

‘Rent-to-Buy’ (and similar) Schemes

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‘Rent-to-buy’ and similar schemes are essentially schemes, devised by builders/ developers, to provide an incentive for people to purchase a property by giving them the opportunity to live in the property for a trial period before deciding whether to purchase that property and by discounting the purchase price of the property in certain situations.

It appears that the most common type of arrangement is for the potential purchaser to occupy the property under a letting agreement. Where the person decides at some stage within a pre-agreed period to purchase the property, the purchase price is reduced by some, or all, of the rent that has already been paid. The purchase price may be further discounted to reward early purchase. Usually, any rent that has already been paid is forfeited where the person decides not to purchase. There is an increased likelihood of the person proceeding with the purchase as walking away from the arrangement involves a cost in the form of the non-refundable rents.

There are many variations on this type of ‘rent-to-buy’ scheme. For example, the prospective purchaser may occupy the property under a caretaker’s agreement and, instead of paying rent, he or she pays a deposit towards the purchase price of the property. Another variation is for the prospective purchaser to make a payment for an option to purchase the property at a pre-agreed price within a pre-agreed timeframe. Such deposits and option payments may be paid up front or by instalments over the pre-agreed period.

Because of the variations in the types of arrangements used, each case is ultimately to be decided on its particular facts and circumstances. **Tax Instruction [22.1.3](#)** outlines some of the tax consequences that are likely to result from three different types of arrangements from the perspective of both vendor and purchaser. The types of arrangements and tax consequences outlined are intended as general guidance and are not to be taken as being definitive or exhaustive.

Note – for the Value Added Tax Treatment of such schemes please refer to Value Added Tax Manual. Part [4.1 - Provisions Relating to the Supply of Immovable Goods](#) is in relation to ‘Rent-to-Buy’ and similar schemes.