



Hot tax topics in Construction & Real Estate

IN ASSOCIATION WITH MHA MACINTYRE HUDSON
FACILITATED BY DAVID FRANKLIN, ICAEW

Today's speakers



JOHN ROSSITER
DIRECTOR, INDIRECT TAX
MHA MACINTYRE HUDSON



NIGEL MORRIS,
AAT EMPLOYMENT TAX DIRECTOR
MHA MACINTYRE HUDSON

A pair of scissors is shown cutting through two flags. On the left is the Union Jack (the flag of the United Kingdom) and on the right is the European Union flag (a blue field with twelve yellow stars). The scissors are positioned diagonally, with the blades cutting through the fabric of the flags.

Brexit and the Construction Industry

John Rossiter
VAT Director

 **mha**
MACINTYRE HUDSON

 An independent member of
bakertilly
INTERNATIONAL



Brexit

The outcome

- The UK left the EU with a Free Trade Agreement. UK originating goods sold to the EU, and EU originating goods sold to the UK are tariff free.
- In 2019 UK exports to the EU represented 43% (£294bn) of total UK exports, and imports from the EU were 52% (£374bn) of total UK imports.
- Without the Trade and Cooperation Agreement, movements of goods between the EU and UK would be subject to average duty rates of 1.8%



A Free Trade Deal

What does this mean?

- No customs duty on EU originating goods, but....
- Customs duty may still apply on non-EU originating products.
- Customs duty compliance obligations now exist for anyone importing goods from the EU.
- Customs agents may be required to declare imports on behalf of importers
- Customs authority checks can result in delays



The UK Construction Sector

What impact will
Brexit have?

- Increased material costs due to customs duty on non-EU originating products and customs compliance costs.
- Scarcity of materials due to delays in imports.
- Compounded by the impact of Covid.
- New challenges for businesses working on EU contracts



Actions

What do I need to do?

- Review contracts:
 - Pricing
 - Timing
- Materials suppliers – stock and sourcing?
- Sub-contractors – are they prepared?
- Overseas contracts – Will there be additional costs that need to be factored in?

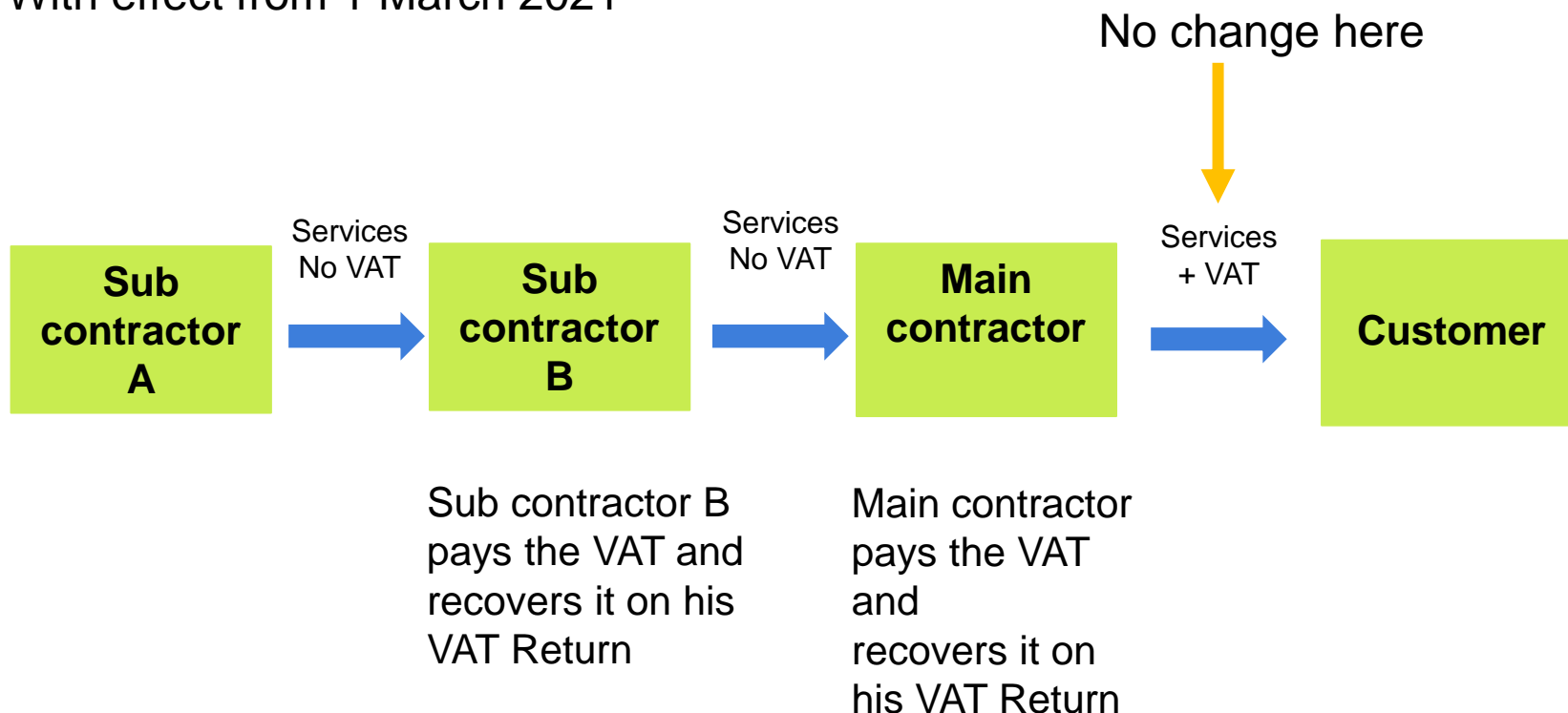


Construction Sector VAT Reverse Charge



Domestic reverse charge on construction services

With effect from 1 March 2021





Scope of the reverse charge

Will apply where:

- The service is a specified service subject to VAT at 5% or 20%,
- The customer is CIS and VAT registered,
- The payment has to be reported under CIS, and
- The customer is not an “End User”

Scope of the reverse charge



“Construction services” comprise:

- Construction, alteration, repair, extension, demolition or dismantling of buildings or structures, or of any works forming, or to form, part of the land;
- Installation of heating, lighting, air-conditioning, ventilation, power supply, drainage, sanitation, water supply or fire protection;
- internal cleaning of buildings and structures, in the course of their construction, alteration, repair, extension or restoration;
- Painting or decorating the internal or external surfaces of any building or structure;
- Services which form an integral part of, or are preparatory to, or are for rendering complete, the services described such as site clearance, earth-moving, laying of foundations, erection of scaffolding, site restoration, landscaping, etc

“Construction services” do not include:

- Drilling for, or extraction of, oil or natural gas or extraction (including tunnelling and boring) of minerals.
- The manufacture of building or engineering equipment, materials, or delivery to site;
- Manufacture of components for heating, lighting, air-conditioning, ventilation, power supply, drainage, etc, or delivery to site;
- The professional work of architects or surveyors, or of other consultants
- The making, installation and repair of artistic works
- Signwriting and erecting, installing and repairing signboards and advertisements;
- The installation of seating, blinds and shutters;
- The installation of security systems, including burglar alarms, closed circuit television and public address systems.



When will the reverse charge not apply?

- Not applicable to supplies to “End Users”
- Not applicable to supplies to “Intermediaries”
- Not applicable where the payment is not required to be included on a CIS return
- Not applicable to supplies of staff by an agency



End Users

- End User must notify the supplier in writing that it is an end user for purposes of the construction reverse charge.
- If does not, then the exception relating to end-users will not apply, and the reverse charge will apply.



Mixed Supplies

- Applies to specified supplies taxable at 5% and 20% rates only
- Mixed supplies of services and goods
- Supply of specified services together with non-specified services (5% disregard)

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 do not include it as an amount payable on the invoice



Practical issues

- Status of the supplier
- Status of customer
- Nature of supplies made
- System changes
- Invoicing
- Staff training
- Contract terms
- Adverse cash flow position

ICAEW - Changes to tackle Construction Industry Scheme (CIS) abuse

4th March 2021

Nigel Morris
Employment Tax Director

 **mha**
MACINTYRE HUDSON

 An independent member of
bakertilly
INTERNATIONAL

Agenda

- CIS set-off amendment power
- Cost of materials
- Deemed Contractors
- CIS registration penalty
- Summary





CIS set-off amendment power

New power

- HMRC amend CIS deductions claimed on Real Time Information (RTI) Employer Payment Summary (EPS) returns
- Where insufficient evidence of eligibility and/or evidence of sums deducted, and EPS not corrected at HMRC's request, new power:
 - HMRC correct errors or omissions relating to claims, or
 - HMRC remove claims, and
 - HMRC prevent employers from making further similar claims



Cost of materials

New measure

- Clarifying who can claim deduction for materials in supply chain
- Material costs will only be deductible if:
 - it represents the direct cost of materials
 - purchased by a sub-contractor
 - in respect of that particular contract



Deemed contractors

Change to the rules

- Monitor CIS expenditure more regularly
- Assess cumulative expenditure in previous 12 month period
- Operate CIS on next payment to a sub-contractor
- Cease operating CIS when:
 - expenditure <£3m in previous 12 month period, or
 - no further CIS payments to be made



CIS registration penalties

Expands scope of existing regime

- Liable to penalty if In position to exercise influence or control over person making the application, and either
 - encourages making false statement or supply false document; or
 - make false statement or supply a false document themselves
- Includes:
 - agents,
 - directors,
 - company secretaries, or
 - anyone HMRC believes in position to exercise influence and control over making CIS registration

Contact us:

Nigel Morris, Employment Tax Director

E: nigel.morris@mhllp.co.uk

T: 07718 340634

John Rossiter, VAT Director

E: john.rossiter@mhllp.co.uk

T: 7879 407135

Follow us

@MHUpdates

MHA MacIntyre Hudson

MHA MacIntyre Hudson is the trading name of MacIntyre Hudson LLP, a limited liability partnership, registered in England with registered number OC312313. A list of partners' names is open for inspection at its registered office, Moorgate House, 201 Silbury Boulevard, Milton Keynes MK9 1LZ.

MacIntyre Hudson LLP is an independent member of MHA and an independent member of Baker Tilly International Limited, the members of which are separate and independent legal entities. Arrandco Investments Limited is the registered owner of the UK trade mark for the name Baker Tilly. The associated logo is used under licence from Baker Tilly International Limited. Further information can be found via our website <https://www.macintyreHUDSON.co.uk/legal-disclaimer>

Now, for tomorrow

© MHA MacIntyre  **HUDSON**

An independent member of
bakertilly
INTERNATIONAL