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Property & Construction

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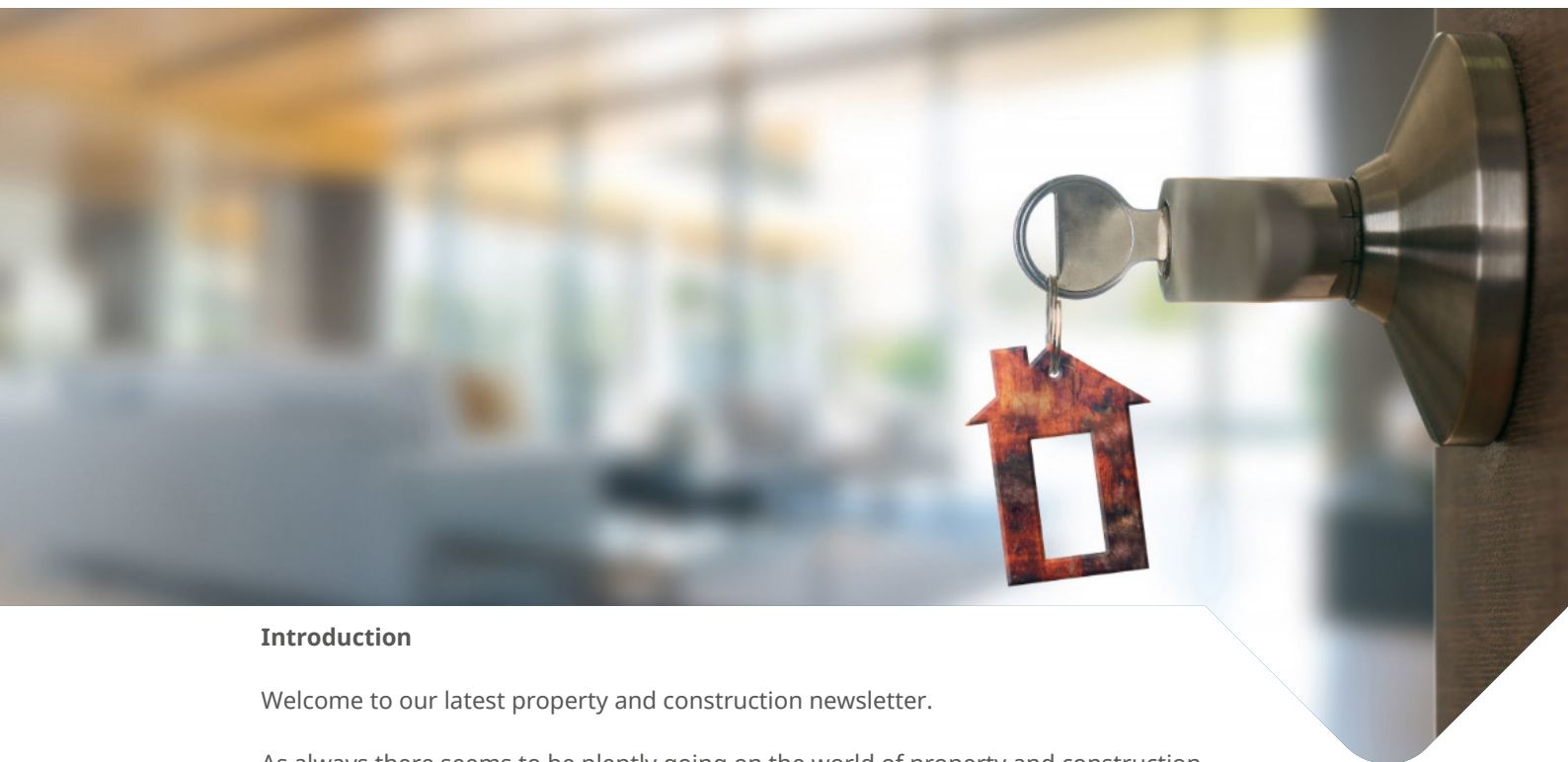
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Introduction

Welcome to our latest property and construction newsletter.

As always there seems to be plenty going on in the world of property and construction. It has recently been announced that from April 2023 many second homeowners will no longer qualify to pay business rates rather than council tax on their second home. Furthermore, the government is introducing a new cladding tax on UK based developers, which is set to start from 1 April 2022.

The introduction of the VAT reverse charge in March 2021 is continuing to cause problems for the building and construction industry. If you need assistance with this please contact our [VAT consultant, Tony Nickson](#).

Projects are being put in jeopardy in the construction industry as shortages of skilled staff and rising materials costs hinder the sector.

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



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Skills shortage & increasing material costs hinder construction industry

Labour shortages and rising materials costs are continuing to affect the construction industry and are putting development projects in jeopardy.

Material costs surge

Prices for copper, steel, concrete and asphalt have all increased throughout the course of 2021. Furthermore, British Steel has made seven price increases throughout 2021 for structural steel prices due to a surge in demand. Whilst prices increases are a significant issue at the moment experts believe that they will begin to settle within the next year as the economy settles.

Skill labour shortage causing issues in the construction sector

According to a survey in the Gleeds' market report, 80% of contractors have said that they experienced issues with labour shortages in the last quarter. In addition, 70% expect those shortages to continue in the future.

86% of respondents believe that the full impact of the UK leaving the EU is yet to be seen as labour shortages

are predicted to get worse.

Group executive director of Gleeds, Douglas McCormick has said that their survey has demonstrated the extent of the labour shortage which needs to be addressed by the Government.

The skilled labour shortage is a more concerning issue. Whilst we can see the light at the end of the tunnel in regards to material costs, the labour shortage is a much deeper issue. Not only is the labour issue predicted to get worse before it gets better, wage inflation means that workers can now demand higher pay which will continue to impact project costs for the foreseeable.

Summary

To summarise the prices for many common construction materials have surged throughout 2021. However, prices are forecast to settle throughout this year. The skilled labour shortage is currently a more concerning issue for contractors as 70% expect shortages to continue. The industry is calling for the Government to address the situation.



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Changes to VAT penalty regime delayed until 2023

The government has announced that the new penalty regime for VAT, which was due to be introduced from 1 April 2022, will now be delayed until January 2023.

The delay is to provide HMRC with extra time to ensure their IT systems are ready and well tested. The new scheme will reform the penalty regime for late submission of VAT returns and late payment of VAT.

Under the new regime, HMRC will issue a single penalty point for each late submission of a VAT return and once a business has exceeded a points threshold for multiple missed returns, a flat penalty of £200 will be charged.

There will also be penalties for late payments. The first charge will be imposed at 2% of the outstanding tax if the tax due on a return remains unpaid 15 days after its due date. After 30 days the penalty increases to 4%. The second late payment penalty is a daily penalty (set at 4% per year of the tax still outstanding at that point), starting from 31 days after the due date until the business pays the tax that is due. Late payment interest will be calculated at 2.5% above the Bank of England rate and will be payable on tax outstanding after the due date.

Contact our VAT consultant for more information



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Experts criticise new cladding tax

Some senior figures in the construction industry have criticised the Government for focussing the new cladding tax on UK-based developers, as international developers will not be subject to the new tax.

What is the new cladding tax and when will it be introduced?

The residential property developer tax (RPDT) is a 4% tax on profits exceeding £25 million, which will affect UK developers from 1 April 2022. This tax was announced by the Government to help fund the removal of unsafe cladding following the Grenfell tower fire.

Who has criticised the new cladding tax?

When housing secretary Michael Gove announced plans to force UK developers to pay £4bn towards the removal of unsafe cladding, developers were outraged. In his announcement, he said that developers need to take responsibility and fix dangerous cladding.

John Mulryan, group managing director at Ballymore said that he believes that the company will be paying almost 6% on the profits due to come into effect this year as large developers cannot offset finance costs. In addition, he believes that all parties responsible for cladding should share the burden, not just developers.

Policy director at the Homes Builders Federation, David O'Leary later questioned the committee on why UK developers were subject to the cladding tax and foreign developers were not. The policy director said it feels like an unfair outcome when international developers can come in and not be subject to the same taxes as UK developers.

Summary

To summarise many UK-based property developers believe the new cladding tax is unfair as foreign developers and other responsible parties don't have to pay any additional tax. However, housing secretary Michael Gove believes that developers need to take responsibility for dangerous cladding.



Property Tax: Second home loophole to end in April 2023

Starting in April 2023 many second homeowners will not qualify to pay business rates rather than council tax. However, the good news is that if they can demonstrate that their properties are rented out as a self-catering holiday let for at least 70 days a year then they can still qualify to pay business rates.

Presently, second homeowners can advertise their properties for rental to holidaymakers for 140 days per year to avoid paying council tax even if it is never let out. This is because you do not need to provide evidence that the property has been commercially let out. Although they are subject to business rates, then under the small business rate relief as long as the property has a rateable value of less than £12,000 then the property's business rates liability is zero.

This 'loophole' has been criticised for a number of years, particularly in regions such as the Lake District, the West Country, and rural Suffolk. Government data shows that there are 65,000-holiday lets in the UK. Around 97% of these have rateable values of up to £12,000. Subsequently, it is highly likely that many second homeowners are taking advantage of this 'loophole'.

It was announced in 2018 that the Department for Levelling Up, Housing & Communities had launched a consultation into limiting the opportunities for

second homeowners to declare their property as holiday accommodation and subsequently qualify for small business rate relief. However, due to the global pandemic and change in government administration, it was not announced until 23rd March 2021 (Tax Day) that a tightening of the holiday let rules would be implemented in England (subject to consultation).

The new rules were published this month which will take effect from April 2023. The new rules state that a property will be assessed for business rates only, and not council tax, if the owner of the second home can provide the Valuation Office Agency with evidence that:

The property will be available for commercial letting as self-catering accommodation, for short periods amounting to at least 140 days in the coming year. In the previous year, it was available for commercial letting as self-catering accommodation, for short periods totalling at least 140 days. Plus, it was let commercially, as self-catering accommodation, for short periods amounting to at least 70 days.

So this change could have a significant impact on individuals who own second properties which are not commercially let out.



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Stamp Duty Land Tax: Consultation launched to reduce perceived abuse of the rule

HMRC has launched a consultation into the methods used to calculate Stamp Duty Land Tax ("SDLT") on purchases of mixed-use property. A mixed-use property is where a property is considered as both residential and non-residential. In addition, there may also be a reform on multiple dwellings relief when two or more dwellings are purchased. HMRC considers that these two areas can lead to unfair outcomes, incorrect claims, or abuse of the rules.

Mixed property type

Currently, properties which include elements of residential and non-residential property are subject to the non-residential SDLT rates, which can give a substantial SDLT saving.

HMRC has said that some purchasers of property are taking advantage of the rules for mixed-use property, despite the property not having any relevant non-residential features. This enables purchasers to unfairly reduce the amount of SDLT paid. Therefore, the aim of this consultation is to amend the rules to ensure that they are fairer and reduce attempts to abuse the provisions of the relief.

In the consultation, HMRC is currently looking at introducing a new apportionment method for calculating SDLT on mixed-use property cases. This new method would mean that the residential portion of the mixed-use property would be taxed as a residential property with the remaining being taxed as non-residential property. An alternative option would be to introduce a threshold where a property can only be treated as a mixed-use property if the non-residential element of the property is more than a certain proportion, for example, more than 50%. HMRC is currently looking for views on this new method.

Continued overleaf

Stamp Duty Land Tax: Consultation launched to reduce perceived abuse of the rule (continued)

HMRC has said that if they were to use this method, they would need to ensure that the threshold would be high enough. This is to prevent purchasers from adding small amounts of non-residential land to class the purchase as a mixed-use property type and reduce their SDLT bill.

Multiple dwellings relief

Currently, if a property contains more than one dwelling there is an averaging method which can reduce the overall SDLT liability. There have been a number of cases on this recently where the tax-payer has tried to argue that an annexe is a separate dwelling and therefore the relief can be claimed. However, HMRC have been successful in many of these cases.

In order to reform multiple dwellings relief, HMRC has put forward a number of options.

- Only allow multiple dwellings relief where all dwellings are purchased for a 'qualifying business use'
- Only allow multiple dwellings relief in respect of the dwellings purchased for a 'qualifying business use'
- Restrict multiple dwellings relief by introducing a 'subsidiary dwelling' rule
- Only allow multiple dwellings relief for purchases of three or more dwellings

It will be interesting to see the outcome of these consultations.

Get in touch



Property & construction experts

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 tax, and Corporation Tax and Capital Taxes.



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