

Planning to develop one or more "extra care" units? Now you can save a fortune...

Planning to create one or more "extra care units", or perhaps you're looking for new options for improving a residential care business?

If you are looking for an opportunity for additional income streams for your care establishment - HMRC have created a significant opportunity for you...

Background

In recent years there has been a move to create a range of residential options for people as they get older and want varying degrees of independence and support. One option is for a number of self-contained residential units to be built near or in the grounds of a care home. People can buy (or lease) their *own* home and they are also able to buy in care services from the on-site care provider as and when they become required.

These units are called "extra care units" or "extra care accommodation" and demand for them is growing...

Local Planning Authorities have often given planning permission to new units within the 'C2' use-class (residential care) rather than 'C3' use, which is the usual classification for common or garden dwelling houses. ([See this article for details of use classes](#) ^[1])

In the past HM Revenue and Customs' view was that a C2 use meant that extra care units could *not* be viewed as "dwellings" - and so the costs of their construction and their freehold sale could not qualify for zero-rated VAT. Their view was that they did not qualify as used for "relevant residential purposes" either - unless they were constructed at the same time as the original care home with which they were associated. Therefore, operators often faced the prospect of incurring VAT on the cost of building these units and, as the units are typically sold on long term leases, the VAT would also be irrecoverable, making these units relatively expensive to build.

HOWEVER... The Revenue now sees sense!

On 30 December 2011 the Revenue published Revenue & Customs Brief 47/11 which states their revised view.

HMRC now accept that extra care units can meet the definition of "dwelling" for VAT purposes despite having C2 planning use. This means that the construction costs of units meeting the definition of dwelling are also now zero rated and that the sale of such units will **also** be zero rated for VAT purposes.

What to do now

It is very important that you (developers or prospective developers of extra care accommodation) check the terms of any planning permission (if granted) and particularly the conditions regarding the provision of care in those units. Indeed if planning is yet to be sought, an expert team (like that of Keith Farmer Associates) will be able to negotiate appropriate terms and conditions to suit this requirement. If planning has been granted but building is yet to start don't panic! A revised application for variation of planning conditions ought to resolve matters and save you a SUBSTANTIAL cost in the process...

NOTE: If the unit is "tied" to a particular care home (usually by a section 106 agreement) this *may* amount to a restriction on separate use or disposal - as such the unit may not be a "dwelling" for VAT purposes - again, specialist advice at the earliest possible stage is strongly recommended.

If the units are intended for occupation by people requiring a high level of care, such as is provided by a care home or other similar institution, the units are not likely to be regarded as "dwellings". Yet in these circumstances the units *may* still qualify for zero rating (being used for "relevant residential purposes") however, again, advice should be sought.

If you are not sure whether your development meets the conditions to be treated as "dwellings" or "relevant residential property" you should contact us now for expert, professional advice.

If you think you have been charged VAT incorrectly by a supplier you need to take this up with the supplier - in which case Hugh Mitchell will be delighted to assist!

[Brief 47/11 is available from the HM Revenue & Customs website.](#) [2]

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As well as advising on construction related VAT issues High Path Consultancy deal with all manner of VAT and related matters. Hugh has been extremely helpful to our business and that of our clients over recent months and Keith Farmer Associates are delighted to recommend his expert services.

Hugh Mitchell ACA CTA is the Principle at High Path Consultancy - he can be contacted for detailed VAT & Taxation advice on: **01823 66 44 11 / 07713 574 333**

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Links:

[1] <http://www.keithfarmer.co.uk/planning-development/use-classes-order-2010>

[2] <http://www.hmrc.gov.uk/briefs/vat/brief4711.htm>

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