VAT: self storage

VAT Information Sheet 14/12

August 2012

1. Introduction

1.1 Who should read this Information Sheet?

Suppliers of storage space used by their customers to store their own goods, and customers who self-store their own goods.

1.2 What is this Information Sheet about?

It provides guidance on how to establish the correct VAT liability of supplies of self storage facilities following changes announced at Budget 2012.

1.3 When do the changes take effect?

The changes affect supplies made on or after 1 October 2012.

1.4 Why have these changes been introduced?

The existing legislation has created an anomaly in the VAT treatment of storage between providers of self storage and traditional storage providers (such as removal companies). These changes will create a level playing field by ensuring that the provision of facilities for the storage of goods are taxed consistently at the standard rate of VAT. They also address avoidance within the sector, ensuring that avoiders cannot gain an unfair VAT advantage over their competitors.

2. VAT liability of supplies of self storage

2.1 What are the current rules (prior to 1 October 2012)?

Under current rules, the provision of a clearly defined space (technically known as a 'licence to occupy land') for the self storage of goods is exempt for VAT purposes. However, self storage operators can choose to ‘opt to tax’ their land, in which case they must charge VAT on their supplies of space for self storage. More information about the option to tax can be found in Notice 742A Opting to Tax Land and Buildings.

2.2 What are the new rules (from 1 October 2012)?

The new rules are based on use of space for the self storage of goods. The changes ensure that the provision of space used for the self storage of goods (by the customer of the provider of the self storage space) in structures ('relevant structures') such as containers, units or buildings is standard-rated. However, there are certain exceptions set out below.

2.3 What happens to supplies that straddle 1 October 2012?

Special procedures apply when there is either a change in the VAT rate or a change in the VAT liability of certain supplies, which are explained in Section 30 of Notice 700 The VAT Guide.

There are also specific anti-forestalling provisions which will apply in relation to this change of VAT liability. They provide that supplies of self storage for periods straddling 1 October 2012 will be apportioned so that supplies before 1 October 2012 are covered by the current rules, and supplies on or after 1 October 2012 are covered by the new rules. These rules are explained in the VAT Information Sheet 09/12 VAT: Anti-forestalling for approved alterations to listed buildings and the self storage sector.

2.4 What if the storage provider doesn't know how the space he is letting out is used?

The use of the space will normally be clear from the nature of the facilities, the way they are advertised and the agreements entered into. However, in some instances, facilities may be suitable for a variety of uses and agreements may not specify a particular use by the licensee (ie the licensee is free to use the space for any purpose). In such cases it will be necessary for the grantor to obtain confirmation from his customer of the use to be made of the space. Suppliers are advised to obtain such confirmation in writing and retain it with their VAT records.

2.5 What if the space is used for the self storage of goods and another purpose?

Where space is used by the customer for both the self storage of goods and another purpose, the VAT liability will follow that of the principal element of the supply in accordance with normal rules.

So, for example, if a customer uses a warehouse for the self storage of goods but also uses a small amount of the space as an office, the whole supply will be taxable, as the provision of office space is ancillary to the provision of self storage.

2.6 What if the facilities are not actually being used for the self storage of goods all of the time?

Where, during the period of an agreement or contract, the self storage facilities are not actually being used for the self storage of goods and are left empty, the supply will be standard-rated if there is an intention that they will be used for self storage in the future or have previously been used for self storage during the period of the agreement or contract.

Note: this will only be an issue if the supplier has not 'opted to tax' the property or the 'option to tax' is disapplied. If the 'option to tax' applies, the rental of space will be standard-rated whatever the customer's use of the space.

2.7 What about changes in the use of self storage facilities?

In some cases, businesses that have hired out facilities for self storage of goods may become aware that their facilities are being used permanently for something other than self storage. Where such use is permissible under agreements and would result in a different tax treatment (eg, exempt instead of taxable, where the provider has not 'opted to tax') the correct VAT treatment should be applied from the time that the supplier becomes aware of the change in use.

However, use on an occasional basis for something other than storage, during specific agreement or contract periods, will not affect the VAT treatment as the main overall use remains self storage of goods.

2.8 What if the storage provider doesn't know of changes in how the space he is letting out is used?

Suppliers should ensure that customers are aware that they should notify the supplier of any permanent changes of use in the future and that this may result in a different VAT treatment. Provided this is done there is no requirement for suppliers to actively monitor, on a regular basis the use being made of the space.

In such cases where changes of use occur resulting in a different VAT treatment, HM Revenue & Customs (HMRC) will normally accept this being applied from the date the supplier becomes aware of the change. However, HMRC will not do so if the supplier and customer are connected or the supplier has received indications of a change of use but not acted upon them.

2.9 What happens if the customer entering into the agreement with the self storage provider is not the person who actually uses the space for self storage of goods?

VAT is due on the use of space for the self storage of goods. The new rules provide that use by a person with the permission of the person (or any of the persons) to whom the provision of facilities is made counts as use by the person (or persons) to whom the provision is made. This ensures that VAT cannot be avoided where the use is by a third party.

2.10 Is the supply of a warehouse or similar building used for storage now automatically standard-rated?

Standard-rating applies when space is supplied and used for the self storage of goods by the customer. Therefore, the lease of a warehouse or storage facility, such as a lock-up, to be used for the self storage of goods by the customer, will be subject to VAT. However, the supply of a warehouse or similar building for any other purpose will not be subject to VAT under these new rules unless an 'option to tax' has been made.

Supplies of self storage that remain exempt from VAT

2.11 Is the self storage of livestock affected by these changes?

No. The self storage of livestock is specifically excluded from these changes and will remain exempt from VAT.

2.12 Are there any other circumstances where supplies of self storage remain exempt?

Yes. Supplies in scenarios A, B and C below will not be subject to VAT.

(A) Where the agreement or contract is between connected parties and the facility is a capital item

(i) The building or structure (the facility) is subject to capital goods scheme adjustments by the person making the supply and is still within its adjustment periods; **and**

(ii) The person making the supply and any person using the facility for self storage are connected.

This prevents partly exempt traders setting up property leasing schemes within their corporate groups in order to recover VAT on self storage facilities they construct for their own use. Further guidance on how to establish whether a supplier and user of the facilities are connected can be found in paragraph 13.7 of Notice 742A 'Opting to Tax Land and Buildings'.

(B) Where the provision is made to a charity and the charity uses the self storage facility for a non-business purpose

This is use of the facilities by a charity for non-business activities, eg, storage of goods for free distribution to beneficiaries. Sections 4 and 5 of Notice 701/1 'Charities' provide guidance to help charities decide which activities are business and non-business. The self storage operator should obtain and retain evidence from the charity of its non-business use of the facilities in order to support not taxing the supply.

(C) Where the storage is ancillary

Where the self storage facility is just part of a building which the customer uses primarily for other purposes, to which the storage is ancillary. An example would be a lease of storage facilities to a retailer within the same building as the retailer's shop. This ensures that mandatory standard rating does not apply more widely than intended.

2.13 Do the changes affect the supply of buildings to self storage providers?

No. the sale or lease of a building to a self storage provider will only be subject to VAT if the person making the supply has made an 'option to tax'. The new rules only impact on supplies made by self storage providers to their customers.

2.14 Will freehold sales of buildings become subject to VAT as a result of the changes?

No. The changes only affect leases and licences to occupy land and buildings.

2.15 What about containers used to transport goods?

A container only qualifies as a 'relevant structure' when it is being used for the self storage of goods. In these circumstances the location of the container will normally be static. Any supply of space in a container used to transport freight is part of the supply of freight transport services and will be taxed accordingly.

2.16 What about the supplies of other goods and services provided in conjunction with self storage?

Supplies of other goods and services, for example, packing cases, the use of fork lift trucks and assistance with unloading are generally subject to VAT (unless like insurance they are covered by an exemption) and this will continue to be the case.

3 Transitional arrangements relating to the Capital Goods Scheme (CGS)

The changes to the VAT treatment of self storage of goods mean that self storage providers that have not previously opted to tax their supplies will, subject to the normal rules, be able to deduct VAT incurred on their related expenses.

Some providers that have not previously opted to tax their supplies will have incurred VAT bearing expenditure of £250,000 or more on certain assets (such as land and buildings known as 'capital items'), which fall within the CGS. The effect of the change of the VAT liability of the provision of facilities for the self storage of goods will be to change the use of the capital items, with effect from 1 October 2012, from making exempt to making taxable supplies. Consequently, the owners will be able to make VAT adjustments in their favour over the remaining economic life of the capital items (up to a maximum of nine years) under the CGS.

To put smaller businesses in the same position, self storage provides will be able to ‘opt in’ to the CGS for capital goods items with values below the £250,000 threshold where such items are owned by taxpayers affected by the change in the VAT treatment of supplies of self storage and will, after 1 October 2012, be used to make taxable supplies.

3.1 What are the CGS transitional arrangements?

Businesses affected by the changes to the VAT liability of self storage will have the option of treating expenditure on assets that is below £250,000 but which would otherwise qualify as capital items, as capital items for CGS purposes and to make adjustments in accordance with that scheme.

3.2 Is it compulsory?

No. This will be an option available to owners of self storage premises that have incurred VAT bearing capital expenditure (on construction, refurbishment etc) falling beneath the £250,000 threshold on facilities that

they will, after 1 October 2012, use to make taxable supplies. Whether they decide to use the CGS or not is entirely up to them.

3.3 What are the conditions for opting into the CGS?

An owner of self storage premises can opt to apply the CGS to an item if:

- the item is land, a building or civil engineering work (or part of a building or civil engineering work)
- the businesses has incurred VAT-bearing capital expenditure on the acquisition of that item or on its construction, refurbishment, fitting out, alteration or extension
- that VAT-bearing capital expenditure amounts to less than £250,000
- the item is to be used for making taxable supplies of self storage
- must opt to apply the CGS by 31 March 2013

3.4 How do businesses opt to use the CGS for items of less than £250,000 in value?

They can decide anytime after 1 October 2012 but no later than 31 March 2013 to opt items into the CGS and must make a written record of that decision.

3.5 Does the written record have to be sent to HMRC?

No. Self storage providers should retain the written record as part of their normal business records and make it available to HMRC should they request to see it at a future date.

3.6 How long does the written record have to be retained?

Business records are normally required to be retained for six years. However, owners of ‘opted in’ items may wish to retain the written record of their decision for a longer period, particularly when not all of the intervals applicable to their item(s) have finished by then.

3.7 Does an owner of self storage premises have to opt all of their items of less than £250,000 in value into the CGS?

No. Owners of self storage premises can opt any items they choose into the CGS and can, equally, not opt any that they do not want to treat as CGS items.

3.8 Is this change available to other businesses?

No. The facility to opt in to the CGS is only available for items that are used for making supplies of self storage that are currently exempt and will become taxable with effect from 1 October 2012. It is only available for a limited time period (from 1 October 2012 to 31 March 2013).

3.9 Are there any other changes to the CGS?

No, all the other conditions of the CGS apply (see Notice 706/2 Capital Goods Scheme for more details) and the only relaxation is in relation to the monetary value of a capital item.

3.10 How will it work in practice?

Capital items of less than £250,000 in value will be, subject to the other CGS conditions being met, treated in the same way as those of over £250,000 in value allowing adjustments to be made for all remaining intervals. These adjustments will be in the owner's favour if the owner continues to use the item to make supplies of the provision of facilities for the self storage of goods (or for any other taxable purpose).

3.11 How are the ‘baseline’ figures for the CGS established?

The normal CGS rules will apply. In order to make CGS adjustments, the owner of an item needs to know the total input tax incurred on the item, how much of that input tax was deductable when it was incurred (if any) under normal VAT rules, when the item's first interval started and how many intervals the VAT is to be adjusted over.

The owner of the item will be able to establish from its normal VAT records how much input tax it has incurred and how much (if any) it was able to deduct. Where an owner becomes VAT registered as a result of the change to the tax treatment of self storage and was not VAT registered when it incurred

the VAT, that VAT will still be included in the total incurred and the initial deduction will always be nil.

The start of the first interval is determined in accordance with the rules explained in paragraph 6.4 of Notice 706/2. As explained in that paragraph, the rules for determining the start of the first interval changed with effect from 1 January 2011 so businesses should consider which rules are applicable to their circumstances.

The length of the adjustment intervals follow from the above, as explained in section 6 of Notice 706/2. However, no adjustments will be possible for intervals ending prior to 1 October 2012.

4. Who can I contact for further information?

If you have a query for which you have been unable to find the answer within this VAT Information Sheet please contact the VAT Helpline on Tel 0845 010 9000.

The Helpline is available from 8.00 am to 6.00 pm, Monday to Friday.

If you have hearing difficulties, please ring the Textphone service on 0845 000 0200.