

2026/27 EDITION

The 2026/27 UK Commercial Property Tax Playbook

For UK owner-occupiers, investors and developers

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BOUTIQUE UK TAX & ACCOUNTANCY

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Foreword

Commercial property tax is genuinely high-stakes. On a single £2m office acquisition, getting capital allowances and VAT decisions right typically saves £80,000–£250,000 of tax over the holding period. Getting them wrong — failing to make a Section 198 election, opting to tax when you shouldn't, or treating refurbishment as repairs when it's structural — can permanently destroy a six-figure tax position.

This guide is written for owner-occupiers, investors and developers who already understand the basics. It focuses on the decisions that genuinely move six-figure outcomes, not introductory material.

The legal framework changes constantly. Rules current as of April 2026 are correct at the time of writing, but this guide is not a substitute for specific professional advice on your transaction.

The UK commercial property tax landscape 2026/27

Eight tax issues materially affect a commercial property acquisition or disposal:

1. **SDLT on acquisition** (or LBTT/LTT in Scotland/Wales)
2. **VAT and the option to tax** — 20-year commitment
3. **Capital allowances** on fixtures and integral features
4. **Structures and Buildings Allowance (SBA)** on the structural element
5. **The Capital Goods Scheme (CGS)** — 10-year VAT adjustment period
6. **Repairs vs improvements** — revenue/capital line
7. **Annual Tax on Enveloped Dwellings (ATED)** — if any residential element
8. **CGT/Corporation Tax on exit** plus reliefs (BADR, SSE, rollover)

Six client types meet these issues differently:

- Owner-occupier (operating company holds property)
- Owner-occupier with OpCo/PropCo separation
- Property investor (single property)
- Property investor (portfolio, often through SPVs)
- Property developer (held as trading stock)
- Non-resident investor (NRCGT rules apply)

The cumulative tax base over a 10-year hold on a £2m acquisition can range from 18% (well-structured opted commercial with full CA claims) to 35%+ (poorly structured).

SDLT on commercial property

Non-residential SDLT rates 2026/27

Band	Rate
£0 – £150,000	0%
£150,001 – £250,000	2%
£250,001+	5%

Compared to residential (where the standard top rate is 12% and the additional dwellings surcharge adds 5% from the first £), commercial SDLT is materially lighter.

Worked example — £2m office acquisition

Band	Slice	Rate	SDLT
£0 – £150,000	£150,000	0%	£0
£150,001 – £250,000	£100,000	2%	£2,000
£250,001 – £2,000,000	£1,750,000	5%	£87,500
Total	£2,000,000		£89,500

That's 4.475% effective. If the same building had any residential element, mixed-use treatment would still apply commercial rates — but HMRC scrutinises mixed-use claims heavily.

Lease grants — NPV charge

SDLT on new lease grants is calculated on:

1. Any premium (using purchase rates above)
2. The Net Present Value (NPV) of the rent over the lease term, at 3.5% discount rate, with the first £150,000 at 0% and the excess at 1%

A 10-year £150,000/year lease has rough NPV around £1.27m, producing SDLT around £11,200.

Lease variations, surrenders, regears

A regear (extending an existing lease) generally counts as a new lease grant. The original SDLT paid on the surrendered lease is wasted; new SDLT is due on the new lease.

A surrender and regrant structured badly can trigger SDLT as if the new lease replaced the old at full term — costing tens of thousands. Structure these as a deed of variation where possible.

Practical pre-completion checklist

- Confirm SDLT analysis 4+ weeks before completion
 - For mixed-use, gather evidence of genuine commercial element
 - Verify no overage clauses that could trigger additional SDLT
 - Confirm seller's CGS position and inherit liability
 - If part of a corporate restructure, check group relief eligibility
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VAT and the option to tax

Commercial property supplies are exempt by default. This is a default — not a benefit. The OTT election converts the exempt supply into a taxable supply, allowing input VAT recovery.

Should you opt to tax?

Opt if: - You incurred or expect to incur material input VAT (purchase, construction, refurbishment, professional fees) - Your tenants are mostly VAT-registered businesses (they'll recover the VAT) - You plan to sell to another opted owner

Do NOT opt if: - Your tenants are largely VAT-exempt (banks, insurance, healthcare, charities, schools) - You're acquiring as your trading premises and won't refurbish or sell - The building has substantial CGS adjustment remaining

The 20-year commitment

An OTT election cannot be revoked for 20 years (with limited exceptions in the first 6 months). This is the longest commitment in UK tax. Get it wrong and you've locked in a sub-optimal position for two decades.

TOGC — Transfer of a Going Concern

If a property is rented out, sold to a VAT-registered buyer who opts to tax before completion and continues the rental business, the sale can be a TOGC (no VAT). Saves the buyer cash-flow and SDLT on the VAT element.

Practical example — £1m refurbishment

Refurbishment cost: £1,000,000 VAT on refurbishment: £200,000

	Opted	Not Opted
Recover input VAT	£200,000	£0
Future rent charged	+VAT	No VAT
Tenant impact	If VAT-reg: neutral. If exempt: 20% cost rise	None

For a building with mostly VAT-registered tenants, opting saves £200,000.

Capital allowances on acquisitions and fit-outs

Capital allowances are tax depreciation. Commercial property qualifies for:

Main pool (18% WDA)

Plant and machinery: cabling, security systems, general fixtures.

Special rate pool (6% WDA)

Integral features: hot/cold water systems, electrical systems, heating/ventilation, external solar shading, lifts and escalators, thermal insulation.

Annual Investment Allowance — £1m

100% relief in year one, up to £1m of qualifying expenditure (both pools combined).

Full Expensing — 100% for new plant

For companies (not individuals or partnerships): 100% first-year allowance on **new** plant and machinery acquisition — but only new, never second-hand. Special rate pool gets 50% first-year (the "FYA 50%" rule).

Structures and Buildings Allowance (SBA) — 3%

For commercial buildings constructed or refurbished since 29 October 2018. 3% straight-line over ~33 years. Applies to the structural element only.

Section 198 election — the critical document

When buying second-hand commercial property, the fixtures pool position you inherit depends on what (if anything) the previous owner claimed. Without a Section 198 election (or Section 199 for finance leases), you may be permanently disqualified from claiming on fixtures.

The single most expensive error in commercial property tax is failing to deal with the fixtures position pre-completion. On a £2m office that's never been Section 198-elected, this can be a £150,000+ permanent loss.

Worked example — £500,000 office fit-out

Composition (typical):

- Main pool plant & machinery: £80,000 (general furniture, security)
- Special rate pool (integral features): £170,000 (M&E, HVAC)
- Structures and Buildings: £165,000 (partitions, structural)
- Non-qualifying: £85,000 (decorative finishes)

For a company in marginal relief (effective ~26.5% CT rate):

- Main pool: $£80,000 \times \text{AIA} \rightarrow £80,000 \text{ deduction} \rightarrow £21,200 \text{ tax saving year 1}$
- Special rate pool: $£170,000 \times \text{AIA} \rightarrow £170,000 \text{ deduction} \rightarrow £45,050 \text{ tax saving year 1}$
- SBA: $£165,000 \times 3\% = £4,950/\text{year} \rightarrow £1,312/\text{year tax saving}$
- Total year 1 tax saving: ~£67,500

If AIA had been exhausted by other capex, special rate pool gets the 50% first-year allowance under Full Expensing rules instead — still substantial but less optimal.

The Capital Goods Scheme

CGS applies to capital expenditure on land and buildings over £250,000 (excluding VAT). It requires a 10-year adjustment to the input VAT initially recovered.

How it works

Year 1: You recover input VAT based on intended use (e.g. 100% if fully opted commercial) Years 2–10: Each year, you compare actual taxable use to year 1 and adjust the VAT recovery up or down.

Why it catches people out

- **On sale:** the buyer inherits the remaining CGS adjustment period. Make sure this is reflected in the deal price.
- **On change of use:** opting out, or changing tenant mix from VAT-reg to exempt, triggers clawback.
- **Refurbishment:** each new capital expenditure over £250k starts its own 10-year CGS clock.

Practical impact

On a £1m + VAT acquisition fully opted with 100% taxable use initially:

- Year 1 VAT recovered: £200,000
- If in year 5 you sell to a non-opted buyer (assume exempt sale): years 5–10 would normally claw back ~£120,000

This is why pre-sale planning matters. Either ensure the buyer continues OTT, or price the CGS clawback into the deal.

OpCo/PropCo structuring

OpCo/PropCo = trading company (OpCo) operates the business; separate property company (PropCo) owns the premises and rents it to OpCo.

When OpCo/PropCo wins

- Property value is expected to appreciate significantly
- Owners want to extract property from the business at exit
- Trading risk should be insulated from property value
- Family succession differs for trade vs property
- Future financing is easier with property in a separate entity

When OpCo/PropCo doesn't help

- Property is small (< £500k) and value unlikely to appreciate materially
- Owners are approaching exit and will sell whole business
- BADR (18% rate, £1m lifetime) loss on the property element outweighs the structural benefit
- Compliance costs (two sets of accounts, two CT computations) exceed the tax benefit

The setup cost

If property is already in OpCo, moving it to a new PropCo triggers:

- SDLT on market value (potentially 5% of property value)
- Corporation tax on chargeable gain (potentially 19–26.5%)
- VAT considerations (OTT and CGS interaction)

For a £2m property, the friction of restructuring can be £200,000+ — meaning the long-term benefit must be substantial to justify.

Cleanest setup

Establish the OpCo/PropCo structure at original acquisition, not later. The PropCo holds the property; OpCo signs a market-rent lease.

Refurbishment, repairs and the revenue/capital line

The single most-disputed area in commercial property tax. Get it right and refurbishment is 100% revenue deductible. Get it wrong and it becomes capital expenditure with 3% SBA over 33 years.

Revenue (deductible immediately)

- Like-for-like replacement of existing parts
- Cleaning, painting, minor decoration
- Repair to keep an asset in working order

Capital (must be allocated to pools/SBA)

- Improvement beyond the original specification
- Replacement of an entire asset (e.g. whole new HVAC system rather than repair)
- Initial fit-out of newly-acquired premises
- Conversion to a different use

The grey areas

Replacement of a worn carpet: revenue if like-for-like, capital if upgrading to a better grade.

Replacing single-glazed windows with double-glazed: HMRC accepts this as repair if double glazing is the modern standard equivalent (yes, after years of dispute).

Roof renewal: depends on whether the new roof is materially better than the original. A like-for-like reroofing is revenue; a new structurally different roof is capital.

Worked example — £4m office refurb that lost half its tax relief

A client's £4m office refurbishment:

- £1.6m of M&E replacement: claimed as repairs → HMRC challenge, ruled capital
- Result: instead of $£1.6m \times 26.5\% = £424,000$ immediate relief, the £1.6m got 6% WDA over many years
- Year 1 actual tax relief on the £1.6m: just £96,000 — a £328,000 cash-flow hit

The fix would have been treating it as capital from the start, but claiming AIA on the special rate pool element — which would have recovered most of the relief in year one.

ATED and non-resident rules

ATED

Annual Tax on Enveloped Dwellings applies to **residential** property worth over £500,000 owned by:

- Companies
- Partnerships with a corporate partner
- Collective investment vehicles

Commercial property doesn't get caught by ATED. But mixed-use properties with a residential flat above can — and the residential element triggers ATED on the whole value if not separately apportioned.

ATED rates 2026/27 range from £4,400 (£500k–£1m) up to £287,500 (over £20m). Various reliefs apply for genuine rental, development or property trading businesses.

Non-resident commercial property

Since April 2019, non-residents (individuals or companies) selling UK commercial property are subject to UK tax on the gain. Rebasing to April 2019 values means you only pay tax on the post-April-2019 increase.

For non-UK residents, the rate is corporation tax (currently 25% / marginal 26.5% / 19%) for companies, or CGT (18%/24%) for individuals.

The Non-Resident Landlord scheme requires withholding on rental income unless an exemption certificate is in place.

CGT, SSE and reliefs on disposal

Individual disposal

CGT on commercial property (held personally):

- 18% basic rate, 24% higher/additional rate (the rates that applied from 30 October 2024)
- Annual exempt amount: £3,000 (2026/27)
- BADR available if held for trading purposes for 2+ years before sale → 18% rate up to £1m lifetime limit

Corporate disposal

Corporation tax on gain:

- 19% small profits, 25% main rate, 26.5% marginal
- Indexation allowance frozen at December 2017 levels
- Substantial Shareholdings Exemption (SSE) may exempt the entire gain on **sale of PropCo shares**

SSE — the planning gem

Selling shares in PropCo (rather than the property itself):

- SSE exempts the gain entirely if conditions met:
- PropCo held by the selling group for 12 continuous months in last 6 years
- Both PropCo and OpCo broadly "trading" (very interpretive for property holding)
- Buyer is independent

Property letting is generally NOT trading for SSE purposes, but where PropCo holds for an OpCo's trade, the analysis can support SSE. Get this analysed 24+ months before any potential sale.

Rollover relief

For commercial property used in your trade, gains can be deferred by reinvesting in qualifying replacement assets within 36 months. Useful for buy-and-build property businesses.

HMRC enquiry triggers in commercial property

Eight markers that materially increase enquiry risk:

1. **Large capital allowances claims with no Section 198 election** — almost guaranteed enquiry
2. **OTT election made then revoked** within the 6-month window — flags inconsistency
3. **Mixed-use SDLT claims** without clear commercial element documentation
4. **CGS adjustments missed** post-acquisition (especially when buying from an opted seller)
5. **SBA claimed on demolished structures** — common error after partial demolition
6. **Repairs claimed for major refurbishment** — especially M&E replacement
7. **Inter-company rent at non-market levels** (OpCo/PropCo) — transfer pricing risk
8. **Frequent property disposals without trading registration** — HMRC may reclassify as trading

Defensive documentation

Maintain at minimum:

- Pre-acquisition due diligence report covering tax position
- Section 198/199 elections signed at completion
- VAT position record (opted? When? CGS calculations year by year)
- Capital allowances surveyor report with apportionment
- Repair vs improvement justification for each major item
- Inter-company lease agreement at market rent (with comparable evidence)

Pre-completion tax checklist

Use this list 4+ weeks before exchange on any commercial property acquisition over £500k:

- ☐ SDLT calculation confirmed, including any premium and NPV
- ☐ Mixed-use analysis documented (if applicable)
- ☐ Seller's CGS position obtained in writing
- ☐ OTT decision made and election filed (if applicable)
- ☐ Section 198 fixed-value election signed
- ☐ Capital allowances surveyor engaged for apportionment

- ☐ VAT recovery position modelled (CGS implications)
 - ☐ Pool composition planned (AIA, Full Expensing, special rate)
 - ☐ Lease terms reviewed for tax efficiency
 - ☐ Group structure considered (PropCo, SPV, holding company)
 - ☐ Exit reliefs assessed (BADR, SSE)
 - ☐ Holding period strategy documented for SSE qualification
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How The Tax Lead can help

The Tax Lead provides specialist commercial property tax advice for owner-occupiers, investors and developers. We handle:

- Pre-acquisition tax due diligence and structuring
- Capital allowances claims (including retrospective)
- VAT and OTT advisory
- OpCo/PropCo restructuring
- Pre-sale planning and SSE qualification

Founded by Shamim Bhuiyan FCCA, CTA, BSc — Forvis Mazars trained Corporation Tax Specialist, currently Head of Tax — Europe at a major digital infrastructure operator.

Free 30-minute consultation: thetaxlead.co.uk/contact

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