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Tuesday, October 07, 2008

Developers to reap benefits of Revenue VAT rulings

By Geoff Percival

IRISH property developers should receive an immediate positive cashflow effect due to two new rulings by the Revenue Commissioners.

As a result, developers can now let homes which were completed before July 1 this year but remain unsold, without incurring a heavy VAT liability.

"Until now, developers had been grappling with a full claw-back of all of the VAT recovered on the development of a house or apartment if that property was let," according to Dara Burke, tax director at Cork-based tax consultancy, McAvoy & Associates.



"The cash flow consequences of this were severe, as the VAT clawed back could be a multiple of the annual rent from letting the property. Many developers were forced to leave houses or apartments vacant pending sale," she added.

The new VAT on property rules provided that the VAT claw-back will be spread over the 20-year VAT life of a property. To benefit from the new ruling, a property must be completed on or after July 1 this year. The ruling states, however, that a residential property will be regarded as not having been completed until it has been rented. That means that any house or apartment building completed before last July will no longer trigger a full VAT claw-back once it is leased.

"This is good news for property developers as they can generate

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rental income from unsold residential units without the disastrous full VAT claw-back," added Ms Burke.

Revenue's second ruling relaxes stamp duty rules for lease-to-buy tenants.

"Previously, another consequence of letting newly completed residential property would have been that the purchaser wouldn't be entitled to avail of the stamp duty reliefs that apply on the purchase of a new property," said Ms Burke.

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