AUDIT • TAX • ADVISORY

Real Estate Matters

Summer 2022

Construction & Real Estate Newsletter

Issue 22

Now, for tomorrow

Introduction

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

The current economic climate has galvanised families and businesses across the country to re-assess their finances and look for savings to mitigate against rising costs and economic uncertainty.

Businesses in the Construction and Real Estate sectors are no exception. While they continue to experience a mixed bag in terms of growth, with the construction sector still enjoying strong demand for both residential building and large public infrastructure projects, demand for new retail and office space is still subdued and work is now less profitable in light of rising inflation and interest rates. UK Real Estate has benefitted from low interest rates for mortgages and the temporary stamp duty holiday as well as increased demand for more space during the Covid-19 pandemic. However, rising interest rates, the threat of recession, soaring inflation and the cost-of-living crisis are likely to influence the sector to some degree over the coming months, albeit mitigated by the ongoing imbalance between supply and demand, with historically low stock levels. At the same time, while the 'Build-to-Rent' market is still strong, the squeeze on household finances, especially for those on lower income brackets will limit what costs can be passed on.

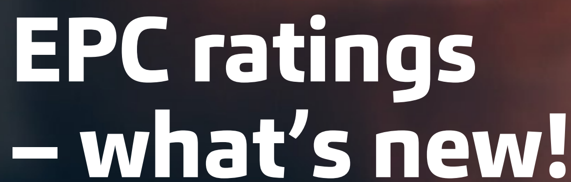
Quarterly insolvency statistics also paint a concerning picture, with the level of company insolvencies 112% higher than during the same period last year, and the highest since 2012. The three industries experiencing the highest number of insolvencies were Construction (19% of cases), Wholesale, retail trade and repair of vehicles (13%) and accommodation and food services (12%). As always, careful planning to manage cash flow and working capital will be crucial for many firms.

In this edition of Real Estate Matters, we take a look at several issues which businesses in the construction and real estate sectors should be aware of, such as, the Impact of IR35, EPC ratings and the associated restrictions as well as UK tariffs and sanctions against Russia and Belarus, along with a whole host of other topics.

If you would like further information on any of the issues covered, please get in touch.

Best wishes,

The MHA Construction & Real Estate team



EPC ratings – what's new!

Almost 15 years ago when Energy Performance Certificates (EPCs) were first introduced, there was widespread speculation that they would be as short-lived as the badly executed and unpopular Home Information Packs they were once a part of.

The EPC was a requirement of the EU Directive on the Energy Performance of Buildings (EPBDs), introduced in response to the Kyoto Protocol; an international treaty (with binding targets for greenhouse-gas reductions), extending the 1992 United Nations Framework Convention on Climate Change. The treaty was signed by nearly all nations at the 1997 Earth Summit in Kyoto, Japan, essentially the COP26 of its day.

An EPC has been a legal requirement for residential and commercial property in England, Wales, and Northern Ireland since 2008, and in Scotland since 2009 whenever a property is built, sold, or rented. It is valid for 10 years and gives a property an energy efficiency rating from A (most efficient) to G (least efficient).

An accredited assessor will need to assess your property and produce the EPC certificate. However, the assessor will generally only evaluate what can be seen without destructive investigation, or proven with relevant documentation. Therefore, without evidence, walls that have been insulated and then skimmed over wouldn't be considered in the assessment, but boilers, windows and light bulbs would.

If you are using a selling agent, they will usually arrange the EPC on your behalf, but it is important to be aware of the requirements and the potential pitfalls.

The requirements

1 Sale of residential property

- You will need an EPC within seven days of a property being marketed for sale

2 Rental properties

- If you are renting a residential property, from 1st April 2020, all tenancies, not just new ones or renewals require a minimum energy efficiency rating of 'E' or above
- From 2025 all new rental properties and tenancies will need an EPC rating of 'C' or above, with all tenancies from 2028; a jump of two grades from the current minimum
- Landlords with properties for rent, with an EPC rating of F or below (G), can carry out the recommended works to a cost of up to £3,500 (inclusive of VAT) in order to achieve the required rating, or potentially apply for a high-cost exemption.

3 Commercial property

For a commercial property, you will need an EPC in the following scenarios:

- You rent out or sell your premises
- A building under construction is completed
- Changes are made to the parts of the building for separate occupation (such as additions to heating and ventilation systems)

Exemptions

From January 2013 there has been an 'exemption' for listed buildings. However, the exemption is qualified, and states: "Insofar as compliance with certain minimum energy performance requirements would unacceptably alter their character or appearance" and you should need to get advice from your local authority conservation officer.

Other buildings that do not need an EPC include:

- places of worship
- temporary buildings that will be used for less than 2 years
- stand-alone buildings with total useful floor space of less than 50 square metres
- industrial sites, workshops and non-residential agricultural buildings that do not use a lot of energy
- some buildings that are due to be demolished
- holiday accommodation that's rented out for less than 4 months a year or is let under a licence to occupy
- residential buildings intended to be used less than 4 months a year

Help available

- Landlords may be able to make careful use of the repairs, maintenance and renewal allowance to reduce the overall costs of replacing fixtures such as boilers with more energy efficient models. However, improvements related to energy efficiency may be deemed capital improvements, and not revenue, and therefore not eligible for tax relief, other than on sale
- Improvements such as installing double glazing and up-to-date boilers would be allowable under repairs, maintenance and renewals.
- Corporate entities that rent properties can now apply for grants to contribute towards the cost of installing Electric Vehicle chargers. It provides up to 75 per cent of the cost towards the purchase and installation of a socket, limited to £350 per grant. Landlords can receive up to 200 grants a year for residential properties, and a further 100 for commercial properties.
- Mortgage companies are likely to offer favourable loan deals for improvements that increase energy efficiency to help them meet their own green financing targets.
- The chancellor announced measures that came into force on 1 April 2022, which introduced a time limited zero-rate VAT relief that applies to the installation of energy saving materials ("ESM") in residential property in England, Wales and Scotland.

Given the rising costs of energy and the government's target that all homes in Britain will have an EPC rating of C or above by 2035, an "eco-friendly" EPC rating is now one of the most desirable features in a new home. However, there is a lack of clarity on cost effective ways to rise up the EPC ratings, as much of the assessment relies on a level of judgement, rather than science as they are restricted to what can be determined without detailed investigation.

The reality is Britain's old and poorly insulated housing stock is a major obstacle in the government's efforts to reduce greenhouse gas emissions. Direct and indirect emissions from homes accounted for 16% of the country's total emissions, according to the Climate Change Committee, and direct emissions from households overtook the power sector for the first time in 2018. According to the Building Research Establishment Trust, "The UK has the oldest housing stock in Europe, and most likely in the world," with many dwellings of relatively poor construction quality", making them expensive to heat.

Actions to consider:

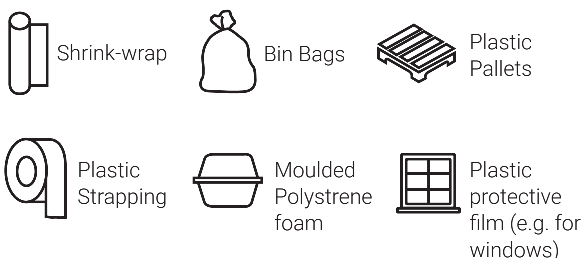
- Get an EPC rating so you can establish your position
- Compare the EPC of your property with similar properties through the governments free 'Find an energy certificate' service https://www.gov.uk/find-energy-certificate
- Get advice to understand what needs to be done to improve your rating and time any work with your builder to coincide with when a tenancy is coming to an end
- Establish what grants or funding may be available
- Get professional advice to ensure work is completed in the most tax efficient way to maximise reliefs available, for example you may wish to spread the work over several tax years
- Sell now before the EPC issue becomes a barrier for you! In a challenging economic environment, with rising costs and a shortage a good quality builders, potential purchases purchasers may well will steer clear of properties that need improvement.

If you wuld like further advice, please get in touch with your local office.

Duties, Tariffs & Sanctions!

The 1st April 2022 saw the introduction of Plastic Packaging Tax (PPT) and forms part of the UK Government's Green agenda.

PPT applies to plastic packaging manufactured in, or imported into, the UK where the plastic used in its manufacture is less than 30% recycled. It includes obvious and not so obvious items, such as.



Exceptions to PPT

There are 4 groups that are excepted from the tax. These are:

1. Plastic packaging used in transport to import multiple goods safely into the UK
2. Plastic packaging used in aircraft, ship and rail goods stores
3. Plastic packaging used for the immediate packaging of licensed human medicine
4. Components permanently recorded as set aside for non-packaging use

Even if your plastic goods fall under one of the above exceptions there will still be a requirement to register for PPT and retain satisfactory records.

So why is this important for the real estate and construction sector

The real estate and construction sectors use packaging such as shrink-wrap, polystyrene foam and protective plastic film in the supply of goods. As a result, Plastic Packaging Tax will impact the sectors with increased costs in the supply chain.

Although registration for PPT is unlikely, unless you import at least 10MT of plastic packaging, businesses in these sectors will have to ensure that they meet their due diligence obligations. It may not be obvious, but failure to ensure evidence is received from UK supplier could result in secondary liability for any unpaid tax and HMRC penalties. It is therefore an important part of "self-policing" this tax to ensure all eligible businesses register at the correct time.

HMRC expects businesses will conduct, as a minimum, annual checks on their suppliers to ensure that their obligations are being met. Such checks could include:

- obtaining confirmation of the tax status of plastic packaging components from your supplier
- getting signed documents from your supplier confirming that Plastic Packaging Tax has been properly accounted for
- checking details provided against other sources, such as supplier websites, product specifications, sales and marketing information

Within this due diligence process, a focus on current contracts is advised as the legislation allows a review of contracts where PPT is now part of the costs incurred in a UK supply. This is an area that may not be obvious but, where large quantities of plastic packaging are used in supplies, contracts should reflect these costs and define the responsibilities of both parties to avoid any possible liabilities.

If your company is completing construction overseas, then the tax can be credited by the UK supplier if evidence of export is provided. Depending on the potential amounts of tax, this may be beneficial where considerable amounts of plastic packaging is used to transport goods from the UK.

Although the current rate of tax, at £200 per metric tonne, is not significant we expect that this will increase in the future if behaviours in relation to the production and importation of plastic packaging do not improve in line with the Government's expectations.

The impact of the PPT, whilst financial, also has fundamental sustainability opportunity. If a business does not already have an ESG strategy in place, they should develop one. PPT is one part of the government agenda to change 'thinking' in business for the way they operate. Climate Change Agreements: Environmental Vehicle Regulations & PPT are all drivers in getting business to change. This should not be seen simply as another tax, rather a catalyst to take a deep dive into the whole business approach to Climate, Innovation, Trust, Workforce & its supply chain.

Removal of 25% Tariffs on US Steel and Aluminum

Removal of 25% Tariffs on US Steel and Aluminum

Since June 2018 the US has applied additional customs tariffs on the import of certain UK originating steel and aluminium products, some of which are used in the construction sector.

As a result, the EU introduced counteractive measures which included many commodities used by the construction and real estate sectors.

These tariffs increased the cost of supply of affected goods by up to 25% so the announcement on the 22nd March 2022, which confirmed their removal on the 1st June 2022, was welcome news.

Currently, the additional tariffs are applied on certain goods of US origin. To see if the goods you use within your business are affected by these changes, you should check this link here.

UK Sanctions against Russia & Belarus

The Russia (Sanctions) (EU Exit) Regulations 2019 and The Republic of Belarus (Sanctions) (EU Exit) Regulations 2019 came fully into force on 31st December 2020.

This legislation imposes a wide range of trade and financial prohibitions and licenses may be required for trade.

Export Support Service is a useful starting point for queries in relation to trading with Russia and Belarus. The contact details are: 0300 303 8955, or www.gov.uk/ask-export-support-team.

VAT on the Installation of Energy Saving Materials

With the focus of the world firmly on sustainability, and in the midst of global soaring energy prices, it is perhaps unsurprising that the chancellor should choose the Spring Statement to announce measures to help make homes in the UK more energy efficient. But could, and should, the chancellor have gone further?

The measures announced came into force on 1 April 2022, and introduce a time limited zero-rate VAT relief that applies to the installation of energy saving materials ("ESM") in residential property in England, Wales and Scotland.

Until the new measures came into force, existing VAT provisions did allow the reduced VAT rate of 5% to be charged on the installation of specified ESM or on the supply of the materials themselves when supplied by the person who also installed those materials.

ESM were specified in the law as meaning:

- insulation for walls, floors, ceilings, roofs or lofts or for water tanks, pipes or other plumbing fittings
- draught stripping for windows and doors
- central heating system controls (including thermostatic radiator valves)
- hot water system controls
- solar panels
- ground source heat pumps
- air source heat pumps
- micro combined heat and power units
- boilers designed to be fuelled solely by wood, straw or similar vegetal matter

However, the 5% rate would only apply where either the recipient was in receipt of certain state benefits or was over 60 years old (the "public policy" test) , or if the public policy test was not met, where the value of the materials supplied was 60% or less of the total cost to the person to whom the supply was made. Where the value was over 60%, only the service element of the supply would qualify for the reduced rate. This made application of the reduced rate administratively difficult for suppliers, who had to ensure that proof was obtained and kept to evidence, for example, that the customer was in receipt of benefits or over the age of 60, or that the value of the materials did not exceed 60% of the value of the sale made to the customer.

The new measure applies VAT at zero-rate to the installation of ESM in England, Wales and Scotland, extends the meaning of ESM to also include wind turbines and water turbines (items that could not be included while the UK was part of the EU), and removes both the public policy test and the 60% test, making administration of the relief far easier that was previously the case.

As noted, the relief is time limited, and will only apply under the current law for supplies made on or after 1 April 2022 and before 1 April 2027. From 1 April 2027, the installation of ESM is due to revert back to the reduced rate of 5%. The public policy and 60% tests will not however be re-applied after 1 April 2027.

These measures will only apply in England, Wales and Scotland, but will not apply in Northern Ireland. This seems an odd position from a technical perspective. Northern Ireland remains bound to follow EU VAT law in relation to supplies of goods under the Northern Ireland Protocol, but not services - and installation services are very definitely a service. It may be that while negotiations continue around the Northern Ireland protocol, the government felt it would be best not to rock the boat.

But for whatever reason, the rules in Northern Ireland will continue to apply the reduced rate of 5%, will retain the public policy and 60% tests and will not initially extend relief to wind and water turbines.

The relief that applies to ESM will only apply where the installation of the ESM is the primary purpose of the contract. If installation is ancillary to wider works, the installation will follow the VAT liability of those works. For example, if a contractor is engaged to fully renovate a property, and as part of that renovation, ESM are installed, the supply of installing ESM from the contractor to its customer will not qualify for relief but will be subject to VAT at the standard rate as part and parcel of the renovation contract. In these circumstances, it may be better for the end customer to contract directly with the subcontractor installing the ESM to obtain the benefit of the zero-rating available.

Caution should also be exercised where component parts of a system are being supplied. For example, drilling a bore hole, installing a ground loop and grouting as part of a ground source heat pump would not appear to qualify for zero-rating under the law, as the supply is not the installation of a ground source heat pump.

The relief will only apply where there is installation of ESM. For anyone buying such materials for own use (e.g., installers purchasing materials to install, or DIY enthusiasts purchasing materials to improve the energy efficiency of their own homes) these will continue to be subject to VAT at the standard rate. This may create a potential cash flow cost for installers, and an absolute cost for individuals purchasing ESM which could put people off improving the efficiency of their homes due to the additional expense involved. The list of materials could be expanded to include for example components of a system that makes up ESM, or to include items such as double glazing. There are many older houses that may have double glazing installed, but these are unlikely to be as energy efficient as modern glazing. For many people, including housing associations and residential institutions that cannot claim back VAT on costs, the additional 20% VAT cost may make upgrading unaffordable. With the future of our planet at stake, it seems odd that the government should continue to tax items that could contribute significantly to lowering emissions.

Should the chancellor have gone further – the answer would appear to be a resounding "Yes!"

If you wuld like further advice, please get in touch with your local office.

R&D – upcoming changes

Restriction of R&D relief for expenditure incurred overseas

Outline of the Changes:

Under proposals first announced in the Autumn Budget 2021, and re-iterated in the Spring Statement, the Government have confirmed their plans to restrict R&D Tax reliefs in respect of expenditure incurred outside the UK from April 2023. Subcontractor activities will need to take place in the UK, and 'Externally Provided Workers' (i.e. staff sourced via agencies) will need to be within the UK Tax Regime (i.e. they make PAYE and NIC contributions). The objective is to refocus the reliefs towards innovation in the UK and ensure more of the benefit goes towards stimulating the UK economy, however there is a risk that these changes may unintentionally restrict legitimate claims.

Exceptions:

There are some exemptions to this rule which were clarified in the Spring Statement, namely where there are 'material' (i.e. geography, environment or population factors), or regulatory / legal factors which make it necessary for the work to take place overseas. Any exemptions will be focussed on necessity, rather than convenience or preference, and definitions are yet to be finalised.

Despite these clarifications, uncertainty remains regarding HMRC's position for a number of common scenarios:

Work Undertaken Overseas for Practically Purposes

It is common within the industry for work to be split internationally, for example the initial stages of development may be done in the UK, however in some cases latter stage development may be completed abroad due to its proximity to manufacturing facilities, for example where changes need to be made based on Prototype or test sample results. Ostensibly, this would appear to meet the 'Geographic' condition stated above, but what if similar facilities exist in the UK and the company chooses to use the alternative site for other purposes? It is not yet fully clear if such a scenario would meet HMRC's requirements for an exemption.

Specialisms

There are situations where a specific skillset is common in a particular region. Whilst some expertise may exist in the UK, it would be far easier and less time consuming to utilise a team of workers from a location where the knowledge is most prevalent. Should a UK company be punished for sourcing a workforce abroad whilst continuing to operate and hold their IP in the UK?

Long Term Integrated Teams

In many situations, teams across borders have been working closely and seamlessly for a number of years and work as one given their comprehensive and specialist knowledge of particular products. This could be either by means of a subsidiary or an unconnected third party who maintain close business ties. This knowledge is not easily transferrable or replicable due to its complexity and uniqueness, and in some cases protected nature of the IP. The question arises on whether continued operations in this manner be deemed a reasonable exemption, or would the company be expected to replace this workforce with a new UK team and training them before they are eligible for R&D Tax Reliefs? The R&D Team at MHA have posed these questions to the R&D Consultive Committee run by HMRC, as part of the consultation on these changes.

Company Takeovers

It is common within the construction sector that a company is purchased due to their expertise, and the existing IP, however under the mooted changes, future costs may no longer be allowable for relief. Should the government be punishing UK companies for attempting to expand and ensuring that the IP and the benefits from that IP continue to be realised in the UK?

Ultimately, the treasury wants to ensure that decisions aren't made purely on a cost basis.

Preparing For the Changes

Our opinion is that where the rules remain unclear, it may be useful to perform a cost / benefit analysis of moving some workers, particularly those leading the R&D efforts as it may become important to show that the work is 'managed and controlled' in the UK. In addition, it may be worth investigating alternative contractors based in the UK who may be able to replicate work carried out by companies abroad to the same standard, and to begin initiating relationships with other teams.

Early indications suggest that any intention to utilise a foreign worker exemption may need to be made via email to HMRC directly. Given the current backlog being experienced within the industry, we expect gaining approval to be a time-consuming process. Planning should be made to ensure claims are kicked off in good time prior to the deadline. We also recommend ensuring records are kept of who is based in the UK and who is based abroad, particularly for larger companies with more complex claims.

Tackling abuse and compliance in R&D Tax Reliefs

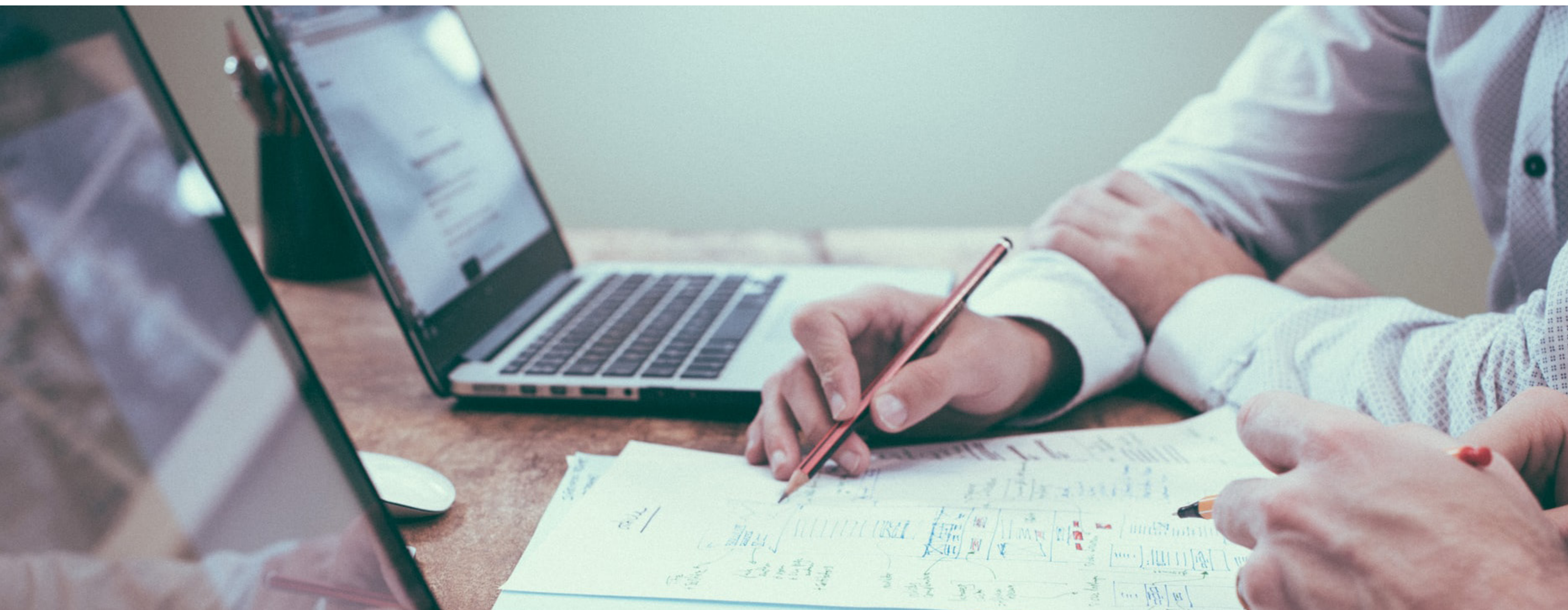
In order to tackle abuse of the scheme and discourage spurious claims, there are a number of other proposed changes due to come into effect from April 2023, including:

- All claims for R&D Tax reliefs will have to be made digitally
- More detail will be required to justify the claim, such as what expenditure the claim covers and the uncertainties the R&D was undertaken to overcome.
- All claims will need to be endorsed by a named senior officer of the company
- Companies will need to inform HMRC in advance that they plan to make a claim
- Claims will need to include the details of any agent advising the company on compiling the claim

Overall, we see these changes as an important step to improve the quality of advice companies receive in the area of R&D tax relief. By including details of the senior officer of the company and their advisers, it will be easier for HMRC to identify where inaccurate advice is being given and encourage companies undertaking R&D tax relief claims to work with reputable advisers.

Although considering changes at this stage is useful, it is still too early to make concrete conclusions. We expect draft legislation to be published in Summer 2022, at which point there will be a short window of opportunity to comment on the draft legislation and make plans with greater certainty.

For an informal chat to discuss what may be eligible for R&D please get in touch with your local office.



IR35 – one year on

IR35 has already had a significant effect on contractors in the Construction sector, contributing to a 10% fall in the number of self-employed workers, according to research conducted by IPSE in 2022.

It found overall, that more than a third of freelancers have moved away from contracting since the changes came into effect in April 2021.

While the pandemic and Brexit will have contributed to the fall, IR35 has certainly created a barrier for the self-employed and a risk for companies using self-employed workers; with many opting to try and avoid the risk altogether by engaging workers through payroll companies.

With HMRC's first year 'soft landing' on IR35 coming to an end in April, the need to understand and operate the IR35 rules correctly is more important than ever.

To do this, businesses must fully understand their labour supply chains in order to identify where personal service companies (PSCs) and other intermediaries are being used.

Get your determination right

We see a number of cases where the status determination has been carried out at the wrong point in the supply chain, particularly where there are other parties (e.g. agencies) involved, which can result in potential PAYE and NIC due liabilities.

Also, carrying out the status determination itself can be a challenge for many businesses, particularly when using the HMRC 'Check Employment Status for Tax' ("CEST") tool.

In a recent review, the House of Lords Finance Bill Sub Committee addressed ongoing concerns around the accuracy of CEST results, highlighting the fact CEST still fails to consider mutuality of obligation, which is considered a key test in assessing employment status. It is also thought that around a fifth of all CEST assessments continues to produce an 'unable to determine' result.

Consider the cost of compliance

We have also seen that the way in which businesses engage with and pay certain contractors has had to change, often resulting in increased costs, for example, increased fees being charged by agencies or a direct increase in Employer's NIC charges, where IR35 applies. In addition, there is a legal, financial and administrative burden on businesses, at a time when the UK economy could do without additional overhead spending.

Some end-clients introduced blanket bans on the use of personal service companies (PSCs) following the IR35 reform, but businesses are reversing their positions and we are beginning to see clients engaging with PSCs again.

Don't rely on third parties

Umbrella company usage has also risen dramatically over the last 12 months as clients look to avoid IR35 risk. This still needs to be assessed as it can present its own risks if the umbrella company has adopted tax avoidance arrangements or proper due diligence has not been undertaken.

The new rules are being adopted as business as usual (BAU), with businesses and organisations becoming more comfortable with the legislation.

However, more education and major improvements to the CEST tool are undoubtedly needed to counter the ongoing challenges and ensure that UK businesses don't lose access to the skilled talent they need in the long term

The government need to do more!

It is possible that the economic uncertainty that IR35 generates could result in less availability of self-employed workers and no real signs of the government stepping in to solve the problems around IR35.

The government urgently needs to commission a review or ease its stance on IR35 reform and invest in improving the CEST tool to support businesses and give more certainty.

If you wuld like further advice, please get in touch with your local office.

Land Remediation Tax Relief (LRTR)

Land Remediation Tax Relief (LRTR) has the capacity to make a real contribution to alleviating the UK housing crisis. It should be the incentive needed to encourage the development of additional housing, but it is often overlooked or allocated too late.

The West Midlands Combined Authority (WMCA) has been working hard to help unlock hundreds of acres of former industrial land for much-needed new homes. Their success in securing additional funds from government is helping to breathe new life into brownfield land to relieve pressure on the Green Belt and they have been using the LRTR as an additional tool to reach their targets to specifically allocate funds where needed.

What LRTR is, what costs can qualify and what it means in cash terms.

Introduced in 2001 it was meant to be a way of levelling the playing field with green belt sites by reducing the cost of decontamination of brownfield sites. The relief was modified and extended in 2009 to include the costs of remediating long term dereliction.

LRTR provides a tax deduction in respect of expenditure incurred from de-contaminating land acquired from a third party. The tax deduction is available to companies only. LRTR provides an enhanced tax deduction of 150%, for "qualifying expenditure". In lay terms this means an additional tax relief at present rates of corporation tax of 28.5% for qualifying expenditure on investment assets, and 9.5% for land held as trading stock.

What land qualifies?

The land in question must be in the UK and either derelict or contaminated. For derelict land, the qualification is that the land must have been derelict since the earlier of 1 April 1998 or the date of acquisition.

In respect of contaminated land, the prerequisite is that the contaminants must be causing harm, or there must be a serious possibility that they could cause relevant harm — being significant adverse impact on the health of humans or animals. In addition, the contamination must have been brought about by industrial activity such as mining and quarrying, manufacturing, the supply of electricity, gas or water; or through construction and agriculture. With effect from 1 April 2009, asbestos, radon, arsenical compounds and Japanese knotweed are specifically treated as contaminants for LRTR purposes.

What is qualifying expenditure for LRTR purposes?

"Qualifying expenditure" broadly speaking, are costs incurred for preventing, minimising, remedying or mitigating any harm of the land that is in a contaminated state, and restoring the land or polluted waters to their former state.

What challenges are facing the effectiveness of LRTR in unlocking brownfield sites?

Despite modifications there is an industry view that the relief is failing, and part of the reason for this is because housebuilders (often the primary intended beneficiaries) have to wait far too long before they receive the tax relief. It would be much more beneficial if a tax credit was made available at the time the expenditure is actually incurred.

Therefore, increasing awareness of the availability of the relief together with some small adjustments to when relief for expenditure is secured should be of interest to all in the community.

If you wuld like further advice, please get in touch with your local office.

Land Remediation Relief – Case Study

A misconception of some, that a company still needs to be active to make a successful claim to Land Remediation Relief has been dispelled by the MHA Tax Team submitting a claim on behalf of an administrator which resulted in a tax refund in excess of £200,000 being secured on behalf of creditors.

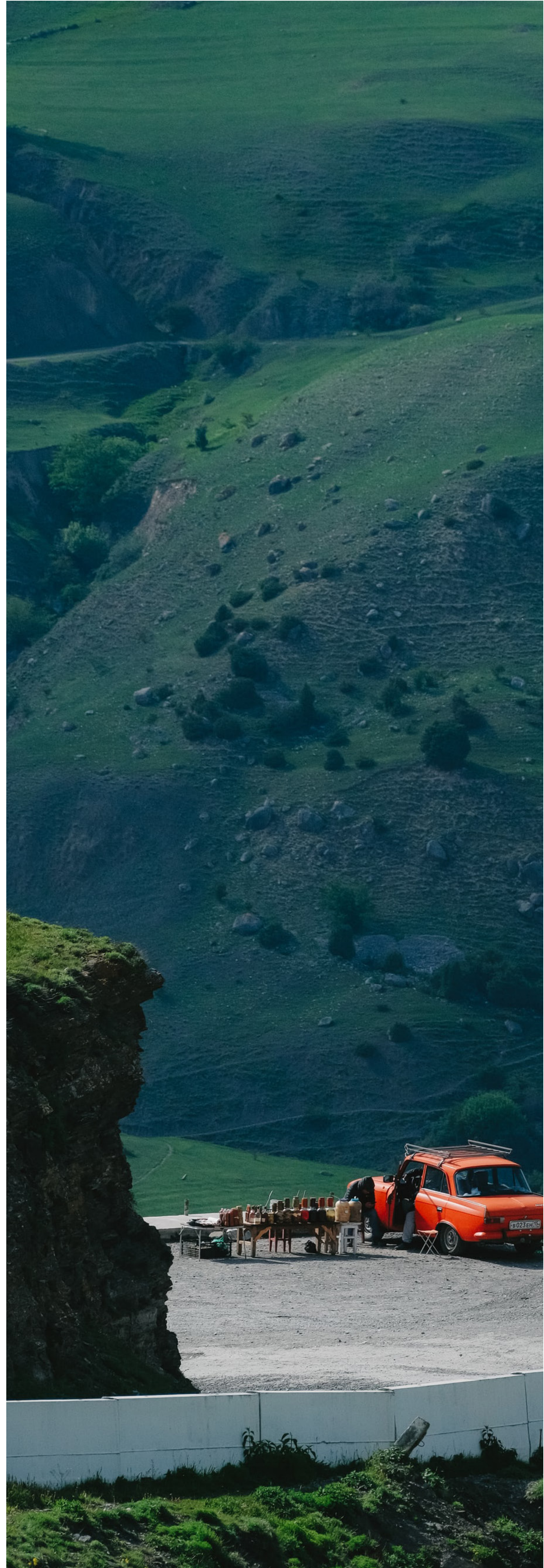
The company in administration had acquired a large industrial site which needed significant decontamination and remedial work undertaken before construction of new distribution warehouses could commence.

Unfortunately, the company ran out of cash and its funders determined not to support the company further. The administrators were charged with disposing of the land and other realisable assets.

The MHA tax team were asked to review the case and ascertain whether a claim to LRR could be made.

Having established that the land qualified and the costs incurred represented qualifying expenditure, the challenge faced was the lack of formal accounts. MHA constructed a claim based on their assessment of qualifying expenditure, supported by the relevant invoices and documentary evidence.

Following correspondence with HMRC and assisting the administrator discharge additional tax compliance responsibilities, HMRC agreed to make a refund to the company of a sum in excess of £200,000.



House price growth

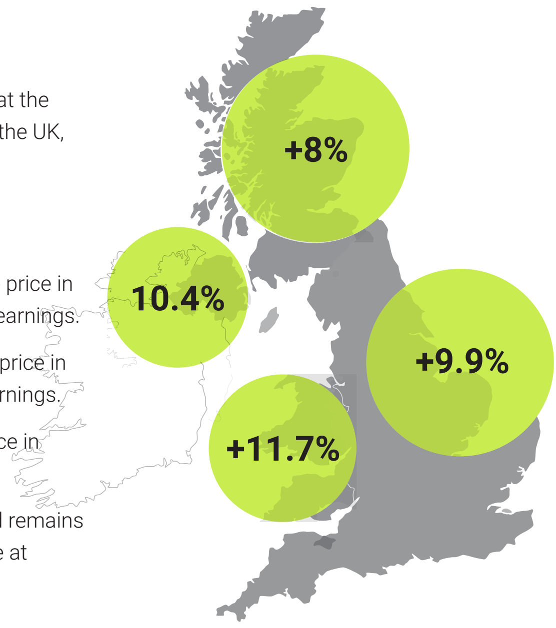
The latest house price data was published in May 2022 by HM Land Registry on GOV.UK which provides data up to March 22. It reveals that average house prices in the UK increased by 9.8% over the year to March 22, down from 11.3% in February 2022. The average price of a house now stands at £298k in England, £206k in Wales, £181k in Scotland and £165k in Northern Ireland.

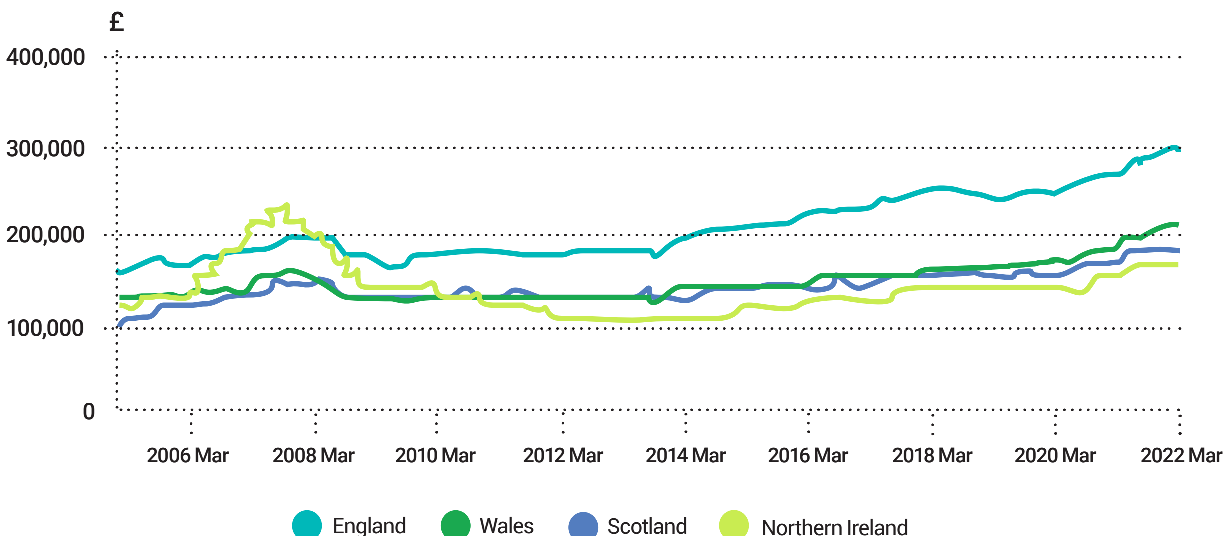
Monthly house prices changes across the UK and Ireland

The UK average house price was £278,000 in March; which is £24,000 higher than at the same point last year. The average house price is currently 9 x the average salary in the UK, which is approximately £31,096 p.a.

England house prices remain the highest in the UK

- England increased by 9.9% over the year to March 2022, with the average house price in England now at a record level of £298,000 and approximately 9.6 x average UK earnings.
- Wales increased by 11.7% over the year to March 2022, with the average house price in Wales now at a record level of £206,000 and approximately 6.6 x average UK earnings.
- Scotland increased by 8% over the year to March 22, with the average house price in Scotland now at a record level of £181,000 and 5.8 x average UK earnings.
- Northern Ireland increased by 10.4% over the year to March 22. Northern Ireland remains the cheapest UK country to purchase a property in, with the average house price at £165,000 and approximately 5.3 x average UK earnings.





The latter half of 2020 saw the UK's average house price growth accelerating, with the trend continuing into 2021, fuelled largely by a stamp duty holiday introduced in the summer of 2020. The tax break continued through to March 2021 in Scotland, June 2021 in Wales and October 2021 in England and Northern Ireland to help mitigate against the effect of the pandemic on the housing market and house price growth has remained strong since the start of 2022.

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 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. They could be seen again in September 2021 when the last of the tax holidays came to an end in England. An increase in prices since then has resulted in a record average house price level in the UK of £278,000 in March 2022.

The provisional seasonally adjusted estimate of UK residential transactions in March 2022 was 114,650, which is 35.7% lower than March 2021 and 2.6% higher than February 2022.

Regional variation

The East Midlands was the region with the highest annual house price growth, with average prices increasing by 12.4% in the year to March 2022.

The lowest annual growth was in London, where average prices increased by 4.8% over the year to March 2022, down from 7.8% in February 2022.

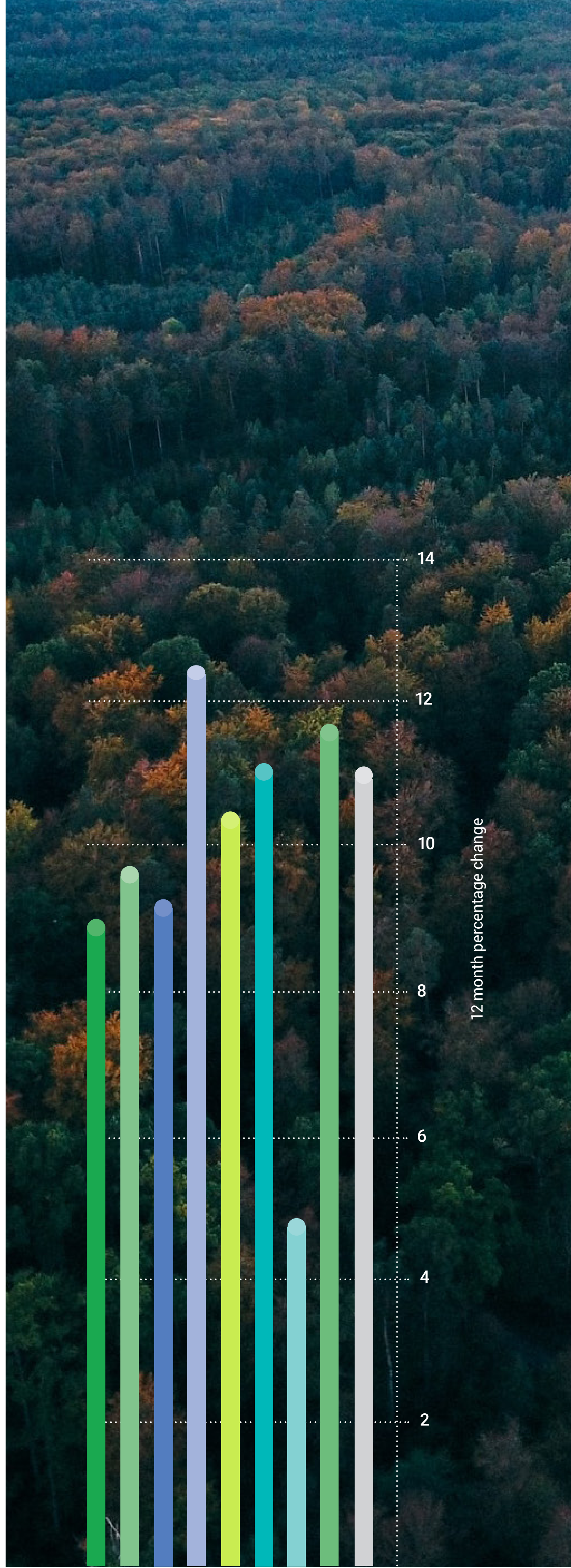
Despite seeing the lowest annual growth rate, the average house price in London is still the most expensive in the UK at £524,000 in March 2022

The North East continued to have the lowest average house price, at £155,000.

London remains the region with the lowest annual house price growth

All dwellings annual house price rates of change, by English region, year to September 2021

- North Eest
- North West
- Yorkshire and the Humber
- East Midlands
- West Midlands
- East
- London
- South East
- South West



News bites

Energy efficiency premium boosts house price growth

Leading property agent Savills have reported that nearly 6 out of 10 prospective buyers were willing to pay more for homes primarily powered by renewable energy such as heat pumps and community heating schemes. Their findings indicated homes in England and Wales that have a heat pump command a 59% premium compared to regional average prices. The research also revealed that a home's EPC rating was an important factor for 71% of respondents in their decision making. However, investment in more environmentally friendly heating methods is more prevalent in higher value areas and higher end properties, which will not necessarily translate to other areas and types of property.

The end of the property boom?

According to major estate agents Knight Frank, house prices are likely to return to single-digit growth, heralding an age of stagnant growth as interest rates rise and the cost of living crisis bites. In a market that almost appeared to defy gravity in the midst of a global pandemic, house prices have soared by over 14%, due to a lack of supply, low interest rates, a stamp duty holiday and a desire for more space. However, a predicted rise of 5% in 2022 and just 1% in 2023 indicates house prices may only rise by around 14% over the next five years.

However, all predictions on the housing market must be taken with a degree of scepticism as even the Bank of England forecast at 16% fall in anticipation of an economic crash in the early stages of the Covid-19 pandemic.

While many are certainly feeling the squeeze of higher inflation and energy costs, there are many who have benefitted from the pandemic, having made significant savings on commuting and childcare costs working from home, which could offset any slowdown in the market. Many of those are professionals, able to work anywhere with good broadband – distancing regional property prices from earnings.

Gove looks to boost council housing

Michael Gove, the Levelling Up secretary is paving the way for a new wave of council housing to be built across the UK by requiring developers to pay a new levy to local authorities. Instead of a requirement to build a set number of "affordable houses" as part of their development, developers will instead be required to pay into an infrastructure fund. Further details and a formal consultation are expected over the coming months.

Lenders down-valuing more mortgage offers

Property investment firm HBB Solutions published a report in April, claiming that almost half of all property purchases across the UK may have been subject to a down-valuation, estimating that between January 2020 and January 2022, 44% (866,906 properties) were down-valued by an average of 2.8% (approximately £7,709). However, Chris Sykes, a director at Private Finance has since stated he was currently only seeing around 1 in 30 cases being hit by a down-valuation.

Down valuing is where a surveyor, acting on behalf of a mortgage lender, assesses a property and decides it's worth less than the price agreed, resulting in the lender reducing the amount they are prepared to lend.

Bidding wars, often sparked due to the shortage of supply frequently lead to excess offers far above the asking price and in uncertain market conditions, surveyors, who accept legal liability for their valuations are likely to be more cautious.

Going Nuclear

As part of the new energy strategy the government has announced a significant acceleration of new nuclear power, aiming to increase the UK's nuclear generation capacity from 8GW in 2020 to 24GW by 2050, with the building of as many as 8 new nuclear reactors. Hinkley Point C in Somerset is currently under construction and is the first new nuclear power station to be built in the UK for more than 20 years. The strategy also includes plans to increase wind, hydrogen and solar power to boost UK energy independence, reduce reliance on Russian oil and gas and mitigate against rising prices.

New-build house prices rise twice as fast as older homes

According to the latest Land Registry data, the cost of a new-build home increased by 25.4% to £367,219 last year compared to an increase of only 8.6% for existing homes. The rise can partially be attributed to the types of new build properties developers are bringing to market, responding to demand from buyers wanting more space with more detached and larger semi-detached houses being built

The key advantages of buying a new build include a 10-year warranty, lower maintenance costs, incentives such as the government 'help to buy' scheme, a chain free transaction and a number of green and energy efficient credentials.

Equity release mortgage rates on the rise

Research from Moneyfats.co.uk has revealed that rates on equity release mortgages have risen from the average record low of 3.86% in March 2021 to 4.33% in March 2022. Lifetime mortgages have grown in popularity over recent years with lending climbing 24% year-on-year in 2021 to £4.8bn, up from the previous record of £3.94bn in 2018. There are a wide range of products on the market to support different forms of equity release and consumers are choosing to cash in on the value of their home to help their children or grandchildren to get on the property ladder, to top up their pension pots and spending power in retirement and in some cases to purchase a more expensive property to be closer to family members in their old age.

Post lock-down renovation boom

According to planning statistics and research by Savills, a record number of applications for extensions and home improvements were approved last year. In the 12 months to September 2021, 247,500 planning consents were granted in England, 36% higher than the year before and a fifth more than normal.

Professional Indemnity Insurance

Premiums for professional indemnity insurance have skyrocketed over the last 5 years, with Construction News recently reporting that some firms have seem a 1,500% hike since 2017. In light of the implications of the Building Safety Act, which extends liability for safety defects to 30 years, prices will rise further, or more exclusions will be written into the policies; particularly in the areas of fire safety.

Businesses will need to start by assessing the scale of their risks and what may be covered by existing policies. Review all the records available for work completed over the last 30 years, including details of work that was subcontracted out.

Mortgage Guarantee Scheme sees slow uptake

The Government's Mortgage Guarantee Scheme to help first-time buyers get on the property ladder has only helped a small proportion of buyers since its launch in April 2021, but is gaining in popularity. Government statistics show that in the schemes first six months, only 6,535 mortgages had been completed, with a further 5,853 more being completed in the three months from October to December; a total of 12,388 mortgages with the total value of mortgage loans at £2.2bn.

October Deadline for Help to Buy

The government has confirmed the final deadline for applications to its Help to Buy scheme ahead of it fully ending in March next year has been set for 31 October 2022. Under the scheme, buyers can take an equity loan up to 20% of the cost of a new build home (40% in London) and use a deposit of just 5%. A spokesperson for Levelling Up, Housing & Communities has stated that the scheme has helped over 361,000 households since its launch.

Ground rent reform becomes law

The Leasehold Reform (Ground Rent) Act, received Royal assent in February and sets the ground rent to zero on new leases from 30th June 2022 and is likely to save future leaseholders hundreds of pounds a year. The Act applies to all new residential long leases being granted, and voluntary lease extensions where the existing lease is surrendered and regranted.

In anticipation of the bill, many developers have removed ground rents, but for some schemes that may be half sold when the law comes into force, there will be controversy where some tenants pay ground rents and others don't. Buyers are also likely to delay purchases until after 30th June where there is a ground rent and existing leases, which already include ground rent are likely to become less attractive to prospective buyers.

There are some exemptions under the act for certain types of community housing, business leases and statutory lease extensions of houses and flats.

MHA Construction & Real Estate Team

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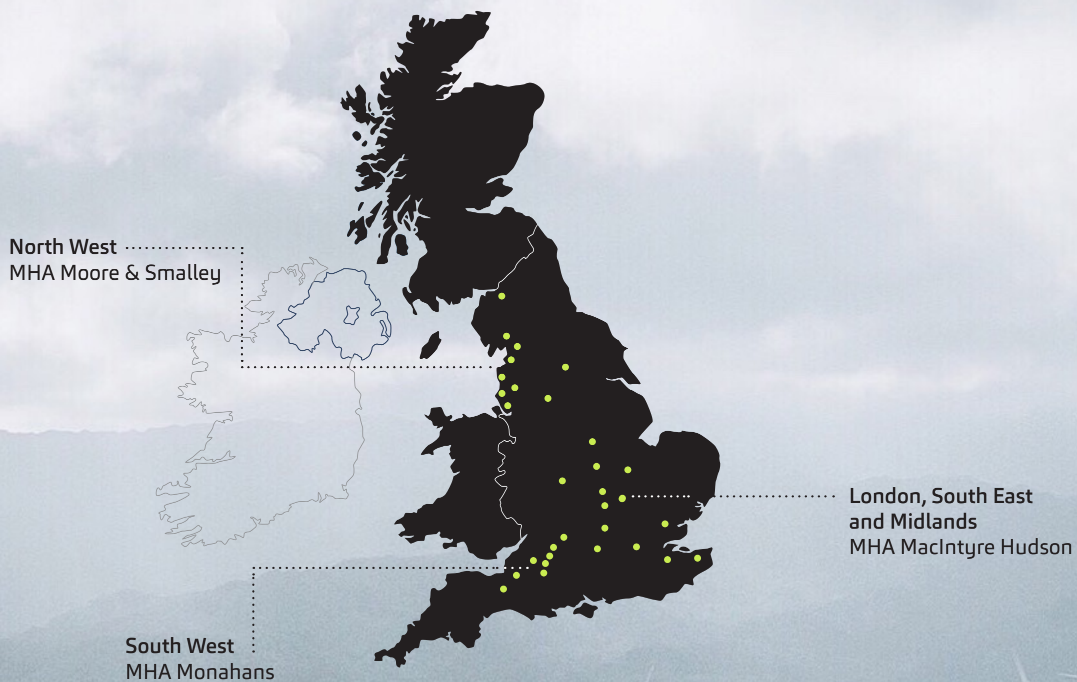

National Reach

136
Partners

1,375
Staff

£121.9m
Combined turnover

4
Independent accountancy firms

33
Offices nationwide

International Reach

148
Territories

US$4.04bn
Combined member firm revenues

An independent member of bakertilly INTERNATIONAL

37,000
Partners & Staff

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