

# VAT IN RELATION TO COMMERCIAL PROPERTIES

**The letting of land and buildings is generally exempt from VAT unless the option to tax is exercised (also known as electing to waive the exemption from VAT). Commercial buildings are sometimes opted to tax by landlords to allow VAT to be reclaimed on supplies received in relation to the building, which would include service charge costs.**

If the option to tax has been exercised, the service charge costs in respect of the opted land and buildings should be shown excluding VAT in the service charge expenditure report. The VAT incurred on service charge costs can usually be reclaimed by the landlord and as such do not ordinarily represent a cost.

If the option to tax has not been exercised in relation to land or buildings or where the letting of residential buildings are concerned, the letting of land and buildings will be exempt from VAT. The service charge expenditure should therefore be shown including VAT in the service charge expenditure report. The VAT incurred in relation to the land or buildings cannot generally be reclaimed by the landlord in these cases and therefore ordinarily represents a cost.

For mixed use properties, for example where there are opted commercial and exempt residential elements, the standard partial exemption method should be applied unless a partial exemption special method has been agreed between the landlord and HMRC. The extent of the landlord's VAT recovery on mixed use developments therefore depends on the partial exemption method operated by the landlord. Please note that since the VAT rules in relation to land and property can be highly complex, the landlord should take its own professional advice in relation to its VAT affairs.

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