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Real Estate Matters

February 2021

Construction & Real Estate Newsletter

mha

Now, for tomorrow

Introduction

Welcome to the latest issue of Real Estate Matters from MHA.

Since the release of our Construction Sector Report in Autumn 2020, we've had two more national lockdowns, extended government support, and a Brexit deal negotiated and delivered. While there is an air of familiarity as we yet again adapt to these changes, the promising vaccination numbers in the UK provide a much-needed light at the end of the tunnel.

During the current lockdown, construction sites have been allowed to carry on working, while building merchants have been classed as essential retail. Government guidance published alongside Johnson's announcement said keeping sites open was "essential to keeping the country operating and supporting sectors and employers". With the housing market staying open during the final few months of the stamp duty holiday, the construction and housing industry has managed to continue operating relatively unscathed this lockdown.

Now, more than a month into the post-Brexit world, teething issues are hitting businesses hard. In this issue, we look at the impact of Brexit on importing building materials, with key questions all construction businesses should be asking themselves.

The twice delayed VAT Domestic Reverse Charge finally comes into effect on 1 March. We explain what the changes mean and answer frequently asked questions. Finally, we look at the risks and opportunities the Green Industrial Revolution offer the sector.

If there are any topics within this issue you would like further information on, please do get in touch.

MHA Construction & Real Estate team

Latest construction news

Tax updates

Stamp Duty Land Tax (SDLT) holiday deadline looms

On 8 July 2020, the Chancellor of the Exchequer announced a temporary stamp duty holiday that suspended SDLT on the first £500,000 of all property sales in England and Northern Ireland. This current holiday is due to end on 31 March 2021, with estimates it has cost the Treasury £3.8bn in revenue. A holiday extension until the end of June is expected, with further information to be announced in the Spring Budget on 3 March 2021.

IR35 – Off Payroll Workers

The long-anticipated extension of the new 'IR35' rules into the Private Sector will start on 6 April 2021. These major employment tax changes will affect any medium or large-sized businesses who engage individuals via personal service companies (PSCs). These end clients will have significant new obligations to assess the employment tax status of PSC contractors who work for them and to operate PAYE / NIC accordingly.

Reverse VAT charge

The new VAT Domestic Reverse Charge (DRC) goes live on 1 March 2021, after being delayed twice. It is the most significant change to VAT in construction services in 30 years. From that date, sub-contractors in a Construction Industry Services (CIS) chain of supply will cease to collect VAT from other contractors. In its place a reverse charge system will apply. This makes the buyer of the sub-contractor's service liable for VAT accounting in place of the supplier.

News bites

Registered new homes down

The number of new homes registered to be built by UK housebuilders has fallen by 23% in 2020, according to the National House Building Council. This is due to the COVID-19 pandemic, with registrations stalling in Spring and picking back up to near pre-pandemic levels in the fourth quarter. Registrations fell in every region in the UK.

CJRS construction claims rise

The Coronavirus Job Retention Scheme (CJRS), which allows employers to furlough staff while claiming a government grant, was extended to the end of April 2021. According to HMRC, the number of furloughed staff in the construction industry in December represented 15% of the sector's workforce, with the value of claims increasing by 116% from the November figure.

VAT changes to construction – Domestic Reverse Charge

After being delayed twice, the new VAT Domestic Reverse Charge (DRC) goes live on 1 March. HMRC are implementing 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 decades.

From that date, sub-contractors in a Construction Industry Services (CIS) chain of supply will cease to collect VAT from other contractors. In its place a reverse charge system will apply. This makes the buyer of the sub-contractor's service liable for VAT accounting in place of the supplier.

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.

- Are any of the supplies within the scope of CIS? — No → Subject to normal VAT rules
- Yes ↓
- Is there a standard or reduced rate VAT supply? — No → Subject to normal VAT rules
- Yes ↓
- Is your customer VAT registered — No → Subject to normal VAT rules
- Yes ↓
- Is your customer CIS registered — No → Subject to normal VAT rules
- Yes ↓
- Has your customer provided confirmation they are the end user? — No → Domestic Reverse charge will apply
- Yes ↓
- Subject to normal VAT rules

Who will the DRC apply to?

The DRC will only apply to you if you are VAT registered in the UK and you either receive or supply services within the scope of the Construction Industry Scheme (CIS). This only applies in respect of supplies between VAT registered contractors; it does not apply to the 'end user' customers (e.g. home owners).

The DRC only applies to standard rated and reduced rated supplies. Zero rated supplies will continue to be dealt with under the current system.

What services will be affected by the DRC?

The DRC will apply to construction services generally.
The full list is detailed and comprehensive, but includes:

- General construction;
- New building works;
- Groundworks, including excavation and earth moving;
- Renovations and maintenance services;
- Internal cleaning of buildings (carried out in the course of construction, extension etc.);
- Painting and decorating of buildings and structures.

What is excluded from the DRC?

- Drilling for, or extracting of oil, natural gas and minerals;
- Manufacturing building or engineering components or delivering to site;
- The professional work of architects, surveyors, engineers and consultants;
- Installing seating, blinds, shutters and security systems, including burglar alarms, closed circuit television and public address systems.

What is an 'end-user'?

End-users are customers who do not supply building and construction services onwards. This will include occupiers, retailers, developers, and landlords.

The position as an 'end user' may not be obvious to a building contractor and therefore the 'end user' needs to declare its position. In the absence of a declaration, contractors should assume that the domestic reverse charge applies, whenever their customer is VAT registered.

Practical implications

VAT-registered sub-contractors who work exclusively for main contractors will cease to collect VAT on their services. The right to reclaim VAT on costs is unaffected and will result in regular VAT repayments being due from HMRC. This will be a burden on cash flow for sub-contractors who may wish to consider monthly VAT returns from March this year.

The cash flow position of main contractors however should improve. They will cease to pay VAT to subcontractors and will instead self-account for VAT on these supplies, reclaiming this VAT under the normal rules at the same time on a VAT return.

Preparation

Businesses will need to adapt their accounting systems and invoicing procedures and train accounts staff to identify when the reverse charge should be applied. Relying on the supplier to get this right is not an option due to the risk of any incorrectly charged VAT being non-reclaimable from HMRC.

The terms of construction contracts should include reference to these new rules and how VAT is to be accounted for.

Verifying the VAT and CIS status of customers

Before applying the reverse charge, you need to confirm your customer is registered for VAT. You do not need to verify the CIS registration of existing customers if your contract is within CIS, but you should ask new customers to provide details of their registration as a contractor for CIS purposes, or a copy of their CIS verification for you, and retain these.

HMRC recommends you use the CIS verification system.

New Invoicing Requirements
Suppliers must:

- Show all the information normally required to be shown on a VAT invoice
- Show on the invoice that the domestic reverse charge applies, and that the customer is required to account for the VAT:
  - Reverse charge: VAT Act 1994 Section 55A applies
  - Reverse charge: S.55A VATA 94 applies
  - Reverse charge: Customer to pay the VAT to HMRC
- Show the amount of VAT due under the domestic reverse charge but it should not be included in the amount shown as total VAT charged.

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How MHA can help

Our VAT specialists are experts within the property and construction sector. We can help you with all aspects of VAT from the introduction of DRC to advising on complex VAT property transactions. Any of our member firms would be happy to help you through these next stages.

Importing building materials post-Brexit

Customs and VAT Issues

HMRC has clearly spent a lot of time and effort producing guidance on the government website; however, the sheer volume can make this difficult to navigate. This in turn makes it challenging to make appropriate decisions that are right for the business' circumstances.

Businesses in the construction industry sourcing materials from EU suppliers should be asking themselves the following questions:

1 Do we have a GB EORI number to enable us to import?

If not, you will need to apply for one, and will experience increased costs and delays. If you already have an EORI number, and it does not start with GB, you will need to apply for a new one. To apply, you will need information including your VAT number (if registered), Unique Taxpayer Reference (UTR) and Standard Industrial Classification (SIC) code.

2 Do we have an existing relationship with a customs agent or fast parcel operator who can help submit customs declarations and make any necessary payments (and/or the supplementary declarations necessary under the simplified procedures mentioned below)?

While it is possible for a business to obtain the necessary software and training for staff to make Customs Declarations, this may not be cost effective except for large organisations with substantial imports.

HMRC has produced a list of companies which specialise in this area.

3 If there is no existing relationship with a Customs Agent, are the simplified procedures available and appropriate as an interim measure?

There are certain circumstances where you may be able to delay sending HMRC the full information about your goods by up to 175 days on a supplementary declaration. However, this may cause an additional burden of making 'catch up' declarations and potentially, further payments, up to 6 months later.

There is further information on the simplified procedures here.

4 Have we factored in the impact on costs and cashflow?

Global Tariffs

The UK has published its Global Tariff setting out the rates of duty that apply to goods imported into the UK from 1 January 2021.

Where the UK has a free trade agreement (e.g. the Free Trade agreement with the EU announced just before Christmas), Customs Duty tariffs are reduced to 0% provided that goods meet strict rules of origin. The origin is where the goods have been produced or manufactured, not just where they have been shipped or bought from.

Import VAT

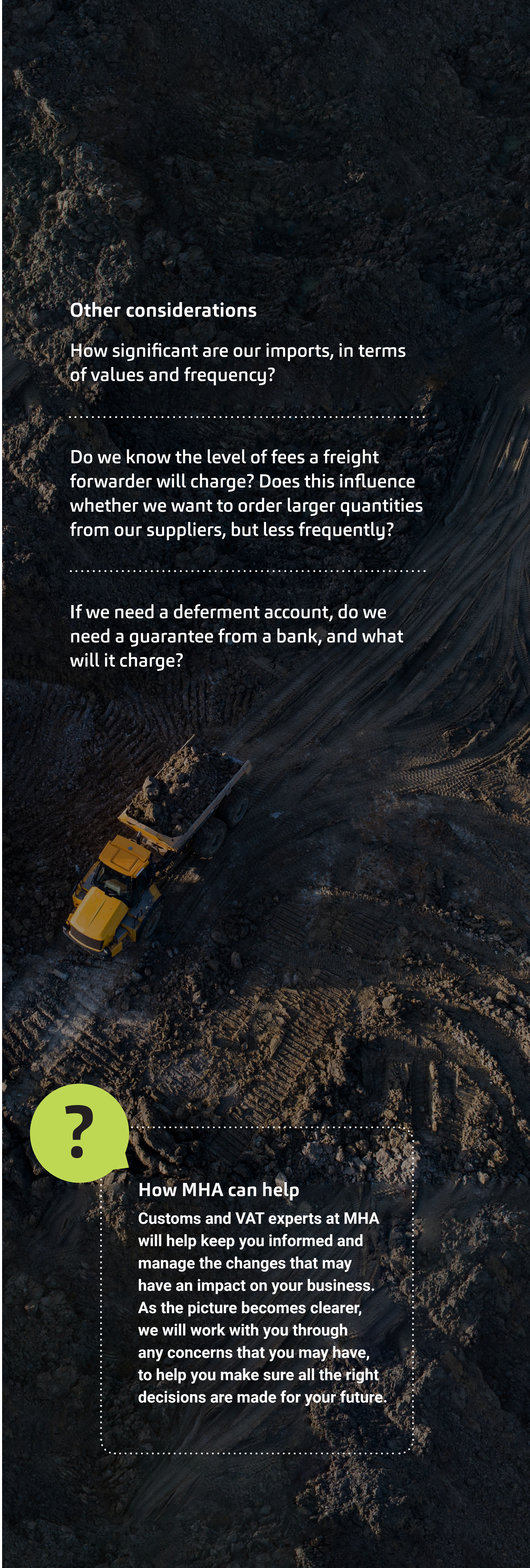
Import VAT can either be paid (or deferred) at the time an import entry is made, then reclaimed via the VAT return, or simply accounted for on the VAT return ("Postponed Accounting"). Postponed Accounting for import VAT means declaring and recovering import VAT on the same VAT Return, rather than having to pay it upfront and recover it later.

Postponed Accounting is clearly better for cashflow since most businesses submit their VAT returns once a quarter. It isn't compulsory, and one client of ours who has well established procedures for imports is considering whether to carry on paying and reclaiming, simply to minimise change.

5 Has the purchasing team confirmed what delivery terms our suppliers are using?

Brexit means this issue becomes much more important. For example, a consignment of marble direct from an Italian quarry will now involve both an export from Italy and an import into the UK.

If the supplier contracts on Ex works (EXW) terms, the customer is responsible for filing the export declaration from Italy, and the import entry into the UK. At the other extreme, Delivery Duty Paid (DDP) means the supplier will be responsible for both export and import declarations. You will need to know which Incoterms your business is using for imports.



Other considerations

How significant are our imports, in terms of values and frequency?

Do we know the level of fees a freight forwarder will charge? Does this influence whether we want to order larger quantities from our suppliers, but less frequently?

If we need a deferment account, do we need a guarantee from a bank, and what will it charge?

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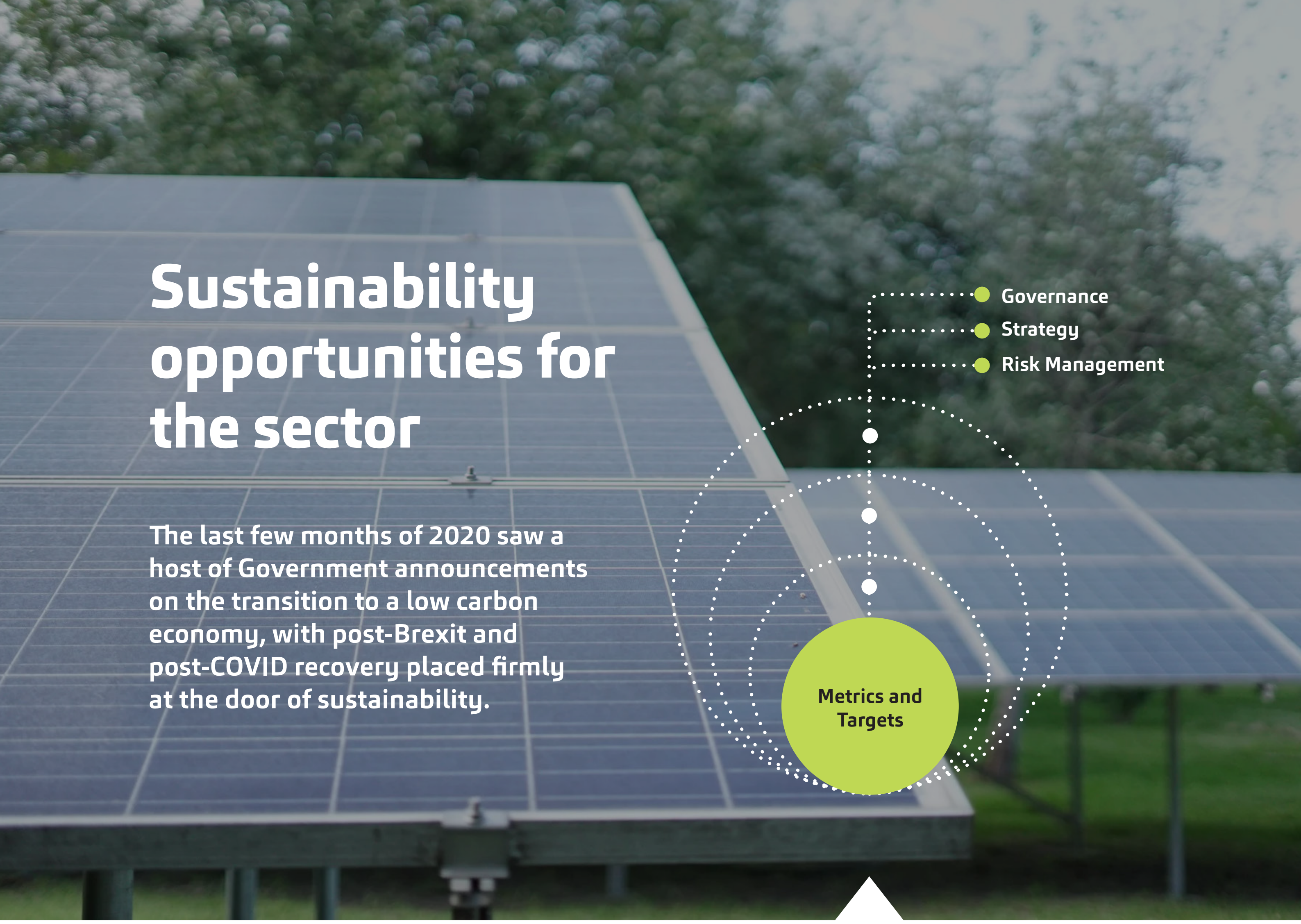
How MHA can help

Customs and VAT experts at MHA will help keep you informed and manage the changes that may have an impact on your business. As the picture becomes clearer, we will work with you through any concerns that you may have, to help you make sure all the right decisions are made for your future.



Sustainability opportunities for the sector

The last few months of 2020 saw a host of Government announcements on the transition to a low carbon economy, with post-Brexit and post-COVID recovery placed firmly at the door of sustainability.

The Government already implemented the Streamlined Energy and Carbon Reporting (SECR) on 1 April 2019 for large companies, Limited Liability Partnerships and some not-for-profits and charities. SECR aims to bring the benefits of carbon and energy reporting to more businesses, with a reporting framework intended to encourage the implementation of energy efficient measures.

TCFD Taskforce

In November 2020, amongst other measures, Chancellor Rishi Sunak announced the UK's intention to become the first G20 country to 'mandate climate disclosures by large companies and financial institutions across the economy' by 2025.

The announcement was accompanied by the publication of the Interim Report of the UK's Joint Government Regulator TCFD Taskforce, which sought to explore the most effective ways of implementing the global recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD). This Report outlined a pathway to achieving this goal over the next five years, with most of the change set to occur by 2023.

Indeed, the timeline of planned and potential regulatory actions and legislative measures indicates 2021 as the first year of rollout. This will be for premium listed companies, banks, building societies, insurance companies and the largest occupational pension schemes. The wider scope of listed companies, other financial institutions and UK-registered companies currently fall into 2022 on the planned timeline.

TCFD disclosures are designed to solicit decision-useful, forward-looking information that can be included within mainstream financial filings.

Their recommendations are structured around four thematic areas that represent core elements of how organisations operate:

Reporting difficulties

Due to the COVID pandemic, SECR has not had the priority within organisations that its arrival would have normally warranted. Indeed, it has even taken some companies by surprise.

For all but the most climate-risk focused companies with sophisticated associated risk management and expertise, meeting the TCFD disclosures is likely to be a significant stretch beyond. It will considerably raise the bar for many organisations in both reporting on and understanding how climate change affects their business.

Green Industrial Revolution

Alongside this expanding reporting and regulatory framework, the Prime Minister Boris Johnson has unveiled his much-vaunted 10 Point Plan for a Green Industrial Revolution. This comprises a total of £12bn worth of new and previously announced government investment. Of the ten points, over half provide opportunities for the construction sector.

At a high level the plan consists of:

1. **Accelerating the offshore wind boom.** Every home in Britain is to be powered by offshore wind by 2030, with a target of 40GW of capacity, supporting up to 60,000 jobs.
2. **Catalysing the hydrogen economy.** £500m is earmarked for developing the UK's hydrogen economy with the aim of producing 5GW of hydrogen by 2030 to fuel industry, transport, power, and home heating.
3. **Nuclear development.** There is to be up to £525m of government investment towards the development of both large and smaller scale nuclear plants, including Research and Development (R&D) of small modular reactors which may support up to 10,000 jobs.
4. **Fast-tracking the Electric Vehicle (EV) transition.** There is confirmation that the UK will end the sale of new petrol and diesel cars and vans by 2030, 10 years earlier than initially planned. Plug-in-hybrids will have a further five years. To support the transition, £1.3bn has been pledged to accelerate the roll out of charging points with a further £582m in additional grants to subsidise the cost of zero or ultra-low emissions vehicles.
5. **Promoting greener modes of transport.** There is a promise to make cycling and walking more 'attractive' over the years to come.
6. **Launching zero emission ships and planes.** The Plan reiterates the commitment to develop a new generation of green aviation and shipping technologies.
7. **Green retrofitting to homes and public buildings.** There is an extension of the Green Homes Grant voucher scheme with a further £1bn in investment. The Public Sector Decarbonisation Scheme continues to work to cut bills for schools and hospitals, with a target of 600,000 heat pumps to be installed every year by 2028. Overall, energy efficiency savings policies are expected to create 50,000 jobs by 2030.
8. **Ramping up carbon capture and storage technology.** There is to be substantial investment earmarked for a new goal to capture 10MT of carbon dioxide for the air by 2030, supporting a further 50,000 jobs.
9. **Protecting nature.** There is £5.2bn planned for building new flood and coastal defences in England by 2027, with the creation of further National Parks and a reiteration of the manifesto pledge to plant 30,000 hectares of trees each year. We expect more in 2021 as the government starts to enact its farming subsidy reforms.
10. **Establishing London as a green finance hub.** The Prime Minister also hinted that further action on carbon pricing and taxation was on the horizon, with further announcements later in 2021.

Scientific Powerhouse

Prior to the publication of the Government's Energy White Paper in December, there was news from the Chancellor of a new UK Infrastructure Bank to be headquartered in the North. This includes plans for almost £15bn of R&D funding to help make the UK a 'scientific superpower'.

Coupled with significantly increased investor scrutiny, the expanding reporting and regulatory framework and the push from the Government for a 'Green Industrial Revolution,' there is both increasing risk and opportunity for businesses in the construction sector.

House price growth

The Office for National Statistics has recently released the House Price data for November 2020, with the highest annual growth the UK has seen since June 2016.

£250,000

in November 2020, up 7.6% on the same time last year

Monthly house price changes across the UK and Ireland – November 2020.

The average UK house price was £250,000 in November 2020, £18,000 higher than November 2019.

Average house prices increased across all four countries:

England increased **7.6%** to

£267,000

Wales increased **7.0%** to

£180,000

Scotland increased **8.6%** to

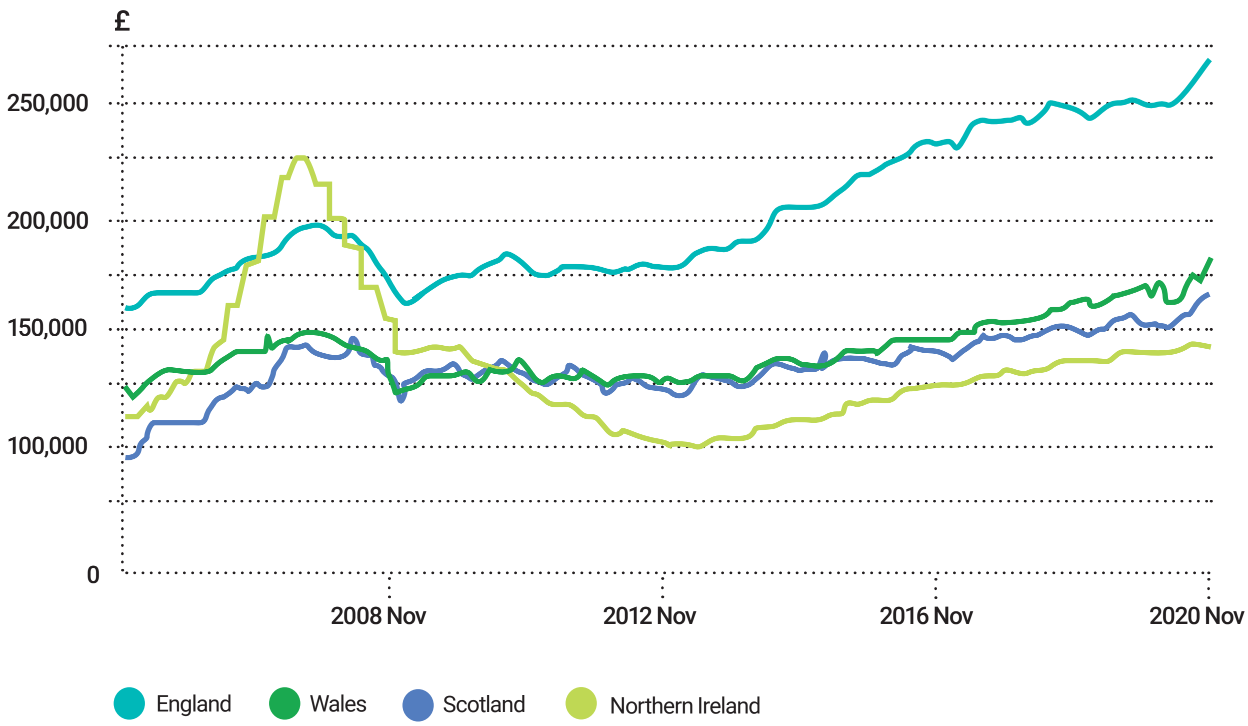
£166,000

Northern Ireland increased **2.4%** to

£143,000

England house prices remain the highest in the UK

Average house price by UK country, January 2005 to November 2020



Impact of COVID-19

The past four years have seen a general slowdown of UK house price growth, driven mainly by a slowdown in the South and East of England. There was a small pick up at the start of 2020 before coronavirus restrictions were put into place in March 2020. The start of 2020 therefore saw unusual housing market conditions, with people advised not to move homes during April and May.

The recent price increases through the rest of 2020 reflect a number of factors including:

- pent up demand due to previous restrictions;
- changes in housing preferences due to the change in working conditions;
- the SDLT holiday across the country announced in July.

Regional variation

London and Yorkshire and The Humber were the English regions with the joint highest annual house price growth, with average prices increasing by 9.7% in the year to November 2020. The lowest annual growth was in the East of England, where average prices increased by 4.8% over the year to November 2020.

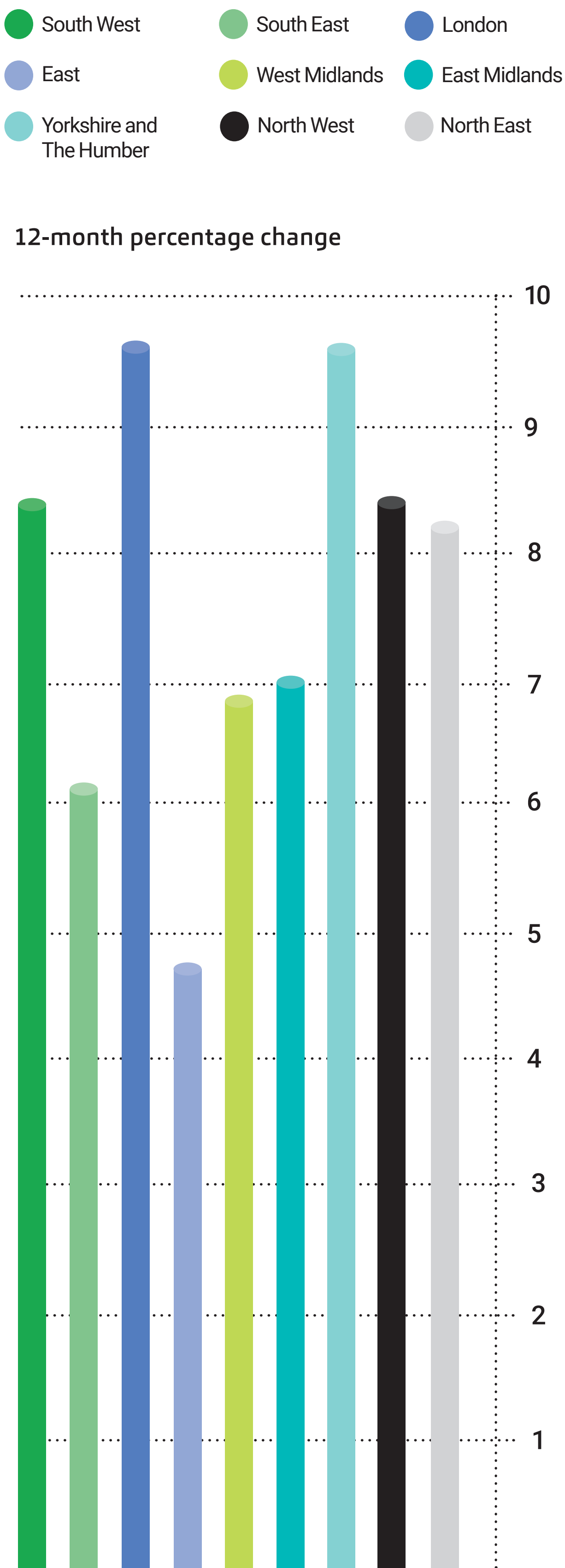
London's average house prices remain the most expensive of any region in the UK at an average of £514,000 in November 2020. This is a record high and the first time London's average house prices have surpassed £500,000.

The North East continued to have the lowest average house price, at £140,000, and is the final English region to surpass its pre-economic downturn peak of July 2007.

Source: HM Land Registry, Registers of Scotland, Land and Property Services Northern Ireland and Office for National Statistics – UK House Price Index

The highest regional house price growth was in London and Yorkshire and The Humber

All dwellings annual house price rates of change, by English region, year to November 2020



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MHA Construction & Real Estate Team

Our Construction & Real Estate experts understand the challenges and opportunities within the sector, which remains a vital part of the UK economy.

Supporting the sector

A national Construction & Real Estate team with **local specialists** that understand the sector in your area.

Our service is partner-led and we aim to build a strong working relationship with you to **understand your business and goals**.

We have a wealth of experience in providing professional advice to a diverse range of clients within the **property and real estate** arena, including commercial and residential investment, facilities management, developers, and property-related service providers.

Our experts understand the issues that face the **construction industry** and have an enviable reputation for providing advice and support to clients across the sector including civil engineering, house building and developing, as well as the various construction trades and support services.

A wide range of **tailored services**: assurance, tax, compliance, advisory, training and more, delivered with practical understanding.

Worldwide specialist sector support through our independent membership of **Baker Tilly International**.

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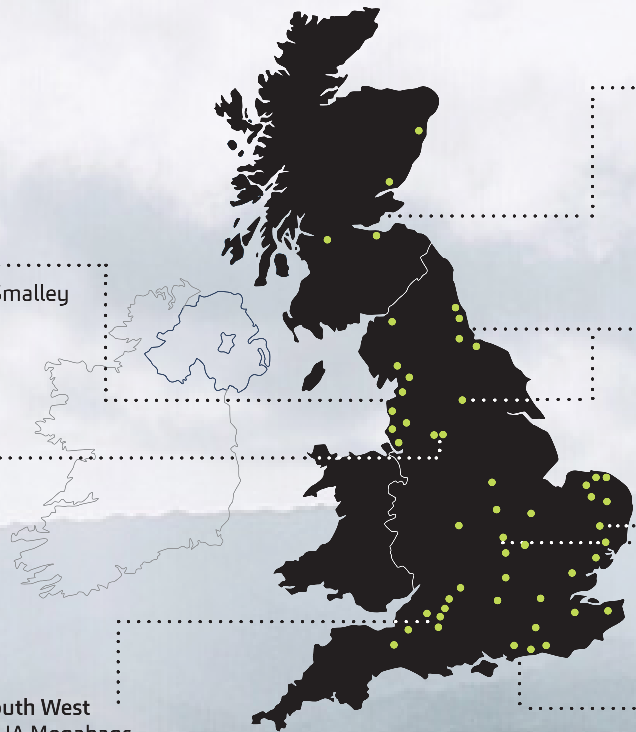
MHA Hub offers clients and contacts a diverse programme of professional events, training, and publications that have been created to offer the latest in best practice, good governance, and regulatory updates and insights.

About MHA

MHA is an association of progressive and respected accountancy and advisory firms with offices in over 50 locations across the UK. We provide both national expertise and local insight to clients. As an independent member of Baker Tilly International, a top 12 global advisory network, MHA offers clients unparalleled access to a broad range of in-country international specialists where overseas projects are on the horizon.

Our Sector Approach

MHA allows clients to benefit from in depth sector knowledge in addition to specialist accountancy services and expert business advice. Construction and Real Estate is a key sector for MHA, and our industry experts understand the challenges and opportunities within the sector. With MHA's sector experience, and local, national and international knowledge, our team is well placed to provide leading advice.



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£148 territories

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