

Golden Brick – VAT change proposal

The Government has committed to delivering 1.5 million new homes over the current parliament and wishes to maximise the share of social and affordable housing. This priority was underlined by the substantial investment made through the Spending Review 2025 and the long-term rent settlement; however, the impact of these measures on social housing supply would be enhanced by reforming VAT administration.

It is well established that material VAT charges within housing transactions would be detrimental to the housing market. The supply of residential property is not liable to VAT. The first supply of a major interest in housing for private sale is zero-rated, allowing for input VAT recovery. By contrast, where social housing is let to tenants, those rent payments are exempt from VAT (such leases not being major interests). While superficially the same for end consumers of housing supply, the exempt status of rent payments from tenants poses challenges for registered providers of social housing in that VAT on input costs cannot be recovered.

One major potential source of irrecoverable input VAT arises when a landowner, seeking to recover their own input VAT, opts to tax a sale of land. In recognition that this would be untenable for homeowners (who cannot recover input VAT, and could not afford what would effectively a 20% surcharge on housing) and reduce the supply of social housing (for the same reason), it is longstanding UK government policy to allow land disposals to switch to zero-rated once what is being sold is no longer bare land but a partly completed dwelling; when the so called 'golden brick' is laid. This provides the seller with the same benefits as actually charging VAT (input VAT recovery) while not inflating the purchase price for buyers.

However, this arrangement still presents several practical challenges and does not fully achieve what we must assume it intended, because it requires developers to finance all works until golden brick is reached and the VAT treatment is certain. This can be as much as a third of the overall cost of a project before registered providers will sign a contract and make meaningful payments. This cashflow constraint reduces supply overall. Smaller developers are more likely to finance works through debt, generating additional costs which will be passed on to registered providers. For larger developers, which may have the advantage of financing work through recycled cash, the early outlay will still constrain their overall rate of build out and their ability to acquire new land for future development. The impact may be partially mitigated by dividing up a site into plots which can be gradually transferred, but this comes with added administrative complexity and professional fees the cost of which is passed on. We consider this adds unnecessary finance cost, without generating any additional benefit for consumers or tax revenue for the government.

Registered providers are themselves directly impacted through cost, complexity and lack of control. Providers which are covered by a Strategic Partnership with Homes England are unable to access Affordable Homes Programme grant until they have a "Secure Legal Interest" which is a complex test for the purposes of being able to draw down grant. The RP needs to raise debt by securitisation of existing stock to finance land and works costs. Until the ownership of the land transfers from developer to registered provider, any expenditure is a negative drag on the housing association balance sheet, as there is no corresponding asset. And the later the registered provider takes control of a site the more opportunity for mistakes which are costly to fix.

Allowing land to be certified for social housing and its disposal zero-rated sooner would benefit all parties, reducing cash constraints, costs, complexity and risk for developers and registered providers. Doing so would be consistent with the core policy intention of the government, would not cost the Exchequer any tax receipts and, as a regulated industry, would not pose a significant avoidance risk; a simple reform to tax legislation that unlocks new housing.

Change golden-brick VAT provisions to accelerate access to the current zero-rate to help increase social housing supply at no extra VAT cost to the Treasury.

Detail: We are **proposing a small but important amendment to VAT rules: adding an Item 5 to Group 5, Schedule 8 Value Added Tax Act 1994 around “golden-brick” provisions.** This change would increase the speed of delivery of social housing by accelerating the point at which the existing zero-rate provisions can be accessed.

Rationale: “Golden-brick” is an important milestone in the housebuilding process. Under current law, it marks the point at which land can be classified as a dwelling (or a dwelling under construction) for VAT purposes, and therefore qualifies for the zero-rate of VAT. For many years, housebuilders have supplied affordable housing to registered providers once they have built the dwelling to a stage of “golden-brick” or beyond.

Typically, a registered provider only provides a deposit before land conveyance but which will not be released to the developer until completion of the land transfer, requiring the developer to acquire the land and fund substantial construction costs upfront.

If key metrics are not met, the development may not be brought forward. Where developments do go ahead, ongoing monitoring is needed to confirm that each dwelling is “above foundation level” before it can be transferred (though even this test is not always clear, and parties can sometimes be unsure if development is sufficiently progressed).

Properties are often handed over in “bundles,” allowing registered providers to secure partial funding and release it to the developer. This fragmented process adds both complexity and cost for developers and registered providers. The [Capital Funding Guide](#) highlights the challenging process of the “golden-brick” model, particularly the administration burden of aligning funding access with the VAT zero-rate point.

Where a registered provider seeks funding from Homes England under the Continuous Market Engagement (CME) model, they must have a “Secure Legal Interest” in the land on which affordable homes will be built before accessing funds. As a result, unless the registered provider has significant funds, it cannot make advance payments without holding an interest in the development land. The **most straightforward solution is to transfer the legal interest as early as possible**, enabling the registered provider to draw down funding and progress delivery of their affordable housing obligations more quickly.

The purpose of the UK’s zero-rating provisions is to ensure that the final consumer does not bear a VAT cost on essential items - housing being a key example, while also allowing for input VAT recovery. By building to “golden-brick”, the VAT cost of new housing is removed, ensuring that VAT is not a cost to the ultimate acquirer - the registered provider.

Our proposed solution, which is targeted at the social housing supply, simply accelerates access to the zero-rate. The new **Item 5 would zero-rate the sale of land to a registered provider of social housing where planning permission exists for the construction of affordable homes** (for rent or shared ownership). We propose that to qualify, the registered provider would be required to certify its intention to either construct, or commission the construction of, affordable homes on the acquired land. If that intention does not materialise within a specified period (proposed: 10 years), or if the use of the site changes within that period, a self-supply VAT charge would apply. This built-in clawback mechanism ensures the relief is limited to clearly defined

circumstances and remains tightly focused on enabling the timely delivery of affordable housing. It is also consistent with similar VAT principles, for example, where input VAT is recovered in the VAT return following a purchase based on anticipated future use, and such future use changes, there can be a clawback. The added advantage with an RP, is that the significant regulation from Homes England and the Regulator of Social Housing it has to comply with on receipt of funding, provides added reassurance if it self certifies its intention for the use of the land.

The current zero-rate provisions provide for no VAT to be collected by the Exchequer on the supply of new residential dwellings. This **proposed change results in the same economic VAT outturn, whilst accelerating the supply of much needed social housing dwellings.**

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