Property Insight

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Introduction

Stephen Charles
Tax Partner,
Sheffield
0114 266 7141
sac@hawsons.co.uk

Welcome to our Property and Construction Newsletter

The economic uncertainty surrounding Brexit is causing chaos in the property and construction sector, with many holding off investing in Property until Brexit is concluded and the Autumn Budget is announced. The main reason why investors are holding off is because it is believed that Brexit will cause house prices to fall and therefore they will be able to purchase at a reduced price.
In this edition of the property and construction newsletter the main topic is of course Brexit. We will be looking at how it has affected the house price growth, the decline in property value, and the stand-off between buyers and sellers as neither are sure of what to do. I hope you find the articles in this newsletter herein interesting. If you would like to discuss any of issues in this newsletter please do not hesitate to contact us.

Hawsons has a dedicated team of specialist property and construction accountants in Sheffield, Doncaster and Northampton.

We act for a large number of property and construction firms across all three of our offices, including: investors, developers, construction firms, estate agents surveyors, and archiects.

Having an accountant who understands the challenges of this dynamic sector and is able to help you plan for the future is an advantage in a competitive environment. At Hawsons we have a great deal of experience in advising and helping businesses in property and construction and we can assist you as your business grows.

Housing experts predict that a no-deal Brexit could cause house prices to fall

A poll conducted by Reuters has found that many housing experts predict that Britain's property market will suffer with average prices predicted to drop by around 3% nationally if we leave the EU without a deal. 85% of housing experts in the poll say that this drop could last for around six months. However, if Britain leaves the EU with a deal, house prices are expected to rise by around 1.5% in the following two quarters after the leave date.

"Despite the new PM and team in government there are big icebergs ahead, not least the apparent willingness to leave the EU without a deal," said property market consultant Henry Pryor. He added "this is likely to spook the markets before it reassures them."

Key Statistics:

- Many housing experts predict that the average house price will drop by around 3% nationally if we leave the EU without a deal.

- If we leave the EU with a deal, house prices are expected to rise by around 1.5% over the next two quarters after the leave date.

House price growth at a six-year low

Halifax Bank have said that house prices rose by 1.1% in the year to the end of September, which is the slowest rate of growth since April 2013. Despite this, low interest rates are thought to be keeping mortgage approvals steady.

The average price of a UK home in September 2019 was £232,574, which represented a 0.4% decrease compared to August. This is clearly good news for first time buyers as any decrease in value may make the prospect of owning their own home more affordable.

Russell Galley, Managing Director at Halifax, said: “Underlying market indicators, including completed sales and mortgages approvals, continue to be broadly stable. Meanwhile for buyers, important affordability measures – such as wage growth and interest rates – still look favourable. Looking ahead, we expect activity levels and price growth to remain subdued while the current period of economic uncertainty persists.”

Brexit could cause property investment to surge according to new poll

A new survey has suggested that Brexit could cause property investment to increase.

According to the new survey commissioned by Experience Invest, over the past six months 55% of investors have paused their plans to invest as they wait to see the impact of Brexit. 37% have taken properties off the market as a result of a slowdown in market activity, whilst 59% are holding back until the 2019 Autumn Budget announcement before making an investment. 51% of participants predicted there will be a rush of activity in the market after 31 October.

Most property investors polled believe that the market will remain strong even with the uncertainty of Brexit, with only 31% of investors believing that leaving the EU will reduce the value of their properties.

Jerald Solis, Business Development and Acquisitions director at Experience Invest commented “There has been a great deal of speculation about how Brexit will impact the UK’s property market. Since the referendum, however, while some parts of the market have slowed or dipped slightly, prices on the whole have held firm or, in many regions, risen steadily”.

SME developers are struggling for funding

SMEs (small and medium-sized enterprises) are key contributors to the UK's economy. But many SME developers who are new to the property industry are understood to be struggling to obtain sufficient funding.

Encouraging SMEs into the housing market is considered vital in order to deal with the current housing crisis. However, research by Reuters suggests that SME developers have contrasting views on the accessibility of funds for new development projects.

One possible reason why an inexperienced SME may struggle for funding is because traditional lenders may tend to look for a proven track record. Therefore, inexperienced SMEs may be required to have a large deposit available, and experienced people in the company to show that the personnel have a proven track record.

Therefore, even though there is funding out there it can be very difficult for new SME developers to actually secure it.

Brexit dispute causes a stand-off in the housing market between buyers and sellers as both stay away

Both house buyers and sellers are thought to be holding back as the Brexit uncertainty continues. Statistics for September show that the number of sellers putting their homes up for sale was at the lowest level since June 2016, the month of the EU referendum.

The Royal Institution of Chartered Surveyors (RICS) have warned that if the ongoing Brexit talks do not reach a resolution soon there might be a “direct hit” on the housing market. With activity between buyers and sellers falling virtually across all parts of the UK, RICS have said that the average stock levels on estate agents’ books have decreased to a record low and there is little prospect of them increasing any time soon.

RICS chief economist Simon Rubinsohn said: “There are good reasons for thinking the latest dip in both buyer enquiries and vendor instructions is a response to the endless wrangling about Brexit. However, unless there is a speedy resolution to the ongoing impasse, it does seem inevitable that the stand-off between purchasers and sellers will deepen, making it harder to complete transactions.”

Domestic reserve charge for construction services to be delayed

The domestic reserve charge was supposed to come into action on 1 October 2019. However, representatives from the construction industry have raised concerns that some companies are not ready for the changes. Therefore, the government have decided to delay this for 12 months, to give businesses more time to prepare. Moreover, it will mean that these changes will not occur alongside Brexit.

HMRC remains committed to the introduction of the reverse charge. In the next 12 months HMRC will work closely with the construction sector to raise awareness and provide additional guidance and support to make sure all businesses will be ready for the new implementation date, 1 October 2020.

HRMC recognises that some businesses will have already changed their invoices to meet the needs of the reverse charge and cannot easily change them back in time. Where genuine errors have occurred, HMRC will take into account the fact that the implementation date has changed.

Some businesses may have opted for monthly VAT returns ahead of the 1 October 2019 implementation date which they can reverse by using the appropriate stagger option on the HMRC website.

Tax Relief changes for landlords

Tax Relief changes mean that the Government are gradually restricting relief for finance costs to basic rate of Income tax. This change was introduced on 6 April 2017 on a phased basis and will be fully implements with effect from April 2020. These changes basically mean that landlords will no longer be able to deduct their mortgage interest or any other finance costs from their rental income, before working out their tax liability. Instead they will only receive a tax reduction equal to the basic rate (i.e. 20%) of the interest costs.

Changes to Private Residence Relief (PRR)

When an individual dispose of a property that is their only or main residence under PRR rules usually an exemption on their capital gains tax applies. The exemption applies if the relevant conditions are met throughout the period of ownership. This relief is supplemented by ancillary reliefs that aim to deal with related situations.

What are the proposed changes?

The Government has previously announced and issued draft legislated to reform two of the ancillary reliefs to better target PRR at owner-occupiers. The reliefs which are being amended are:

Where a person moves out of a property but does not immediately dispose of the property, then PRR continues to apply in full for a period. This is very useful when a property may be difficult to sell. This final period exemption will be reduced from 18 months to nine months. Although the special rules that give those with a disability, and those in care, an exemption of 36 months will not change. If a property is held beyond the 9-month period it does not mean that PRR is lost entirely rather the relief will start to reduce according to the length of time after the 9 months compared to the whole period of ownership.

Lettings relief, which has been a valuable relief which gives up to £40,000 of additional relief where a property which was previously a PRR is then let out, will be reformed so that it only applies where an owner is in shared occupancy with a tenant. This is relatively unlikely so this change may increase tax liabilities on a sale of a dwelling by up to £11,200, or £22,400 for a couple.

These changes are intended to take effect from 6 April 2020, but the legislation is not yet enacted and so is subject to change.

Get in touch...

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VAT Health Check

Stephen Charles
Tax Partner, Sheffield
sac@hawsons.co.uk
0114 266 7141

Martin Wilmott
Partner, Doncaster
maw@hawsons.co.uk
01302 367 262

David Cairns
Tax Partner, Northampton
davidcairns@hawsons.com
01604 645 600

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