

Property and Construction - Pre-Budget Report

The Chancellor's Pre-Budget Report included several key points relevant to property and construction. The impact of these proposals may not be as clear-cut as expected in all cases.

Capital Gains Tax

The current complex system of taxing capital gains is to be simplified from April 2008 with the introduction of a single rate of capital gains tax of 18%.

Buy-to-Let Investors

At first reading this would appear to bring a significant tax saving for buy-to-let investors holding property personally in the residential market. Under the current rules the lowest effective rate of tax on capital gains for such investors is 24% and this is only achieved once the property has been held for 10 years. From April 2008 the capital gains tax will be at 18% irrespective of the length of ownership.

However, in addition to taper relief individuals are currently able to claim indexation allowances on properties held since before April 1998. This reduces the gain chargeable to tax on the disposal of properties. Indexation allowance is to be withdrawn for all disposals from April 2008 and buy-to-let investors who have held a property since before April 1998 may find themselves paying more, rather than less, tax with introduction of the new "lower" rate.

Commercial Investors/Furnished Holiday Lets

Investors in commercial properties and furnished holiday lets are at present able to benefit from generous business asset taper relief rates, with an effective 10% tax rate on capital gains after just 2 years' ownership. The new rate could therefore mean an 80% increase in the rate of capital gains tax and with the withdrawal of indexation allowance the tax impact could be even greater. If you are planning the sale of investment properties, correct timing of the disposal either before or after April 2008 could be critical in minimising capital gains tax payable.

Planning Gain Supplement

Proposals for the controversial Planning Gain Supplement have been scrapped and are likely to be replaced by a tariff-based system. This is in response to strong criticism of the original proposals, which were generally perceived to be unworkable. The new charge is to be under the power of local planning authorities, which will be able to set and administer taxes in their areas.

Mortgages

The government is investigating the possibility of issuing derivatives to mortgage lenders in order to facilitate the increased use of long-term fixed rate mortgages. Currently, fixed rate products taken up by home owners tend to be for the shorter 2-3 year terms, but there is likely to be a need for more long-term certainty of rates with increased house prices and fluctuating interest rates.

National Insurance

The national insurance exemption for holiday pay is to be withdrawn from 30 October 2007. However, there will be a 5 year transitional period for the construction sector leading to a complete withdrawal on 30 October 2012.

Please note that this transitional period applies only to employees specifically employed to carry out construction operations. For all other employees within a construction business the 30 October 2007 deadline must be complied with.

VAT and Housing

Renovations and alterations to buildings that have not been used for a residential purpose for a period of at least 3 years before the works commence are currently subject to VAT at the reduced rate (currently 5%).

It is proposed to reduce the time limit to 2 years with effect from 1 January 2008.

This will be of particular interest to developers who are currently considering such projects as they might want to delay starting the works until after 1 January 2008 if the residential properties they are going to work on have been occupied within the last 3 years but not 2.

If you have any queries regarding any of the above issues please contact:

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Also of interest ...

New Construction Industry Scheme

The amnesty from automatic penalties for non-submission of the monthly returns will run out shortly. HM Revenue and Customs will start charging penalties for all CIS returns not received by the due date i.e. 19th of every month. Importantly this includes returns due from the start of the new scheme between May and September and includes nil returns.

After 19th October 2007 any return not received by HMRC will be liable to an automatic fixed £100 penalty and a further penalty will be due for every additional month that the return remains outstanding. Also the penalty will be £100 for every 50 sub-contractors that should have been on the return.

So, if you have not submitted returns or if you have failed to obtain HMRC agreement to a period of inactivity (so do not need to submit a return for up to 6 months) you may be exposed to substantial automatic penalties.

Needless to say you need to act swiftly to avoid any nasty surprises and we recommend that you carry out a full review as



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