UNDERSTANDING **VAT** AND REAL ESTATE TRANSACTIONS

Complex VAT issues often affect real estate transactions and, if mismanaged, can have a serious impact on return on investment (ROI).

To help you ensure your real estate transactions deliver maximum returns, VAT experts from Taxand have developed this overview of the key areas for consideration throughout the lifecycle of your investment.

The scope of VAT exemptions and the mechanisms of taxation are heterogeneous amongst EU countries. Issues surrounding the recovery of input VAT can take many forms and, ultimately, may lead to VAT leakage. Even when VAT is recoverable, it can nonetheless create severe cash-flow issues. Also, initial deductions of input VAT on construction, acquisition or refurbishment costs may need to be repaid if the use of the immovable property has changed during the adjustment period, which can last as long as 20 years.

In addition, the place of taxation of transactions is not often determined in a straightforward manner. Local VAT rules can oblige foreign companies to register for VAT in the country of investment, creating specific administrative burdens.

VAT issues, therefore, require the attention of investors and managers throughout the investment lifecycle.

1. INVESTMENT SOURCING

- Assess the place of taxation of investment sourcing services, taking into account local VAT regulations and practice.
- Structure the investment in such a way that an optimal recovery of input VAT on acquisition costs can be achieved.

2. ACQUISITION

- Identify whether the acquisition is subject to VAT.
- Consider capital adjustment rules, as they may have a severe impact on the ROI for the whole investment period.
- Identify whether the acquisition can be structured as a transfer of going concern.
- In the case of a share deal, consider the historical risks attached to the target, and identify the appropriate guarantee and documentation to be claimed from the seller.
- Development projects bring added complexity, including the management of VAT cash-flow.

3. EXPLOITATION PERIOD

- Take advantage of specific local VAT deduction rules.
- Consider opting for VAT on the use of the immovable property to maximise input VAT recovery on running expenses.
- Carefully monitor local formalistic VAT obligations, as they may harm ROI, if mismanaged.
- Evaluate the impact of tenancy turnover and define appropriate rental pricing.

4. EXIT

- Identify the VAT impact from the disposal of the asset for the seller (VAT exempt/taxable transaction, adjustment period, transfer of going concern).
- Identify formal or agreed VAT obligations that may be attached to the building under local VAT legislation and consider acceptable guarantee to be given to the purchaser.
- In the case of a share deal, identify whether transaction costs are VAT exempt or if VAT can be deducted.

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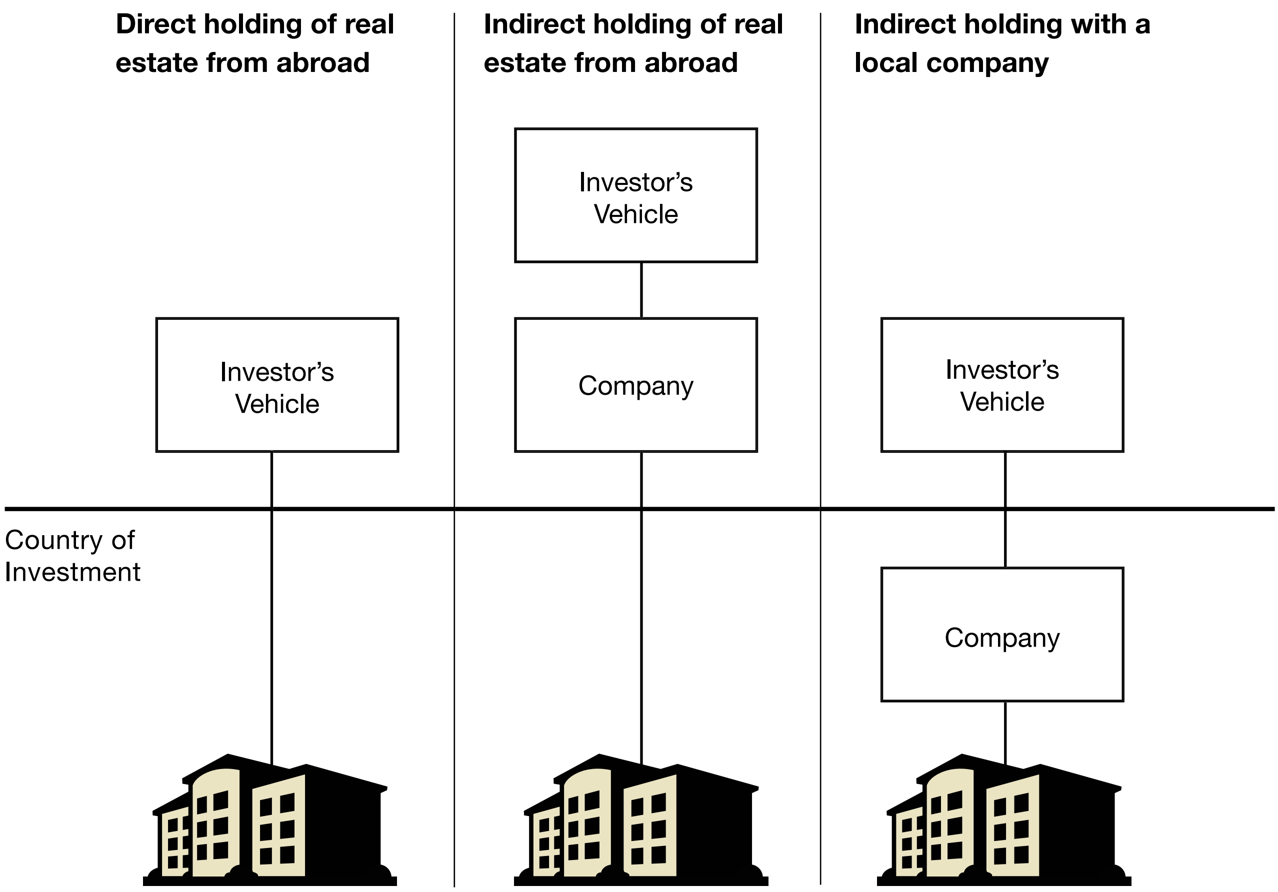
TYPICAL INVESTMENT STRUCTURES



To discover how Taxand can deliver your indirect tax advantage on real estate transactions, contact your nearest Taxand indirect tax advisor.

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