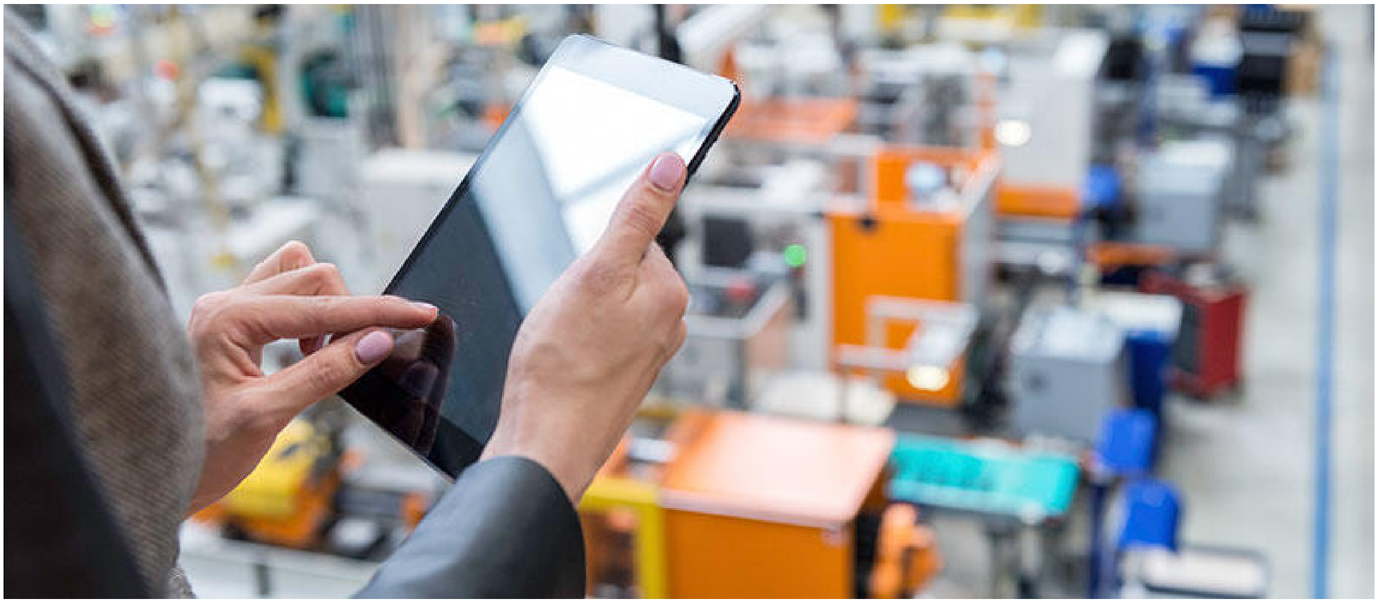
VAT treatment of land for social housing: CIOT response

Indirect Tax Property Tax

October 2026



24 September 2026

CIOT is pleased to respond to the consultation on VAT treatment of land intended for the construction of new social housing, which considers a proposal that we put forward to the government in 2025.

In October 2025, CIOT wrote to the government about the different tax barriers affecting housing supply and suggested possible solutions (tax.org.uk/ref1538). One of the examples in our paper highlighted how VAT law can create delays and inefficiencies in the building of social housing. We suggested a simplification that would expand zero-rating to the sale of affordable housing sites to housing associations. This would in turn remove the complexity of the 'golden brick' VAT rules, while achieving the same overall VAT position for the supply chain and the Exchequer.

In June 2026, the government published a consultation that considered this proposal, ‘VAT treatment of land intended for the construction of new social housing’ (tinyurl.com/4kaf6wc8). The CIOT has responded to this.

What does ‘golden brick’ mean?

‘Golden brick’ is a term that describes the status of a build that has gone beyond foundation level. This is accepted as being reached once the first brick above the foundations and ground level is laid, hence the term ‘golden brick’.

In HMRC’s VAT notice 708 (tinyurl.com/3zyhj9v8), the term golden brick is not used. Instead, para 4.7.4 sets out that zero-rating can apply to land ‘that will form the site of a building *provided a building is clearly under construction*’ (my emphasis). The VAT construction manual at VCONST03540 (tinyurl.com/3zspf5hu) explains that zero-rating can apply to deposits on sales of land to registered housing associations where ‘it is clear from the contract or agreement that what will be supplied at completion, or the time of the grant, will be partly completed dwellings (beyond ‘golden brick’)’.

What is the problem with the current VAT rules?

The sale of land is normally VAT exempt, meaning that input VAT relating to the supply is normally blocked. If the seller exercises an option to tax, it would become a taxable supply. However, a relevant housing association (RHA) is able to disapply the option to tax by issuing a certificate, leaving the seller with a VAT exempt supply and back to square one (VAT Notice 742A para 3.6 at tinyurl.com/2tupd2cd).

A registered housing association makes supplies of social housing where the rental income is also exempt from VAT, meaning it too is unable to recover input VAT incurred relating to those exempt supplies. The ability to disapply a seller’s option to tax is therefore essential. However, the seller can achieve zero-rating where the site has reached golden brick stage, meaning a taxable supply has been made and input VAT can be recovered, while the RHA does not incur irrecoverable input VAT.

It is normally difficult for RHAs to draw down grant funding until they have legal title to a site, with further complications arising from the period in which funding must be spent. Meanwhile, the developer of the site must incur significant upfront costs to develop the site to golden brick status so that the sale can be zero-rated. These arrangements can cause considerable delays and restrict the sale of sites to developers that are able to bear the upfront financial burden of site preparation.

In our consultation response, we supported the proposal to extend zero-rating to the sale of sites for RHAs before they have reached golden brick status. We consider that the current certification process can be easily adapted to accommodate the proposed relief based on the buyer's certified status.

CIOT's response can be read at: tax.org.uk/ref1724.

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