

May | 2021

Property & Construction

In this issue:

Property demand hits 10 year high

Raw material prices look set to remain high

Stamp Duty Land Tax holiday is coming to an end

Domestic VAT reverse charge introduced 1st March 2021



Hawsons

Big firm expertise,
small firm personal attention



Stephen Charles Partner



Introduction

Welcome to our latest property and construction newsletter. As always there is plenty going on in the world of property and March saw the delayed introduction of the VAT reverse charge for the construction industry. VAT has always been particularly complicated around property and construction so it will be interesting to see how the industry copes with this new significant change.

We also have rumours that capital gains tax rates are likely to increase. Currently the rate is 20% for higher rate tax payers, increasing to 28% for the disposal of residential properties. Some commentators suggest that there will be a drive to harmonise capital gains tax rates with income tax rates, so this may be a good time to consider disposing of assets, such as property investments, and locking into a tax rate which is relatively low currently.

Stamp duty land tax has become increasingly complicated and expensive over recent years. April saw the introduction of an additional 2% surcharge for non-residents buying residential property in England and Northern Ireland. This also includes acquisitions by companies owned by non-residents. We are also seeing an increase in stamp duty cases coming to the Tribunals particularly around multiple dwellings relief and submissions based on a property being mixed used. It is therefore important that you take expert advice if you are considering purchasing a property which is not a straightforward property.

Hopefully you find the articles interesting and please don't hesitate to get in touch if you have any questions.



WE ARE AN INDEPENDENT MEMBER OF
THE GLOBAL ADVISORY
AND ACCOUNTING NETWORK

A member of HLB UK Ltd., which is a member of HLB International. A world-wide network of independent professional accounting firms and business advisers, each of which is a separate and independent legal entity and as such has no liability for the acts and omissions of any other member. HLB International Limited is an English company limited by guarantee which co-ordinates the international activities of the HLB International network but does not provide, supervise or manage professional services to clients. Accordingly, HLB International Limited has no liability for the acts and omissions of any member of the HLB International network, and vice versa.



Property demand hits 10 year high

During March 2021 almost 162,000 sales were agreed (according to Twenty CI data). This is a 77% year-on-year increase from 2020. This figure is the highest that Twenty CI data has ever seen since they started recording data back in 2009.

Since the Stamp Duty Land Tax ("SDLT") holiday was implemented in July 2020 sales agreed figures have risen dramatically with all but two months being in the top 10 list of all time in terms of sales agreed. The two exceptions being December 2020 and January 2021. This is typically the quietest time of year for property sales due to the cold weather and Christmas festivities.

However, what is slightly surprising is that mid to upper-priced properties have increased in sales most significantly. Particularly properties above £750,000. This suggests that the SDLT holiday is not the only factor in such an increase in sales. The SDLT saving is maximised once the price reaches £500,000 with a saving of £15,000, which doesn't increase thereafter. This suggests that other factors may have come into play such as lifestyle changes due to COVID-19, with the desire for outdoor space and more inside space due to more people spending time in their homes due to 'working from home'. Therefore, we suggest these factors combined have caused housing demand to explode with demand outstripping supply.



Raw material prices look set to remain high

A survey conducted by the Construction Products Association (CPA) has found that price inflation for raw materials will continue to rise for the remainder of 2021.

The survey found that housing is leading the economic recovery for the construction sector. But there is expected to be a shortage of materials for the next 12 months. This lack of materials and the increasing demand for them are pushing prices up. The survey also found that the supply of raw materials and components was also a primary concern for manufacturers, with materials such as steel, timber, and chemicals referenced. 90% of heavy side manufacturers stated an increase in cost for raw materials in the first quarter of 2021. Furthermore, 41% of heavy side manufacturers have reported an increase in sales in quarter one.

Heavy side materials are most commonly used in structural materials. Therefore, there are more likely to be used in the early process of construction, for example, steel and cement. The increase in sales is very encouraging. But the continuing price increase suggests that there is a shortage of these materials and the supply chain could be at risk of being held up by a bottleneck which could slow down the economic recovery. However, the trade body has discovered that the extension of the job support scheme and Stamp Duty holiday, as well as the introduction of the new 5% deposit scheme, is anticipated to continue to drive the recovery of the property and construction sector.





Stamp Duty Land Tax holiday is coming to an end

In the recent Budget, it was announced that the Stamp Duty Land Tax (SDLT) holiday for residential property will come to an end on 30th September 2021. However, the Government will start to taper the rates from the end of June 2021. The current temporary nil rate band of £500,000 will be in place until 30th June 2021. From 1st July to 30th September 2021 the temporary nil-rate band will be reduced to £250,000. From 1st October the nil rate band will return to the standard amount of £125,000.

With the average home move taking between 8-16 weeks, it is still possible for those who have just started to think about moving to take advantage of these reduced rates. However, it will still be difficult and you will be reliant on your current home selling quickly and

other factors falling into place. The current maximum saving is £15,000 but when the nil-rate band reduces to £250,000 the maximum saving will fall to just £2,500. It will then be more important than ever to make sure that full advantage is taken, where possible, of SDLT saving opportunities such as multiple dwelling relief.



Coming up...

How to stay safe when working from home?

Self-Employment Income Support Scheme (SEISS) - fourth grant now available to claim

VAT Partial Exemption changes

How to stay safe when working from home?

Staying Safe Whilst Working from Home

For many businesses, working from home (WFH) looks like it is here to stay even after the COVID-19 pandemic is over. Companies are typically looking at a hybrid model where staff split their week between home working and working in the office. Cybercriminals are as usual quick to exploit any vulnerabilities so it's important to ensure your security is at the appropriate level.

Train your employees on cybersecurity – phishing email and passwords

It is vitally important that all employees are trained on the basics of cybersecurity and this importance can only be emphasised when working from home as additional risks come into play.

Phishing emails are a common technique that cybercriminals use to access your network and steal your data so training your employees on the signs of phishing is very important. It's also worthwhile doing training refreshers on password creation and security, ensuring passwords are both complex and unique. Using passphrases is a good method, for example taking the first letter from the words of songs and adding numbers and special characters.

Use a VPN

A Virtual Private Network (VPN) creates an encrypted tunnel and is essential when working remotely or from home. If you are accessing your network remotely without a VPN you could be leaving yourself vulnerable to cyber threats. Not all VPNs are equal and, especially if you have been using the same VPN method for a long time, it's worth Googling the vulnerabilities of your VPN as well as making sure you are using the most up-to-date version.

Continued overleaf

How to stay safe when working from home?

Two-factor authentication

Using two-factor authentication is becoming increasingly common. You should look to implement this wherever it is available and ideally on your VPN and webmail. This means an attacker not only has to know your password they also need access to your text messages or authenticator app on your mobile. This is significantly more secure.

Device encryption

Ensure the devices being used at home are encrypted. Windows 10 Pro provides encryption and is likely to be commonplace on work laptops but if staff have taken home desktop PCs then they should also be encrypted to protect data in the event of theft. Make sure you have the decryption keys in case you need to recover data due to a lost password.

Anti-virus

Ensure all machines connecting to your network have regularly updated anti-virus software even if staff are using their own machines. Ideally use the same anti-virus you use at work. Some supplier licenses allow staff to install the software on their home PCs at no extra cost.

Wi-Fi and Network security

When working remotely you should always avoid using public Wi-Fi. Cybercriminals can use an insecure/public connection to plant malware onto the Wi-Fi. If you download or share files once you are on an insecure connection you could be potentially installing malware onto your device. Depending on the type of malware it can be used to steal sensitive business information.

Keep everything on your computer fully updated

It is vitally important that you keep all of your devices up to date as many of the updates will provide new security features to help protect your device against new threats. The easiest way to do this is to enable automatic updates on your device or force updates via automated policies.



Self-Employment Income Support Scheme (SEISS) – fourth grant now available to claim

The fourth grant, covering the period February to April 2021 will be worth 80% of average profits up to a maximum of £7,500. However, the full 80% grant will only be available to those whose turnover has fallen by at least 30%. The grant will be reduced to 30% of average profits for those whose turnover has fallen by less than 30%. A fifth grant will be available from May 2021, however full details of this have not yet been announced.

Unlike the previous three grants, the fourth and fifth grants will be available to Self-Employed individuals who began trading in 2019-20, providing they submitted a Self-Assessment Tax Return for that year. This is expected to provide welcome support to a further 600,000 Self-Employed individuals who were ineligible to claim the previous three grants.

Fourth grant is now available

The online service for applications for the fourth grant is now open. Claims for this grant must be submitted by 1 June 2021. If you think you are eligible for the grant please visit the government website here:

<https://www.gov.uk/guidance/claim-a-grant-through-the-self-employment-income-support-scheme>

VAT Partial Exemption changes

To ensure the continuation of fairness HMRC has decided to implement an accelerated process when it comes to VAT Partial Exemptions. This accelerated process will allow businesses to request changes to their VAT Partial Exemption methods due to Covid-19.

To submit a Partial Exemption Special Method request you will need to send a declaration that the method proposed is fair and reasonable. See example here: <https://www.gov.uk/guidance/partial-exemption-vat-notice-706#Appendix1>

If the nature of your supplies has changed due to COVID-19 and you believe that you will be moving back to pre-pandemic supplies soon, then HMRC will likely accept proposals that use a representative income stream from the previous 1-3 tax years.

If you believe that your business is eligible to make changes, please visit the HMRC website to find out more details.



**Keep up to date
with our latest news and updates**





Domestic VAT reverse charge introduced from 1 March 2021

A domestic reverse charge was introduced from 1 March 2021 to tackle VAT fraud in the construction industry. Tony Nickson, VAT Consultant at Hawsons, explains what this will mean for businesses.

What is a reverse charge?

In a nutshell the reverse charge is where the customer charges themselves VAT, rather than the supplier charging VAT. This means there is no opportunity for the supplier to disappear without paying the VAT to HMRC.

When did this come into effect?

This came into effect on 1 March 2021. It was originally due to come in on 1 October 2019 but was subsequently delayed.

Who will be affected?

Businesses involved in buying or selling specific construction services.



What types of construction services will be covered by the reverse charge?

The domestic reverse charge will only affect supplies at the standard or reduced rates where payments are required to be reported through the Construction Industry Scheme (CIS).

Therefore supplies between subcontractors and contractors, as defined by CIS, will be subject to the reverse charge.

What supplies are excluded from the reverse charge?

It will not apply where:

- Services are supplied to the end-user, such as the property owner, or directly to the main contractor who sells a newly completed building to the customer. The end user is a taxable person who is a recipient of DRC services and uses those services for any purpose other than making onward supplies of DRC services. The end-user should confirm their status to the supplier. This notification to the supplier needs to be in writing.

Continued overleaf



- The recipient makes onward supplies of those construction services to a connected company
- The supplier and recipient are landlord and tenant or vice versa, or
- The supplies are zero-rated.

The Government's original proposal stated that the reverse charge would apply to 'labour only' supplies of construction services. However, HMRC's rules also cover the provision of construction services that include materials. This will bring many more construction businesses into the reverse charge than first thought.

How does it work?

The introduction of a reverse charge does not change the liability of the supply of the specified services. It will just change the way in which the VAT on those supplies is accounted for rather than the supplier charging and accounting for the VAT, the recipient of those supplies will account for the VAT. Only supplies made on, or after 1 March 2021 will apply. This will include goods supplied with those services.

What do contractors need to do?

Businesses that supply construction services should identify instances where they supply services to other businesses in the construction sector (rather than to a consumer of those services) and determine whether the services are included within the list of specified service. Businesses that are caught by this will from March 2021 no longer need to charge VAT on these services as the recipient will charge themselves VAT.

Implementation of the reverse charge

HMRC understands the difficulties businesses may have in implementing the domestic reverse charge and will apply a light touch in dealing with related errors that occur in the first 6 months after introduction, where businesses are trying to comply with the new legislation.

However, businesses that knowingly claim end-user status when the domestic reverse charge should have applied will still be liable for the output tax that should have been paid and may be liable for penalties.

If you have any questions about the contents of this article please contact our VAT Consultant Tony Nickson.



Tony Nickson
VAT Consultant, Sheffield
0114 266 7141
tn@hawsons.co.uk

Get in touch



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

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.

Our in-house tax team have advised in many aspects of taxation specific to the property investor including in the areas of VAT, Capital Allowances, Income, and Corporation Tax and Capital Taxes.



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

Sheffield Office
Pegasus House
463A Glossop Road
Sheffield, S10 2QD



David Cairns
Tax Partner
Tel: 01604 645600
davidcairns@hawsons.co.uk

Northampton Office
Jubilee House
32 Duncan Close, Moulton Park
Northampton, NN3 6WL



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

Doncaster Office
5 Sidings Court
White Rose Way
Doncaster, DN4 5NU



HLB UK is a member of HLB International. A world-wide network of independent accounting firms and business advisers.



Sheffield: Pegasus House | 463a Glossop Road | S10 2QD

Doncaster: 5 Sidings Court | White Rose Way | DN4 5NU

Northampton: Jubilee House | 32 Duncan Close | Moulton Park | NN36WL

www.hawsons.co.uk