FONT & YILDIZ TAX-LEGAL SERVICES

CLIENT ALERT #24/2020 **09-18-2020**

Buying a house to renovate and resell

When a company buys a used house to renovate it and then sells it, it will **generally be subject to** the following taxes:

- **VAT** of 21% on renovation work. VAT of 10% for works contracted by individuals to refurbish their private homes is not applicable.

- **Transfer tax (ITP)** of between 6% and 11% for the purchase of a home, depending on each autonomous community.

The purchase of used housing is exempt from VAT and therefore subject to transfer tax. When the seller and buyer are both liable to VAT, it is possible to waive the exemption, and therefore the transaction is subject to VAT. The purchaser must justify, by means of a declaration signed by them, their status as a taxable person, with the right to deduct in full or in part the VAT borne on the acquisitions of the corresponding real estate or, otherwise, that the foreseeable purpose for which the acquired property is to be used entitles them to exercise the right to deduct VAT, in full or in part.

Generally, the subsequent sale of the renovated property will also be exempt from VAT, and therefore subject to transfer tax. Therefore, if no VAT is due on the sale, it will not be possible to deduct the VAT paid on the renovations, which will mean a higher cost for the company.

However, the situation is different when these renovation works are qualified as **restoration**. In order for them to be qualified as such, it is necessary that:

a) more than 50% of the total cost of the restoration project corresponds to works of consolidation or treatment of structural elements, facades or roofs or to works similar or related to those of restoration.
b) the total cost of the works to which the project refers exceeds 25% of the purchase price of the building if it was constructed during the two years immediately preceding the start of the restoration works or, in another case, of the market value of the property (in both cases, the value of the land is not taken into account).

In this case the taxation will be different depending on who is the **seller of the house acquired with the purpose of restoration**:

- **Private seller**: with the subsequent sale of the restored property the company will have to charge VAT of 10% and consequently, the VAT paid on the renovation will be deductible.
- **Corporate seller**: the company will also be able to deduct the VAT paid on the renovation, but in addition, if the company states in the purchase deed that it is acquiring the property to restore it, the selling company will have to pass on VAT, which can be deducted, and will not have to pay the transfer tax. Only the cost of the Legal Documentation Tax (AJD) will have to be borne, which will be between 1% and 1.5%, depending on each autonomous community.

In conclusion, if your company wants to buy houses to renovate them and later sell them, it can be advantageous to buy those that require investment in structural problems, since their renovation can be qualified as restoration and consequently, as the future sale of the restored house will be subject to and not exempt from VAT, you will also be able to deduct both the VAT of the renovations and the VAT of the purchase of the house.

Avda. Diagonal 601 6º C, Barcelona 08028 (Edificio Zurich)
Tel.: (+34) 93 494 89 80, Email: info@fy-legal.com
Web Page: **www.fontyildiz.com**