# VAT Changes in Property Settlements


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Due to changes since the outset of the pandemic, tenants are perhaps looking to terminate their leases early. It is therefore worth considering whether there will be any VAT implications in doing so.

The VAT in relation to the termination of contracts had remained unclear but the HMRC announced changes in September on its view of VAT treatment on early termination payments. The 2020 Brief is to come into force on 1 April 2022.

The updated Brief introduced a few changes to the treatment of VAT. In particular, from a landlord and tenant perspective, the following have been noted:

1. Early termination payments by way of a break or settlement may possibly attract VAT.

2. Dilapidations will continue to fall outside the scope of VAT as compensation payments.

Going forward, leases are likely to incorporate more VAT provisions in relation to break clauses and whether VAT is inclusive or not and this should be considered when assessing the options available and seeking advice.

For further advice on landlord and tenant matters, please contact our property litigation team.




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