

Institution **CIOT - CTA**  
Course **APS VAT and Other Indirect Tax**

Event **NA**

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Exam ID

Count (s)	Word (s)	Char (s)	Char (s) (WS)
Section 1	<b>1892</b>	<b>9263</b>	<b>10988</b>
Total	<b>1892</b>	<b>9263</b>	<b>10988</b>

## Answer-to-Question- \_1\_

### 1. Background

#### 1.1 Scope

This report outlines the tax implications for you, Andrew Dixon, in relation to two options regarding the planned development of your new home:

Option 1: Purchase of the Completed House from DQS Partners; and

Option 2: Purchase of Current Land and property which you will personally develop.

#### 1.2 Disclaimer

This report is based solely on the information provided in your letter dated 1 November 2024 and corresponding Appendices.

The contents of this report should not be shared with or used by any third party without Faul & Co LLP prior consent.

### 2. Executive Summary

2.1 The development should be funded by way of the sale of River Mews and Gulliver Avenue and this combination results in the greatest cash being available for the development, £810,226. Please see the table in 3.2 for further details.

2.2 Under option 1 SDLT payable on the purchase around £35,610.

2.3 Under Option 2 SDLT payable on the purchase of the land is around £600.

2.4 We would recommend option 2 when developing the properties as this will result in around a £35,000 SDLT saving.

2.5 VAT will be charged at 5% on all conversion works and building materials supplied by DQS Developments Limited.

2.6 VAT will be charged at 20% on the works relevant to the extension supplied by DQS Developments Limited.

2.7 We would recommend option 2 also due to the potential to reclaim the VAT incurred on the costs of converting the property is reclaimable via the DIY scheme.

2.8 DIY scheme claims should be submitted within 3 months of completion and we would advise not moving in until this point to avoid challenges to you claims by HMRC.

2.9 It may be advisable for Constantius Consulting Limited to engage with DQS Developments Limited as this would reduce VAT outlay whilst the project is on-going freeing up cash.

2.10 The supply and installation of the sound system, roller blinds and electric gate will be subject to VAT at 20% and these costs will not be recoverable under the DIY claim.

### **3. Funding Options**

This section of the report analyses the tax implications of the disposal of two of the three residential properties, either:

- Disposal of Rivers Mews and Parks Street;
- Disposal of Rivers Mews and Gulliver Avenue; or
- Disposal of Parks Street and Gulliver Avenue.

### 3.1 Capital Gains Tax (CGT)

As you are an additional rate taxpayer and will be making a disposal of residential properties. As such CGT will be payable on the gains made from the property sales at 28%.

Full details of CGT calculations can be found in Appendix 1.

#### 3.1.1 Sale of Rivers Mews and Parks Street

The gain made from the sale of River Mews will be £250,000.

As you occupied Rivers Mews as your private residence from April 1996 to November 2023 the gains made from this property will qualify for private residence relief (PRR), resulting in a CGT saving of £69,186.

CGT payable on the sale of River Mews including PRR is £814.

The chargeable gain on the sale of Parks Street will be £166,000 resulting in CGT payable of £46,480.

Total CGT costs on the sale of these two properties is £47,294.

#### 3.1.2 Sale of River Mews and Gulliver Avenue

As per 3.1.2 the CGT payable on the sale of River Mews is £814 where PRR is claimed.

The chargeable gain on the sale of Gulliver Avenue will be £157,000 resulting in CGT payable of £43,960.

Total CGT cost of the sale of these two properties is £44,774.

### 3.1.3 Sale of Parks Street and Gulliver Avenue

The chargeable gain on the sale of Parks Street will be £166,000 resulting in CGT payable of £46,480.

The chargeable gain on the sale of Gulliver Avenue will be £157,000 resulting in CGT payable of £43,960.

Total CGT cost of the sale of these two properties is £90,440.

### 3.2 Recommendations on Sale of Properties

We have summarised the total CGT costs per combination of the properties sold, as per below:

Sold Properties	Combined Estimated Sales Proceeds	CGT Cost	Realisable Cash Funding
River Mews and Parks Street	840,000	47,294	792,706

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River Mews and Gulliver Avenue	855,000	44,774	810,226
Parks Street and Gulliver Avenue	835,000	90,440	744,560

Based on the above you should retain the greatest cash amount (£810,226), after CGT costs, from the sale of Rivers Mews and Gulliver Avenue as such we recommend the new house is funded by way of the sale of Rivers Mews and Gulliver Avenue.

#### **4. Option 1 - Purchase of completed house from DQS Partners**

##### 4.1 SDLT

As you hold a one third share of DQS partnership's profits and assets, when the property is sold the partnership will be transferring two-thirds of its share to you. For SDLT purposes the sum of lower proportions calculation applies.

In reation to the rates payable, as you will own more than one residential property at midnight on the day of completion when purchasing of the new house you should be liable to pay an additional rate of 3% SDLT.

Total SDLT payable in addition to the purchase price would be £35,610.

Assuming Parks Street is retained, were you to sell your current London property, Marland Street, within 3 years you would not be eligible to claim back the additional 3% SDLT.

##### 4.2 VAT

As this will be the first grant of a major interest in the sale of a non-residential property which has been converted into a residential property the sale of the house will be zero rated and you will not incur any VAT on the purchase.

#### **5. Option 2 - Purchase of Land from DQS Partners**

##### 5.1 SDLT

As you hold a one third share of DQS partnership's profits and assets, when the land and property is sold the partnership will be transferring two-thirds of its share to you. For SDLT purposes the sum of lower proportions calculation applies to identify the chargeable consideration subject to SDLT.

As the property is not designed or adapted as a dwelling or residential property, non-residential rates will apply.

Total SDLT payable in addition to the purchase price would be around £600.

## 5.2 VAT

### 5.1.1 Purchase

As DQS Partners have not exercised an option to tax over the land and existing property you will not incur VAT on the purchase of the land and barn property.

### 5.1.2 Conversion Services and Building Materials

You will incur VAT at 5% on conversion works provided by DQS Developments Ltd as it is a conversion of non-residential property into a residential property.

You will also incur VAT at 5% on building materials provided by DQS Developments Ltd with conversion services.

Any building materials purchased by yourself separately will incur VAT at 20%. Total VAT cost of building materials purchased separately is £35,000.

It would be beneficial for DQS Developments Ltd to purchase all building materials as this would result in a VAT saving of £26,000. As VAT may be reclaimed under the DIY Scheme, please see 5.1.6.

The benefit of DQS Developments Ltd providing all building materials is that it would to free up cash throughout the conversion project.

### 5.1.3 Works Relating to the Extension

All works relating to the extension will be subject to VAT at 20%. DQS DEvelopments Ltd should apportion the value of its services.

### 5.1.4 Supplies by Gary Sparkes

The goods and services provided by Gary may qualify for VAT at 5% where the services consist of the installation of building materials. Where non-building materials are installed the goods and services provided by Gary will be subject to VAT at 20%.

Not all of the goods supplied and installed by Gary qualify as building materials for VAT

purposes as they are electrical goods not ordinarily incorporated into dwellings.

The non-building materials include the sound system, roller blinds and electric gates. As such we would expect you will incur VAT at 20% on Gary's services and the goods.

The alarm system is ordinarily incorporated into dwellings and we would expect you to incur VAT at 5% on Gary's services and the goods. Please see paragraph 5.1.6 for further details on VAT recovery.

#### 5.1.5 Professional Services

You will incur VAT at 20% on the purchase of project management services.

Where project management services are included in a single contract, for the conversion the services which includes project management. As such the project management services would form part of a single supply which is subject to VAT at 5%.

Where possible it would therefore be beneficial if Constantius Consulting Ltd were to engage with DQS Ltd and you then enter into a single contract for conversion works which includes project management services. This would result in a VAT saving of £7,500.

#### 5.1.6 DIY Scheme

You may qualify for VAT recovery on certain costs under the DIY scheme. The Scheme permits VAT recovery on the costs of converting property into their own private residence. As you would be converting this property to reside in it as your main residence a claim could be made.

To recover VAT under the scheme form 431C must be submitted to HMRC within 3 months of the conversion works being completed.

The works will be completed once a signed certificate of completion is available. HMRC have previously challenged DIY claims stating that the 3 month time limit has been exceeded where owners have moved into their properties therefore we would not recommend moving in the property before the works are complete.

In addition, the following documentation should also be provided to HMRC:

- The planning permission obtained
- The certificate of completion
- An invoice from VAT registered suppliers (DQS Ltd and Gary Sparkes)



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Further invoices may be requested by HMRC once the claim is received so we advise that all invoices are held onto.

Only VAT incurred on the purchase of building materials will qualify for VAT recovery under the DIY scheme.

### **Appendix 1 - CGT calculations on property disposals**

#### Rivers Mews

Estimated Sales Proceeds		430,000	
Cost of Acquisition		(180,000)	
Gain		250,000	

CGT payable on gain without PRR = £70,000

Mr Dixon resided in the property for 27 years and 7 months (331)months) before letting the property to tenants.

Under private residence relief (PRR) Mr Dixon will also have a further 9 months of deemed occupation.

Total length of time Mr Dixon deemed to have occupied the property = 340 months.

Total length of ownership = 344 months

PRR =  $250,000 \times 340/344 = £247,093$

Gain chargeable to CGT = £2,907

CGT payable at 28% =  $813.96 = £814$

PRR offers CGT saving of £69,186.

#### Parks Street

Estimated Sales Proceeds		410,000	
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Cost of Acquisition		(244,000)	
Gain		166,000	

CGT payable at 28% = 46,480

Gulliver Avenue

Estimated Sales Proceeds		425,000	
Cost of Acquisition		(268,000)	
Gain		157,000	

CGT payable at 28% = 43,960

**Appendix 2 - SDLT payable**

Option 1

Sum of the lower proportions is 33.33.

Chargeable consideration is £902,000 x (100 - 33.33)% = £601,363.40 = £601,364

Value	SDLT Rate	SDLT Total
250,000	3%	7,500
351,364	8%	28,110
<b>601,364</b>		<b>35,610</b>

Option 2

Sum of the lower proportions is 33.33.

Chargeable consideration is £270,000 x (100 - 33.33)% = £180,009

Value	SDLT Rate	SDLT Total
150,000	0%	0
30,009	2%	600.18
<b>270,000</b>		<b>600.18</b>

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River Mews and Gulliver Avenue	855,000	44,774	810,226
Parks Street and Gulliver Avenue	835,000	90,440	744,560