local authority building control?

A building is normally considered to be completed when it has been finished according to its original plans. Where there is doubt, it may be regarded as still being in the process of conversion until the date that the local planning authority issues a Certificate of Completion.

You should send the certificate with your claim form.

9. Have you got your approved plans from your Local Authority?

These plans will show what your completed property looks like. You will need to send in copies of:

- the external elevations (what your property looks like on the outside)
- internal layout plans of all floors (what rooms your property contains).

10. Are you, or relatives, intending to live in the property you are claiming for?

The work that you have carried out must not be in the course or furtherance of any business activity. Typically, the reason why you have converted the building should be because you, or relatives, are intending to live in it.

11. Are you claiming for any other building(s)?

In general, you cannot claim for any work that has been carried out on other buildings within the site as these do not form part of the eligible building work. Nor can your claim include buildings that are yet to be constructed or converted. This means you cannot claim VAT back on materials and services incurred on the construction/conversion of:

- rooms above or attached to a detached garage
- detached workshops or store rooms
- sheds
- stables
- detached swimming pools, and
- annexes (such as 'granny' annexes) – that cannot be disposed of or used separately from another dwelling because the annexe is not 'designed as a dwelling' in its own right.

The only other building that you can count as part of your eligible building project is a garage, providing:

- it is constructed or converted at the same time as the building that you are converting, and
- it is intended to be used at the same time as the building you are converting.

Appendix B – Goods and services eligible for claims.

The following section gives a list of examples of some goods and services that qualify for the scheme. For completeness, lists of goods and services not qualifying have also been included.

Generally, for goods to be qualifying, they must be incorporated into the building during the course of construction, and be of an ordinary nature when considering what would be incorporated by a builder constructing that type of building.

Other than kitchen furniture, generally finished products such as cabinets would not qualify, neither would most gas appliances or electrical items (with some exceptions). Carpets and carpeting material are specifically disallowed.

Goods that you can claim for (source HMRC) – both schemes

The items listed below are accepted as being 'ordinarily' incorporated in a building (or its site). This is not a complete list but gives you an idea of what is allowed.

- air conditioning
- bathroom accessories, such as fixed towel rails, toilet roll holders, soap dishes, etc.
- building materials that make up the fabric of the property (for example, bricks, cement, tiles, timber, etc.)
- burglar alarms
- curtain poles and rails
- decorating materials
- doors
- dust extractors and filters (including built-in vacuum cleaners)
- fencing permanently erected around the boundary of the dwelling
- fireplaces and surrounds
- fire alarms
- fitted kitchen furniture
- flooring materials (other than carpets and carpet tiles)
- gas and electrical appliances when wired-in or plumbed-in that are designed to heat space or water (including cookers designed to have a dual purpose (to heat the room or the building's water), or designed to provide ventilation, air cooling or purification, or
- dust extraction
- guttering
- heating systems including:

- radiators and controls, underfloor heating, ducted warm-air systems, storage heaters and other wired-in heating appliances, gas fires and solar-powered heating
- immersion heaters, boilers, hot and cold water tanks
- kitchen sinks, work surfaces and fitted cupboards
- letter boxes
- lifts and hoists
- light fittings (including chandeliers and outside lights)
- plumbing materials, including electric showers and 'in line'
- water softeners
- power points (including combination shaver points)
- sanitary ware
- saunas
- shower units
- smoke detectors
- solar panels
- solid fuel cookers and oil-fired boilers
- turf, plants and trees *Note: you can only claim to the extent that they are detailed on a landscaping scheme approved by a planning permission*
- TV aerials and satellite dishes
- ventilation equipment (including cooker hoods)
- window frames and glazing
- wiring (including power circuits and computer, phone and TV cabling).

You can claim for the following services (conversions only):

- works to the fabric of the building. (These services can be supplied either at the reduced rate or, if approved alterations, at the zero rate of VAT)
- works closely connected to the above works, such as works in the grounds, for example, laying drains. (These services can be supplied either at the reduced rate, the standard rate or, if, they are an approved alteration to a listed building, at the zero rate of VAT.)

Goods that you cannot claim for (both schemes):

This is not a complete list but gives you an idea of what is not allowed.

- Agas/range cookers (Unless they are solid fuel, oil-fired or designed to heat space or water.
Note not all cookers are 'space heaters' because they incidentally radiate heat while operating. To be classified as such they must be fitted to a heating module or boiler.)
- free-standing and integrated appliances such as:
 - cookers, fridges, freezers, dishwashers, microwaves, washing machines, dryers, coffee machines
- audio equipment, (including remote controls) built-in speakers, intelligent lighting systems, satellite boxes, freeview boxes, CCTV, telephones
- consumables (for example, sandpaper, white spirit)
- electrical components for garage doors and gates (including remote controls)
- bedroom furniture, bathroom furniture (for example, vanity units, free-standing units), mirrors
- curtains, blinds, carpets
- garden furniture, ornaments and sheds.

Services you cannot claim for (conversions only):

- professional and supervisory services, including the fees of architects and surveyors, and other fees for management, consultancy, design, planning.
- the hire of plant, tools and equipment (such as generators, scaffolding, skips, temporary fencing)
- haulage (including muckaway).

Disclaimer

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