Thursfields
CHARTERED ACCOUNTANTS

PayLessTax
2026 Summer Edition

Construction Services - 5% Rule

Just over 25 years ago, the then Chancellor of the Exchequer, Gordon Brown introduced legislation which enabled builders who were carrying out certain construction work to charge a 5% VAT rate rather than a 20% rate to those services, as well as to the materials relevant to them.

However 25 years on, builders and their customers are still missing out on this VAT break.

There are three different supplies of builder services that qualify for the 5% VAT rate, which relate to residential property:

- A non-residential building is converted to residential use.
- A residential property has not been lived in for at least two years before the start of the building work.
- A project produces a change in the number of dwellings between the start and finish of the work, e.g. a detached house is converted into two semi-detached houses or vice versa.

If appropriate builders should charge, but often don't, 5% VAT for three reasons:

- If a VAT-registered business receives services which have incorrectly been charged at 20%, it can only claim input tax based on the correct 5% rate.
- HMRC will only repay VAT under a DIY housebuilder refund scheme claim if VAT has been charged correctly.
- A householder with no scope to claim either input tax or a DIY refund will needlessly pay extra tax.

Where the incorrect VAT has been charged, the customer should approach the builder for a 15% refund.

The builder can get the overcharged VAT back from HMRC either:

a) On their next VAT return or

b) If the tax overcharged exceeds £10,000, by submitting an error correction notice to HMRC.

Normally, professional services fees such as from a surveyor or architect would be charged at a VAT rate of 20%. However if these services are part of a "design and build" contract agreed with the customer the 5% VAT rate can be applied instead.

The 5% VAT rate applies to subcontractor services as well as the main contractor working for the property owner. However, the VAT reverse charge rules on construction services will apply to subcontractor services in most cases.

The 5% rate also applies to conversions of a non-residential building into a building that will be used for a relevant residential purpose, for example an office block which is converted into student accommodation.

TIP... If you are either the builder, sub-contractor or the customer and want to ensure that the correct VAT treatment is being applied, please do not hesitate to contact us.

Land Remediation Relief (LRR)

With the Government striving to meet their pledge to build 1.5 million new homes during the course of this present Parliament, the exploitation of brownfield sites is coming into sharper focus.

One tax carrot which is being dangled in front of prospective builders to take the commercial risk to build on these sites is LRR.

Where a company acquire land in the UK which is either in a contaminated or derelict state, expenditure incurred in carrying out remedial work may attract LRR. When we talk about land in this context we also include any property which is situated on it.

If the LRR claim is successful it either provides a corporation tax deduction of 150% of the remedial work expenditure or if it is a loss making concern at the time, it could surrender the land remediation loss for a 16% tax credit.

A site maybe contaminated as a result of arsenic, arsenic compounds, radon or Japanese knotweed, for example. In these instances the contamination must have been there at the time the company acquired the land. As regards Japanese Knotweed, contamination of this kind might occur after acquisition through no fault of the purchasing company, for example, due to fly tipping. If that situation arose, LRR may still be claimed in making it safe.

The company must not be the original cause of the contamination or found to be exacerbating the situation by making it worse before embarking on trying to make an LRR claim.

To be derelict, the land must be out of productive use and be incapable of being brought back into productive use unless the buildings and structures on it are removed. The land must also have been derelict at the earlier of acquisition or 1st April 1998.

The expenditure which can be potentially claimed has to be directly tied to the land remediation work and be broken down into:

- Materials
- Staffing
- Sub-contracted out work
- Professional fees for advice on how to remove the contamination or deal with the derelict structures which may qualify for LRR.

On the staffing cost front, qualifying LRR expenditure may include salary, employers national insurance and company pension contributions.

- If the time spent by directors/employees on land remediation work is less than 20% of their total working time in an accounting period, then none of those costs can be claimed for LRR purposes.
- If more than 80% then the whole cost can be factored into the claim.
- If between 20% and 80% then an appropriate proportion can be included.

TIP...

If you believe an LRR claim may be possible please do not hesitate to contact us and we can look into it in greater detail.

State Pension - At a Loss?

The National Insurance Replacement Credits Service (NIRCS) is finally on its way, although the launch date has been pushed back from April 2026 to April 2027.

NIRCS is intended to help certain parents and carers fill gaps in their National Insurance (NI) record.

Parents/carers might be entitled to replacement NI credits if:

a) They were eligible for Child Benefit for a child under 12 from 7th January 2013 **but**

b) Did not claim it (for example, because of the high-income child benefit charge impacting a higher earning partner) **and**

c) As a result they may have gaps in their NI record which could reduce entitlement to the state pension.

Not everyone will have gaps in their NI record in this situation. For example, if you were working during the period, your state pension record might not have been affected.

Each credited year claimed through NIRCS will be worth an extra £358 towards their state pension based upon the 2026/27 tax year figures year on year.

This will incrementally increase annually in line with the Triple Lock.

There will be transitional arrangements in place that will allow people to claim the new credit retrospectively as far back as 2013. After that, one will only be able to go back 6 years.

The majority of those who have gaps in their NI record will not be affected by the delay, as they will still be able to apply for NI credits once the service becomes available in April 2027.

However, some individuals may see a short-term impact on their state pension. This is most likely to affect people who:

a) Are already receiving state pension.

or

b) Will reach state pension age before April 2027.

This is because any missing NI credits may not be added to their record in time to increase their pension payments during that period.

If this scenario affects you then it may be possible to ask HMRC to look at your case if there is a belief that the delayed launch date will cause you a financial loss.

If HMRC agree that you have suffered a financial loss, they will calculate a payment to reflect the impact on your state pension up to April 2027. Any payments are expected to be made after NIRCS is introduced.

TIP... Do you think you can enhance your state pension by using NIRCS? Do you believe you may suffer a financial loss as a result of NIRCS being pushed back to April 2027? If you need our help please give us a call.

Vulnerable Person's Trust (VPT)

A VPT is usually set up by the settlor to provide for the future financial security of a vulnerable person.

If the trust is correctly set up for this purpose and the beneficiary fits the relevant criteria, then there are a number of tax breaks which other trusts do not benefit from.

In basic terms the vulnerable beneficiary has to be either:

- A child under the age of 18 where one parent has passed away.
- A disabled person as defined by the Mental Health Act 1983.
- A person who is in receipt of, or entitled to, certain state benefits.

The Trust has to be set up either solely for the benefit of the vulnerable person (VP) or it can demonstrate that certain assets have been ringfenced specifically for that VP.

From an inheritance tax (IHT) perspective this particular Trust falls outside the IHT regime. This means:

a) No 20% lifetime IHT charge when the settlor places assets in the Trust which exceed the value of £325,000.

b) No 6% IHT charge on the value of the Trust on each 10 year anniversary, nor exit charges if assets are distributed out during the interim period.

c) However, upon the death of the VP the Trust assets are aggregated together with the rest of that person's estate, which could then attract an IHT liability of up to 40%.

The majority of other trusts may find themselves taxed at either 39.35% (dividend income) and 45% for all other income and 24% for capital gains.

With a VPT, an election can be made for the income and gains to be taxed as though it belongs to the beneficiary and therefore taxed at their personal tax rate which could be as low as 10.75% as regards income or 18% in respect of capital gains (CGT), depending on the nature of the asset disposed of.

This trust is entitled to the full CGT annual exemption of £3,000 as opposed to the usual £1,500 for other trusts, except for the year in which the VP dies.

Care does need to be taken when settling assets into a VPT. Unless it is either cash or business assets, a CGT liability could arise on the settlor when assets are placed in the trust.

Advice should also be taken if the VPT is looking at acquiring a residential property as, depending upon the type of VPT it is , either discretionary or interest in possession and, in the latter case, the beneficiaries own circumstances, the Trust could find itself incurring additional land taxes on top of the norm (8% in Scotland and 5% in the rest of the UK).

TIP... If you require advice on setting up a VPT please do not hesitate to contact us as we have access to Trust specialists who can help.

We are here to help

We can help you by ensuring that you're aware of the changes that will affect you, your family and your business. To find out more about the ways that we can help you, do not hesitate to contact us.

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