CARPENTER BOX

ADVISORY / TAX / AUDIT

South East Property Newsletter

Issue 1: October 2021

What's inside

Welcome to issue 1 of our South East Property newsletter!

This new quarterly newsletter from the Construction & Real Estate team at Carpenter Box seeks to cover the latest news, trends, challenges and opportunities facing the sector. With the changing economic landscape, construction remains a vital part of the UK economy, particularly in the South East.

Our first issue looks at the impact of the Domestic Reverse Charge, which came into effect earlier this year at a difficult time for the sector. We offer our top tips to deal with the charge and its impact on your business. The team also look at plans for infrastructure around the world and the tax changes in store for landlords in the coming years.

Each issue will also cover tax updates for the industry, the latest house and building materials prices, as well as construction output figures from the Office of National Statistics.

I trust you'll enjoy our launch issue. If you have any questions about the topics discussed, we're here and happy to help, so don't hesitate to get in touch.

Robert Dowling
Head of Construction and Real Estate
Carpenter Box

Domestic Reverse Charge: our top tips

After being delayed twice, the new VAT Domestic Reverse Charge (DRC) went live on 1 March 2021. HMRC implemented the change to combat VAT 'missing trader' fraud in the sector which is estimated to cost the Treasury £100m per annum. It is the most significant change to VAT in construction services in 30 years.

However, with the Covid pandemic still affecting the economy, and supply chain issues biting following the end of the Brexit transition period, many construction businesses are struggling to adapt to the changes.

Over the past six months, our VAT team have seen a number of recurring issues with the DRC. Below, we will cover the most common issues affecting construction businesses, with our top tips on addressing them.

1 Businesses are incorrectly charging VAT.

If in doubt over whether VAT should be charged, we're seeing that businesses will charge VAT as default. The assumption is that their customer can reclaim any VAT charged from HMRC. However, that leaves their customers at risk, as HMRC may not refund the incorrectly charged VAT.

Action point: If you are being charged VAT within a supply chain, check to ensure you are comfortable it has been correctly charged because if will be difficult to reclaim at a later time.

2 Businesses are unaware if they fall within the Construction Industry Scheme.

Under the Construction Industry Scheme (CIS), contractors deduct money from subcontractors' payments, then pass it on to HMRC. These deductions count as advance payments towards subcontractors' tax and National Insurance.

The DRC has been linked into, and only applies to supplies that fall within CIS. This has highlighted that currently there are a number on construction suppliers and customers that should be CIS registered but are not. Such businesses may not be aware they fall within the scope of the DRC.

Action point: Check your CIS obligations. Many businesses do not realise they fall within the scope of both the CIS and DRC.

3 Accounting software hasn't been updated to account for the DRC.

If you're using older accounting software to process your VAT returns, it may not have been updated to account for the new changes. Some accounting software is useful at 'remembering' what codes you've used in previous returns and may default to the same coding used in previous entries. With the recent DRC changes in VAT, such defaults may no longer be the correct codes. Businesses may therefore be using the wrong tax code for transactions, so VAT isn't being correctly accounted for in the VAT return

Action point: Make sure the tax codes in your accounting software have been updated for DRC, and that you are using the correct codes.

4 Lack of clarity around what is considered a construction service

Whilst there are many widely accepted services that fall under the remit of construction (building a wall, installing electrics, etc), there are a number of ancillary services you may need to consider. Services such as site security or removing waste from a site may fall within the definition of a construction service, depending on how the services are structured.

HMRC have not currently published a definitive comprehensive list, although examples are included which can be referenced. However, you need to be aware that whilst some businesses do not consider themselves as providers of construction services, their services may still fall under the remit of the DRC.

Action point: Ensure you understand which of your services fall under the definition of construction services.

5 Systems and workflows have not been properly reviewed

With the effects of the DRC still impacting construction businesses, it's essential you have good internal processes for dealing with the VAT accounting for your supply chain.

We recommend all businesses have a workflow in place to deal with the DRC effectively. Rather than one single comprehensive system, there should be two separate processes to review:

- Supplies you make to your customers; and
- Supplies you receive from your suppliers.

These will vary depending on where your service sits in a supply chain and should be reviewed separately. Too often, individuals within an organisation are unaware of the DRC obligations and accounting, particularly those outside of the finance function.

If you don't have systems in place already, make a flow chart on how construction supplies (both made and received) should be dealt with. That way, everyone in your business knows what the obligations are within the DRC. This should incorporate accounts, IT, sales and operations.

Action point: Review your systems and processes to ensure DRC obligations have been taken into account.

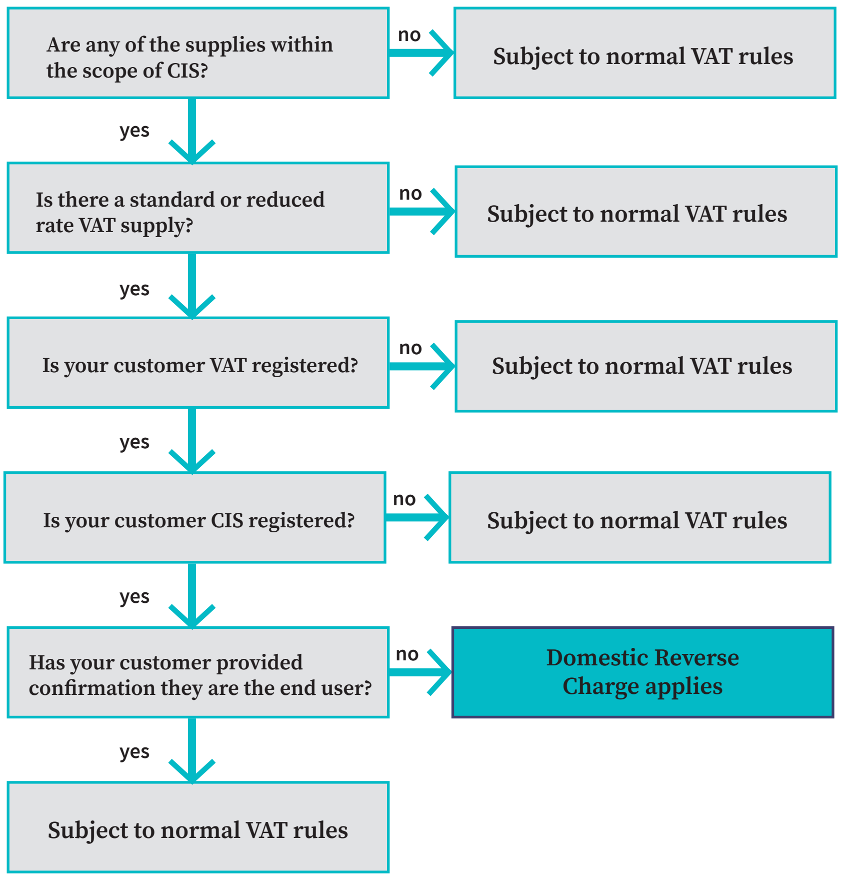
Domestic Reverse Charge overview reminder

Sub-contractors in a Construction Industry Services chain of supply no longer collect VAT from other contractors. In its place a reverse charge system now applies. This makes the buyer of the sub-contractor's service liable for VAT accounting in place of the supplier.

The DRC only applies to businesses within a chain. Therefore, owners, developers, and general end users/parties in a chain are not affected.

Follow this flow diagram to see if your supplies fall under the DRC for building and construction services.

This is a mandatory charge. It is not optional.

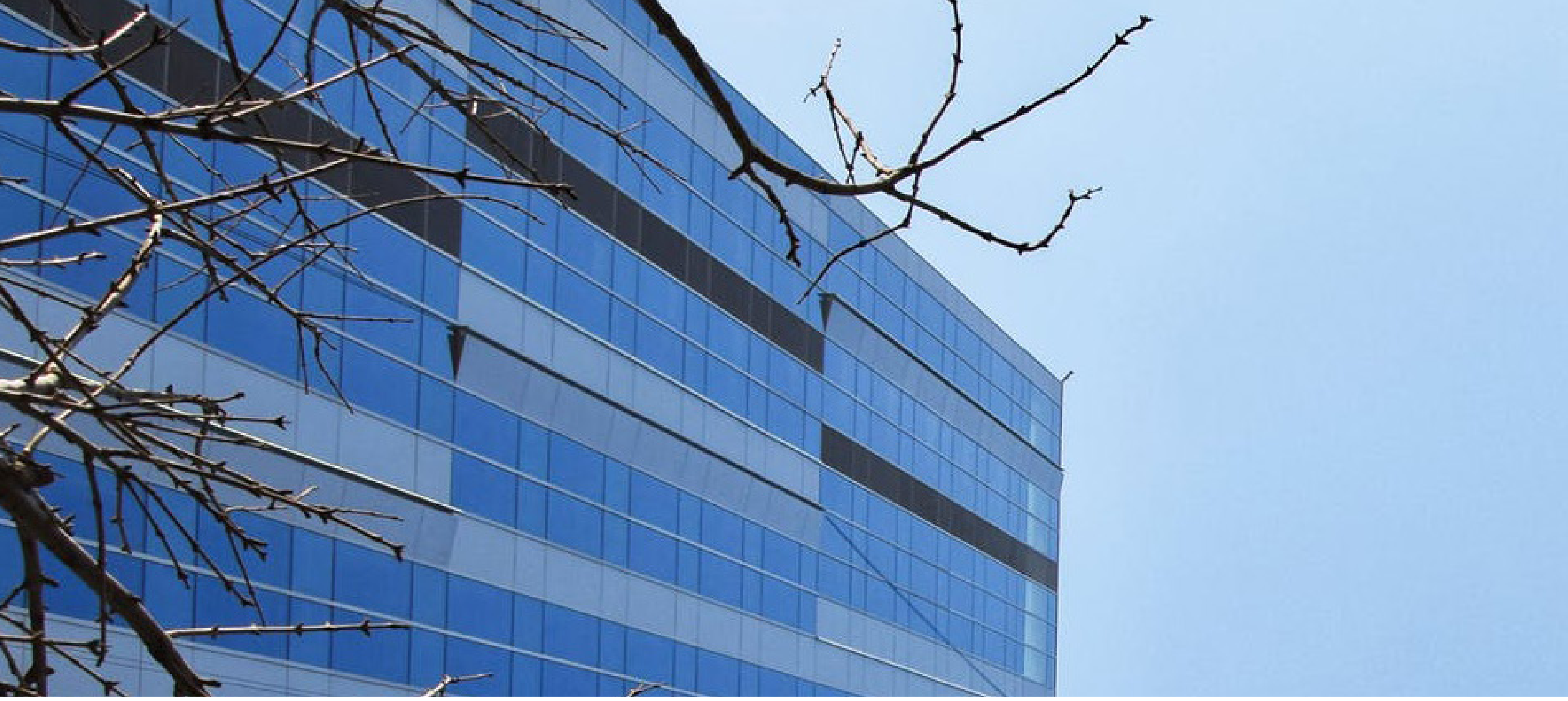


How we can help

If you are struggling to make sense of the Domestic Reverse Charge or complying with the new rules, our team can help. We can support you on an ad hoc basis, such as advising whether services fall in the scope, or on a project-based approach including:

- Interactions within the CIS system
- Accounting software set up and adaptation
- Systems reviews to ensure compliance

Contact our tax team on 01903 234094.



Global plans for infrastructure spending

James Giblin from investment company LGT Vestra offers comments on infrastructure spending and plans from around the world.

If Boris Johnson's ambitious plan for a logistically challenging 28-mile bridge between Scotland and Northern Ireland is anything to go by, the UK government had a significant appetite for large infrastructure projects, even before the COVID-19 pandemic.

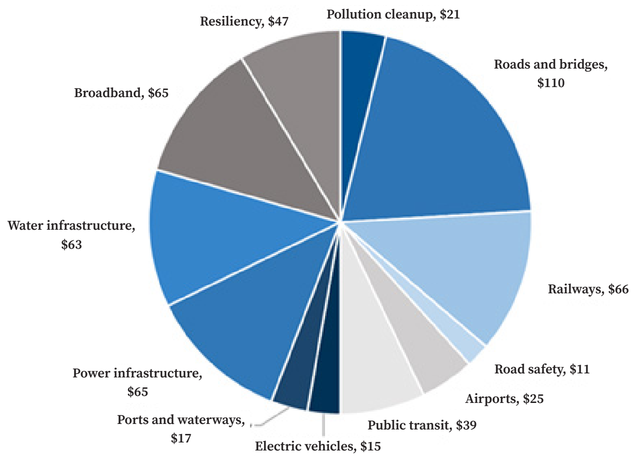
The desire to bounce back quickly from the pandemic, along with pledges to reduce carbon emissions, have further ignited government plans for infrastructure spending. Governments are looking for ways to achieve the dual goal of stimulating economies alongside making the transition to a greener economy.

This is not just a UK phenomenon; the US, Europe and many Asian administrations have all announced large scale infrastructure projects not seen for generations, many linked to the green transition.

The view in the US

The US senate passed a $1tn infrastructure bill earlier this year that was supported by 19 Republicans in the Senate, a rare show of bipartisan support in what has been an incredibly divided period of politics in Washington. Whilst this is a big step forward in passing the bill, it may be delayed significantly as it makes its way through the House. Speaker Nancy Pelosi has said they will not vote unless the Senate pass the even more ambitious $3.5tn social policy bill. Nonetheless, this is a big moment for US infrastructure spending that has been seriously neglected for decades.

The expenditure is undeniably large and includes $550bn of new spending as well as renewing existing spending. The bill is largely focused on traditional infrastructure, including $65bn to expand high-speed internet access, $110bn for roads and bridges and $25bn for airports. Green infrastructure does also feature with $15bn allocated to electric vehicles.



Source: Committee for a Responsible Federal Budget; White House

However, the bill is a far cry from the initial proposal from the Biden administration. This was almost four times the size at $2.6tn and included much broader spending, with over half the proposed spending on R&D, housing and community care.

This isn't something the Democrats have given up on and they aim to include much of the omitted spending in the $3.5tn budget proposal that will be debated later in the year. This is certainly one to keep an eye on, as the tight margins in both the Senate and House make it difficult to pass without full support of the party.

The rest of the world

Elsewhere, funds from the Next Generation EU fund finally look set to begin flowing as Brussels has signed off spending proposals by Spain and Portugal. The deal was originally brokered between 27 EU nations in 2020 and prioritises spending on energy transition and digitisation projects as the region continues its recovery from the pandemic.

Each national plan must set out how the funds would be used to further bloc-wide goals on sustainability, as well as committing to reforms. The plan will pump a significant amount of fiscal stimulus back into the economy that will aim to push economic activity back towards pre-covid trends. The project will likely have a greater impact on some of the Southern European countries that have been more impacted by the pandemic such as Greece and Italy.

China also looks set to continue its Belt and Road initiative, which aims to create a new "Silk Road" between Asia and Europe, as well as investing trillions in infrastructure projects across the developing world.

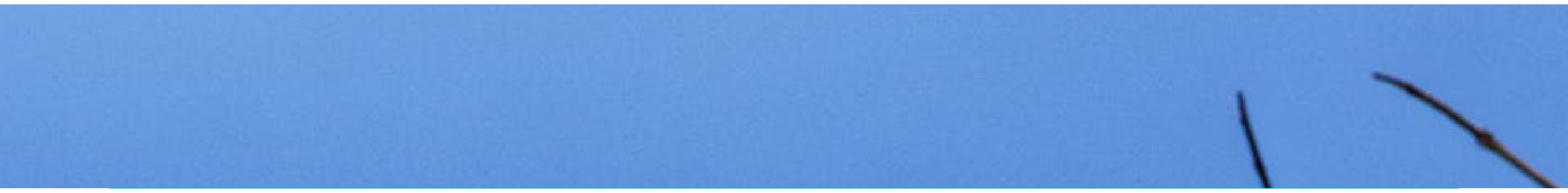
The initiative dwarves all others in terms of scale and reach, and has extended Chinese influence far beyond its borders. These projects are likely to have a greater focus on green energy moving forwards following President Xi's announcement that China will aim to have CO2 emissions peak before 2030 and carbon neutrality by 2060.

Global growth following COVID

All of the aforementioned infrastructure projects are clearly going to be positive for global growth as we continue to bounce back from the global pandemic. However, more hawkish observers are keen to point out that parts of the global economy are already looking hot in many areas.

Supply chain disruption has not yet faded and many commodity prices remain at or near all-time highs. Going forward, politicians are going to have to find a delicate balance, a choice between building back a greener and stronger economy while refraining from pushing too far, overheating the economy and having to slam on the brakes.

For more information visit www.lgtvestra.com



Landlords: what are the implications of MTD?

Making Tax Digital: What is it?

Making Tax Digital (MTD) is the new requirement for businesses to keep accounting records 'digitally' and make their electronic submissions to HMRC. This is already in place for VAT registered businesses and has been running for 2 years already.

MTD for income tax

HMRC recently announced they are moving on to introduce MTD for Income Tax Self-Assessment (ITSA) from April 2024. This was originally proposed to commence from April 2023. However, having listened to stakeholder feedback from businesses and the accounting profession, the government have announced that they will introduce MTD-ITSA a year later than planned, in the tax year beginning in April 2024.

This will give the self-employed and buy to let landlords an extra year to prepare for the digitalisation of Income Tax and also allow HMRC more time for customer testing of the pilot system.

All businesses, including sole trader self-employed businesses, partnerships and letting businesses with turnover in excess of £10,000, will come within the MTD regime from April 2024. The £10,000 turnover test includes the total turnover where individuals have more than one source of business income.

Making Tax Digital for income tax will be introduced from April 2024.

Taxpayers' obligations

HMRC have not advertised these changes very well to taxpayers and are relying on accountants to help their clients get it right. Some accountants are not prepared for the changes themselves as they are not sufficiently advanced with their digital technology.

Unlike the current self-assessment regime, no platform will be provided by HMRC for taxpayers to submit their records. HMRC are relying on third parties to provide the technology to taxpayers, so there will be a cost for those needing to report their tax affairs under MTD.

Individuals will be required to make a quarterly filing. This can be done electronically on a smart phone or computer. For this reason, it is important to maintain up to date electronic records of income and expenses for your business so that you have an accurate record of your quarterly business figures. Some businesses may have regular income and outgoings in which case the reporting will be more straight forward because each quarter may be very similar.

The businesses most affected by these changes will be those with manual records, those with out-of-date accounting software or multiple accounting systems, and those using bespoke or niche software.

What will reporting under MTD look like each year?

For each business, four quarterly returns will need to be prepared along with an end of year statement showing any tax adjustments for that business. If a taxpayer has more than one business, they will need to file these five tax returns for each separate business.

In addition to this, each taxpayer will be also required to file a final declaration which we believe will be similar to the current annual self-assessment tax return. This will bring in all the various sources of income for the tax year.

- If you have one self-employment business, then 6 declarations will be required for a tax year.
- If you have a self-employment and rental income, then 11 tax declarations will be required.
- If you have 2 self-employment businesses and a rental business, then 16 tax declarations will be required.

What help will you receive from HMRC?

HMRC now holds much more information. This means some fields will be pre-populated with information they hold such as PAYE income and tax paid, bank interest and dividends. The onus is still on the taxpayer to check the pre-populated information is correct.

HMRC will not provide free software and won't be providing any financial help towards the costs of obtaining software. But they have confirmed these costs will be tax deductible!

How can you prepare?

We encourage you to invest in software now to assist you to be MTD ready. Our cloud team can recommend and provide software, and we can offer training on how to use this.

We also recommend you take steps now so that when MTD is launched, you are familiar with the software package you are using, and it will make the transition easier for you.

We hope tax returns will be simpler, although more frequent reporting is required. Keeping your records up to date will in time become less of a burden and you will be in control of your business finances.

HMRC have said they will not be seeking quarterly tax payments, but we suspect this may change in the future, so that tax will become 'pay as you go'.

Our cloud team have already helped many of our clients with their accounting software to become 'MTD ready'. We have access to a range of MTD ready software providers that we can provide along with our accounting services. No two businesses are the same, so each business requires a different level of accounting support. Contact our team on 01903 234094 for further information.

Are you aware of the changes to Capital Gains Tax?

The government have cut a number of tax reliefs available to landlords in past years, including introducing loan interest restrictions, abolishing the wear and tear allowance, replacing it with the new renewals basis and more recently abolishing lettings relief on sales of let property.

As a result of some of these tax changes, some landlords are now having to fund their rental businesses, where the rental profit does not cover the tax liability. In addition to this, there is also a further SDLT charge levied on the purchase of second properties. Despite this, UK property remains a popular investment.

Capital gains tax reporting on UK residential property

With effect from April 2020 the government introduced a new reporting requirement for disposals of UK residential property. Within 30 days of completion, the gain arising on the sale of the property must be reported and the tax paid. It is possible that where no tax is due, the reporting requirement may not apply.

Who does this CGT reporting apply to?

Non-resident individuals selling UK residential property were required to make the report from April 2019. From April 2020, this reporting requirement extends to individuals, Trustees and Executors selling UK residential property. However, the rules do not apply to sales of commercial property.

This report is required even if you are already within the Self-Assessment system.

How does it work?

Agents are unable to make this CGT report for you, without you setting up your own Personal Tax Account and CGT property reference. The report must be made within 30 days of completion, estimating your tax rate bands if necessary. HMRC will then issue you with a payment reference and the capital gains tax can be paid, within the 30-day time limit.

Taxpayers will also be required to declare the disposal on their self-assessment tax returns and will receive a credit for the tax already paid.

Where this disclosure is made by Executors of an estate, the report needs to be filed on paper.

There have been some teething problems where the capital gains tax has been overpaid through the disclosure and it has made it difficult to recoup this via the self-assessment system.

Construction tax updates

Super-deduction

From April 2021, companies can claim a super-deduction which provides additional tax relief when purchasing new plant and machinery. This tax relief is expected to end in March 2023 so it's well worth planning to make the most of this opportunity while it's available.

For example, a contractor spending £500,000 on new machinery can get tax relief of up to £123,500 (24.7%) compared to the usual £95,000 (19%) where the Annual Investment Allowance is available.

There are some points of detail to be aware of so please speak to us when planning this expenditure to ensure it's structured as tax efficiently as possible.

Read more on the super-deduction

Cladding Tax Consultation

The Treasury is analysing feedback from their public consultation which ended in July 2021 for a proposed new 'Residential Property Developer Tax', nicknamed 'Cladding Tax'. Watch this space for changes which could be introduced in the Budget on 27 October 2021.

Their plan is to introduce a new tax for the UK residential property development sector to help raise £2 billion to fund the government's remediation programme for unsafe cladding.

Initially, it has been proposed to collect this tax from developers with profits exceeding £25 million per annum. This should take the majority of developers out of this tax, impacting only the larger developers.

Read more on the cladding tax

SDLT Cases

There has been an increased number of SDLT cases moving through the courts recently. Interesting conclusions are being drawn by judges which will have an impact on taxpayers, the main areas of interest being:

- Multiple Dwellings Relief – where the purchase of residential properties with annexes which are deemed inadequate to claim this very valuable relief;
- Mixed-Use Purchases – where the non-residential part of the property or grounds is not considered sufficient to support the lower rates of non-residential SDLT.

These areas are now being reviewed and challenged by HMRC more than ever and the goalposts are shifting as a result of these cases. It's essential any SDLT planning is carried out ahead of a purchase taking place in order to put taxpayers in the best position.

Contact our tax team on 01903 234094 for further help or support on any of the above.

The new Health and Social Care Levy: what does it mean for you?

Recently the government announced plans to raise the rate of National Insurance and the rate of tax on dividends from 6 April 2022.

These are in addition to the changes announced earlier in the year to freeze the inflationary increase of personal tax bands, NI thresholds and the planned increase in corporation tax.

From 6 April 2022 the government will be introducing the Health and Social Care Levy. This will initially be shown as an increase in the rate of National Insurance, but from 6 April 2023 it will be its own separate levy.

Who will be affected?

This increase will only impact those already in charge of National Insurance in 2022/23. But it will then apply to working persons, even above state pension age, in 2023/24 and onwards when the levy becomes separated from National Insurance.

The levy will impact the rates of Class 1 primary, Class 1 secondary and Class 4 National Insurance contributions in 2022/23. There will be no impact on the rates of Class 2 or Class 3 contributions. The changes are summarised below:

	Employee Main / higher rate	Employer	Self-employed Main / higher rate
Current NICs rates (2021-22)	12% / 2%	13.8%	9% / 2%
2022-23 NICs rates	13.25% / 3.25%	15.05%	10.25% / 3.25%
2023-24 NICs rates	12% / 2%	13.8%	9% / 2%
2023-24 Levy	1.25%	1.25%	1.25%
Charged on all earnings/profits above: (2021-22 thresholds)	£9,568	£8,840	£9,568

Dividends

From 6 April 2022 the rates will increase as follows:

	2021 / 2022	2022 / 2023
Basic rate	7.5%	8.75%
Higher rate	32.5%	33.75%
Additional rate	38.1%	39.35%

The dividend allowance of £2,000 will remain.

House price growth

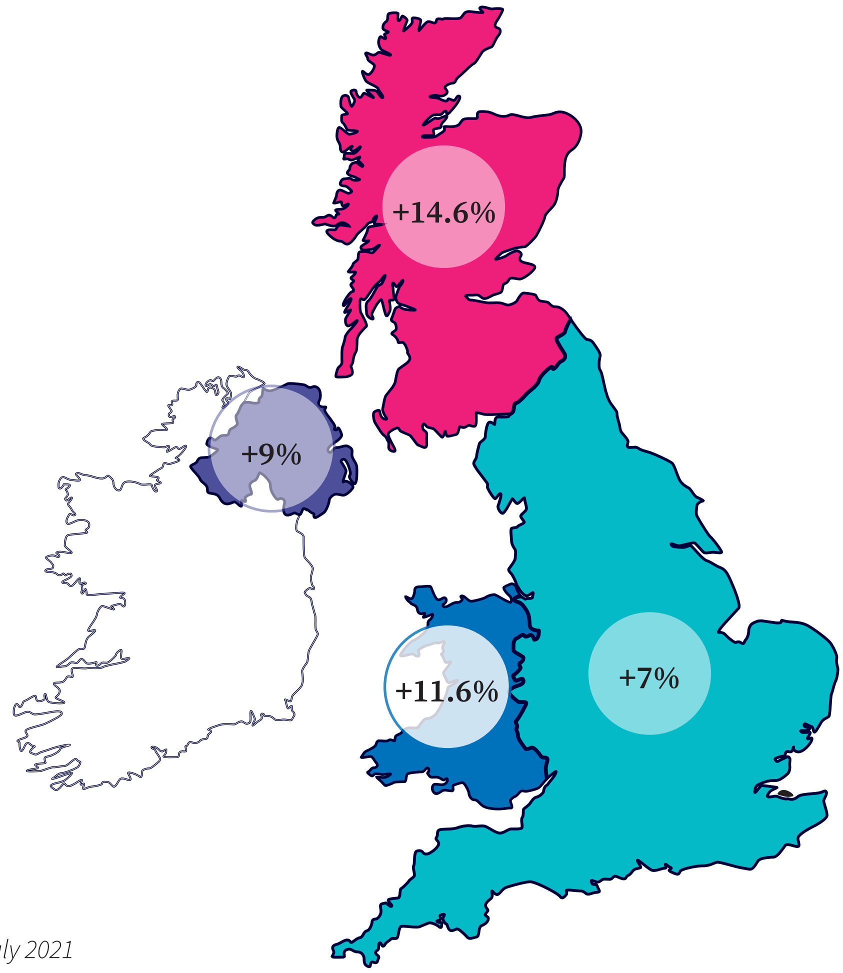
The Office for National Statistics has recently released the House Price data for July 2021, with year-on-year growth from 2020, but a dip compared to the previous month.

Monthly house prices changes across the UK: July 2021

UK average house prices increased 8.0% over the year to July 2021, down from 13.1% in June 2021. The average UK house price was £256,000 in July 2021, £19,000 higher than July 2020. This follows a record high of £265,000 in June 2021.

Average house prices increased across all four countries:

- England increased 7% to £271,000
- Wales increased 11.6% to £188,000
- Scotland increased 14.6% to £177,000
- Northern Ireland increased 9% to £153,000



House prices by region

While the North East had the highest annual high price growth at 10.8%, the South East was just behind with 8.8% annual price growth. The lowest annual growth was in London, where average prices increased by just 2.2% over the year to July 2021. However, London average price houses remain the most expensive in the UK, with an average of £495,000 in July 2021.

Source: Office for National Statistics – Price Index: July 2021

End of Stamp Duty holiday

On 3 March 2021, the Chancellor of the Exchequer announced an extension to the Stamp Duty holiday in England and Northern Ireland. The tax holiday was extended until 30 June 2021, after which the threshold decreased to £250,000 until 30 September 2021.

From 1 October 2021, the Stamp Duty thresholds reverted to what they were before 8 July 2020. The tax holiday for Scotland ended on 31 March 2021. The tax holiday in Wales ended on 30 June 2021.

As the tax breaks were originally due to conclude at the end of March 2021, it is likely that March's average house prices were slightly inflated as buyers rushed to ensure their house purchases were scheduled to complete ahead of this deadline. This effect was then further exaggerated in June 2021, in line with the extension to the holiday on taxes paid on property purchases in England, Wales and Northern Ireland.

Average house prices for July returned to similar levels seen earlier in the year. The seasonally adjusted number of transactions in July 2021 fell to 73,740, following the record number of 198,420 transactions in June 2021.

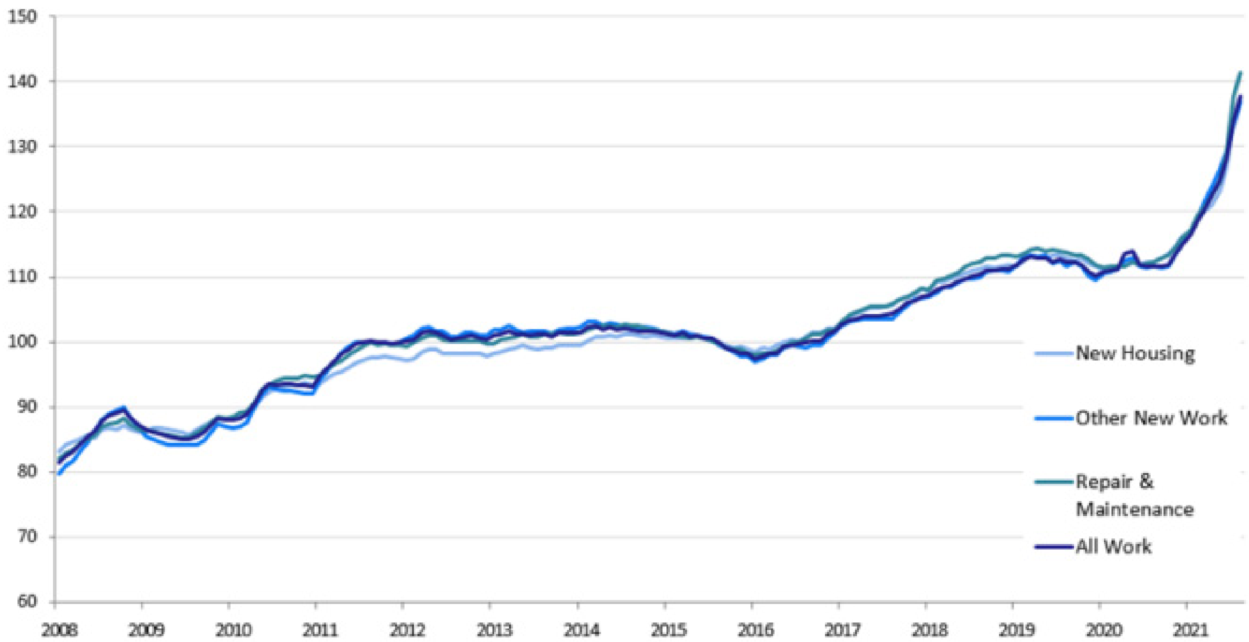
Building Materials and Construction Output

The Department for Business, Energy & Industrial Strategy recently released their monthly statistics of building materials and components. This is coupled with the ONS data on Construction Output and Employment for July 2021.

Construction Material Price Indices July 2021

The material price index for 'All Work' **increased by 4.5%** in July 2021 compared to June 2021 and by **20.1%** compared to July 2020.

Chart 1: Construction Material Price Indices, UK
Index, 2015 = 100



Source: *Monthly Statistics of Building Materials and Components Table 1.*

Construction materials experiencing the greatest price increases and decreases in the 12 months to July 2021, UK

Construction Materials	Year-on-year % change
Greatest price increases	
Imported plywood	81.7
Fabricated structural steel	64.7
Imported sawn or planed wood	64.2
Greatest price decreases	
Screws etc.	-14.1
Electric water heaters	-1.9

Year-on-year and month-on-month changes to construction material prices

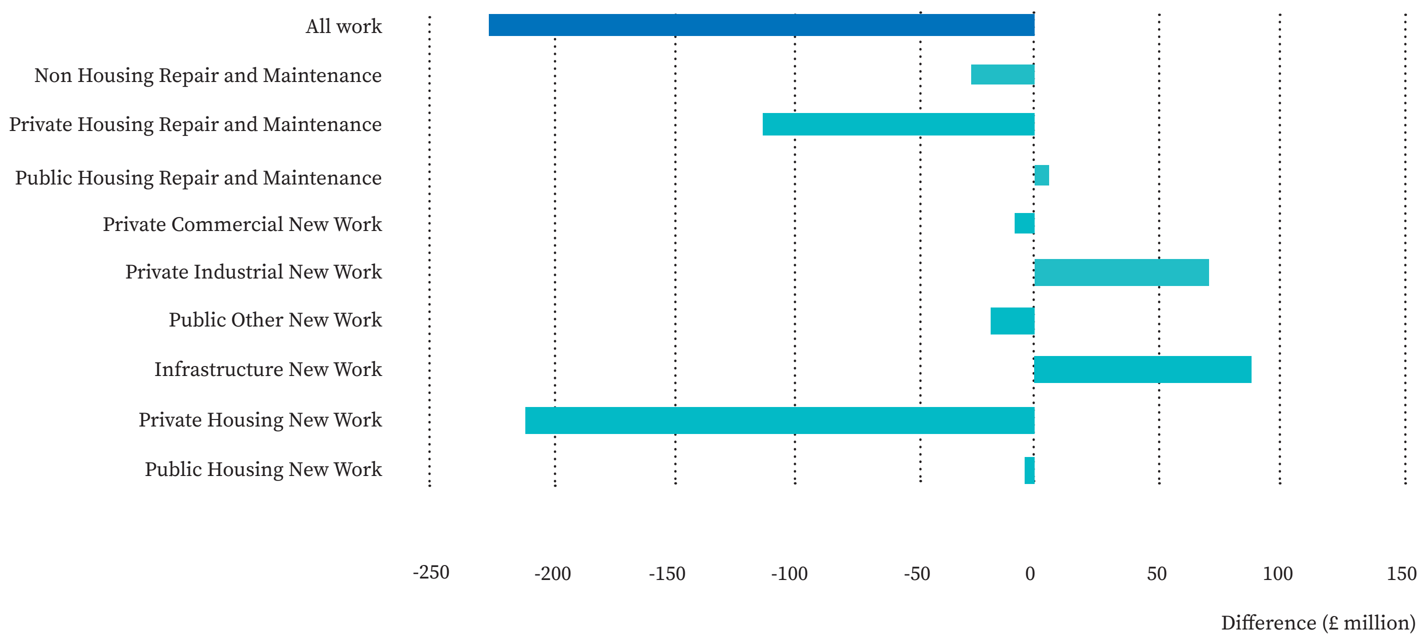
	Year-on-year change (July 2020 to July 2021)	Month-on-month change (June 2021 to July 2021)
New Housing	19.8%	5.8%
Other New Work	19.6%	3.1%
Repair & Maintenance	23.0%	6.7%
All work	20.1%	4.5%

Source: *Monthly Statistics of Building Materials and Components Table 2.*

Construction Output – July 2021

Monthly construction output **fell by 1.6%** in July 2021 compared with June 2021, falling to £13,660 million. This follows the 1.3% monthly decline in June 2021 and is the fourth consecutive decline in monthly construction output.

The 1.6% fall in construction output in July 2021 represents a fall of £218 million in monetary terms compared with June 2021.



Source: *Office for National Statistics – Construction Output and Employment*

Recent survey returns to the Monthly Business Survey for Construction and Allied Trades suggested that the rising prices of raw materials such as steel, concrete, timber and glass was a contributing factor to the monthly fall in volume terms. Anecdotal evidence also suggested supply chain issues were a factor, with many contributors stating that while order books were healthy, the availability of certain construction products was impacting on projects currently under way.

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