



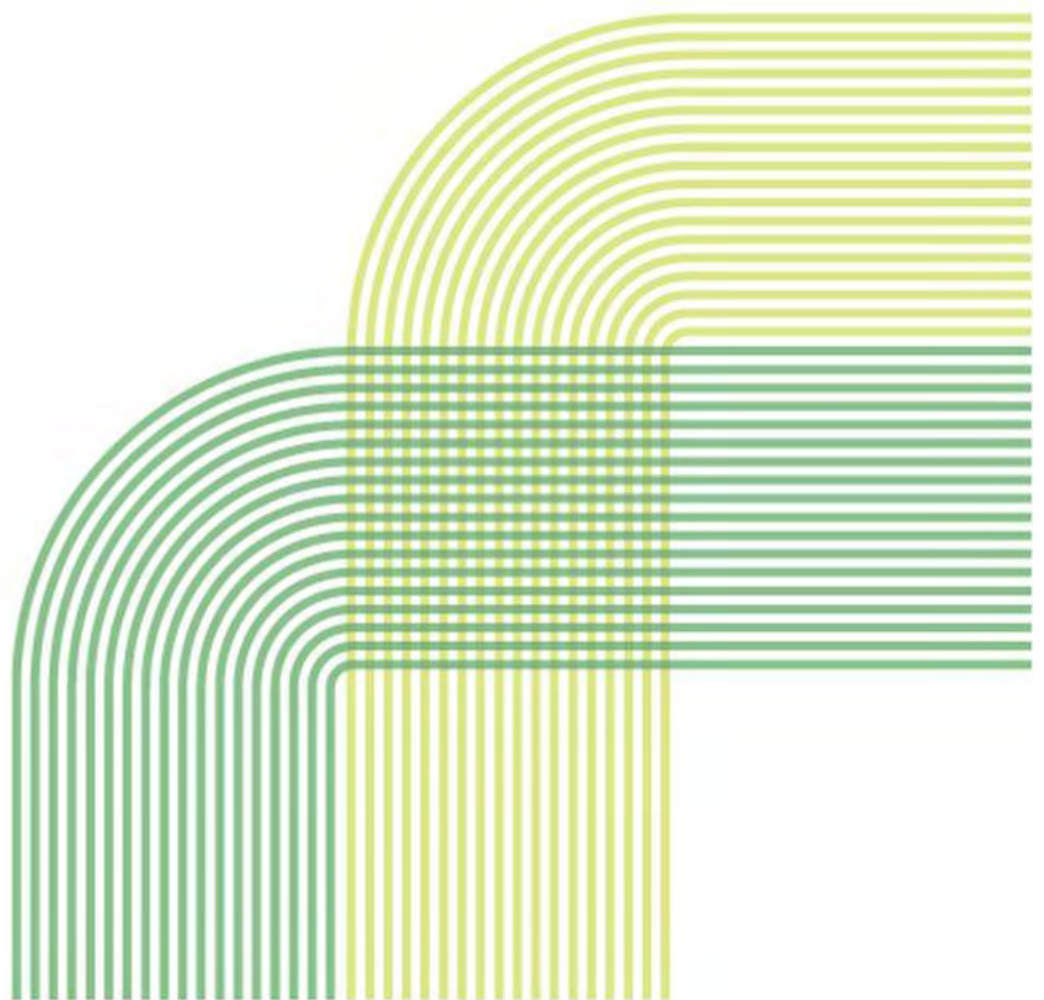
IFF Research

Impact of the 'option to tax' measure: Research with recipients and suppliers of commercial land and buildings

Prepared for HMRC
By IFF Research

HM Revenue & Customs research report 315

April 2014





IFF Research

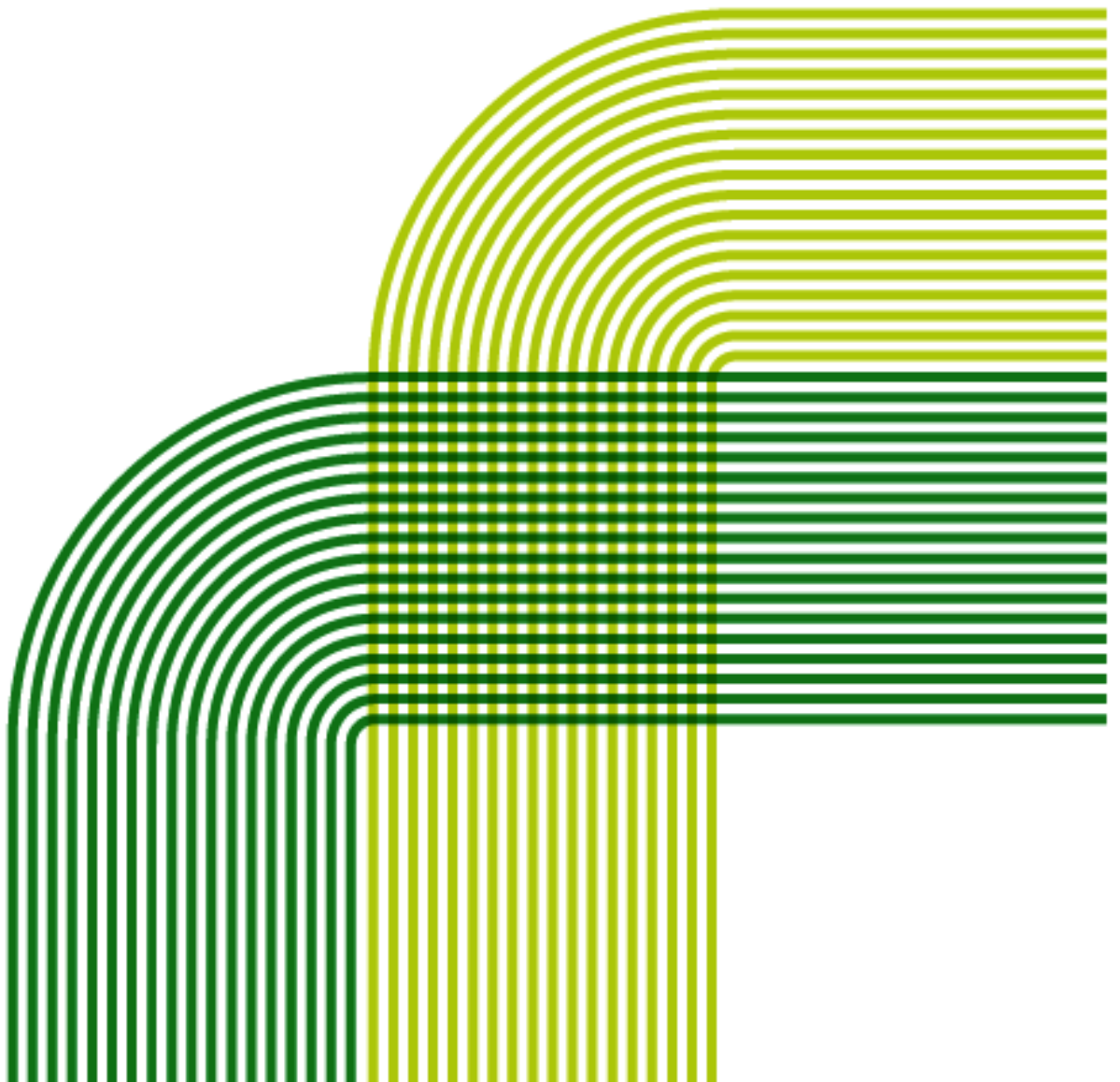
The views in this report are the author's own and do not necessarily reflect those of HM Revenue & Customs

© Crown Copyright 2014

Copyright in the typographical arrangement and design rests with the Crown. This publication may be reported free of charge in any format or medium provided that it is reproduced accurately and not used in a misleading context. The material must be acknowledged as Crown copyright with the title and source of the publication specified.

Published by HM Revenue and Customs, June 2014

www.hmrc.gov.uk

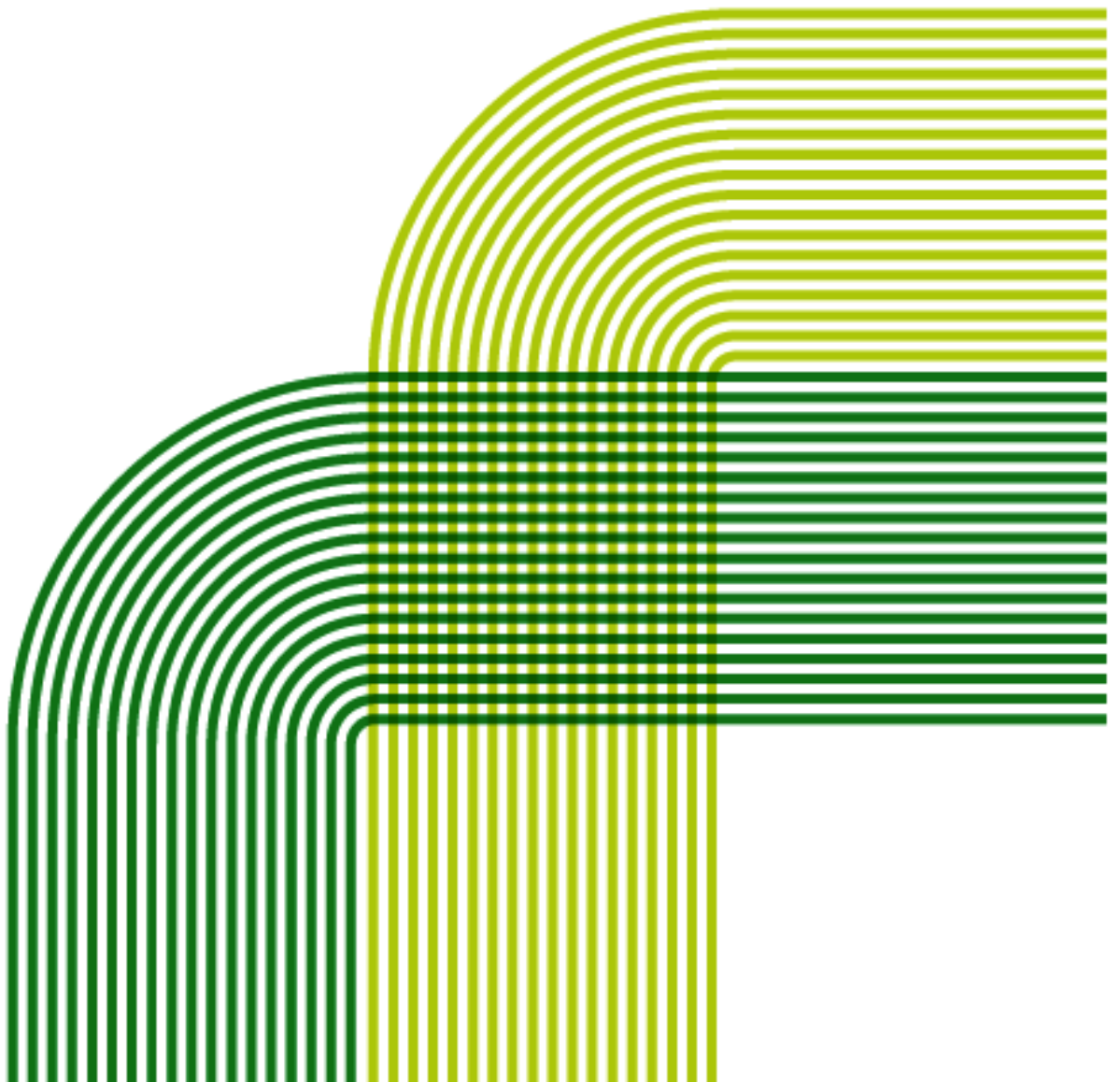




IFF Research

Contact details

Lorna Adams, Briony Gunstone and Margaret Anderson
IFF Research Ltd
Chart House
16 Chart Street
London N1 6DD
Tel +44(0)20 7250 3035



Contents

1	Executive summary	6
	Leasing to tenants	7
	Suppliers: selling property	7
	Recipients: leasing from landlords	7
	Recipients: purchasing property	8
	Suppliers: Administrative issues	8
2	Introduction and methodology	10
	Context	10
	Methodology	11
	Report Structure	15
	Average values	15
3	Suppliers: leasing to tenants	17
	Volume of properties	17
	Rent invoiced	18
4	Suppliers: selling	21
	Volume of properties	21
	Sales value	22
5	Recipients: leasing from landlords	24
	Volume of properties	24
	Rent invoiced for	25
6	Recipients: purchasing	28
	Volume of properties	28
	Purchase value and VAT	29
7	Suppliers: administrative issues	32
	Deciding whether to opt to tax (from qualitative interviews)	32
	Risks involved in opting to tax (from qualitative interviews)	34
	Use of external advisors	35
	Internal costs	38
	Process of applying to opt to tax (from qualitative interviews)	38
	Understanding of option to tax rules	39
	Advisor views on businesses' understanding of the option to tax (from qualitative interviews)	40
	Real Estate Elections	42



8	Conclusions	46
9	Appendices	48
	Full details of methodology	48
	Questionnaire	52
	Advance Letter	52
10	Annex tables	79



1 Executive summary

- 1.1 This report presents findings from research commissioned by HM Revenue and Customs (HMRC) to increase understanding of the impact of the option to tax on suppliers (for example, landlords) and recipients (for example, tenants) of commercial land and buildings.
- 1.2 The option to tax land was introduced in 1989 to prevent a tax burden being placed on certain UK businesses. Without it, property developers in particular would have incurred irrecoverable VAT on the construction of commercial buildings. By opting to tax a supplier of land is able to recover VAT they incur as input tax. The ability to opt removes the VAT cost for developers and investors but they must charge output tax on any onward sale or lease.
- 1.3 The aim of this research was to extend the Department's understanding in terms how the option to tax is used and the administrative burden it places on those who use it. The research aimed to understand the reasons why businesses choose to use the option to tax, an estimate of the value of properties leased or purchased by recipients of the option to tax (and how this compares to values associated with properties who are not opted), an estimate of the value of properties leased out or sold by suppliers of the option to tax (and how this compares to values associated with properties who are not opted) and the compliance and administrative burdens imposed on businesses as a consequence the option to tax.
- 1.4 The research consisted of two phases:
 - A qualitative exercise involving 10 depth interviews with tax agents or advisors involved with providing businesses with information or advice on the option to tax;
 - A quantitative survey of 838 businesses affected by the option to tax.
- 1.5 Businesses were considered to be in-scope for the core quantitative survey if they met either of the following conditions:
 - Had leased (to tenants), sold or constructed property, which they had opted to tax, during the most recent complete year¹;
 - Had leased (from a landlord) or bought property during the most recent complete year and provided VAT exempt or partially exempt supplies or non-business activities.
- 1.6 Businesses that met the first criteria were classed as suppliers while those meeting the second criteria were classed as recipients. Whatever the reason for selection, businesses were surveyed on both the property they supplied and received. Many businesses selected as a supplier received supplies of property themselves, and many selected as a recipient will also have supplied property.
- 1.7 Quantitative findings are presented separately within the three pools of businesses selected by HMRC. Large businesses who potentially supplied property (referred to as 'Large business suppliers'), small and medium enterprises who potentially supplied property (referred to as 'SME suppliers') and potential recipients of property (referred to as 'Recipients').

¹ Businesses were asked to provide details relating to the most recent financial year for which they had full records available



- 1.8 The average values shown in this report are typically median values. The small number of very high values given by some respondents would skew the picture of the average if mean values were shown instead. However in some places mean values have been presented, but these have been clearly marked.

Leasing to tenants

- 1.9 Of the 'Large business suppliers' and 'SME suppliers' who had leased an opted property, the vast majority of properties they leased had been opted (86 per cent and 79 per cent respectively). Consequently, the majority of the total rent received came from opted properties, accounting for around 90 per cent of rent received by 'Large business suppliers' and 'SME suppliers'. Among 'Recipients', 45 per cent of all leased properties were opted, accounting for 83% of total rent received by these organisations.
- 1.10 The majority of businesses had opted to tax all their leased property. Just a third of 'Large business suppliers' and 'Recipients', and a fifth of 'SME suppliers' had also leased non-opted property.

Suppliers: selling property

- 1.11 Among businesses that had sold at least one opted property, the vast majority of all properties sold were opted. Over nine in ten properties sold by 'Large business suppliers' (96%) and 'SME suppliers' (95%) were opted, along with 90 per cent of those sold by 'Recipients'. Just 14 per cent of 'Large business suppliers', nine per cent of 'SME suppliers', and five per cent of 'Recipients' had also sold non-opted property.
- 1.12 For 'Large business suppliers' 99 per cent of their total revenue from property sales was from opted properties, while for 'SME suppliers' 80 per cent came from opted properties and for 'Recipients' 75 per cent came from opted properties.

Recipients: leasing from landlords

- 1.13 Among recipients who had leased property from landlords, the proportion of all leased property which was opted was less than half (44%) for 'Recipients', 56 per cent for 'Large business suppliers' and 63 per cent for 'SME suppliers'.
- 1.14 The majority of those leasing property from landlords reported that at least one of these properties had been opted. A tenth of 'Large business suppliers', a quarter of 'SME suppliers', and a little over a third of 'Recipients' stated that VAT was not charged on any of the properties they leased.
- 1.15 The majority of businesses leasing property had leased either only opted or only non-opted property. However it was reasonably common that businesses had leased a mixture of opted and non-opted property (25% of 'Large business suppliers', 4% of 'SME suppliers' and 10% of 'Recipients').



Recipients: purchasing property

- 1.16 Among businesses that had purchased property, the proportion of all purchased property which was opted was two-thirds for 'SME suppliers', around half for 'Large business suppliers', and a fifth for 'Recipients'.
- 1.17 The majority of businesses buying property had purchased either only opted or only non-opted property. However it was reasonably common that businesses had purchased a mixture of opted and non-opted property (15% of 'Large business suppliers', 7% of 'SME suppliers' and 23% of 'Recipients').

Suppliers: Administrative issues

- 1.18 Among all three groups, approximately 60% of those who had been suppliers in relation to the option to tax reported having used external advisors. The main reasons mentioned for seeking external advice were to ensure the action taken is correct and in line with the law, to obtain specialist knowledge generally, and to ensure VAT is recoverable.
- 1.19 The median costs reported in relation to using external advisors for the option to tax were £1,000 per option for both 'Large business suppliers' and 'SME suppliers' and £500 per option for 'Recipients'. Median average internal costs reported were £500 per option for 'Large business suppliers', £200 for 'SME suppliers' and £100 for 'Recipients'.
- 1.20 On the whole businesses reported a good understanding of the option to tax: 91 per cent of 'Large business suppliers' stated that they understood the rules well, 76 per cent of 'SME suppliers' and 71 per cent of the 'Recipients' category. The key challenges mentioned by supplier businesses in relation to the option to tax were evaluating the costs and benefits of opting, ensuring compliance with the rules, finding information, and keeping up to date with legislation.
- 1.21 Since 2008, it has also been possible to make a Real Estate Election, which means that after making the election businesses are treated as having opted to tax every property in which they acquire any ownership (with certain exceptions). They were introduced to try to reduce the administrative burden for businesses that were opting regularly. Overall, just over a quarter of 'Large business suppliers', a fifth of 'SME suppliers', and one in ten 'Recipients' reported that they were familiar with Real Estate Elections; hence most organisations are unaware that there is an alternative to taking individual options available.

Tax Agent Perspectives

- 1.22 In qualitative interviews, tax agents were asked why they felt that businesses would generally decide to opt a property. The key reason mentioned was simply to enable businesses to cover input tax either on renovation of a property or acquisition of it. Circumstances mentioned as particularly likely to lead to a decision to opt included taking on a Transfer of a Going Concern or a desire to preserve a business's position under the Capital Goods Scheme in cases where property is moved between members of a group. The key reason mentioned for causing businesses to decide against using the option to tax was if they anticipated that the purchasers or tenants for their property were likely to be operating in VAT-exempt business sectors.



- 1.23 Tax agents felt that businesses did not often understand the option to tax very well with the main factors affecting understanding being the size and sector of the business. Larger businesses and those in the property sector were felt to generally have a better understanding. There were a range of aspects of the option to tax that agents felt that businesses did not understand well but the anti-avoidance measures were mentioned particularly as an area of limited understanding.
- 1.24 Although all tax agents interviewed were aware of Real Estate Elections, most were not experienced in using them. In part this was because agents did not feel they were a particularly attractive option for their clients and hence not one that they promoted. They felt that Real Estate Elections carried a high administrative burden and were difficult to understand.

Conclusions

1.25 The key conclusions that can be drawn from this research about the use of the option to tax are:

- Where supplier businesses used the option to tax for properties leased to tenants the majority tended to opt all their leased property;
- Reflecting this, across all groups of suppliers, the large majority of rent invoiced related to opted properties;
- Where supplier businesses had sold property, they had generally chosen to opt all their sold properties;
- Among recipient businesses leasing opted property it was reasonably common for businesses to lease both opted and non-opted property;
- Again where recipient businesses had bought opted property it was reasonably common for businesses to have purchased both opted and non-opted property;
- 'Recipients', who are unable to fully reclaim VAT encounter the option to tax fairly regularly. Just under half of property leased from landlords by this group was opted and around a fifth of purchased property was opted.
- Recovering input tax is seen by tax agents as the key reason for opting. The main reason for deciding not to opt a property was to accommodate potential tenants or purchasers who may be in VAT-exempt sectors.
- Supplier businesses incur both direct and indirect costs (staff time) in relation to using the option to tax;
- Tax agents felt that anti-avoidance rules in relation to the option to tax can be quite complicated and that this was an area that businesses often had limited understanding and hence could benefit from external advice;
- Although the administrative burden on suppliers could perhaps be reduced by the use of Real Estate Elections, few were aware of this option and advisors are not inclined to work to increase awareness.



2 Introduction and methodology

Context

- 2.1 The option to tax commercial land and property was introduced in 1989 to prevent a tax burden being placed on certain UK businesses following infraction proceedings brought by the EU, which turned the liability of construction services from zero-rated (per UK legislation) to standard-rated (per EU legislation).
- 2.2 Without the option to tax, property developers in particular would have incurred irrecoverable VAT on the construction of commercial buildings. By opting to tax, a supplier of property is able to recover VAT they incur as input tax, such as construction costs, overheads and refurbishment costs, but they must also charge output tax on their supplies. The ability to opt removes the VAT cost for developers and investors but they must charge output tax on any onward sale or lease. Before making an option to tax, a supplier will need to consider whether opting might deter any prospective purchaser or tenant of the property (for example, if the buyer or tenant cannot recover the VAT charged).
- 2.3 Anyone can make an option to tax or be the recipient of a supply of property made by someone who has made an option. Commercial land and building interests are held by virtually every business but the key players in real estate transactions that are affected by the option to tax are:
- Commercial property developers
 - Commercial property investors (including pension funds)
 - Tenants and buyers of commercial property
- 2.4 Property has been defined as buildings, for example an office block or a factory. However more than one building can be a single 'building' for the purpose of the option to tax. This includes: buildings that are linked by an internal access or covered walkway, buildings if not yet built are planned to be linked, or a complex consisting of a number of units grouped around a fully enclosed concourse (e.g. a shopping mall).
- 2.5 HM Revenue and Customs (HMRC) commissioned research to increase its understanding of the impact of the option to tax on businesses, in terms of the extent to which it is used and the administrative burden on those who take up this option.

Research Questions

- 2.6 The research is aimed at extending the Department's understanding, with regards to the suppliers and recipients of commercial land and buildings, of the following aspects to be covered in a survey:
- 2.7 Suppliers of commercial land and buildings:
- An estimate of the value of the land/buildings they own, and that are eligible to use the option to tax.
 - The size of these businesses and the industries in which they operate.



- The compliance and administrative burdens imposed on businesses as a consequence of exercising the option to tax.
- 2.8 Businesses who lease (or have bought) land and/or buildings.
- An estimate of the value of the land/buildings they lease.
 - Whether they have bought any land/property in the last year and the value of the land and whether it was opted.
 - The compliance and administrative burdens imposed on businesses of exercising the option to tax.
- 2.9 Further piece of **qualitative research** with tax agents who advise businesses on the option to tax was conducted to investigate their knowledge of the option to tax including:
- Experience of using option to tax.
 - The compliance and administrative burdens imposed on businesses of exercising the option to tax.
 - Why businesses choose to opt a property and when they may choose not to

Methodology

- 2.10 The study consisted of two phases:
- A qualitative exercise involving 10 depth interviews with tax agents or advisors involved with providing businesses with information or advice on the option to tax.
 - A quantitative survey of 838 businesses affected by the option to tax.
- 2.11 The sample for the quantitative survey was drawn from HMRC's databases and included three groups:
- Potential Suppliers – 'Large business suppliers' (previous participants in HMRC's Tax Opinions Panel Survey)
 - Potential Suppliers – 'SME suppliers' (selected if they had previously made at least one option to tax application)
 - Potential Recipients – Businesses that were likely to be exempt, partially exempt or public bodies (selected using standard industrial classification codes), classed as 'Recipients'. These businesses were selected as they may not be able to recover all of the VAT, if charged, therefore the option to tax would reflect a significant cost increase to them.
- 2.12 These businesses were screened to ensure that they had either leased (to tenants), sold or constructed property which they had opted to tax, during the most recent year for which they had records and/or if they provided VAT exempt supplies or non-business activities and had leased (from a landlord) or bought property. This means that the research can be taken to be representative of large businesses, SMEs and 'Potential Recipients' who have encountered the option to tax as a supplier or have been a recipient but not necessarily of large businesses, SMEs or 'Potential Recipients' as a whole.



- 2.13 Weighting was applied to the data to correct for disproportionate sampling within these broad groups and for variations in the proportion that were found to be eligible for the survey. Further details of the sampling and the weighting applied are shown in the Appendix.



2.14 The interview was divided into 8 broad sections:

- **Screening to establish eligibility** – asked of all respondents;
- **Business details** – asked of all respondents;
- **Leasing to tenants** – asked only of those who had leased opted property to tenants;
- **Selling** – asked only of those who had sold opted property;
- **Leasing from landlords** – asked only of those who had leased property;
- **Buying** – asked only of those who had bought property;
- **Costs/administrative burden of using the option to tax** – asked of all suppliers;
- **Real Estate Elections** – asked of all suppliers.

2.15 The table below summarises the number of respondents within each of the 3 broad categories answering each section. As the table shows, there are some sections for which the number of respondents is low and results should be treated with some caution.

Table 2.1: Base sizes for each section of the questionnaire

	Large business suppliers	SME suppliers	Recipients
	<i>N</i>	<i>N</i>	<i>N</i>
Business details	270	214	354
Leasing to tenants	141	174	151
Selling	42	24	12
Leasing from landlords	238	61	228
Buying	44	25	16
Costs/administrative burden	155	182	155
Real Estate Elections	155	182	155

2.16 Respondents were asked to provide their responses for the last financial year for which they had full financial information available. Of the 838 respondents;

- 470 provided information for the 2012-13 financial year;
- 302 provided information for the 2011-12 financial year;
- 66 provided information for other time periods.

2.17 Throughout this report, the results presented relate to the year specified by each respondent.

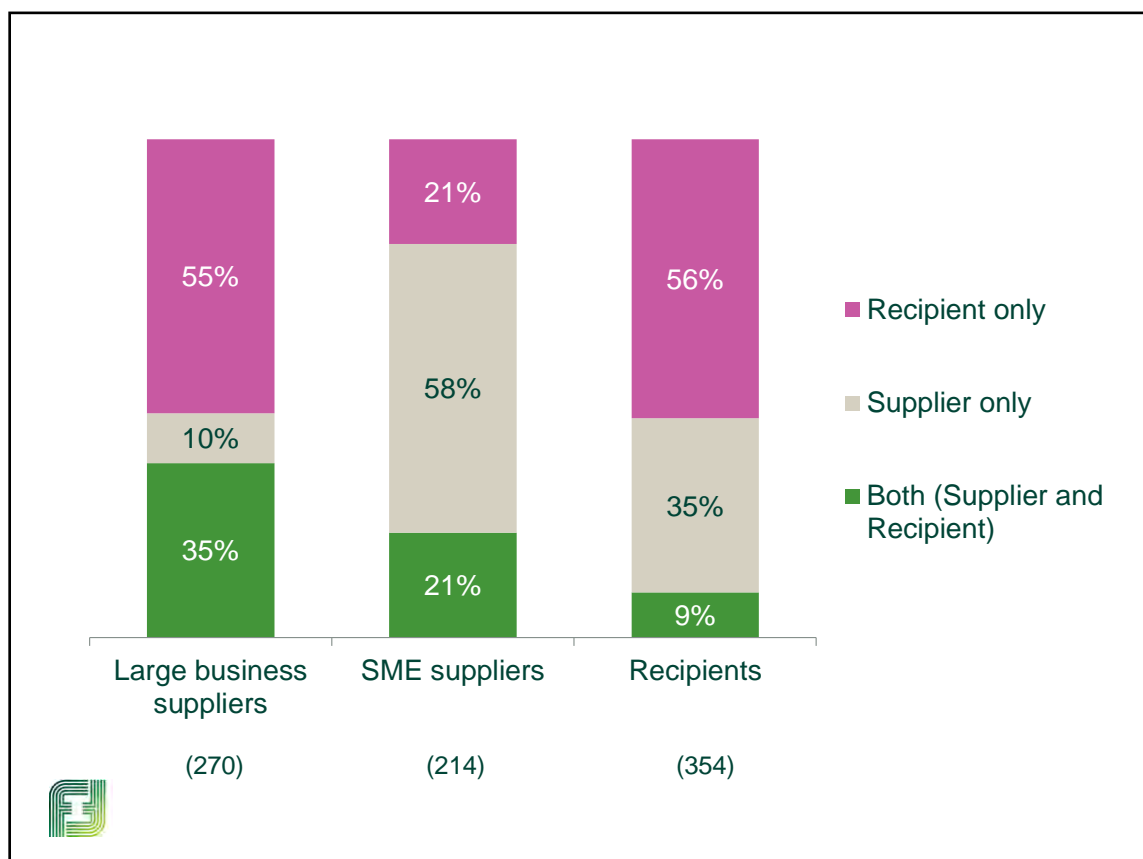
Nature of businesses interviewed

2.18 Figure 2.1 shows the proportion of each group who are only suppliers in relation to the option to tax, the proportion that are only recipients and the proportion that fall into both definitions. As the analysis shows, only a small proportion of those classed as 'Large business suppliers' were suppliers only, 58 per cent of 'SME suppliers' and 35% of those termed 'Recipients' fell into this group. Just over a third



of 'Large business suppliers' a fifth of 'SME suppliers' and only one in ten of the 'Recipients' category were both suppliers and recipients of commercial property.

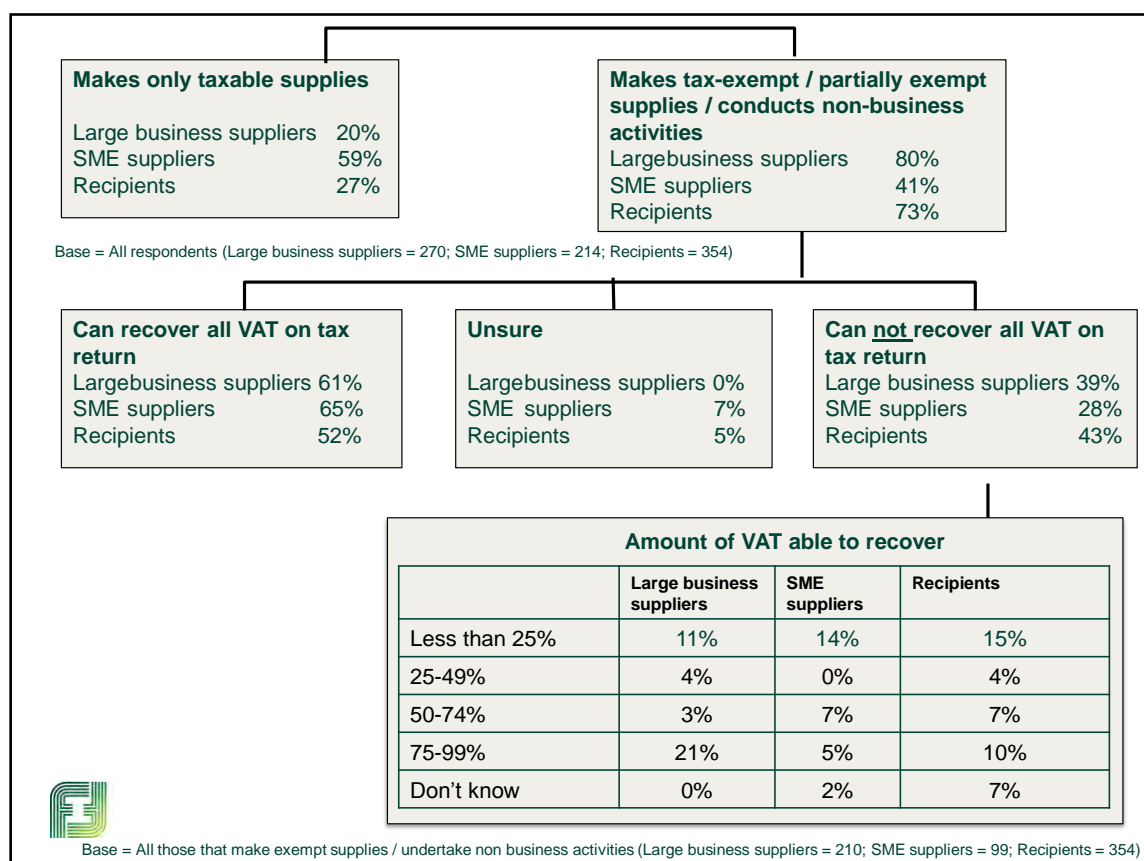
Figure 2.1: Type of relationship with option to tax by broad group



2.19 Finally in terms of the profile of respondents, Figure 2.2 shows the amount of VAT that respondents were able to recover on their tax return. As the figure shows 80% of 'Large business suppliers' 41% of 'SME suppliers' and over 73% of those classified as 'Recipients' had some involvement with making tax-exempt supplies or conducting non-business activities. Among those making tax-exempt supplies/conducting non-business activities, the mean proportion of VAT that respondents were able to recover was 85% for 'Large business suppliers', 83% for 'SME suppliers' and 77% for 'Recipients'.



Figure 2.2: VAT recovered by respondents



Report Structure

2.20 The remainder of this report is structured into 5 additional chapters;

- **Chapter 3** presents data relating to **leasing to tenants**;
- **Chapter 4** presents data relating to **selling property**;
- **Chapter 5** presents data related to **leasing from landlords**;
- **Chapter 6** presents data related to **purchasing property**;
- **Chapter 7** presents data related to **administrative issues**.

Average values

2.21 Average values shown throughout this report are typically median values from our data. We have generally chosen to use median values because of the small number of very high values given by some of our respondents which would give a false impression of the average picture if the mean value



were to be presented instead. However there are a few places where mean values are used and these are clearly indicated.



3 Suppliers: leasing to tenants

3.1 This chapter discusses the volume and value of opted properties that supplier businesses had leased to tenants in the most recent year. Overall, 42 per cent of the 'Large business suppliers' that were eligible for the survey, 78 per cent of 'SME suppliers', and 43 per cent of those classed as 'Recipients', reported that they had leased opted property to tenants in the last year. Therefore 141 'Large business suppliers', 174 'SME suppliers' and 151 'Recipients' were asked about the properties they had leased to tenants that year.

Volume of properties

3.2 Table 3.1 compares the total numbers of opted and non-opted properties by businesses included in the study (that is those who have opted at least once). It shows that for 'Large business suppliers' included in the study, 86 per cent of all properties leased were opted, while for 'SME suppliers', 79 per cent were opted. Those classed as 'Recipients' had leased a greater number of non-opted properties with only 45 per cent of leased properties by this group being opted.

Table 3.1: Breakdown of leased properties by opted / non opted

	All properties	Opted	Non opted
	<i>Total properties leased</i>	<i>% of total</i>	<i>% of total</i>
Large business suppliers	5,113	86	14
SME suppliers	1,299	79	21
Recipients	3,258	45	55

3.3 The median number of opted properties leased was three for 'Large business suppliers' and one among 'SME suppliers' and 'Recipients'. A small number of organisations had leased significantly larger numbers of properties, with 14 per cent of 'Large business suppliers' leasing 100 or more properties, the figure is three per cent for 'Recipients' and one per cent for 'SME suppliers'. Across all businesses in the sample that had leased opted property, the total number of properties leased was 4,403 for 'Large business suppliers', 1,031 for 'SME suppliers' and 1,461 for 'Recipients'.

3.4 Those classed as 'Recipients' had generally leased the most non-opted properties. Across all businesses that had leased non-opted property, the total number of properties leased was 1,797 for 'Recipients', 711 for 'Large business suppliers' and 268 for 'SME suppliers'.

3.5 Table 3.2 compares the numbers of opted and non-opted properties leased by each individual business. The majority of leasing businesses had leased *only* opted property (just 31 per cent of 'Large business suppliers', 19 per cent of 'SME suppliers' and 29 per cent of 'Recipients' had also leased any non-opted property). Table 3.3 shows the proportion of all leased properties that were opted. 'Large business suppliers' in particular were likely to have opted a large proportion of their leased property: 85 per cent had opted three quarters or more of their properties.



Table 3.2: Proportion of all leased properties that were opted

	Large business suppliers	SME suppliers	Recipients
<i>Base</i>	(132)	(173)	(151)
	%	%	%
100% opted	67	81	71
75% to 99% opted	18	(below 5%)	5
50% to 74% opted	5	8	11
25% to 49% opted	5	7	6
Less than 25% opted	(below 5%)	(below 5%)	7
Unknown	(below 5%)	(below 5%)	-
<i>Any non-opted</i>	31	19	29

Rent invoiced

- 3.6 Comparing the total annual rent received from opted and non-opted properties, Table 3.3 shows that for 'Large business suppliers' and 'SME suppliers', around 90 per cent of total rent received was from opted properties. For those in the 'Recipients' category, 83 per cent of the rent came from opted properties. This is perhaps surprising given that only 45 per cent of properties from these organisations were opted but reflects the fact that, on balance, the opted properties had higher rental values than ones that were not opted.

Table 3.3: Breakdown of rent invoiced for by opted / non-opted

	All properties	Opted	Non opted
	<i>Total rent invoiced</i>	<i>% of total</i>	<i>% of total</i>
Large business suppliers	£881m	93	7
SME suppliers	£44m	88	12
Recipients	£69m	83	17

- 3.7 The median annual rent charged per opted property was £500,000 for 'Large business suppliers', £49,000 for 'SME suppliers' and £65,000 for 'Recipients'. A small number of organisations had significantly higher rent values. Across all businesses that had leased opted property, the total rent invoiced for was £818 million among large businesses, £39 million among 'SME suppliers', and £57 million among 'Recipients'.



- 3.8 The median rent invoiced for in relation to non-opted properties was £55,000 for 'Large business suppliers', £32,600 for 'SME suppliers' and £60,000 for 'Recipients'. Across all businesses that had leased non-opted property, the total rent invoiced for in relation to such properties was £64 million for 'Large business suppliers', £5 million for 'SME suppliers' and £12 million for the 'Recipients' category.
- 3.9 Findings indicate that the median rent invoiced for in relation to non-opted properties versus opted properties is typically lower. This suggests that opted properties tend to be at the higher end of the market (the VAT element of the rent invoiced will have some impact but it is unlikely to account for this scale of difference).
- 3.10 Table 3.4 compares the rent invoiced for in relation to opted and non-opted properties by each individual business. 62% of 'Large business suppliers', two-thirds (68%) of 'Recipients' and 80% of 'SME suppliers' received all their rent from opted properties. Of the remaining businesses the majority received 75% or more of their rent from opted properties.

Table 3.4: Proportion of total rent invoiced which relates to opted properties

	Large business suppliers	SME suppliers	Recipients
<i>Base</i>	(141)	(174)	(151)
	%	%	%
100% from opted properties	62	80	68
75% to 99% from opted properties	17	6	8
50% to 74% from opted properties	5	7	8
25% to 49% from opted properties	(below 5%)	(below 5%)	6
Less than 25% from opted properties	(below 5%)	(below 5%)	(below 5%)
Unknown	11	(below 5%)	8

- 3.11 Table 3.5 shows, at a total level, the relationship between the number of properties leased to tenants, and the rent invoiced for. 'Large business suppliers' leased 4,403 opted properties, and invoiced for £818 million per annum, producing a mean value of £185,670 per opted property. For 'SME suppliers' and 'Recipients', these mean values were significantly smaller at £37,860 and £39,060 per opted property respectively. For non-opted properties, the mean rent per property, as well as the total rent invoiced, was significantly lower. 'Large business suppliers' invoiced for a mean value of £89,900 per property, while 'SME suppliers' invoiced for £19,920, and 'Recipients' for £6,440.



Table 3.5: Mean rent invoiced per property

		Large business suppliers	SME suppliers	Recipients
<i>Base</i>		(131)	(175)	(151)
All properties	<i>Number of properties</i>	5,113	1,299	3,258
	<i>Mean rent per property</i>	£172,390	£34,160	£21,070
Opted	<i>Number of properties</i>	4,403	1,031	1,461
	<i>Mean rent per property</i>	£185,670	£37,860	£39,060
Non opted	<i>Number of properties</i>	711	268	1,797
	<i>Mean rent per property</i>	£89,900	£19,920	£6,440



4 Suppliers: selling

4.1 This next chapter considers the volume and value of opted properties that supplier businesses had sold in the most recent year. Among businesses that were eligible for this section of the survey, nine per cent of 'Large business suppliers', three per cent of 'SME suppliers' and three per cent of 'Recipients' reported that they had sold opted property in the last year. Therefore 42 'Large business suppliers', 24 'SME suppliers' and 12 'Recipients' were asked about the properties they had sold that year.

Volume of properties

4.2 Comparing the total number of opted and non-opted properties sold, Table 4.1 shows that for 'Large business suppliers' 96 per cent of all properties sold were opted, for 'SME suppliers' 95 per cent were opted, and for 'Recipients' 90 per cent had been opted.

Table 4.1: Breakdown of sold properties by opted / non opted

	All properties	Opted	Non opted
	<i>Total properties sold</i>	<i>% of total</i>	<i>% of total</i>
Large business suppliers	266	96	4
SME suppliers	15 ²	95	5
Recipients	28	90	10

4.4 The median number of opted properties sold was two among 'Large business suppliers' and one among 'SME suppliers' and 'Recipients'. A small number of organisations had sold significantly more properties. Among all businesses that had sold property, the total number of properties sold was around 266 for 'Large business suppliers', 15³ for 'SME suppliers' and 28 for 'Recipients'.

4.5 Across all businesses that had sold non-opted property, the total number of properties sold was 11 for 'Large business suppliers', three for 'Recipients', and one for 'SME suppliers'.

4.6 Table 4.2 compares the numbers of opted and non-opted properties sold by individual businesses.

² Please note that unweighted figures have been reported in paragraph 4.1, whereas weighted figures are reported in Table 4.1, hence why 24 'SME Suppliers' have sold an opted property (unweighted), but only 15 properties have been sold in total (weighted).

³ Please note the small proportion of 'SME suppliers' selling properties. Caution should be taken when interpreting the percentage of properties that are opted versus non-opted.



Table 4.2: Proportion of all sold properties that were opted

	Large business suppliers	SME suppliers	Recipients
<i>Base</i>	(40)	(23)	(11)
	%	%	%
100% opted	86	91	95
75% to 99% opted	5	-	-
50% to 74% opted	(below 5%)	(below 5%)	(below 5%)
25% to 49% opted	5	(below 5%)	-
Less than 25% opted	-	-	(below 5%)

Sales value

- 4.7 Table 4.3 compares the total sales values for opted and non-opted properties. It shows that for 'Large business suppliers' 99 per cent of the total sales value was from opted properties, while for 'SME suppliers' 80 per cent came from opted properties and for 'Recipients' 75 per cent came from opted properties.

Table 4.3: Breakdown of sales value by opted / non-opted

	All properties	Opted	Non opted
	<i>Total sales value</i>	<i>% of total</i>	<i>% of total</i>
Large business suppliers	£628m	99	1
SME suppliers	£33m	80	20
Recipients	£11m	75	25

- 4.8 The sales value of opted properties sold follows a similar pattern to the number of properties sold. The median sales value of opted properties was £4 million for 'Large business suppliers', £1 million for 'SME suppliers' and £0.4m for 'Recipients'. Across all businesses that had sold opted property, the total sales value from opted property was £621 million for 'Large business suppliers', £26.5 million for 'SME suppliers' and £8.3 million for 'Recipients'.
- 4.9 Table 4.4 compares the total sales value of opted and non-opted properties sold by each individual business. As discussed earlier in the chapter, the majority of businesses had only sold opted properties and this is also evident when looking at the breakdown by sales values. Almost eight in ten of 'Large business suppliers' (77%), nine in ten (91%) 'SME suppliers', and seven in ten (72%) 'Recipients' opted all of the properties that they sold. For a further tenth of 'Large business suppliers', between 75 and 99 per cent of their sales related to opted properties.



Table 4.4: Proportion of total sales value which relates to opted properties

	Large business suppliers	SME suppliers	Recipients
<i>Base</i>	(40)	(23)	(11)
	%	%	%
100% from opted properties	77	91	72
75% to 99% from opted properties	9	-	-
50% to 74% from opted properties	-	-	(below 5%)
25% to 49% from opted properties	-	(below 5%)	(below 5%)
Less than 25% from opted properties	-	(below 5%)	-
Unknown	14	-	23

4.10 Table 4.5 shows, the relationship between the number of properties sold and the mean sales value. 'Large business suppliers' sold 255 opted properties at a total value of £621 million, producing a mean value of £2.4 million per property. For 'SME suppliers' the total value of opted properties sold was £26.5 million, giving a per-property mean value of £1.9 million. While for 'Recipients' the total value of opted properties sold was £8.3 million, producing a mean value of £0.3 million per property.

Table 4.5: Average sales value per property

		Large business suppliers	SME suppliers	Recipients
<i>Base</i>		(40)	(23)	(11)
All properties	<i>Number of properties</i>	266	15	28
	<i>Mean sales value per property</i>	£2.4m	£2.2m	£0.4m
Opted	<i>Number of properties</i>	255	14	25
	<i>Mean sales value per property</i>	£2.4m	£1.9m	£0.3m
Non opted	<i>Number of properties</i>	11	1	3
	<i>Mean sales value per property</i>	£0.6m	£6.6m	£0.9m



5 Recipients: leasing from landlords

5.1 This chapter discusses the leasing of properties from landlords, by recipient businesses, during the last year. Among businesses that were eligible for this section of the survey, 88 per cent of 'Large business suppliers', 33 per cent of 'SME suppliers' and 62 per cent of those termed 'Recipients' reported that they had leased property from a landlord in the last year. Therefore 238 'Large business suppliers', 61 'SME suppliers' and 228 'Recipients' were asked about the properties they had leased from a landlord.

Volume of properties

5.2 Comparing the total number of opted and non-opted properties leased from landlords, Table 5.1 shows that for those classed as 'Recipients', less than half (44%) of all properties they leased were subject to VAT. While for 'Large business suppliers' this proportion was 56% and for 'SME suppliers', 63 per cent of leased properties had been opted and were therefore subject to VAT.

Table 5.1: Breakdown of leased properties by opted / non opted

	All properties	Opted	Non opted	Unknown
	<i>Total</i>	<i>% of total</i>	<i>% of total</i>	<i>% of total</i>
Large business suppliers	7204	56	30	14
SME suppliers	177	63	36	(below 5%)
Recipients	551	44	56	(below 5%)

5.5 The median number of opted properties leased was two among 'Large business suppliers', and one for both 'SME suppliers' and 'Recipients'. In total, 'Large business suppliers' had leased 4,024 opted properties from landlords, while 'SME suppliers' had leased 111 and 'Recipients' had leased 241.

5.6 Table 5.2 compares the numbers of opted and non-opted properties leased by each individual business. Among 'Large business suppliers' and 'SME suppliers', the majority (60% and 71% respectively) had leased only opted property. The pattern was slightly different for the 'Recipients' category: half (50%) had leased only opted property and 37% had leased only non-opted property.



Table 5.2: Proportion of all leased properties that were opted

	Large business suppliers	SME suppliers	Recipients
<i>Base</i>	(238)	(61)	(228)
	%	%	%
100% opted	60	71	50
75% to 99% opted	9	-	(below 5%)
50% to 74% opted	9	(below 5%)	5
25% to 49% opted	(below 5%)	(below 5%)	(below 5%)
Less than 25% opted	(below 5%)	(below 5%)	(below 5%)
None opted	10	25	37
Unknown	5	(below 5%)	(below 5%)

Rent invoiced for

- 5.7 The median value of annual rent paid in relation to opted properties was £245,000 for 'Large business suppliers', £94,000 for 'SME suppliers' and £30,000 for 'Recipients'. A small number of organisations had paid significantly higher rental values. Across all businesses that had leased opted property from landlords, the total rent was £756 million among 'Large business suppliers', £27 million among 'SME suppliers', and £15 million among 'Recipients'.

Table 5.3: Rent charged for opted properties leased from landlords

	Large business suppliers	SME suppliers	Recipients
<i>Base</i>	(206)	(46)	(136)
	%	%	%
Less than £10,000	(below 5%)	(below 5%)	16
£10,000 to £24,999	6	21	27
£25,000 to £99,999	19	22	28
£100,000 to £249,999	20	12	12
£250,000 to £999,999	19	13	11
£1m to £4.99m	16	20	(below 5%)
£5m or more	10	-	-
Don't know / refused	8	11	5
<i>Total</i>	£756m	£27m	£15m
<i>Median</i>	£245,000	£94,000	£30,000



- 5.8 As would be expected, the VAT charged on rent was in line with the total rent charged. In total for businesses surveyed, 'Large business suppliers' paid £142 million in VAT on opted properties they leased from a landlord, 'SME suppliers' paid £5 million and 'Recipients' paid £3 million. The median value of the VAT paid was £45,000 for 'Large business suppliers', £19,000 for 'SME suppliers' and £6,000 for the 'Recipients' category.

Table 5.4: VAT on rent invoiced for opted properties leased from landlords

	Large business suppliers	SME suppliers	Recipients
<i>Base</i>	(206)	(46)	(136)
	%	%	%
Less than £5,000	9	24	43
£5,000 to £9,999	9	10	15
£10,000 to £24,999	17	21	16
£25,000 to £99,999	25	14	14
£100,000 to £249,999	9	(below 5%)	(below 5%)
£250,000 to £999,999	13	19	(below 5%)
£1m or more	9	-	-
Don't know/refused	9	11	7
<i>Total</i>	£142m	£5m	£3m
<i>Median</i>	£45,000	£19,000	£6,000

- 5.9 Table 5.5 shows the relationship between the reported rent invoiced and the reported VAT charged, for each individual respondent. The table shows that, as might be expected, the vast majority of businesses provided a VAT value that was 20 per cent of the total rent invoiced.

Table 5.5: VAT paid as a proportion of rent invoiced for

	Large business suppliers	SME suppliers	Recipients
<i>Base</i>	(206)	(46)	(136)
	%	%	%
Under 15%	(below 5%)	(below 5%)	5
15% to 19%	10	-	5
20%	76	86	78
Over 20%	(below 5%)	(below 5%)	(below 5%)
Unknown	10	11	7



5.10 Table 5.6 shows, at a total level, the relationship between the number of properties leased from landlords, the total rent paid, and the VAT charged. 'Large business suppliers' leased 4,024 opted properties at a total rental value of £756 million and VAT value of £142 million, producing a mean value of 188,000 in rent per property, and £35,200 in VAT. For 'SME suppliers' the mean per-property rent was £242,000 and the mean VAT was £48,600. For 'Recipients', the mean per-property rent was £64,000 and the VAT was £12,500.

Table 5.6: Mean rent and VAT paid per opted property

	Large business suppliers	SME suppliers	Recipients
	(206)	(46)	(136)
<i>Number of properties</i>	4,024	111	241
<i>Total rent</i>	£756m	£27m	£15m
<i>Mean rent per property</i>	£188,000	£242,000	£64,000
<i>Total VAT</i>	£142m	£5m	£3m
<i>Mean VAT per property</i>	£35,200	£48,600	£12,500
<i>VAT as a proportion of rent</i>	19%	20%	20%

5.11 Across all business groups, the majority of the VAT was recoverable on their VAT return. A mean of 96 per cent of the VAT was recoverable on return for 'SME suppliers', this figure was 87 per cent for 'Large business suppliers' and 80 per cent for 'Recipients'.



6 Recipients: purchasing

- 6.1 This chapter discusses the purchasing of properties, by recipient businesses, during the last year. Among businesses that were eligible for this section of the survey, eleven per cent of 'Large business suppliers', 10 per cent of 'SME suppliers' and four per cent of those classed as 'Recipients' reported that they had purchased property in the last year. Therefore 44 'Large business suppliers', 25 'SME suppliers' and 16 in the 'Recipients' category were asked about the properties they had purchased.

Volume of properties

- 6.2 Table 6.1 compares the total number of opted and non-opted properties purchased, showing that, among 'SME suppliers', two-thirds (66%) of all purchased properties were subject to VAT. Among 'Large business suppliers', around half of purchased properties had been opted, while for 'Recipients' this proportion was a fifth (20%).

Table 6.1: Breakdown of purchased properties by opted / non opted

	All properties	Opted	Non opted	Unknown
	<i>Total</i>	<i>% of total</i>	<i>% of total</i>	<i>% of total</i>
Large business suppliers	261	50	40	10
SME suppliers	40	66	34	-
Recipients	210	20	80	-

- 6.3 The median number of opted properties purchased was one for 'Large business suppliers' and 'SME suppliers', and below one for 'Recipients'.
- 6.4 Table 6.2 compares the numbers of opted and non-opted properties purchased by each individual business. Significant proportions of all three groups had purchased either only opted property or only non-opted property, with comparatively few businesses having purchased both types.



Table 6.2: Proportion of properties purchased by individual businesses that were opted

	Large business suppliers	SME suppliers	Recipients
<i>Base</i>	(44)	(25)	(16)
	%	%	%
100% opted	39	61	25
75% to 99% opted	(below 5%)	(below 5%)	-
50% to 74% opted	-	(below 5%)	8
25% to 49% opted	5	-	-
Less than 25% opted	7	(below 5%)	16
None opted	39	32	52
Unknown	7	-	-

Purchase value and VAT

- 6.5 The median purchase value was £1.5 million for properties bought by 'Large business suppliers', £0.7 million for those purchased by 'SME suppliers' and £0.1 million for 'Recipients'. A small number of organisations reported significantly higher purchase values. Across all businesses that had purchased opted property, the total purchase value was £462 million among 'Large business suppliers', £10.6 million among 'SME suppliers', and £1.4 million among 'Recipients'.

Table 6.3: Total purchase value of opted properties

	Large business suppliers	SME suppliers	Recipients
<i>Base</i>	(25)	(18)	(7)
	%	%	%
Less than £500,000	17	50	80
£500,000 to £999,999	13	38	-
£1m to £2.49m	21	6	(below 5%)
£2.5m to £4.99m	6	(below 5%)	-
£5m or more	34	(below 5%)	-
Don't know	9	-	16
<i>Total</i>	£462m	£10.6m	£1.3m
<i>Median</i>	£1.5m	£0.7m	£0.1m

- 6.6 The VAT charged was broadly in line with the total purchase value. In total, 'Large business suppliers' paid £66.5 million in VAT on purchased opted properties, 'SME suppliers' paid £1.9 million and 'Recipients' paid £0.2 million. The median value of the VAT paid was £400,000 for 'Large business suppliers', £140,000 for 'SME suppliers' and £40,000 for 'Recipients'.



Table 6.4: VAT on purchase value of opted properties

	Large business suppliers	SME suppliers	Recipients
<i>Base</i>	(25)	(18)	(7)
	%	%	%
Less than £100,000	17	48	64
£100,000 to £199,999	13	38	-
£200,000 to £999,999	27	8	(below 5%)
£1m or more	28	(below 5%)	-
Don't know	15	(below 5%)	32
<i>Total</i>	£66.5m	£1.9m	£0.2m
<i>Median</i>	£400,000	£140,000	£40,000

6.7 Table 6.5 shows the relationship between the reported total purchase value and the reported VAT charged, for each individual respondent. The table show that, as might be expected, the vast majority of businesses provided a VAT value that was 20 per cent of the total purchase value.

Table 6.5: VAT paid as a proportion of purchase value

	Large business suppliers	SME suppliers	Recipients
<i>Base</i>	(25)	(18)	(7)
	%	%	%
Under 20%	9	(below 5%)	-
20%	62	94	68
Over 20%	14	-	-
Unknown	15	(below 5%)	32

6.8 Table 6.6 shows, at a total level, the relationship between the number of properties purchased, the total purchase value, and the VAT charged. 'Large business suppliers' purchased 130 opted properties at a total value of £462 million and paid VAT totalling £66.5 million, producing a mean value of £3.6 million per property, and £511,300 in VAT. For 'SME suppliers' the mean per-property value was £0.4 million and the average VAT was £71,800. For the 'Recipients' group, the mean per-property value was £31,400 and the VAT was £5,500.



Table 6.6: Average purchase value and VAT per opted property

	Large business suppliers	SME suppliers	Recipients
	(25)	(18)	(7)
<i>Number of properties</i>	130	27	43
<i>Purchase value</i>	£462m	£10.6m	£1.4m
<i>Mean purchase value</i>	£3.6m	£0.4m	£31,400
<i>Total VAT</i>	£66.5m	£1.9m	£0.2m
<i>Mean VAT per property</i>	£511,300	£71,800	£5,500
<i>VAT as a proportion of purchase value</i>	14%	18%	17%



7 Suppliers: administrative issues

- 7.1 This chapter explores supplier experiences of administration related to the option to tax, including the use of external advisors, internal costs such as staff time, and awareness and opinions of Real Estate Elections. Findings from the qualitative research with tax advisors are included in this section.

Deciding whether to opt to tax (from qualitative interviews)

- 7.2 In qualitative interviews, tax agents were asked for their views on why businesses would generally decide to opt to tax a property.
- 7.3 Recovering input tax was seen as a key reason for opting; this was mentioned by all the tax agents interviewed. This might relate to input tax incurred either on renovation of the property, or on the acquisition of the property. One agent stated that, if the property has already been opted, there is very little incentive in most scenarios not to opt, since the impact of not recovering the input tax on the sale would be considerable. Consequently, he felt that over time the number of opted properties has steadily risen.
- 7.4 Most agents also mentioned situations where a business wishes to take on a Transfer of a Going Concern (TOGC) as ones that would result in an option to tax. If the vendor has opted to tax the property, the buyer is required to also opt, in order for the sale to be treated as a TOGC. Businesses acquiring a tenanted property are likely to want the transaction to qualify as a TOGC, as this will reduce their Stamp Duty Land Tax (SDLT) costs. SDLT would apply to the VAT-inclusive sale price, if VAT were applied, so there is a significant benefit to having the transaction qualify as a TOGC.

"If I buy an investment property with tenants in it, then usually that's going to be treated as a TOGC, so even if there's an option to tax on it and VAT is chargeable, chances are it's a TOGC, so it isn't chargeable... Normally, the buyer is going to need to opt to tax in order to get TOGC treatment... If they didn't, they'd incur VAT and if they still didn't opt, then it would be irrecoverable..."

Tax agent, specialist consultancy

- 7.5 Some agents also suggested the preservation of a business' position under the Capital Goods Scheme as a reason for opting to tax.

"Different VAT groups in a commercial group will move property around. They might opt to tax in order to avoid exempting disposal... Clients with 4 or 5 different VAT groups that move property between members."

Tax agent, accountancy firm

- 7.6 Another agent felt that cashflow considerations often result in a decision to opt. They felt that for many businesses the Net Present Value of any future gains from not opting (for example in terms of increased rents from tenants) tend to be relatively low compared to the immediate costs of not being able to recover VAT on a purchase.



- 7.7 Tax agents were also asked about factors which might influence a business not to opt to tax a property.
- 7.8 One of the main reasons cited by tax agents for deciding not to opt was to accommodate the needs of tenants who may be in VAT-exempt sectors. As well as situations where the business knows or expects their tenants will be exempt, they may decide not to opt to tax simply to allow for this possibility, if the type of tenant is not yet known.
- 7.9 Tax agents also emphasised the long-term nature of the decision to opt; some businesses may decide not to opt simply because they wish to retain flexibility in the future, even if they are not currently seeking exempt tenants or buyers.

"Some clients don't want to tie themselves into 20 years – if they think they might want to sell the property in the future and potential purchasers might not be able to recover the VAT, e.g. financial services industry. Some clients just decide to swallow the extra VAT and retain flexibility."

Tax agent, accountancy firm

- 7.10 One tax agent expanded on this, suggesting that, for businesses that make financial supplies, it could be a significant advantage when leasing to have a non-opted property. This advantage might outweigh the negatives associated with not opting, such as the inability to recover input tax. A landlord might negotiate a slightly higher rent in exchange for not opting to tax the premises, which over time would offset the cost of irrecoverable VAT on any renovations.
- 7.11 While issues around the Capital Goods Scheme could be a reason for business to elect to opt to tax, risks involved with the scheme could also be a reason for businesses *not* to opt to tax, where there is any uncertainty over the property's history.

"You inherit the Capital Goods scheme history of your seller. You need to have that information available and often businesses are very poor at keeping information, a spending history on properties up to date and available so aren't in a position to transfer that across, so you're having to think, 'How material is the risk for me that I will breach my own Capital Goods scheme reporting and payment obligations in the future by opting to tax and acquiring on a TOGC and inheriting a historical position that I don't fully understand?"

Tax agent, membership organisation

- 7.12 The anti-avoidance measures could also influence a business against opting to tax a property, if they expected that an option might be disapplied due to the circumstances of the transaction.

"Where they have embryonic plans for a transaction involving a housing association who can force a dis-application...If the adviser says there's a chance of a viable dis-application, they might not opt for the moment. They'll do it in the future though it will cost some VAT recovery in the interim."

Tax agent, accountancy firm



- 7.13 The administration involved in opting could also be a disincentive, especially for overseas investors.
- 7.14 Finally, tax agents were aware of some businesses not having opted, when it would have been beneficial for them, simply due to lack of awareness of the option and its implications.

Risks involved in opting to tax (from qualitative interviews)

- 7.15 Tax agents highlighted the risk of disapplication as being of paramount concern for businesses due to the costs, time and effort involved in dealing with this outcome. They felt that, in order to avoid this, a thorough understanding of the intricacies of tax regulations is required, either by the business or by advisors.
- 7.16 Related to this, tax agents mentioned timing as a key factor in ensuring a smooth process when businesses opt to tax. If the option to tax is explored at too late a stage in the transaction, the business may be required to wait on a decision. Ultimately, this may prove to be a deal breaker, thereby losing the company key business.
- 7.17 Other suggestions of risks and burdens were related to the impact of businesses not having a firm enough understanding of certain intricacies of the option to tax rules. These include:

- Issue with VAT Registration:

“A property company in a commercial group will enter into leases with a commercial landlord. They acquire the property and the tenant allows other members of the commercial group to occupy the property. The end-company pays the rent to the head landlord, and recovers the tax through its VAT registration but they’ve not named the tenant on the lease. The VAT is accounted for but it’s the wrong VAT registration.”

Tax agent, accountancy firm

- Issues around partial exemption:

“If you’ve got a business which is partially exempt and you will still have property investors out there who have a portfolio of exempt properties, then the partial exemption calculations can be quite onerous. You also have the added complication that in some circumstances, you’ll have a building used by an entity that is perceived by the authorities to be a partially owned business (such as a college or university). It’s a difficult calculation to agree with the authorities.”

Tax agent, membership organisation



- Issues related to sub-letting:

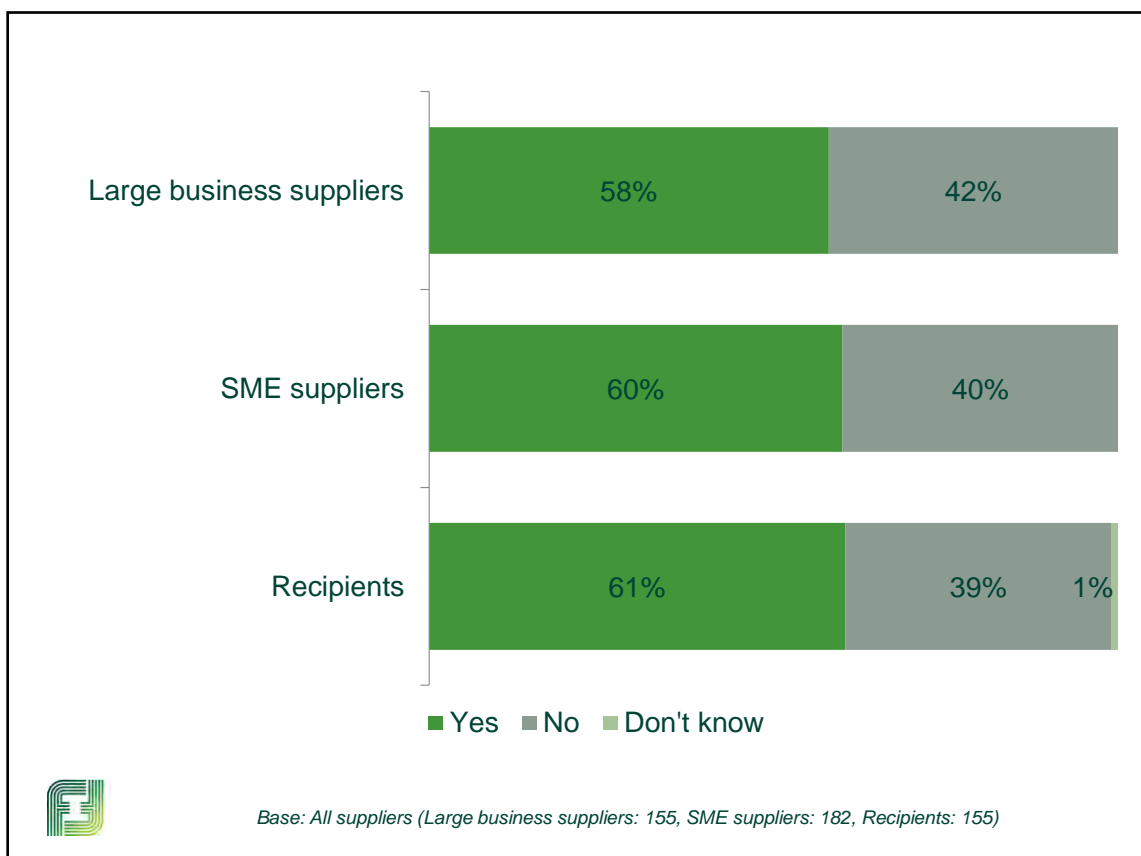
“[If] a landlord that owns the freehold of a property decides to opt to tax, then lets it to a tenant and the tenant then decides to sub-let. It’s quite common that the tenant will assume that because the landlord has opted to tax the property, then the property is an opted building, and the tenant happily charges VAT to the sub-tenant, not realising that actually they need to opt to tax themselves.”

Tax agent, accountancy firm

Use of external advisors

7.18 A large proportion of all three groups reported having used external advisors in relation to the option to tax. This proportion was fairly similar across the three groups, at 58 per cent of ‘Large business suppliers’, 60 per cent of ‘SME suppliers’ and 61 per cent of ‘Recipients’.

Figure 7.1: Use of external advisors in relation to option to tax



7.19 The main reasons mentioned for seeking external advice were to ensure the action taken is correct and in line with the law, to obtain specialist knowledge generally, and to ensure VAT is recoverable. 'Large business suppliers' were most likely to report a general requirement for specialist knowledge (28% compared with 14% of both 'SME suppliers' and 'Recipients'). Organisations in the 'Recipient' category were more likely to state that they seek advice in order to investigate the advantages and disadvantages of opting, and also that they generally refer matters of these kind to accountants.

Table 7.1: Reasons for using external advisors

	Large business suppliers	SME suppliers	Recipients
	(85)	(120)	(96)
	%	%	%
To ensure action taken is correct / in line with the law	39	49	37
To obtain specialist knowledge	28	14	14
So we can recover the VAT properly (through opting to tax)	11	22	8
Complexity of issue	13	9	8
To investigate advantages / disadvantages of opting to tax or not	10	(below 5%)	11
Legislation is complicated	8	(below 5%)	10
To check whether the property is subject to the option to tax	5	(below 5%)	5
Limited knowledge of the option to tax	(below 5%)	6	8
Generally refer these issues to accountants	(below 5%)	(below 5%)	13
For accounting purposes	(below 5%)	11	(below 5%)

7.20 The median per-option cost of using external advisors was £1,000 for 'Large business suppliers' and 'SME suppliers', and £500 for 'Recipients'. A small number of organisations spent significantly more on external advisors for each option.

7.21 Across all three groups a small proportion (seven per cent of 'Large business suppliers' and 'SME suppliers', and eight per cent of 'Recipients') estimated that using external advisors involved no cost to speak of on a per-option basis; perhaps indicating that these businesses had in place ongoing arrangements with advisors under which any such advice would be inclusive.

7.22 Tax agents interviewed for the qualitative stage were also asked for their views on when businesses tended to need or seek advice. All tax agents thought that the value of a transaction (and the potential VAT bill) were key factors in businesses needing to seek professional advice on option to tax.



"It's when people are incurring a lot of costs that they tend to think more about taking advice"

Tax agent, accountancy firm

- 7.23 Agents felt businesses would usually seek advice on a TOGC, especially if there was something unusual about the transaction, such as sale and leaseback of the property, grant of a 99 year lease instead of freehold, or a break in trade.
- 7.24 Some agents also mentioned the issue of finding out whether a given property is opted in the first place, which agents frequently assist businesses with.

"TOGC is one of the main areas that is always fraught with problems. Often the first problem encountered (whether advising vendor or purchaser) is determining whether there is an option to tax in place already. The vendor often won't be sure whether they have made an option to tax in the past. This then means contacting the option to tax unit at HMRC to find out. But there can be issues because prior to 2003 there aren't central records."

Tax agent, accountancy firm

- 7.25 The anti-avoidance measures were also a key reason for businesses to seek advice. As discussed above, these were thought to be poorly understood by businesses, and agents considered that there was a significant risk of accidental non-compliance, which meant that professional advice was particularly important.

"[The] developer is doing a building which is going to be occupied by an insurance company. The insurance company says, 'I'd like such and such... upgraded, this specification – here's some money for it. The insurance company pays the developer another £2 million for the development works; that will dis-apply the option to tax. That means the developer cannot recover any of the VAT on any of the development costs so they are nervous about it"

Tax agent, specialist consultancy

- 7.26 Sub-letting was also an area where agents felt businesses were likely to need to seek advice, especially since businesses in this position may have no other dealing with property or experience in this area.

"Particularly if a business just starts to let out surplus space, they're probably not even aware of what an option to tax is. Quite often, in our experience, people will just start charging VAT because their normal trading income is all taxable, and they actually don't realise that there is a different treatment for the rental income".

Tax agent, accountancy firm

- 7.27 The potential revocation of an option made 20 years ago could also be a reason for businesses seeking advice, both in terms of whether it would be beneficial or detrimental to revoke an option, and in terms of how to go about this.



"There's a great deal of confusion in terms of revocation. A lot of people think they're able to do it willy-nilly [but] I've not seen many businesses opting because of the misunderstanding."

Tax agent, accountancy firm

7.28 The distinction between deciding to opt and notifying could also cause confusion for businesses.

"You have to make the decision and you have to notify the decision. There's been some confusion about those two quite distinct things and often the two were collapsed together because it usually wouldn't be a board level decision to opt to tax, it would be made at a more operational level and that meant you wouldn't always have a clear document evidencing that decision... [HMRC] allow a later notification provided you could point to evidence..."

Tax agent, membership organisation

7.29 Tax agents were also aware of some situations where businesses did not need to seek professional advice. This was generally thought to mainly apply to businesses with specialist tax expertise in-house, and property developers.

Internal costs

7.30 Business estimations for the per-option internal cost of staff time showed a similar pattern to those relating to external advisor costs. Again, 'Large business suppliers' estimated the highest costs, with 22 per cent estimating the per-option cost at £1,500 or more (compared with six per cent of 'SME suppliers' and eight per cent of 'Recipients').

7.31 The median cost was £500 for 'Large business suppliers', £200 for 'SME suppliers', and £100 for 'Recipients'.

Process of applying to opt to tax (from qualitative interviews)

7.32 In terms of the process of applying to opt to tax, most tax agents interviewed for the qualitative stage stated that they sometimes took over the administrative task of completing the option to tax form on behalf of their clients, and requested a signature from a senior individual such as a Director or Proprietor once all the details have been entered.

7.33 On the other hand, some did not offer this service or found that businesses were happy to complete the form themselves. In these cases, the person who would be responsible for completion was largely dependent on the size of the organisation in question. Agents found this individual could range from a relatively junior member of staff such as an accountancy clerk to the VAT Manager or Head of Tax.

7.34 Generally tax agents found that the individual within businesses who filled in the form was not then responsible for signing it. They found forms tended to be signed off by a more senior staff member such as a Director or Proprietor. Indeed, one tax agent suggested that they felt HMRC required this.



“Years ago [HMRC] would accept notifications from anybody. Now, they at least want to know if they’ve been authorised.”

Tax agent, specialist consultancy

- 7.35 One issue raised by agents in relation to completing forms on behalf of clients was difficulties in using the new online form, which agents largely because they cannot view the form in its entirety (but only on a page by page basis). Therefore agents and advisors stated they have to make multiple requests for additional information from businesses.

“It’s a slightly ridiculous process, you have to fill it in online, print it off, and send it, and you can’t move on to page 2 unless you’ve completed page 1, so you can’t look at the form in its totality.”

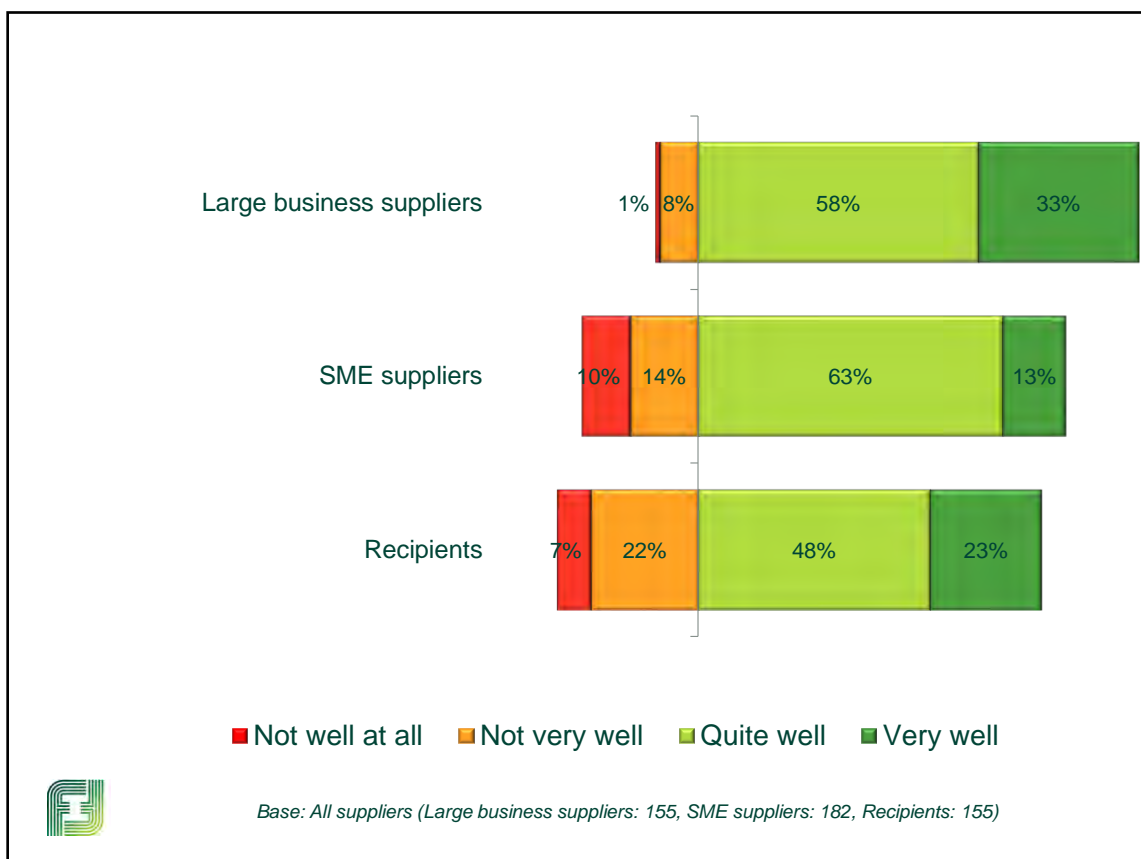
Tax agent, specialist consultancy

Understanding of option to tax rules

- 7.36 In the quantitative survey, the ‘Large business suppliers’ group was most likely to report a good understanding of the option to tax rules within the business: 91 per cent of ‘Large business suppliers’ stated that they understood the rules well, compared with 76 per cent of ‘SME suppliers’ and 71 per cent of ‘Recipients’. However, there were significant variations within the ‘Large business suppliers’ group; while all three of the individual subgroups were similarly likely to understand the rules well, the LBS group were almost twice as likely as the L&C CRM group to understand the rules ‘very well’, and almost three times as likely as the L&C CC group (61 per cent compared with 32 per cent and 21 per cent).



Figure 7.2: Understanding of option to tax rules



7.37 The key challenges mentioned by supplier businesses in relation to the option to tax were evaluating the costs and benefits of opting, ensuring compliance with the rules, finding information, keeping up to date with legislation, and the timescales of correspondence with HMRC. The perception of challenges was broadly similar across all three groups, although 'Large business suppliers' were more likely to be concerned about ensuring compliance, while the 'Recipient' group was more likely to see the general complexity of the process as challenging.

Advisor views on businesses' understanding of the option to tax (from qualitative interviews)

7.38 Businesses' own views of their understanding of the option to tax reported above tended to be more positive than tax agents views of businesses knowledge. To some extent this might reflect the fact that those who are less confident are more likely to seek out the advice of agents.

7.39 Most tax agents felt that many businesses did not understand option to tax very well, with the main factors affecting understanding being the size and sector of the business, and the presence of in-house tax specialists.



7.40 Tax agents tended to think that property developers, or other firms that were in the business of holding commercial property, understood the option to tax reasonably well, while most other sectors that do not deal regularly with property (particularly exempt or partially exempt sectors) were thought to understand it fairly poorly. Some agents essentially saw a dichotomy between businesses such as property developers, that know a lot about option to tax, and businesses without much involvement, that know very little, with few gradations between these two extremes.

"It's going to be a case of either they understand it completely because they have someone in-house or they don't understand it at all and need to be guided completely."

Tax agent, legal firm

7.41 Tax agents generally felt that larger businesses tended to have a better understanding of the option to tax than smaller ones (often because larger ones were able to support in-house tax specialists).

7.42 However, agents also made the point that many businesses, that do not know much about it, do at least realise that it is complex and that they need to take professional advice, so their lack of knowledge does not necessarily cause a problem.

7.43 Examples of issues that tax agents felt tended to be poorly understood by businesses were:

- Sub-letting
- TOGC implications
- Capital Goods Scheme
- The impact of partial exemption calculations
- Creating and dissolving VAT groups
- Anti-avoidance
- Forced dis-application option for relevant residential, charitable organisations

7.44 A tax agent also mentioned that businesses tended not to appreciate the precision required when opting and as a consequence did not pay enough attention to accurate completion of forms.

"People generally don't understand OTT is underpinned by legislation that has precise outcomes. People tend to not fill forms in rigorously enough. People tend to approximate – with VAT you're either right and you get it back or you don't..."

Tax agent, specialist consultancy

7.45 In particular, agents felt that the anti-avoidance measures were poorly understood by many businesses. Again, property developers were thought to have the most understanding, while businesses in exempt sectors were thought have a poor understanding. However, even property developers were sometimes found not to understand the implications of anti-avoidance.



- 7.46 The main issue that tax agents thought poorly understood was determining the financial relationship between parties for the purpose of anti-avoidance. They made the point that this can be difficult even for specialist tax agents, since the decision is not always clear-cut. Due to the complexity of this issue, it could sometime be difficult for tax agents to convince clients that their planned activities would constitute avoidance. Agents sometimes felt that businesses assumed that the legislation was more principles-based than is the case – so they assume that if their intentions are in keeping with the spirit of the legislation then they will not be caught out (where as agents often had experiences were this was not the case).

"I think the point that comes up is the inadvertent triggering of the anti-avoidance provisions...The one that regularly causes a problem will be a developer who is developing a property that is going to be occupied by a Financial Institution and the Financial Institution will want a change in the specification to the building and that change paid for by the Financial Institution leads to a triggering of the anti-avoidance provisions in the eyes of HMRC"

Tax agent, accountancy firm

- 7.47 Some tax agents felt that the anti-avoidance measures were unreasonably broad in their scope and that businesses were sometimes 'caught' by activities that were not related to anti-avoidance practices. A particular example mentioned was cases where a business might make arrangements with a seller to pay the seller directly for some of the costs of fitting out the property to their standards (because the seller's existing relationships with suppliers made them best placed to negotiate good deals for the fit out) and through this fail the anti-avoidance test.

"They have one flaw which is that they are anti-avoidance rules which have no avoidance test in them. You can be behaving in an entirely bona fide way, and still be caught and tripped up by them...It's problematic because it creates compliance risk issues for businesses that shouldn't face compliance risk issues...Given that you don't have a motive-type qualification to the rules applying, their scope is very broad so they look at connectiveness on a basis that is not always going to be transparent between different parties, and in particular between your purchaser/tenant and the financier."

Tax agent, specialist consultancy

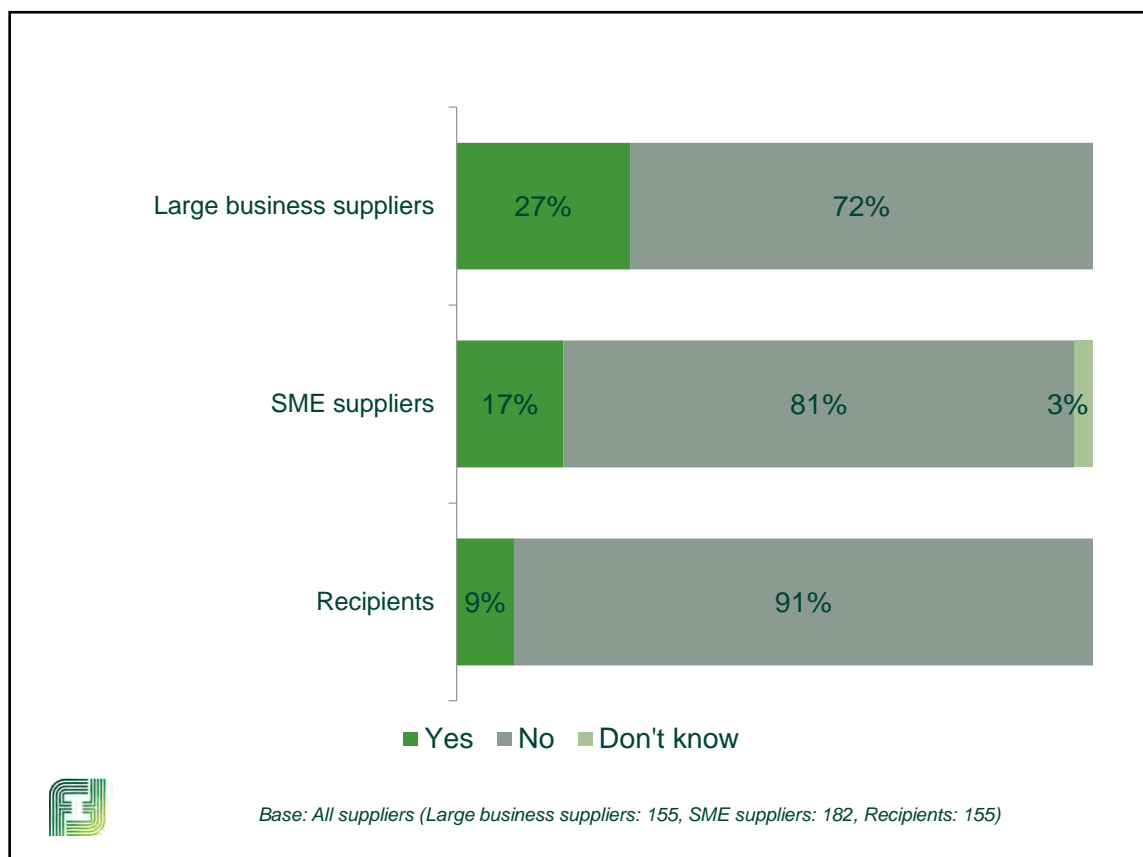
Real Estate Elections

- 7.48 Since 2008, it has also been possible to make a Real Estate Election, which means that after making the election businesses are treated as having opted to tax every property in which they acquire any ownership (with certain exceptions). Each option to tax is effective from the start of the day in which the business acquires the relevant interest and there is no need for HMRC to be notified of the individual options. Real Estate Elections were intended to cut down the administrative burden of the option to tax for businesses opting regularly.
- 7.49 Overall, just over a quarter (27%) of 'Large business suppliers', a sixth (17%) of 'SME suppliers', and a tenth (9%) in the 'Recipients' group reported that they were familiar with Real Estate Elections.



7.50 There was variation within the business groupings. The results suggest that the LBS group are the most likely to have an awareness of Real Estate Elections (although the differences are not statistically significant). Public bodies were significantly more likely than other 'Recipients' to recognise the term (22% compared with 8%).

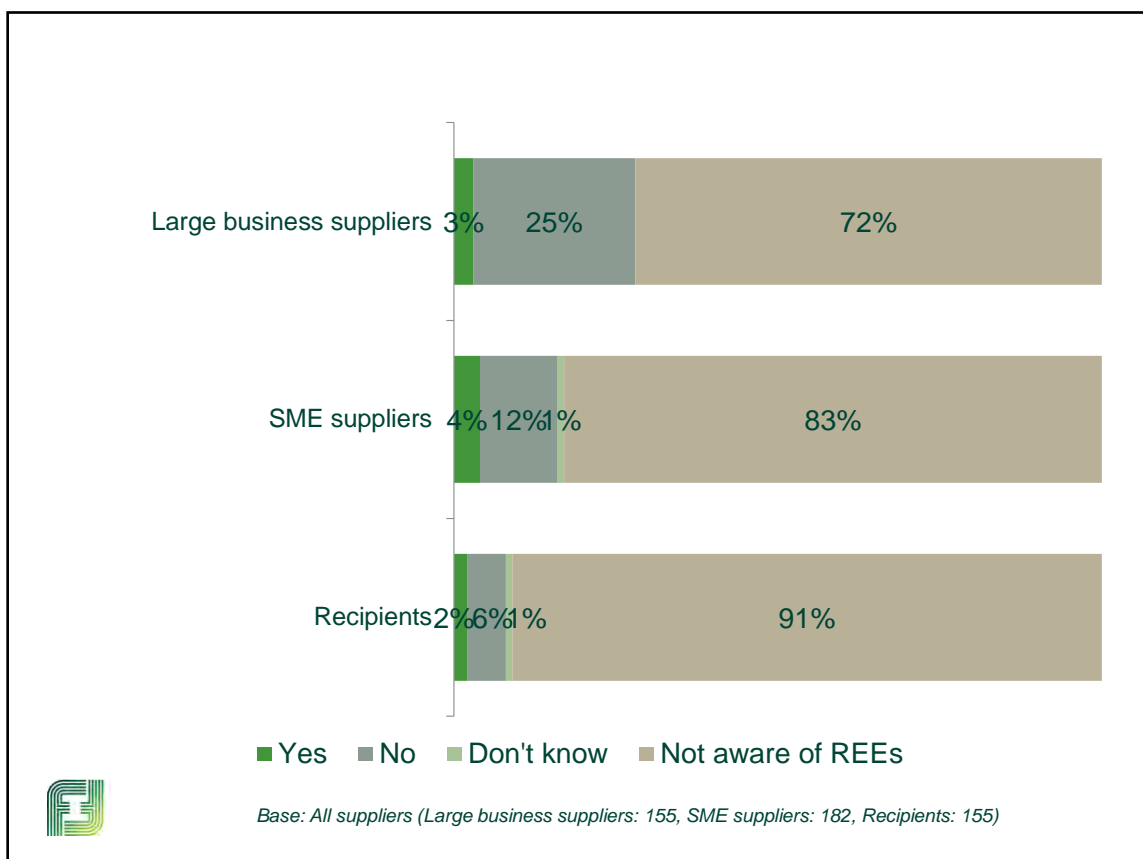
Figure 7.3: Awareness of Real Estate Elections



7.51 While 'Large business suppliers' were more likely to be aware of Real Estate Elections, the overall proportion that had made a Real Estate Election was similar in each group (two per cent of 'Large business suppliers', four per cent of 'SME suppliers' and three per cent of 'Recipients').



Figure 7.4: Take up of Real Estate Elections



- 7.52 Those businesses that were aware of Real Estate Elections, but had not made one, typically considered that it would not be suitable for their organisation, due to the nature of their properties or company, or the lack of flexibility.
- 7.53 Although all tax agents interviewed for the qualitative stage were aware of Real Estate Elections (REEs), most were not experienced in them. In part this was related to the nature of their client base it was also a function of the fact that some agents did not feel they were particularly attractive for businesses.
- 7.54 Tax agents stated that they do not generally recommend Real Estate Elections to their clients. Agents felt that REEs involve a high administrative burden and are difficult to understand. Agents also felt that it was difficult to find any strong incentives/advantages of using an REE over making decisions on whether or not to opt on a case by case basis.
- 7.55 Generally agents felt that REEs were only really advantageous for businesses with portfolios of hundreds or thousands of properties,



"If you are a pub company then would be mad not to use one rather than trying to keep up with 2,000 odd sites. Or a retail company with loads of sites. Then has scope to massively reduce the admin burden. Have some of these types of clients but not many."

Tax agent, legal firm

"It assumes you've got more knowledge and control in the organisation than you have got. You don't always know what's happening... you'd only want to do this if you've got loads and loads of properties and if you have, it's very difficult to keep tabs on it all."

Tax agent, specialist consultancy

- 7.56 In cases where portfolios were smaller, generally agents did not feel that clients were well disposed to REEs simply because of the perceived lack of flexibility that they give. Agents felt that the automatic aspect of REEs makes clients feel that they are less in control (even if in practice they make the same decision about whether or not to opt for every property).
- 7.57 A couple of agents also felt that they were unable to strongly recommend REEs because the theoretical benefit of not having to think about whether to opt each individual property is not realised in practice because there are a number of exemptions where a separate option would need to be taken out.

"Basically I think people are a bit frightened of the potential lack of flexibility. Even if they reach the same decision on every occasion (i.e. whether or not to opt), they like the idea that they have the flexibility of doing this on a case-by-case basis....Clients will ask 'what's the benefit?' and I don't think we could come up with a particularly compelling case. We can't even say 'well if you take an REE then you won't need to think about this ever again because there are a few circumstances when you would [still] need to'."

Tax agent, legal firm

- 7.58 As a result of the perceived unattractiveness of the offer by both agents and businesses, most agents had many clients who could theoretically benefit from an REE but who were not using one.



8 Conclusions

- 8.1 The key conclusions that can be drawn from this research about the use of the option to tax are as follows.
- 8.2 **Where supplier businesses used the option to tax for properties leased to tenants the majority tended to opt all their leased property.** Those leasing a mix of opted and non-opted properties were in the minority (at around three in ten 'Large business suppliers' and 'Recipients' and one in five 'SME suppliers').
- 8.3 **Reflecting this, across all groups of suppliers, the large majority of rent invoiced for related to opted properties.** The total value of rent from non-opted properties (for which HMRC are not currently receiving VAT) was around £55,000 for each business in the 'Large business suppliers' category, £32,600 for each business in the 'SME suppliers' group and £60,000 for each business in the 'Recipients' category. The mean rent per property leased was larger for opted properties than for properties that we were not opted for all three business groups.
- 8.4 **At the level of individual businesses, the number of properties leased to tenants and the value of rent invoiced per property was many times greater for 'Large business suppliers' than either 'SME suppliers' or 'Recipients'** ('Large business suppliers' leased a median of 36 properties with a rental value of around £172,000 per property while 'SME suppliers' leased a median of 7 properties with a rental value of around £34,000 per property and 'Recipients' leased a median of 22 properties with a rental value of around £21,000 per property). However, there are obviously far greater numbers of 'SME suppliers' than 'Large business suppliers' in the business population so the total values of rent invoiced across the sectors as a whole may be more even (but this research does not support estimates at this level).
- 8.5 **Where supplier businesses had sold property, they had generally chosen to opt all their sold properties** (although again there were a small proportion of businesses across all sectors who had sold both opted and non-opted properties). Across all groups of suppliers, the proportion of sales accounted for by non-opted properties was negligible, however income from sales of non-opted property accounted for a fifth of the value of all sales made by those in the 'SME suppliers' group and a quarter of all sales made by 'Recipients'.
- 8.6 **Among recipient businesses leasing opted property it was reasonably common for businesses to lease both opted and non-opted property** (60% of 'Large business suppliers' rented only opted property, 71% of 'SME suppliers' and 50% of 'Recipients').
- 8.7 **Again where recipient businesses had bought opted property it was reasonably common for businesses to have purchased both opted and non-opted property** (39% of 'Large business suppliers' had purchased only opted property, 61% of 'SME suppliers' had done so and 25% of 'Recipients' had purchased only opted property).
- 8.8 **'Recipient' businesses that are less likely to be able to recover VAT encounter opted properties relatively commonly.** Just under half (44%) of the properties that they leased from landlords were opted and a fifth of the properties that they had purchased were opted. Across all participating 'Recipient' businesses, a total of £3 million in VAT was paid on rent annually and a total of £0.2 million



was paid on purchase of opted properties. In the case of rent paid, these businesses were able to recover 80% of the VAT that they paid.

- 8.9 **Recovering input tax is seen by tax agents as the key reason for opting.** Tax agents felt that cashflow considerations could often persuade a business that the potential future gains of not opting were outweighed by the immediate advantage of being able to recover input tax. The main reason for deciding not to opt a property was to accommodate potential tenants or purchasers who may be in VAT-exempt sectors.
- 8.10 **Supplier businesses incur both direct and indirect costs (staff time) in relation to using the option to tax.** Across all three business groups, around 60% of businesses had used external advisors in relation to the option to tax meaning that they incurred a median cost per option of £1,000 among 'Large business suppliers' and 'SME suppliers', and £500 for 'Recipients'. In addition businesses incurred costs relating to staff time (a median of £500 per option for 'Large business suppliers' and around £200 for 'SME suppliers' and £100 for 'Recipients').
- 8.11 **Tax agents felt that anti-avoidance rules in relation to the option to tax can be quite complicated and that this was an area that businesses often had limited understanding of, and hence could benefit from external advice;**
- 8.12 **Although the administrative burden on suppliers could perhaps be reduced by the use of Real Estate Elections, few were aware of this option and advisors are not inclined to work to increase awareness.** Qualitative interviews with advisors suggested that tax agents were reluctant to recommend this route because they did not see any strong incentive for businesses to use them (and indeed felt they carried a heavy administrative burden).



9 Appendices

Full details of methodology

Qualitative Phase

- 9.1 Tax agents and advisors for the qualitative exercise were selected from HMRC's Property Liaison Group, an advisory committee that consults with HMRC on land and property issues in relation to VAT. The selected individuals were contacted by email and asked to register their interest in participating in the research.
- 9.2 The depth interviews were conducted by telephone and lasted around 55 minutes on average. Fieldwork took place between 7th and 15th March 2013. Respondents were asked to discuss their experience of why businesses decide to opt to tax property or not to do so, the risks involved, businesses' understanding of anti-avoidance measures, perceived reasons for seeking advice and the administrative burden of making an option to tax.
- 9.3 The sample included representatives from large accountancy firms, specialist property consultancies, legal firms and membership organisations. The breakdown of the sample by organisation type is shown in Table 9.1

Table 9.1: Breakdown of tax agents sample by organisation type

Accountancy firms	3
Specialist property consultancies	3
Membership organisations	2
Legal firms	2
Total	10

- 9.4 Respondents were partners, directors, senior managers, chartered accountants, and consultants, and had many years' experience of VAT and commercial property issues.
- 9.5 The tax agents interviewed represented or advised a wide range of clients. Property developers and property investors were foremost among these, but agents also represented business property occupiers (such as retailers or manufacturers), residential developers with small commercial property interests, charities, public sector bodies and overseas companies/individuals. Law firms and general accountancy firms also seek specialist advice on behalf of their clients from these organisations.

Quantitative survey of businesses

- 9.6 As the development stage for the quantitative study, 8 cognitive interviews were conducted using an early draft of the questionnaire and then a pilot of the CATI survey was conducted with 10 respondents. After each of these stages refinements were made to the content of the questionnaire.



- 9.7 Businesses were considered to be in-scope for the core quantitative survey if they met either of the following conditions
- Had leased (to tenants), sold or constructed property, which they had opted to tax, during the most recent complete year⁴;
 - Had leased (from a landlord) or bought property during the most recent complete year and provided VAT exempt supplies or non-business activities.
- 9.8 Businesses that met the first criteria were classed as suppliers while those meeting the second criteria were classed as recipients. These categories were not exclusive and a business could be classed as both.
- 9.9 The latter group were of interest to the study because their tax status means they are not able to recover the VAT costs that they incur on the properties that they rent or purchase. Businesses in non-exempt sectors (who might also be recipients) were not covered by the research.
- 9.10 The sample contained seven different subgroups, defined as follows:
- HMRC Large Business Service customers (LBS)
 - HMRC Local Compliance Large & Complex customers with a Customer Relationship Manager (LC CRM)
 - HMRC Local Compliance Large & Complex customers with a Customer Coordinator (LC CC)
 - Small and Medium Enterprises (SMEs) that had made three or more options to tax in the past (SME 3+)
 - SMEs that had made one or two options to tax in the past (SME 1-2)
 - Organisations in VAT-exempt or partially exempt sectors (Exempt)
 - Public bodies (PB)
- 9.11 The sample for all groups was drawn from HMRC's databases.
- 9.12 Just before the start of fieldwork for this study, HMRC conducted a survey - the Tax Opinions Panel Survey (TOPS) - which covered the first three sample groups (LBS, LC CRM and LC CC) above. At the end of the TOPS survey, respondents were asked whether they would be willing to take part in research relating to the option to tax, and were asked to nominate the most suitable person in the organisation to provide responses on this topic.
- 9.13 A sample of businesses that were likely to be exempt or partially exempt were drawn from HMRC data using the standard industrial classification codes for business. The SICs included were:
- 64: Financial service activities
 - 65: Insurance, reinsurance and pension funding

⁴ Businesses were asked to provide details relating to the most recent financial year for which they had full records available



- 66: Activities auxiliary to financial services and insurance activities
 - 68: Real estate activities
 - 70: Activities of head offices; management consultancy activities
 - 75: Veterinary services
 - 84: Public administration and defence; compulsory social security
 - 85: Education
 - 86: Human health activities
 - 87: Residential care activities
 - 88: Social work activities without accommodation
 - 90: Creative, arts and entertainment activities
 - 91: Libraries, archives, museums and other cultural activities
 - 92: Gambling and betting activities
 - 93: Sports activities and amusement and recreation activities
 - 94: Activities of membership organisations
 - 96: Other personal service activities
 - 45: Wholesale and retail trade and repair of motor vehicles and motorcycles
 - 47: Retail trade, except of motor vehicles and motorcycles (including activities of opticians and dispensing chemists)
- 9.14 SMEs were selected according to the number of option to tax applications that the business had made (these applications could have been made at any time and did not necessarily relate to current property holdings). These businesses were drawn across all sectors, excluding those that were likely to be exempt or partially exempt.
- 9.15 All those in the starting sample were sent an introductory letter about the survey. This was to explain the purpose of the survey, provide reassurances about participating, and also provide businesses with the opportunity to opt out of the survey. Since the information required was likely to involve a degree of record-checking, a pro-forma was included with the letter, detailing the information required. Respondents were encouraged to collect the information in advance of the telephone interview. The advance letter and pro-forma are included in the Appendix.
- 9.16 A total of 838 interviews were achieved from this sample between 9th September and 25th October 2013. Interviews were conducted by telephone using Computer Assisted Telephone Interview (CATI) technology and lasted approximately 15 minutes on average. The achieved interviews break down by subgroup as shown below:



Table 9.2: Profile of achieved interviews

Sample group	Achieved interviews
LBS	91
L&C CRM	84
L&C CC	95
SME 3+	180
SME 1-2	34
Exempt or partially exempt	276
Public Bodies	78
Total	838

9.17 When screened a number of businesses turned out not to meet the eligibility criteria for the survey (because they did not have any 'live' opted properties during the last year, had not purchased a property and were not renting a commercial property). Table 9.3 shows the estimated population for each category, the total number of businesses that were screened (i.e. those who were found at the screening stage to be ineligible, plus completed interviews) and the proportion that turned out to be eligible for the study.

Table 9.3: Eligibility by sample group

Sample group	Estimated population	Number of records screened	Proportion of records that turned out to be in-scope
LBS	800	118	77%
L&C CRM	1,200	151	56%
L&C CC	8,000	240	40%
SME 3+	6,000 – 8,000	307	59%
SME 1-2	30,000 – 35,000	77	44%
Exempt or partially exempt	180,000-200,000	1105	25%
Public Bodies	7000-9000	211	37%
Total	24,5021	2,209	

9.18 To enable more reliable reporting by groups of businesses ('Large business suppliers', 'SME suppliers' and 'Recipients') weighting was applied to the data to correct for the disproportionate sampling within these broad groups (e.g. the fact that LBS businesses were over-represented in the 'Large business suppliers' category relative to the proportion of the large business population that they represent). The data in Table 2.3 was used to calculate the weights. The proportions shown in the final column were applied to the estimated population figures to provide an indicative figure for the total eligible population and these figures were used to calculate weighting targets. The weighting was only applied within the three broad categories and did not attempt to adjust for the differential size of the three categories in the overall population. Hence, the report does not provide any figures at a 'total' level and reporting is limited to the 3 broad groupings.



Questionnaire

S Screener

IF NEW CONTACT

- S1 **Good morning / afternoon. My name is NAME and I am calling on behalf of HMRC, from IFF Research. IFF Research is carrying out a research study for HM Revenue and Customs (HMRC) to explore business' views on option to tax and to collect financial information on how it is used. Could I speak to the Head of Finance or person with overall responsibility for dealing with Revenue and Customs on behalf of the company'?**

IF RE-ENTRY FROM S14

Good morning / afternoon. My name is NAME and I'm calling from IFF Research on behalf of HMRC. Please can I speak to [NAME]?

ADD IF NECESSARY: We spoke to [NAME] recently regarding the exercise we are carrying out for HMRC to explore business' views on option to tax.

IF TOPS RESPONDENT

Good morning / afternoon. My name is NAME and I'm calling from IFF Research on behalf of HMRC. Please can I speak to [NAME]?

ADD IF NECESSARY: IFF Research is carrying out a research study for HMRC to explore business' views on option to tax. [IF DIRECT CONTACT: We spoke to [NAME] recently as part of another HMRC study, and he/she advised that he/she would be the most suitable person to contact regarding option to tax.][IF REFERRAL: We spoke to [TOPS NAME] recently as part of another HMRC study, and he/she advised that [NAME] would be the most suitable person to contact regarding option to tax.]



Transferred	1	CONTINUE
Hard appointment	2	MAKE APPOINTMENT
Soft Appointment	3	
Refusal	4	CLOSE
Refusal – company policy	5	
Refusal – Taken part in recent survey	6	
Nobody at site able to answer questions	7	
Not available in deadline	8	
Engaged	9	
Fax Line	10	
No reply / Answer phone	11	
Residential Number	12	
Dead line	13	
Company closed	14	

ONCE TRANSFERRED

- S4 **Good morning / afternoon, my name is NAME, calling from IFF Research, an independent market research company. We're conducting a survey on behalf of HMRC about the option to tax commercial property.**

IF TOPS RESPONDENT

[IF DIRECT CONTACT: **We spoke to you recently as part of another HMRC study, and you advised that you would be the most suitable person to contact regarding option to tax.**] [IF REFERRAL: **We spoke to [TOPS NAME] recently as part of another HMRC study, and he/she advised that you would be the most suitable person to contact regarding option to tax.**]

This study will help HMRC to get a better understanding of businesses' views on the option to tax, how it affects them, and how much administration it involves for businesses.

Continue	1	CONTINUE
Referred to someone else at establishment NAME _____ JOB TITLE _____	2	TRANSFER AND RE-INTRODUCE



Hard appointment	3	MAKE APPOINTMENT
Soft appointment	4	
Refusal	5	THANK AND CLOSE
Refusal – company policy	6	
Refusal – taken part in recent survey	7	
Not available in deadline	8	

IF RE-ENTRY FROM S14

Good morning / afternoon. My name is NAME and I'm calling from IFF Research on behalf of HMRC. We spoke to you recently regarding the exercise we are carrying out for HMRC to explore business' views on option to tax, and we sent you the letter and pro-forma by email, can I just check that you have received it?

Continue	1	CONTINUE
No, have not received email - resend	2	RESEND EMAIL
Referred to someone else at establishment NAME_____	3	TRANSFER AND RE-INTRODUCE
JOB TITLE_____		
Hard appointment	4	MAKE APPOINTMENT
Soft appointment	5	
Refusal	6	THANK AND CLOSE
Refusal – company policy	7	



IF NEW RESPONDENT

- S5 **Can I just check whether you have received the [IF TOPS DIRECT CONTACT AND HASEMAIL=1] email [ALL OTHERS: letter] and pro forma from Bob Wightman at HMRC about this study? The pro-forma details some of the key information we are trying to capture in the interview which you may need to look up in advance.**

ADD AS NECESSARY: **Having this information ready to hand will make the interview process much quicker.**

Respondent has received letter and pro forma	1	ASK S6
Respondent has not received letter and pro forma	2	GO TO S7
Letter and pro forma was received but passed on to a more appropriate respondent	3	TRANSFER AND RE-INTRODUCE
Don't know	4	GO TO S7

IF LETTER RECEIVED (S5=1)

- S6 **And have you had a chance to fill out the pro forma?**

Yes	1	GO TO S8
No	2	ASK S7

IF NOT RECEIVED/DON'T KNOW (S5=2 OR 4) OR RECEIVED BUT NOT COMPLETED (S6=2)

- S7 **IF S6=2: Just to confirm,]The survey will ask about [IF SUPPLIER: properties you have constructed, sold or leased, and whether you have exercised the option to tax on these properties, as well as] properties that you have bought or rented, and whether you have been charged VAT on these properties. Can I just check, would you be the best person in your organisation to ask about these issues?**

Yes	1	CONTINUE
No	2	SEEK REFERRAL TO MORE APPROPRIATE RESPONDENT
Don't know	3	



IF NOT RECEIVED/DON'T KNOW (S5=2 OR 4) OR RECEIVED BUT NOT COMPLETED
 S8A [IF LETTER NOT RECEIVED/DK: I will send the letter and pro forma to you by email] Firstly could I just ask a few questions to make sure that the survey will be relevant to your organisation.

Yes - CONTINUE	1	CONTINUE
No – would prefer to receive pro forma before answering any questions	2	GO TO S14 – SEND OUT PRO-FORMA AND SET APPOINTMENT If HMRC SAMPLE & SAMTYPE=SUPPLIER, EMAIL

ASK ALL
 S8 Throughout the survey, we would like you to provide answers in relation to the last financial year for which you have full financial information available. Would this be:

READ OUT

2012-2013	1	
2011-2012	2	
2010-2011	3	
2009-2010	4	
2008-2009	5	
2007-2008	6	
Other (specify)	7	



ASK ALL

S9 **During the financial year [S8 TEXT], did your organisation do any of the following:***READ OUT; MULTICODE*

Lease commercial property or land to tenants	1	
Sell commercial property or land (including Transfer of a Going Concern)	2	
Construct commercial property for sale or for lease to third parties	3	
Rent commercial property or land from a landlord	4	
Buy commercial property or land (including Transfer of a Going Concern)	5	
Don't know	6	SEEK REFERRAL TO MORE APPROPRIATE RESPONDENT
None of these	7	THANK AND CLOSE

NOTE TO INTERVIEWER: IF ASKED FOR AN EXAMPLE FOR WHAT PROPERTY IS – WE ARE REFERRING TO BUILDINGS, E.G. AN OFFICE BLOCK OR A FACTORY. HOWEVER MORE THAN ONE BUILDING CAN BE A SINGLE 'BUILDING' FOR THE PURPOSE OF THE OPTION TO TAX: BUILDINGS THAT ARE LINKED*, OR IF NOT YET BUILT ARE PLANNED TO BE LINKED (*BY INTERNAL ACCESS OR COVERED WALKWAY) OR A COMPLEX CONSISTING OF A NUMBER OF UNITS GROUPED AROUND A FULLY ENCLOSED CONCOURSE, SUCH AS A SHOPPING MALL.

NOTE TO INTERVIEWER: PEPPERCORN GROUND RENTS SHOULD NOT BE INCLUDED



ASK IF LEASED/SOLD/CONSTRUCTED (S9=1,2,3)

S10 **And during the financial year [S8 TEXT], did you:**

READ OUT

NOTE TO INTERVIEWER: THE OPTION TO TAX APPLICATION COULD HAVE BEEN MADE AT ANY POINT PREVIOUSLY, AS LONG AS IT STILL APPLIED TO THE PROPERTY DURING THE FINANCIAL YEAR IN QUESTION

	YES	NO	DK
_1 [IF S9=1: Lease any property to tenants that was subject to the option to tax (i.e. VAT was charged on the rent)]	1	2	3
_2 [IF S9=2: Sell any property that was subject to the option to tax (i.e. VAT was charged on the sale price)]	1	2	3
_3 [IF S9=3: Opt to tax any of the commercial property that you constructed for sale or lease to third parties]	1	2	3

IF HAVE NOT OPTED ANY AND NOT RECIPIENT (NOT S10_1=1 OR S10_2=1 OR S10_3=1 AND NOT S9=4 OR S9=5) THANK AND CLOSE

ASK ALL

S11 **Does your organisation:**

READ OUT

IF NECESSARY:

- Taxable supplies are goods and services on which standard-rated, reduced-rate or zero-rated VAT applies
- Exempt supplies are goods and services which are exempt from VAT. They include insurance, supply of residential property, some services from doctors and dentists and some education services
- Non-business activities are outside the scope of VAT and are generally provided for no charge (such as some of the activities of charities and non-profit organisations)

	YES	NO	DK
_1 Make taxable supplies	1	2	3
_2 Make tax exempt supplies	1	2	3
_3 Undertake non business activities	1	2	3



IF RECIPIENT ONLY AND MAKE TAXABLE SUPPLIES ONLY (NOT S10_1=1 OR S10_2=1 OR S1_3=1) AND (S11_1=1 AND S11_2=2 AND S11_3=2)

S11a **Has your organisation ever opted to tax a commercial property?**

Yes	1	
No	2	
Don't know	3	

IF HAVE OPTED (S11A=1)

S11b **Why did you opt to tax this property?**

WRITE IN		
Don't know	1	

IF NO EXEMPT SUPPLIES AND RECIPIENT ONLY (S11_2=2,3) AND NOT (S10_1=1 OR S10_2=1 OR S1_3=1) THANK AND CLOSE

IF LETTER RECEIVED BUT PRO-FORMA NOT COMPLETED (S6=2)

S12 **Thank you. The interview will take about 15 minutes to complete depending on your answers and will be conducted in accordance with the Market Research Society Code of Conduct, which guarantees confidentiality and anonymity. When would be a good time to go through the interview?**

ROUTE TO APPOINTMENT SCREEN

IF PRO-FORMA COMPLETED (S6=1)

S13 **Thank you. The interview will take about 15 minutes to complete depending on your answers and will be conducted in accordance with the Market Research Society Code of Conduct, which guarantees confidentiality and anonymity.**

Is now a good time to go through the interview or would you prefer me to call back at a more convenient time?

Continue with interview now	1	CONTINUE
Call back at convenient time	2	GO TO APPOINTMENT SCREEN



IF LETTER NOT RECEIVED/DON'T KNOW (S5=2 OR 4) OR WANT LETTER BEFORE DOING SCREENER (S8A/2)

S14 **Thank you. I will send the letter and pro-forma by email and then call back at a time that's convenient for you.**

INTERVIEWER ENTER RESPONDENT'S NAME AND EMAIL ADDRESS FOR THE LETTER AND PRO-FORMA TO BE SENT TO THEM. THIS EMAIL SHOULD ONLY BE SENT TO THE PERSON YOU ARE CURRENTLY SPEAKING TO.

S14a **Respondent Name**

WRITE IN RESPONDENT'S NAME

DP USE THIS FOR 'NAME' FIELD IN EMAIL TEXT

S14b **Email address**

WRITE IN EMAIL ADDRESS

WRITE IN EMAIL AGAIN – DOUBLE CHECK SPELLING

S14c **Email address check**

WRITE IN EMAIL ADDRESS

DP CHECK BOTH EMAILS ENTERED MATCH, IF NOT TELL INTERVIEWER TO RE-CHECK

S14d **I have just sent the email to you. Could I check if you have received it yet?**

Yes	1	MAKE APPOINTMENT FOR A TIME WHEN RESPONDENT WILL HAVE COMPLETED PRO-FORMA
No	2	SET SOFT APPOINTMENT TO CALL BACK AND CHECK IF EMAIL RECEIVED

ASK ALL

S15 **This call may be recorded for quality and training purposes only.**



A Background

ASK IF MAKE EXEMPT SUPPLIES / NON BUSINESS ACTIVITIES (S11_2=1 OR S11_3=1)

A1A **Are you able to recover all of your VAT on your return?**

Yes	1	
No	2	
Don't know	3	
Refused	4	

ASK IF A1A=2

A1B **What percentage of your VAT are you able to recover on your return?**

WRITE IN		
Don't know	1	
Refused	2	

ASK RECIPIENTS/BOTH (S11DUM=2,3)

A1 **Which of the following best describes the sector that your organisation operates in?**

READ OUT

Banking/finance	1	
Insurance	2	
Healthcare	3	
Education	4	
Residential property	5	
Charity / third sector	6	
Local or central Government	7	
Other (specify)	8	
Don't know	9	



ASK ALL

A2 **Approximately how many full time employees does your organisation employ in the UK?**

Don't know	1	
Refused	2	

IF DK/REF, PROMPT WITH RANGES, OTHERWISE INTERVIEWER CODE A2 RESPONSE TO RANGE

1-9	1	
10-49	2	
50-249	3	
500-999	4	
1,000-2,499	5	
2,500-4,999	6	
5,000-9,999	7	
10,000+	8	
Don't know	9	



B Leasing to tenants

ASK IF LEASED PROPERTY AND OPTED (S10_1=1)

- B1 **The following questions are about the commercial properties or pieces of commercial land that you leased to tenants during [S8 TEXT].**
- B2 **How many commercial properties or pieces of commercial land did you lease to tenants in [S8 TEXT] that you had opted to tax?**

NOTE TO INTERVIEWER: RECORD THE TOTAL NUMBER OF PROPERTIES, NOT THE NUMBER OF TENANTS.

NOTE TO INTERVIEWER: PEPPERCORN GROUND RENTS SHOULD NOT BE INCLUDED

WRITE IN		
None	1	
Don't know	2	
Refused	3	

ASK IF LEASED PROPERTY AND OPTED (B2>0)

- B3 **And how many commercial properties or pieces of commercial land did you lease to tenants in [S8 TEXT] that you had not opted to tax?**

NOTE TO INTERVIEWER: RECORD THE TOTAL NUMBER OF PROPERTIES, NOT THE NUMBER OF TENANTS.

NOTE TO INTERVIEWER: PEPPERCORN GROUND RENTS SHOULD NOT BE INCLUDED

WRITE IN		
None	1	
Don't know	2	
Refused	3	



- ASK IF LEASED OPTED PROPERTIES (B2>0)
- B4 **Excluding VAT, how much rent in total did you invoice for in relation to [S8 TEXT] from your properties/ pieces of land that you had opted to tax?**

IF NECESSARY:

By 'invoice' we mean the full amount charged rather than the amount received.

NOTE TO INTERVIEWER: PLEASE RECORD THE TOTAL RENT INVOICED IN RELATION TO [S8 TEXT] REGARDLESS OF THE INVOICE DATE

WRITE IN		
Don't know	1	
Refused	2	

- ASK IF LEASED NON-OPTED PROPERTIES (B3>0)
- B5 **How much rent in total did you invoice for in relation to [S8 TEXT] from your properties/ pieces of land that you had not opted to tax?**

IF NECESSARY:

By 'invoice' we mean the full amount charged rather than the amount received.

NOTE TO INTERVIEWER: PLEASE RECORD THE TOTAL RENT INVOICED IN RELATION TO [S8 TEXT] REGARDLESS OF THE INVOICE DATE

WRITE IN		
Don't know	1	
Refused	2	



C Selling

ASK IF SOLD OPTED PROPERTY (S10_2=1)

- C1 **The following questions are about the commercial properties or pieces of commercial land that you sold during [S8 TEXT] on which you could have made an option, including any that were part of a Transfer of a Going Concern. They do not refer to new commercial properties which were sold within three years of completion.**
- C2 **How many commercial properties or pieces of commercial land did you sell in [S8 TEXT] that you had opted to tax?**

NOTE TO INTERVIEWER: RECORD THE TOTAL NUMBER OF PROPERTIES, NOT THE NUMBER OF TENANTS.

WRITE IN		
None	1	
Don't know	2	
Refused	3	

ASK IF SOLD OPTED PROPERTY (C2>0)

- C3 **And how many commercial properties/ pieces of land did you sell in [S8 TEXT] that you had not opted to tax?**

NOTE TO INTERVIEWER: RECORD THE TOTAL NUMBER OF PROPERTIES, NOT THE NUMBER OF TENANTS.

WRITE IN		
None	1	
Don't know	2	
Refused	3	



ASK IF SOLD OPTED PROPERTY (C2>0)

- C4 **Excluding VAT, what was the total sales value of the properties/ pieces of land you sold in [S8 TEXT] that you had opted to tax?**

WRITE IN		
Don't know	1	
Refused	2	

ASK IF SOLD NON-OPTED PROPERTIES (C3>0)

- C5 **What was the total sales value of the properties/ pieces of land you sold in [S8 TEXT] that you had not opted to tax?**

WRITE IN		
Don't know	1	
Refused	2	



D Suppliers: Construction

ASK IF CONSTRUCTED PROPERTY FOR SALE/LEASE AND OPTED (S10_3=1)

- D1 **The following questions are about the commercial properties or pieces of commercial land that you constructed for sale or lease to third parties, during [S8 TEXT]. They do not refer to commercial properties constructed to be sold new, i.e. within 3 years of completion.**
- D2 **How many commercial properties did you construct for these purposes in [S8 TEXT]?**

WRITE IN		
None	1	
Don't know	2	
Refused	3	

ASK IF CONSTRUCTED PROPERTY AND OPTED (S10_3=1)

- D3 **How many of these properties have you opted to tax?**

WRITE IN		
None	1	
Don't know	2	
Refused	3	

ASK IF CONSTRUCTED PROPERTY AND OPTED (D2>0)

- D4 **Approximately how much input tax did you incur on the construction of these properties that you opted to tax?**

NOTE TO INTERVIEWER: IF THEY ARE UNSURE, AN ESTIMATE IS FINE HERE

WRITE IN		
Don't know	1	
Refused	2	



- ASK THOSE MAKING EXEMPT OR NON BUSINESS SUPPLIES (S11_2=1 OR S11_3=1)
- D5 **We understand that not all businesses are able to recover their input tax when they make exempt or non business supplies. Can you estimate what percentage of your general overhead property costs you are able to recover through your partial exemption and/or non business methods?**
- PROMPT IF NECESSARY*

0 - none	1	
10%	2	
20%	3	
30%	4	
40%	5	
50%	6	
60%	7	
70%	8	
80%	9	
90%	10	
100%	11	
Don't know	12	
Refused	13	
Not applicable	14	



E Leasing from landlords

ASK IF LEASED PROPERTY FROM LANDLORD (S9=4)

- E1 **The following questions are about the commercial properties or pieces of commercial land that you leased from a landlord during [S8 TEXT].**
- E2 **How many commercial properties or pieces of commercial land did you lease from a landlord during [S8 TEXT]?**

NOTE TO INTERVIEWER: PEPPERCORN GROUND RENTS SHOULD NOT BE INCLUDED

WRITE IN		
None	1	
Don't know	2	
Refused	3	

ASK IF LEASED PROPERTY FROM LANDLORD (S9=4)

- E3 **And for how many of these properties/ pieces of land was VAT charged on the rent you paid?**

WRITE IN		
None	1	
Don't know	2	
Refused	3	

- E4 **Deleted**

ASK IF ANY PROPERTIES HAD VAT CHARGED (E3>0)

- E5 **What was the total net value (excluding VAT) of the rent you were invoiced for on all of these [E3 NUMBER] properties/ pieces of land?**

WRITE IN		
Don't know	1	
Refused	2	



ASK IF ANY PROPERTIES HAD VAT CHARGED (E3>0)

E6 **What was the total value of the VAT charged on the rent you were invoiced for?**

WRITE IN		
Don't know	1	
Refused	2	

ASK IF ANY PROPERTIES HAD VAT CHARGED (E3>0)

E7 **What percentage of this total were you able to recover on your VAT return?**

WRITE IN		
Don't know	1	
Refused	2	



F Buying

ASK IF BOUGHT PROPERTY (S9=5)

F1 **The following questions are about the commercial properties or pieces of commercial land that you bought during [S8 TEXT], including any that were part of a Transfer of a Going Concern.**

F2 **How many commercial properties or pieces of commercial land did you buy during [S8 TEXT]?**

WRITE IN		
None	1	
Don't know	2	
Refused	3	

ASK IF BOUGHT PROPERTY (S9=5)

F3 **And for how many of these properties/ pieces of land was VAT charged on the purchase price?**

WRITE IN		
None	1	
Don't know	2	
Refused	3	

ASK IF ANY PROPERTIES HAD VAT CHARGED (F3>0)

F4 **What was the total net purchase value (excluding VAT) of the properties/ pieces of land you bought that had VAT charged on them?**

WRITE IN		
Don't know	1	
Refused	2	

ASK IF ANY PROPERTIES HAD VAT CHARGED (F3>0)

F5 **And what was the total value of the VAT charged on these properties/ pieces of land?**

WRITE IN		
Don't know	1	
Refused	2	



ASK IF ANY PROPERTIES HAD VAT CHARGED (F3>0)

F6 **What percentage of this total were you able to recover on your VAT return?**

WRITE IN		
Don't know	1	
Refused	2	



G Costs

ASK ALL SUPPLIERS (S11DUM=1,3)

- G1 **Do you ever use external advisors such as solicitors, accountants or tax advisors in relation to opting to tax?**

Yes	1	
No	2	
Don't know	3	
Refused	4	

ASK IF USE EXTERNAL ADVISORS (G1=1)

- G1a **What are the main reasons you take advice in relation to opting to tax?**

WRITE IN		
Don't know	1	

ASK IF USE EXTERNAL ADVISORS (G1=1)

- G2 **How much would you estimate you spend on fees paid to external advisors on each occasion that you opt to tax a building?**

WRITE IN		
Don't know	1	
Refused	2	

ASK ALL SUPPLIERS (S11DUM=1,3)

- G3 **We are trying to estimate the cost to businesses of the administration of the option to tax. The biggest cost is likely to be your staff time. How much do you estimate it costs your business in staff time, on each occasion that you make an option to tax?**

WRITE IN		
Don't know	1	
Refused	2	



G3a **Aside from the cost of staff time, are there any other costs associated with the option to tax, which have not already been covered?**

Yes (please specify what for)	1	
No	2	
Don't know	3	

ASK IF OTHER COSTS (G3A=1)

G3b **How much do you estimate these other costs are, each time you make an option to tax?**

WRITE IN		
Don't know	1	
Refused	2	

ASK ALL SUPPLIERS (S11DUM=1,3)

G3c **How well would you say that you personally understand the option to tax rules?**

READ OUT; SINGLE CODE

Very well	1	
Quite well	2	
Not very well	3	
Not at all well	4	
Don't know	5	



ASK ALL SUPPLIERS (S11DUM=1,3)

G4 **In your experience, what have you found challenging in the option to tax process?**

WRITE IN		
Don't know	1	
Nothing	2	



H Real Estate Elections

H1 **Are you familiar with the term 'Real Estate Elections'?**

Yes	1	
No	2	
Don't know	3	

IF FAMILIAR (H1=1)

H2 **Have you made a Real Estate Election?**

Yes	1	
No	2	
Don't know	3	

IF HAVE NOT MADE AN REE (H2=2)

H3 **Why have you not made a Real Estate Election?**

Do not consider it appropriate for our business	1	
Intend to make an election, but have not done so yet	2	
Other (specify)	3	
Don't know	4	

IF DO NOT CONSIDER APPROPRIATE (H3=1)

H4 **Why do you not consider it appropriate for your business?**

WRITE IN		
Don't know	1	



I Thank and close

Name: RECORD DETAILS OF RESPONDENT WHO COMPLETED INTERVIEW	
Job title:	
Email address:	

- 11 **Thank you very much for taking the time to speak to us today. Would you be willing for HMRC, or agencies working on their behalf, to call you back regarding:**

This particular study – if we need to clarify any of the information	1	
Other research studies which may be relevant to you	2	
Neither of these	3	

IF CONSENT TO RECONTACT

- 12 **And could I just check, is [NUMBER] the best number to call you on?**

Yes	1	
No - write in number	2	

ASK ALL

THANK RESPONDENT AND CLOSE INTERVIEW

Finally I would just like to confirm that this survey has been carried out under IFF instructions and within the rules of the MRS Code of Conduct. Thank you very much for your help today.



Advance Letter

- 9.19 There were three versions of the advance letter depending on the sample type all of which are shown below, starting with the advance letter for those classed as 'Recipients', then 'SME suppliers' and 'Large business suppliers'.





Head of Tax/ Head of Finance
[ADDRESS BLOCK]

Bob Wightman
Deputy Director, VAT Liability, Deductions
and Financial Services
Indirect Tax Directorate
HM Revenue and Customs

c/o Wendy Rogers (Project Manager)
HM Revenue and Customs
Graeme House
3rd Floor, Derby Square
Liverpool L2 7XS

Website: www.hmrc.gov.uk

Date XX September 2013

Ref [ID]

Research into VAT paid on leasing commercial property

Dear Sir/ Madam,

HM Revenue & Customs (HMRC) has commissioned IFF Research, an independent research agency, to undertake research into the VAT paid on leasing commercial property. Your organisation's feedback is invaluable to HMRC.

Your company has been selected from HMRC's records as an organisation that might be eligible to take part in this research. As the person responsible for dealing with your company's tax affairs, we believe you are the most appropriate person to speak to. However, if you consider another person in your organisation is better placed to help us, we would be grateful if you could pass this letter on to them. The appropriate person is likely to be the most senior person who deals with HMRC and may be the Financial Director or Head of Tax.

Representatives from IFF Research will be conducting interviews during September and October and it would be greatly appreciated if you felt you could take part. The interview will last approximately 15 minutes and will take place over the telephone, at a time convenient to you.

To help you when taking part in the interview, it would be useful if you had reference to some information about your organisation, and any properties that you have leased, rented, bought, sold, or constructed. We have enclosed a pro-forma which shows the information we are seeking to find out. This will allow you to collect the information we need in advance and keep the interview time to a minimum.

All the information you provide will be treated in strict confidence and IFF will not provide HMRC with any information that will identify you or your organisation without your express permission. Further information about IFF can be found at www.iffresearch.com

We hope you will participate in this important study, but if you do not want to take part then please let the IFF research team know by calling the freephone number 0800 054 2378 leaving your name and quoting the **reference number** at the top of this letter. Alternatively you can opt out by emailing OptionToTaxSurvey@iffresearch.com with the same information.

If you have any questions about the research you can contact Briony Gunstone or Margaret Anderson at IFF Research on 020 7250 3035 or at OptionToTaxSurvey@iffresearch.com. If you want to verify the authenticity of this research, please contact Wendy Rogers at HMRC on 03000 574 647 or Claire Bradshaw on 020 7147 3386.

Yours sincerely,

Bob Wightman
Deputy Director





[NAME]
[ADDRESS BLOCK]

Bob Wightman
Deputy Director, VAT Liability, Deductions
and Financial Services
Indirect Tax Directorate
HM Revenue and Customs

c/o Wendy Rogers (Project Manager)
HM Revenue and Customs
Graeme House
3rd Floor, Derby Square
Liverpool L2 7XS

Website: www.hmrc.gov.uk

Date X
Ref X

Research into the option to tax commercial property

Dear [NAME],

HM Revenue & Customs (HMRC) has commissioned IFF Research, an independent research agency, to undertake research into the option to tax commercial property. Your organisation's feedback is invaluable as it will enable HMRC to explore businesses' views on option to tax and to collect financial information on how it is used.

We recently spoke to your Head of Tax or Head of Finance as part of another research study, and they indicated that you would be the most appropriate person to speak to regarding the option to tax. However, if you consider another person in your organisation is now better placed to help us, we would be grateful if you could pass this letter on to them. The appropriate person is likely to be the most senior person who deals with HMRC and may be the Financial Director or Head of Tax.

Representatives from IFF Research will be conducting interviews during September and October and it would be greatly appreciated if you felt you could take part. The interview will last approximately 15 minutes and will take place over the telephone, at a time convenient to you.

To help you when taking part in the interview, it would be useful if you had reference to some information about your organisation, and any properties that you have bought, sold, leased, rented or constructed. We have enclosed a pro-forma which shows the information we are seeking to find out. This will allow you to collect the information we need in advance and keep the interview time to a minimum.

All the information you provide will be treated in strict confidence and IFF will not provide HMRC with any information that will identify you or your organisation without your express permission. Further information about IFF can be found at www.iffresearch.com

We hope you will participate in this important study, but if you do not want to take part then please let the IFF research team know by calling the freephone number 0800 054 2378 leaving your name and quoting the **reference number** at the top of this letter. Alternatively you can opt out by emailing OptionToTaxSurvey@iffresearch.com with the same information.

If you have any questions about the research you can contact Briony Gunstone or Margaret Anderson at IFF Research on 020 7250 3035 or at OptionToTaxSurvey@iffresearch.com. If you want to verify the authenticity of this research, please contact Wendy Rogers at HMRC on 03000 574 647 or Claire Bradshaw on 020 7147 3386.

Yours sincerely,

Bob Wightman
Deputy Director





[ADDRESS BLOCK]

Bob Wightman
Deputy Director, VAT Liability, Deductions
and Financial Services
Indirect Tax Directorate
HM Revenue and Customs

c/o Wendy Rogers (Project Manager)
HM Revenue and Customs
Graeme House
3rd Floor, Derby Square
Liverpool L2 7XS

Website: www.hmrc.gov.uk

Date X
Ref X

Research into the option to tax commercial property

Dear [NAME],

HM Revenue & Customs (HMRC) has commissioned IFF Research, an independent research agency, to undertake research into the option to tax commercial property. Your organisation's feedback is invaluable as it will enable HMRC to explore businesses' views on option to tax and to collect financial information on how it is used.

We recently spoke to your Head of Tax or Head of Finance as part of another research study, and they indicated that you would be the most appropriate person to speak to regarding the option to tax. However, if you consider another person in your organisation is now better placed to help us, we would be grateful if you could pass this letter on to them. The appropriate person is likely to be the most senior person who deals with HMRC and may be the Financial Director or Head of Tax.

Representatives from IFF Research will be conducting interviews during September and October and it would be greatly appreciated if you felt you could take part. The interview will last approximately 15 minutes and will take place over the telephone, at a time convenient to you.

To help you when taking part in the interview, it would be useful if you had reference to some information about your organisation, and any properties that you have bought, sold, leased, rented or constructed. We have enclosed a pro-forma which shows the information we are seeking to find out. This will allow you to collect the information we need in advance and keep the interview time to a minimum.

All the information you provide will be treated in strict confidence and IFF will not provide HMRC with any information that will identify you or your organisation without your express permission. Further information about IFF can be found at www.iffresearch.com

We hope you will participate in this important study, but if you do not want to take part then please let the IFF research team know by calling the freephone number 0800 054 2378 leaving your name and quoting the **reference number** at the top of this letter. Alternatively you can opt out by emailing OptionToTaxSurvey@iffresearch.com with the same information.

If you have any questions about the research you can contact Briony Gunstone or Margaret Anderson at IFF Research on 020 7250 3035 or at OptionToTaxSurvey@iffresearch.com. If you want to verify the authenticity of this research, please contact Wendy Rogers at HMRC on 03000 574 647 or Claire Bradshaw on 020 7147 3386.

Yours sincerely,

Bob Wightman
Deputy Director



10 Annex tables

Table 10.1: Weighted size and sector profile of the three categories of business

	Large business suppliers	SME suppliers	Recipients
<i>Base</i>	(270)	(214)	(354)
	%	%	%
Number of employees			
0	(below 5%)	14	18
1-9	7	42	49
10-49	10	24	19
50-249	32	12	8
250+	50	5	5
Don't know	(below 5%)	2	(below 5%)

	Large business suppliers	SME suppliers	Recipients
<i>Base: All recipients / both suppliers and recipients</i>	(250)	(80)	(241)
	%	%	%
Sector			
Banking/finance	11	6	7
Insurance	2	-	1
Healthcare	4	1	22
Education	1	1	10
Residential property	7	1	4
Charity / third sector	-	6	9
Local or central Government	*	-	2
Construction	10	13	1
Retail	13	6	11
Health & Leisure	5	6	4
Manufacturing	14	18	4
Business Services	3	6	3
Media / Entertainment	3	-	3
Engineering	2	5	1
Agriculture	2	1	1
Distribution	7	-	-
Garage	*	*	2
Commercial property	2	6	4
Commercial & Residential property	1	6	1
Property (Unspecified)	2	1	3
Other	12	17	8



Table 10.2: Number of opted properties leased to tenants

	Large business suppliers	SME suppliers	Recipients
<i>Base</i>	(141)	(174)	(151)
	%	%	%
1 to 2	45	63	65
3 to 9	15	28	18
10 to 19	9	(below 5%)	12
20 to 99	16	5	(below 5%)
100 or more	10	(below 5%)	(below 5%)
Don't know	6	-	-
<i>Total</i>	<i>4,403</i>	<i>1,031</i>	<i>1,461</i>
<i>Mean</i>	<i>42</i>	<i>6</i>	<i>10</i>
<i>Median</i>	<i>3</i>	<i>1</i>	<i>1</i>

Table 10.3: Number of non-opted properties leased to tenants

	Large business suppliers	SME suppliers	Recipients
<i>Base</i>	(132)	(173)	(151)
	%	%	%
None	67	81	71
1 to 2	16	9	15
3 to 9	7	5	8
10 to 19	(below 5%)	(below 5%)	(below 5%)
20 to 99	(below 5%)	(below 5%)	(below 5%)
100 or more	(below 5%)	(below 5%)	(below 5%)
Don't know	(below 5%)	-	-
<i>Total</i>	<i>711</i>	<i>268</i>	<i>1,797</i>
<i>Mean</i>	<i>7</i>	<i>2</i>	<i>12</i>
<i>Median</i>	<i>0</i>	<i>0</i>	<i>0</i>



Table 10.4: Rent invoiced for opted properties leased to tenants

	Large business suppliers	SME suppliers	Recipients
<i>Base</i>	(132)	(173)	(151)
	%	%	%
Less than £25,000	(below 5%)	41	20
£25,000 - £99,999	16	23	32
£100,000 - £499,999	24	24	31
£500,00 – 999,999	13	6	6
1m – 4.99m	21	(below 5%)	(below 5%)
£5m or more	15	(below 5%)	(below 5%)
Don't know	8	(below 5%)	5
<i>Total</i>	<i>£817.5m</i>	<i>£39m</i>	<i>£57m</i>
<i>Mean</i>	<i>£8.4m</i>	<i>£0.2m</i>	<i>£0.4m</i>
<i>Median</i>	<i>£500,000</i>	<i>£49,000</i>	<i>£65,000</i>

Table 10.5: Rent invoiced for non-opted properties leased to tenants

	Large business suppliers	SME suppliers	Recipients
<i>Base</i>	(43)	(50)	(51)
	%	%	%
Less than £25,000	28	38	31
£25,000 to £99,999	29	25	22
£100,000 to £499,999	19	26	20
£500,000 to £999,999	(below 5%)	(below 5%)	(below 5%)
£1m to £4.99m	5	(below 5%)	8
£5m or more	4	-	(below 5%)
Don't know/Refused	11	4	17
<i>Total</i>	<i>£64m</i>	<i>£5.3m</i>	<i>£11.6m</i>
<i>Mean</i>	<i>£2m</i>	<i>£0.2m</i>	<i>£0.3m</i>
<i>Median</i>	<i>£55,000</i>	<i>£32,600</i>	<i>£60,000</i>



Table 10.6: Number of opted properties sold

	Large business suppliers	SME suppliers	Recipients
<i>Base</i>	(42)	(24)	(12)
	%	%	%
1 to 2	56	75	69
3 to 4	14	8	10
5 to 6	6	(below 5%)	-
7 to 8	-	(below 5%)	-
9 to 10	5	(below 5%)	10
More than 10	16	-	-
Don't know	(below 5%)	(below 5%)	10
<i>Total</i>	255	14	25
<i>Mean</i>	11	2	2
<i>Median</i>	2	1	1

Table 10.7: Number of non-opted properties sold

	Large business suppliers	SME suppliers	Recipients
<i>Base</i>	(40)	(23)	(11)
	%	%	%
0	86	91	95
1	(below 5%)	(below 5%)	(below 5%)
2	(below 5%)	(below 5%)	-
3	(below 5%)	-	-
4	(below 5%)	-	-
5 or more	(below 5%)	-	(below 5%)
<i>Total</i>	11	1	3
<i>Mean</i>	3	2	6
<i>Median</i>	3	2	6



Table 10.8: Sales value of opted properties sold

	Large business suppliers	SME suppliers	Recipients
<i>Base</i>	(40)	(23)	(11)
	%	%	%
Less than £500,000	15	30	46
£500,000 to £999,999	(below 5%)	17	12
£1m to £4.9m	28	30	16
£5m to £9.9m	8	9	-
£10m or more	33	13	(below 5%)
Don't know	12	-	12
Refused	-	-	12
<i>Total</i>	£621m	£26.5m	£8.3m
<i>Mean</i>	£30m	£4m	£1m
<i>Median</i>	£4m	£1m	£0.4m

Table 10.9: Number of properties leased from landlords

	Large business suppliers	SME suppliers	Recipients
<i>Base</i>	(238)	(61)	(228)
	%	%	%
1	28	71	74
2 to 3	26	24	15
4 to 5	11	(below 5%)	(below 5%)
6 to 9	13	(below 5%)	(below 5%)
10 to 19	11	(below 5%)	(below 5%)
20 to 99	9	(below 5%)	(below 5%)
100 or more	(below 5%)	(below 5%)	-
<i>Total</i>	7,204	177	551
<i>Mean</i>	31	3	3
<i>Median</i>	3	1	1



Table 10.10: Number of properties leased from landlords for which VAT was charged

	Large business suppliers	SME suppliers	Recipients
<i>Base</i>	(238)	(61)	(228)
	%	%	%
None	10	25	37
1	30	55	42
2 to 3	20	17	13
4 to 5	10	(below 5%)	(below 5%)
6 to 9	8	(below 5%)	(below 5%)
10 to 19	7	(below 5%)	(below 5%)
20 to 99	7	(below 5%)	(below 5%)
100 or more	(below 5%)	-	-
Don't know	5	(below 5%)	(below 5%)
<i>Total</i>	4,024	111	241
<i>Mean</i>	18	2	1
<i>Median</i>	2	1	1

Table 10.11: Number of properties purchased

	Large business suppliers	SME suppliers	Recipients
<i>Base</i>	(44)	(25)	(16)
	%	%	%
1	33	62	53
2 to 3	20	32	23
4 to 5	7	5	8
6 to 19	20	(below 5%)	8
20 or more	18	-	8
Don't know	(below 5%)	-	-
<i>Total</i>	261	40	210
<i>Mean</i>	10	2	14
<i>Median</i>	3	1	1



Table 10.12: Number of properties purchased for which VAT was charged

	Large business suppliers	SME suppliers	Recipients
<i>Base</i>	(44)	(25)	(16)
	%	%	%
None	39	32	52
1	27	38	41
2 to 9	14	30	-
10 or more	13	-	8
Don't know	7	-	-
<i>Total</i>	130	27	43
<i>Mean</i>	5	1	3
<i>Median</i>	1	1	0

Table 10.13: Estimated per-option cost of external advisors

	Large business suppliers	SME suppliers	Recipients
	(85)	(120)	(96)
	%	%	%
Nothing	7	7	8
Less than £500	8	10	17
£500 to £749	14	24	12
£750 to £999	(below 5%)	(below 5%)	(below 5%)
£1,000 to £1,499	22	17	15
£1,500 to £2,499	8	13	7
£2,500 to £4,999	(below 5%)	11	(below 5%)
£5,000 to £9,999	13	(below 5%)	(below 5%)
£10,000 or more	11	6	(below 5%)
Don't know	10	10	31
<i>Mean</i>	£3,190	£2,225	£1,145
<i>Median</i>	£1,000	£1,000	£500



Table 10.14: Estimated per-option cost of staff time

	Large business suppliers	SME suppliers	Recipients
	(155)	(182)	(155)
	%	%	%
Nothing	10	14	20
Less than £100	7	17	13
£100 to £149	11	6	10
£150 to £249	10	9	7
£250 to £499	5	8	5
£500 to £1,000	25	21	16
£1,500 to £4,499	12	5	7
£5,000 or more	10	(below 5%)	(below 5%)
Don't know	11	20	21
<i>Mean</i>	<i>£3,140</i>	<i>£620</i>	<i>£570</i>
<i>Median</i>	<i>£500</i>	<i>£200</i>	<i>£100</i>



Table 10.15: Factors business has found challenging in option to tax process

	Large business suppliers	SME suppliers	Recipients
	(155)	(182)	(155)
	%	%	%
Weighing up costs / benefits of opting to tax	10	10	8
Ensuring sales/leases/purchases accord with option to tax rules	13	10	(below 5%)
Finding the right information / Asking advice	10	5	6
Understanding / keeping up-to-date with legislation	10	8	(below 5%)
Timescales / correspondence with HMRC	11	5	(below 5%)
General complexity of the process	5	(below 5%)	8
Dealing with HMRC	8	(below 5%)	5
Coordinating which part of the property is under the rule	(below 5%)	(below 5%)	(below 5%)
Costs relating to each property	(below 5%)	(below 5%)	(below 5%)
Length of process / time consuming	(below 5%)	(below 5%)	(below 5%)
VAT application / Recovering VAT	(below 5%)	(below 5%)	(below 5%)

