

Economic outlook for the property sector



HOPEFULLY we are seeing the UK coming out of the worst recession since the war.

We have seen almost 16 years of growth since the last recession in 1991/92 but this remarkable period came to an end in Quarter 2 2008.

Since that time the UK has seen five consecutive quarters of negative growth, when in Q1 2009 saw GDP fall by -2.4 per cent, however, the good news is that Q2 2009 fell just -0.7 per cent.

Therefore, what we are seeing is the slowing down of negative growth. UK output has fallen in this recession by 5.3 per cent which is more than the last two recessions (1979-81 and 1990-92) which saw output fall by 4.9 per cent and 2.5 per cent respectively.

Positive growth predicted

It is widely predicted that we will see a positive picture for Q3 2009 due to a number of factors, including inventory cycles, fiscal spending plans and a year where an unprecedented number of people holidayed at home.

What is encouraging is that a significant number of economists are predicting that this return to positive growth will continue for the foreseeable future. It needs to be noted, however, that the last few recessions have

also seen periods of positive growth followed, depressingly, with quarters of negative growth. Again, where there seems to be a consensus amongst economists is that growth is expected to be weak. This is attributed in no small part to the exceptional levels of debt we carry. UK household debt is the highest in the world. This boom in debt fuelled the housing market.

The rise and fall of property prices

In the period 1996-2007 house prices rose by an amazing 350 per cent! Since this time property prices have fallen 20-30 per cent and, as economic growth closely follows the housing market it is clear that, with very little property price growth expected, the recovery may be a long haul. Property prices took ten years to recover from the last decline in 1989.

We note with some caution the recent announcements that property prices have increased. Back in 1993 when property prices bottomed the next 32 months saw 16 months when prices rose and 16 months where they fell.

In addition to the household debt, government borrowing is set to soar to a predicted level of £700 billion over the next five years. This cannot be sustained and, therefore, debt has to be brought down.

If we discount hyperinflation as an option then we have only two ways to reduce debt, cut spending or raise taxes. The first does have the effect of reducing revenues and can therefore be counterproductive.

So where does all this leave the property sector in the North West?

We are a nation obsessed by home ownership and this will not change. Perversely, however, we do actively seek to buy when the market is high and less when property prices are low. That aside, house builders are seeing higher activity levels and this is manifesting itself in increasing reservation levels. Latest National House Building Council statistics show that the region is leading the way with new house building projects, with 1,393 projects getting underway in the period June to August 2009, compared to 973 for the same period last year. Whilst this is positive news, the overall condition of the economy could still play a part in this recovery. We are still seeing increasing unemployment levels which, in turn, will lead to a reduction in consumer wealth, thereby reducing spending and ultimately going some way to holding back the upturn. In addition, there is still widespread concern that the banks are not lending in sufficient levels to builders and buyers.

The conclusion must be that whilst the indicators are showing that we are coming out of the recession, with a predicted return to growth, it will be a very slow gradual recovery. This will be particularly true in the property and construction sector which has been possibly the hardest hit.

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False self-employment



HM REVENUE & CUSTOMS (HMRC) have not allowed current trading conditions to deter them from pursuing the construction industry. The second wave of challenge letters have been sent out to those who are currently paid gross but have fallen foul of the requirements to retain their gross payment status.

Whilst that can be devastating to individual businesses, of concern to the industry as a whole is the consultation document recently published by HMRC on "false self-employment".

Currently, the "engager" of any worker within the construction industry is required each month to review whether that worker is self-employed.

This decision is made using the various cases which have been decided by the courts and tribunals.

The engager then either pays them via the PAYE scheme as an employee or validates them with the HMRC database and pays them on invoice.

Where the engager incorrectly pays someone as self-employed, HMRC will gross up the payments made and assess the payer for NIC, any additional tax due, interest for the earlier years and penalties.

The potential cost can close a business, whilst the uncertainty of the outcome to any status challenge makes accurate costings almost impossible to achieve.

The consultative document is proposing to "simplify" the issue by identifying three indicators of self-employment.

The three criteria are:-

1. The provision of plant and equipment in addition to the tools of the trade which are normal and traditional for individuals to provide;
2. The provision of all materials to complete the job; or
3. The provision of other workers to carry out operations and to be responsible for paying them.

Where a worker does not meet any of the three they will be deemed employees and payments to them will be subject to PAYE. The Government believes these criteria bear the hallmarks of a person carrying on a business in his own account and of course they do, but the case law used currently provides a far broader range of self-employed indicators which more closely match the industry's technical variety.

Should these criteria become law the Treasury expect to collect a further £350 million each year, based on the estimated PAYE take from the 300,000 subcontractors who currently claim no deductions for plant or materials.

If the three criteria are allowed to form the legal definition of self-employment, it may help clarify the status problems but it will cost you money with 12.8 per cent employer NIC on all payments to deemed workers.

It will almost certainly reduce the flexibility of the workforce and increase payroll administration.

Should you need any help with gross payment challenges or status issues either before or after the proposed changes, please get in touch.

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Don't trip up on a VAT trap

LET'S face it, for many property and construction businesses tax on large profits has not been too much of a worry of late which is why HM Revenue & Customs (HMRC) is looking increasingly at tax on **turnover** (i.e. VAT) instead.

In addition, VAT returns are filed every quarter (or even every month) which gives four times (or 12 times) the opportunity to find something wrong and bring in more money to offset against the current £175 billion budget deficit for 2009/10.

We are seeing increasing interest from HMRC in the land, property and construction sector as it is one of the most complex and "fertile" areas of VAT with large sums of turnover at stake, and very short VAT return reporting deadlines.

Property auction purchases

Whilst it is easy to get carried away in all the excitement of a property auction, a dangerous VAT trap awaits any landlord buying a tenanted commercial property. Where VAT has been added to the rent by the former landlord it is necessary to "tick all the boxes" to achieve a VAT-free sale of a property rental business as a going concern. Failure on any point will result in a VAT charge on the purchase price which will take

some time to reclaim from the Revenue. It is advisable to contact a specialist taxation advisor before the auction takes place to avoid this problem arising.

Renting out unsold new flats and houses

HMRC have issued a warning that they will be checking up on builders and developers who rent out unsold new houses and flats. Any rental income received before a sale is exempt from VAT, which means VAT cannot be reclaimed on materials and professional fees. This is an easy problem to eliminate before any rental income is received, however, if rental income has already been received the situation is more complex. Our specialist team can help to minimise or even avoid any VAT clawback depending upon length of ownership and/or relative valuations as part of our normal "health check" service.

Zero rated sales of new charity buildings

Although it is still early days, many builders will be caught out by a new rule which will mean that some new charity buildings will no longer be zero rated. Builders need to be wary of certificates provided by charities which confirm required charitable

non-business use of any new building as the de minimis limit for incidental business use has recently been halved. This problem can be eliminated at the contract stage and our experts can help you or your solicitor with this at any time.

And finally new VAT rate from January 1 2010

The 17.5 per cent VAT rate returns at midnight on New Year's Eve so spare a thought for the pub or club hosting your New Year's Eve party as an extra 2.5 per cent VAT is due as soon as Big Ben rings in the New Year. HMRC has dusted down the concessions from the last time VAT went up in 1991 to help you with sales that span the New Year. Please contact us if you need any help with any VAT issue.

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Van owners to benefit from extended car scrappage scheme

THE Government's decision to extend the car scrappage scheme could prove helpful to businesses with vans. Over £300 million has already been invested in the scheme, which encourages car drivers to trade in vehicles older than ten years in return for a £2,000 discount on new models.

Now Lord Mandelson, the Business Secretary, has announced that a further £100 million is to go into the scheme. The Government has estimated that the extension will fund a further 100,000 vehicles, bringing the total up to 400,000.

As well as additional public funding, the Government has also changed the qualifications for the scheme. The age eligibility for cars has been dated to February 29, 2000 (the previous registration cut-off point was August 31, 1999).

There was good news for van drivers too. Now owners with vans aged over eight years can qualify for the scheme (the original requirement was that vans needed to be ten years old).

The scrappage scheme is still due to come to an end on February 28, 2010, or when the current funding ends, whichever is the sooner.



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