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VAT Property Conversions: Understanding the 10-Year Rule

If you own an older property that was once residential but has been used for another purpose for many years, a valuable VAT relief may be available when converting it back into residential accommodation.

Under the VAT rules, a building that was originally designed or adapted for residential use can, in some circumstances, be treated as a non-residential building for conversion purposes. This can allow the first sale or grant of a long lease following the conversion to be **zero-rated for VAT**, rather than exempt.

Why does this matter?

The VAT treatment of the completed development can have a significant impact on the recovery of VAT incurred on professional fees, construction costs and other project expenses.

A zero-rated sale is a taxable supply, which generally means the developer can recover associated input VAT, subject to the normal rules on attribution, partial exemption and business purpose.

By contrast, an exempt residential sale usually restricts VAT recovery.

When can the relief apply?

Broadly, the building must not have been used as a dwelling or for a relevant residential purpose during the 10 years immediately before the first qualifying sale or long lease.

Importantly, the test is based on **residential use**, not whether the property has been occupied.

For example, a former house used exclusively as offices for 15 years could potentially qualify.

The building does not need to be empty

A common misconception is that the property must have been vacant for 10 years. This is incorrect.

A building can have been occupied continuously as offices, a clinic or another commercial premises throughout the period and still qualify. The key requirement is the absence of residential use during the relevant 10-year period.

Be careful with residential use

HMRC takes a wide view of what counts as residential occupation.

Houses, flats, bedsits and some accommodation with shared facilities can all be treated as residential. Poor condition or lack of modern facilities does not necessarily change that position.

Timing is important

The 10-year test is measured by reference to the **first sale or grant of a qualifying long lease**, not the date conversion work starts.

This means development work can often begin before the full 10-year period has elapsed, provided the first qualifying disposal takes place after the requirement has been met.

Practical point

If you are considering converting a former residential property, obtain VAT advice before work begins. Establishing the building's use history and intended exit strategy early can make a substantial difference to the project's overall profitability.

Further information:

HMRC guidance on the relief covered in this factsheet can be accessed here:

https://www.gov.uk/hmrc-internal-manuals/vat-construction/vconst04400