



# Isle of Man Government

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## Home Improvements

The Reduced rate of VAT on Domestic Property in  
the Isle of Man

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# Home Improvement

## The Reduced Rate of VAT

### Background

Towards the end of 1999 a new EC Directive which provides for a reduced rate of VAT to be applied to a limited range of labour intensive services was agreed. The measure is designed to stimulate employment and address the shadow economy while not creating any trade distortions. It has been introduced as an experimental arrangement and intended to last until 31<sup>st</sup> December 2002. As a result of this the Isle of Man Government applied to introduce a VAT rate of 5% on the renovation and repair of private dwellings, the eligibility of which are described below. The scheme was subsequently extended and is currently due to end after 31 December 2010.

### Eligibility for the reduced rate

Generally, VAT at the standard rate is chargeable on building work carried out on existing property, e.g. repairs, alterations and extensions. The reduced rate allows Isle of Man VAT registered traders to charge a rate of VAT of 5% on a wide variety of building work on existing dwellings and other eligible properties.

The reduced rate applies only to building works such as repairs, alterations and extensions where materials do not form a significant part of the supply. Certain materials can be included but they must be eligible items supplied and installed as part of an overall supply of services. *See annexe 1 for examples.*

The reduced rate does not apply to non eligible items, including their installation. *See annexe 2 for examples.*

The reduced rate does not apply to supplies of goods only e.g. DIY "off the shelf" purchases.

Eligible properties are dwelling houses, flats, properties owned by private landlords and housing associations and non business charity buildings. An eligible person is the dwelling owner or tenant at the time the works were carried out. This notice explains the conditions attached to the reduced rate, how it works, which properties and customers are eligible and how to account for VAT charged.

## **Purpose of the reduced rate**

The reduced rate is designed to encourage permanent stable employment in the building industry, to counter the shadow economy in that industry and to improve the quality of the Island's housing stock . The reduction in the rate of VAT will enable residents to employ trained, registered persons to carry out eligible jobs, thus creating regular work within the building trade and improving the quality of the property for the occupier.

## **Legislation**

An Isle of Man Order applying the reduced rate in respect of eligible property, works etc. was approved by Tynwald. Details of the Order can be obtained from Custom House or the Tynwald Library.

## **Changes to the scheme since its introduction**

Initially, eligibility to use the scheme was restricted to VAT registered traders in particular types of business and with specific Trade Codes. As a result of changes to the Revenue Sharing Agreement with the Isle of Man and the UK, these restrictions no longer apply.

## How does it work?

The reduced rate is 5%. To qualify to charge the reduced rate, there are 7 criteria that must be met :

- 1) You must be registered for VAT in the Isle of Man or exceptionally in the UK (subject to various restrictions and reporting conditions explained below).
- 2) To be eligible for the reduced rate the property must be situated in the Isle of Man.
- 3) Your business is registered for VAT.
- 4) The supply is for eligible services, or a composite supply of services and materials.
- 5) The materials being supplied are not of the type excluded.
- 6) The supply relates to an eligible property.
- 7) The supply is being made to the end customer or the dwelling tenant or owner (past, current or future) and not to an intermediary.

All of the above must be met before the reduced rate is applied. If it is found that a supply has been charged at the reduced rate and one of the above criteria has not been met, then Customs and Excise may require VAT to be accounted for at the correct rate irrespective of quotations given or the amount paid by the customer.

## **Criteria 1 and 2: You are registered for VAT and the property is in the Isle of Man**

The reduced rate is generally available only to traders in the Isle of Man. Therefore, you must be registered for VAT **and** the property must be physically situated in the Isle of Man.

If you are registered for VAT in the UK and intend to carry out eligible work on the Island, the most appropriate action would be to set up an Isle of Man entity and register for VAT on the Island. If however you cannot set up a separate entity, you must notify Isle of Man Customs and Excise, keep within your records details of trade relating to the Isle of Man, and to supply this information to both Isle of Man Customs and Excise and HM Revenue and Customs on an annual basis. This is necessary to enable the VAT to be brought to the accounts of the appropriate jurisdiction, i.e. the Isle of Man, to prevent distortion of trade and to alert your local VAT office that you will be charging a rate of tax not applicable in your own jurisdiction.

**Q - I am registered for VAT in the UK but am working on an eligible property in the Isle of Man. Can I charge the reduced rate?**

A - There are two options for you:

1) You may choose to set up a separate business to register for VAT on the Isle of Man, or

2) You will have to advise Isle of Man Customs and Excise of your intention to trade in order that they can notify HM Revenue and Customs of the level of your business, that you will be charging a rate of tax not applicable in your own jurisdiction and that annually the necessary details can easily be extracted from your records in order to be supplied to HM Revenue and Customs and IOM Customs and Excise.

**Q - I am registered for VAT in the Isle of Man but working on a property in the UK. Can I charge the reduced rate ?**

A - No, only Isle of Man properties are eligible.

**Q - I am registered for VAT in the Isle of Man but working on a property in the UK that is owned by a Manx person. Can I charge the reduced rate?**

A - No, as in the previous example, only Isle of Man properties are eligible.

**Criteria 3: Your business must be registered as one of the approved types**

Initially, eligibility to use the scheme was restricted to VAT registered traders in particular types of business and with specific Trade Codes. As a result of changes to the Revenue Sharing Agreement with the Isle of Man and the UK, these restrictions no longer apply.

**Criteria 4: The supply is for eligible services or a composite supply of service and materials**

The reduced rate is primarily designed to allow for a lower rate of VAT to be applied on eligible works. However, if this work includes the provision of materials, then these too can be subject to the reduced rate **provided** they are part of the same supply and not billed for separately. Customs and Excise would expect the charges for labour to be commensurate with the work done at market rates. A composite supply where the work/fitting is free would **not** qualify.

**Q - I manufacture new windows and supply and fit them. Can I use the reduced rate for all the supply?**

A - Yes, providing the rest of the criteria are met.

**Q - I manufacture new windows but my customer wants to buy them off me and fit them themselves. Can I charge the reduced rate?**

A - No, to qualify for the reduced rate the windows must be supplied **and** fitted.

**Q - I manufacture new windows but my customers wants to buy them off me and get someone else to fit them. Can I use the reduced rate?**

A - No, however the person fitting them may be eligible to use the reduced rate for their fitting charges.

**Q - I currently charge a VAT inclusive price to supply and fit. Can I maintain that price and just increase my profit margin?**

A - No, the Isle of Man Government and the EC Directive states that "there must be a close link between the lower prices resulting from the rate reduction and the foreseeable increase in demand and employment."

**Q - I manufacture new windows, an independent fitter wishes me to quote for the supply of windows to him which he is to install in a dwelling. Can I use the reduced rate?**

A - No, your supply will be at the standard rate. However the fitter can subject his whole bill for the supply and installation of the windows to the reduced rate.

**Q - I am a builders merchant selling all types of tools and materials. Can I use the reduced rate?**

A - No, the supply of materials only is liable to VAT at the standard rate. To qualify to use the reduced rate you must supply and fit the materials. The purchase of tools and plant are not eligible for the reduced rate no matter what use they are put to.

**Q - I have been asked to construct a detached garage to a dwelling, does it qualify for the reduced rate?**

A - Yes, detached buildings, drives, paths and other hard landscaping within the curtilage of a dwelling qualify.

**Q - I am selling a customer a new kitchen and arranging for someone else to fit it. Can I use the reduced rate?**

A - No, only when you provide the full supply of materials and fitting can you use the reduced rate. If you buy in fitting services and then include them in your own supply at a realistic rate then you can use the reduced rate if you are VAT registered in one of the participating trade codes.

**Q - I am fitting a new central heating system and charging £10 for my labour. Can I use the reduced rate?**

A - No, this is obviously not a realistic value for the fitting costs.

**Q - My house has suffered storm damage. Will the repairs qualify for the reduced rate of VAT?**

A- Yes, this is one of the types of work that the reduced rate was designed to assist.

**Q - I am eligible to charge 5% and the work I am doing also qualifies, but it is insurance work and I am billing the insurance company and not the property owner/occupier. Can I still charge 5%?**

A - Yes, in this case the supply is being made to the owner/ occupier, the insurance company is merely paying the bill on their behalf.

## **Criteria 5: The materials being supplied are eligible items**

Most materials used in the renovation, repair or improvement of property are covered by the reduced rate. There are however specific exclusions including soft furnishings such as carpets and removable floor coverings, curtains, free standing furniture such as tables, seating etc. and domestic appliances (except where they are part of a heating or plumbing system.)

**Q - I am supplying and fitting some new carpet. Can I use the reduced rate?**

A - No, carpets are excluded from the reduced rate.

**Q - I am supplying and fitting some parquet flooring. Can I use the reduced rate?**

A - Yes, this type of floorcovering is not excluded from the reduced rate as it is of a permanent nature and not covered by the soft furnishings exclusion. However, removable wood/wood effect flooring such as "click" flooring would not be eligible due to its ability to be removable.

**Q - I am having new interior doors fitted throughout my house. Will this job qualify for the reduced rate?**

A - Yes, as would any handles, hinges, painting and decorating provided by the installer.

**Q - I am supplying and fitting a new kitchen to an eligible building. Can I use the reduced rate?**

A - Yes, the units and the fitting service would qualify, but remember that appliances are excluded from the reduced rate and will be subject to the standard rate.

## **Criteria 6: The supply relates to an eligible property**

The reduced rate is intended for domestic property, housing associations and non business charity property. It includes eligible works supplied to private landlords or developers where the altered dwelling is for rent or sale. It does not extend to business premises or commercial property.

**Q - I own a large dwelling house that I would like to convert into flats. Will this job qualify for the reduced rate?**

A - Yes.

**Q - I have inherited a house which I intend to have renovated and sell. Will the renovations qualify for the reduced rate of VAT?**

A - Yes.

**Criteria 7: The supply is being made to the end customer, the dwelling tenant or owner**

The end customer is the person who will be enjoying the services. The dwelling owner is the person who owned the dwelling or enjoyed rights over the dwelling at some time during the period which the eligible works etc. were planned or actioned.

**Q - I am working on a property where all the conditions are being met for the reduced rate, but I am a sub contractor billing another contractor. Can I invoice at the reduced rate?**

A - No, only the person billing the final consumer can use the reduced rate.

**Q - The building owner is a builder who is renovating the house to sell. He wants me to supply the materials for him to fit/use. Can I charge the reduced rate?**

A - No, whilst the supply may be to the end customer it does not meet the supply and fit criteria.

## **How do I account for the VAT charged?**

When completing your VAT return you should show the net value of your reduced rate supplies in box 10. The output tax payable should be declared in box 1, along with any other output tax from standard rated supplies you have made in the period.

## **Right of Appeal**

Decisions made concerning eligibility or the use of the reduced rate are subject to the right of Appeal to the Isle of Man VAT and Duties Tribunal.

## **Further information**

For further information on the reduced rates or clarification of supplies as outlined in the Annexes please contact :

Isle of Man Customs and Excise  
Advice Centre  
Custom House  
North Quay  
Douglas  
Isle of Man  
IM99 1AG

Telephone 01624 648130  
Fax 01624 648117  
e-mail customs@gov.im

## **ANNEXE 1: Types of work eligible for the reduced rate**

In order for a job to qualify for the reduced rate the property must be an eligible one. The list below assumes that all seven criteria listed above are met.

- Re-wiring a house
- Fitting central heating or replacing a boiler/radiator
- Building an extension
- Creating an en suite bathroom
- Re-roofing a house/general roof repairs
- Fitting double glazing
- Decoration - internal or external
- Rendering/pebble dashing
- Creation of new rooms/moving internal partitions
- Building a conservatory
- Fitting new gutters
- Fitting new fascias/soffits/bargeboards
- Building a new garage or extending an existing one
- General structural repairs
- Installation of intruder/fire alarms
- Installation of insulation materials
- Boundary wall repairs

These lists are not exhaustive, but are meant to give a general idea of the type of work eligible for the reduced rate. If you have a job or an item in mind that is not listed here, please contact the Advice Centre on 648130, where staff will be happy to discuss it in further detail, or alternatively written enquiries may be sent to:

The Advice Centre  
Custom House  
PO Box 6  
North Quay  
Douglas  
IM99 1AG

## **ANNEXE 2: Items which are not eligible for inclusion in the reduced rate**

Domestic appliances  
Televisions/HiFis/Computers etc.  
Cookers/ Microwave ovens  
Fridges/Freezers  
Dishwashers  
Extractor fans/ Cooker hoods  
Washing Machines/Tumble Dryers  
Soft furnishings  
Carpets, curtains, cushions  
Fitted and free standing furniture  
Fitted wardrobes  
Soft furnishings  
Three piece suites/table and chairs  
Dog kennels  
Bird houses  
Plastic coal bunkers  
Furniture and house removing services

These lists are not exhaustive, but are meant to give a general idea of the type of work not eligible for the reduced rate. If you have a job or an item in mind that is not listed here, please contact the Advice Centre on 648130, where staff will be happy to discuss it in further detail, or alternatively written enquiries may be sent to:

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[www.gov.im/customs](http://www.gov.im/customs)