

VAT ON RESIDENTIAL SERVICE CHARGES: ARE YOU AWARE OF WHAT IS AND WHAT ISN'T EXEMPT FROM VAT?



For many years there has been a general presumption that costs incurred by property management companies which are then re-charged to tenants in estates or blocks of flats are exempt from VAT. HMRC have now clarified their view on this and while accepting that their own advice has been contradictory in the past, they have confirmed that with effect from November 2018 such charges will not be treated as exempt unless they are made directly by a landlord or head lessee of the property concerned.

This is going to affect the position where a landlord or head lessee has passed over the responsibility of the property to, for example, a management company who then incur the costs and recharge them either to the landlord or direct to the tenants.

This is a common position and where such a situation exists, the position needs to be carefully reviewed as to whether those costs will now be liable to VAT, which of course will in turn be a direct additional cost to the tenants.

In some circumstances, obviously, the costs incurred for example with electricians or plumbers etc may already have VAT on and this in turn might be recoverable by the management company. That is not, however, the case with things like payroll costs for concierge services, maintenance personnel etc.

In these circumstances, where those people are employed by the management company the entire cost would then potentially be liable to VAT and become a substantial additional cost to the tenant. We have seen at least one example of this already with a VAT cost involved in excess of £20,000 per annum.

It may be possible to change the commercial arrangements to avoid such problems, but irrespective it is something that we would strongly suggest is reviewed by all people affected, i.e. landlords and professional property agents as well as residential estates that manage their own affairs.

As ever with these things, advice is needed on a bespoke basis. If you are unsure of your obligations and would like to discuss this further we would be delighted to assist you.

Please contact us 01753 888211 or visit www.nhllp.com