

## To VAT or Not To VAT?

All Residents' Management Companies need to ensure that the requirements set out in their Lease are covered by their blocks insurance policy and are reviewed at each renewal of cover.

It is also recommended by the RICS Management Code that properties should have a valuation completed and reviewed by an appropriately qualified Surveyor on a regular basis. When arranging an insurance policy your insurer/broker requires a Rebuilding Cost, often referred to as Declared Value, which is the basis of your premium calculation. The Insurer will include a further percentage to allow for inflation, during the insured period or during the time it takes to rebuild the property following a claim, of normally between 10 and 50%.

### However.....should we add VAT to our Declared Value or NOT?

#### Facts

- If your block is completely destroyed, is demolished to ground level and has to be rebuilt - these costs do not attract VAT.
- If your block is 90% destroyed and Insurers decided to rebuild your block rather than knock it down and rebuild it totally – these costs would attract VAT at 20%.

#### Example

The Declared Value of the block is £1,000,000. If the block were 90% damaged and the Insurer decides to rebuild, the costs that could equate from this loss are £900,000 + 20% VAT = £1,080,000

In this instance the Insurer would only pay £1,000,000 and there would be £80,000 needing to be found to complete the rebuild.

### So should you include VAT or NOT?

There are those that think it would be rare that Insurers would choose to rebuild where a property was 90% damaged, however, this is quite a risk to accept!

In a recent First Tier Tribunal (FTT), it was agreed whether or not VAT should or shouldn't be added to the Declared Value provided to Insurers, is dependent on your Insurers stance and how their policy is written.

Having reviewed several products we found that some Insurers expect VAT to be included, others don't, and some Insurers are completely silent. This I am afraid opens a minefield.... Unless your Insurance Policy states how your Insurer reacts to this situation I recommend that you should contact them to obtain their advice....better to be safe than sorry!

In the FTT case mentioned above they held that it was reasonable to include VAT in the sum insured. For further info visit our website at [www.residentsline.co.uk](http://www.residentsline.co.uk) or contact the Residentsline team on 0800 281 235.

**If you would like us to review your policy against your current – please call us on 0800 281 233**

**Exclusively flats, it's our policy.**

