

Contributor



Every year MHA MacIntyre Hudson undertakes a national analysis of the construction sector

Our findings show that over the last three years the sector has continued to increase turnover whilst gross profit margin rates have held steady. However, Brexit uncertainty is now weighing heavily on the industry and there is an expectation that materials could become more expensive as sterling devalues and labour will become scarcer and more expensive. At time of drafting, the matter is yet to be resolved.

The content of Sajid Javid's first budget as Chancellor of the Exchequer is also unknown, although it is hoped there will be more clarity in respect of the government's commitment to infrastructure projects and other measures designed to free up the construction industry, such as reducing Stamp Duty Land Tax liability.

VAT Domestic Reverse Charge

The construction sector is also facing significant changes to the taxation system, and companies need to be aware of these. The first relates to the VAT Domestic Reverse Charge (DRC), effective from 1 October 2019. From that date sub-contractors in a CIS chain of supply cease to collect VAT from other contractors. In its place a reverse charge system applies. This makes the buyer of a sub-contractor's service liable for VAT accounting in place of the supplier.



PHOTO: GUY HOLLOWAY ARCHITECTS

Proposal for Chatham Centre and Waterfront.

It is now widely known that HMRC is implementing the change to combat VAT 'missing trader' fraud in the sector which is estimated to cost the Treasury £100m per annum.

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 cashflow for sub-contractors who may now wish to consider monthly VAT returns.

In contrast, the cashflow position of main contractors 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.

Off Payroll Workers

Another change, which is due to be implemented from April 2020, is the extension of recent IR35 changes to the private sector. This will shift any liability from the subcontractor to the 'employing' company.

Whilst there is a Small Business Exemption, there is still no watertight definition of what will constitute a small business.

If the burden of operating IR35 leads to increased costs in respect of employer's National Insurance Contributions (NIC) – currently 13.8% and the application of the Apprenticeship Levy – the impact on contracts, margins and costings could be significant.

MHA Macintyre Hudson understands the nature of the construction industry and the challenges faced. We work with a wide range of clients in the sector – including commercial and residential developers, contractors, sub-contractors, civil engineers, and architects – guiding a business from start-up, through growth strategies and surviving a changing economy, all the way to exit planning.

Glen Thomas

Tax Partner
MHA Macintyre Hudson

Glen.thomas@mhlhp.co.uk
03330 100 220