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IN ASSOCIATION WITH
CEF CONSTRUCTION EMPLOYERS FEDERATION

Construction matters

a construction newsletter from **pkffpm accountants**

01 OCT 2019

A Warm Welcome...

PKF-FPM is delighted to become a patron of the Construction Employers Federation. We are looking forward to getting to know you over the coming months and supporting you as you build for the future in a changing landscape.

I am pleased to introduce Construction Matters, an exclusive, monthly publication for CEF members, bringing you financial and tax insights on matters relevant to your business.

In this inaugural edition, we focus on current relevant issues for the construction sector. We hope you find the matters discussed informative and helpful and we welcome your feedback.

If you have questions or concerns about any of the issues raised, our team will be happy to provide further information.

Contact us on (028) 3026 1010.

Feargal McCormack
Managing Director
PKF-FPM Accountants

Update on the Domestic Reverse Charge

HMRC's 12-month delay to the introduction of the Domestic Reverse Charge has been broadly welcomed by businesses in the construction sector. The new regime was due to come into force with effect from the 1 October 2019, however, due to concerns throughout the construction industry, and the current uncertainties posed by Brexit, the Government has decided to delay its introduction until 1 October 2020.

When it comes into force next year, the Domestic Reverse Charge will change the person responsible for accounting for VAT on certain supplies of construction services. Currently, sub-contractors are responsible for charging and accounting for VAT on supplies to main contractors. However, from 1 October 2020, main contractors will be responsible for declaring VAT on supplies received from a sub-contractor.

The categories of construction services that will be affected by the change include general and groundwork construction, renovations and maintenance services, cleaning services and painting and decorating of buildings and structures.

Broadly speaking, the Domestic Reverse Charge will only affect supplies at the standard or reduced rate of VAT where payments have to be reported through the Construction Industry Scheme (CIS). Supplies that are zero-rated for VAT are not affected. The Domestic Reverse Charge will apply to VAT registered businesses only.

The VAT treatment to the final customer or end user will not change.

We plan to cover the Domestic Reverse Charge in more detail in future editions of Construction Matters.

In the meantime, for more information on how the change will affect your business, contact the tax team at PKF-FPM.

Whilst every care has been taken to ensure the accuracy and contents of this publication, the information is intended for general guidance only.

Constructon R&D

Many companies in the construction sector believe that R&D tax credits don't apply to them, however, this is not the case. Examples of R&D in the construction sector are to be found in modular building designs and constructions, design solutions using alternative materials, bespoke design solutions to complex problems, integration of technologies and environmentally friendly structures. Essentially, if you are doing something novel to new or existing products, processes or designs, then you could fall within the scope of this incentive.

There are two separate R&D schemes - an SME tax credit scheme and a Research and Development Expenditure Credit (RDEC). Under the SME scheme additional tax relief of up to 33p for every £1 spent on R&D is available while the RDEC provides additional tax relief of 10p for every £1 spent on R&D. R&D capital allowances at 100% may also be claimed in addition to the Annual Investment Allowance (AIA).

R&D grants should not be overlooked for construction projects as they can provide invaluable support and funding. At PKF-FPM, our Innov8 Hub can help you identify potential qualifying projects and quantify the tax relief available. Our services include advice on grants, R&D project implementation and record keeping and expert guidance to help your R&D projects succeed. For further information, contact innov8hub@pkffpm.com.

Increase in (AIA) Annual Investment Allowance

Between 1 January 2019 and 31 December 2020, the AIA is temporarily increased from £200k to £1m. This means that for a company with a year end of, say, 30 April, the following AIA is available:

- **£446,667 for year ending 30 April 2019;**
- **£1,000,000 for year ending 30 April 2020; and**
- **£733,333 for year ending 30th April 2021.**

From a cashflow and Capital Allowances tax perspective, it will be important to keep the increase in mind when planning the timing of capital expenditure.

Get Ready for Domestic Reverse Charge

1. Businesses should review how the reverse charge will impact on their trading activities and future cashflows. Projections, budgets and cashflows will need to be updated to reflect any changes.

2. When in force, the Domestic Reverse Charge will mean that some businesses no longer have to charge VAT as the customer receiving the service will pay the VAT due to HMRC instead of paying the supplier. Some suppliers will be due refunds from HMRC. Businesses will need to weigh the merits of moving to monthly returns and decide when is the best time to do so.

3. Now is the time to ensure that your finance team understand how the Domestic Reverse Charge will operate and that your accounting systems are updated in readiness for the change.

4. It will be important to determine what services fall within the Domestic Reverse Charge. Where you supply both reverse charge and non-reverse charge services, the reverse charge will apply to all services.

5. Contracts will need reviewed. This will be particularly important for contracts that straddle 1 October 2020.

6. There may be instances where a business has a number of contracts with a sub-contractor on different sites. In this situation, a business could be a sub-contractor on one site but a contractor on another. Where the same sub-contractor has more than one status, HMRC recognises that it may be easier to apply one VAT treatment. In this scenario, the contractor will need to review all contracts with the sub-contractor and if the reverse charge applies to more than 5% of contracts with that sub-contractor, then the reverse charge may be applied to all the contracts.

For more information, contact the tax team at PKF-FPM

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BREXIT and the Construction Sector

In Northern Ireland, the construction industry employs 65,000 people and produces an output of over £2bn. Free movement of people and goods underpins the strength of the sector which has benefitted greatly from EU membership. As Brexit creeps closer, our research anticipates the following challenges:-

CONSTRUCTION MATERIALS

The free movement of goods between the UK and EU will come to an end post-Brexit. Almost two thirds of building materials are EU imports, according to The Department of Business, Enterprise and Industry Strategy (formerly Department of Business, Innovations and Skills). Tariffs and limits on quantities of imported materials post-Brexit could be disastrous with a weaker pound further contributing to the rising costs of imports.

LABOUR

It is no secret that the national construction industry relies heavily on migrant labour. The inability of EU citizens to continue to work in the UK/NI could lead to a skills shortage and higher project costs.

CONSTRUCTION CONTRACTS

Contracts entered into when the prospect of a no-deal Brexit appeared remote will need to be reviewed for any potential exposure to additional costs or penalties. Only when these risks are fully understood, can contractors consider how and when to address them. Options may include switching from EU or overseas suppliers to UK based companies or forward buying materials. Consideration should also be given to renegotiating contractual provisions relating to delay and liquidated damages.

A hard Brexit on its own will not provide sufficient grounds to rely on the typical “force majeure” clause in contracts which lists the circumstances or events that should they prevent one party from performing their obligations, preclude the other party from claiming a breach of contract.

Do you need financial assistance to prepare for Brexit?

To help companies implement a Brexit Plan, Invest NI client companies can apply for a grant covering 50% of eligible costs up to £50k. Eligible costs include renting business premises outside the UK, support to explore new export markets, a new (or existing) staff member focusing on Brexit issues for up to one year, and specialist Brexit related consultancy advice.

InterTradeIreland have two Brexit vouchers open to most businesses trading across the island of Ireland. The first is a Starting to Plan Voucher which offers consultancy support of £2k, funded at 100% to help devise a Brexit Action Plan; the second is a £5k voucher funded at 50% to assist with implementation.

Contact the Brexit team at PKF-FPM Accountants for further information.

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Building a Sustainable Family Business

Love, affection and misunderstanding!

More than three quarters of all businesses in the UK and Ireland are family-owned enterprises.

At the heart of the economy, these businesses account for more than 70% of people at work, yet fewer than a third (30%) of family businesses survive the second generation, and only 3% survive the fourth. All too often, this is because emotion blurs the vision and proprietors find it difficult to reconcile family aspirations with commercial goals.

Succession is a key challenge - to be able to control events, rather than allow events to control you. Succession is a process, not an event, and early planning is essential. From experience we strongly recommend that you avoid emotional and family strains by

not fudging decisions. Have the courage to make a decision about succession now and communicate it in an open and transparent way to family members.

From a family wealth perspective, the guiding principle should be to look after the business first and it will look after the family.

We plan to return to the subject of building sustainable family businesses in future issues of Construction Matters.

Northern Ireland Construction Insolvencies

PKF-FPM estimates that there have been eight significant insolvencies in the NI Construction Sector since January 2019, involving companies with a total turnover of £130m and unsecured creditors of £27.2m and affecting perhaps as many as 1,600 businesses.

To mitigate the risk of being impacted by business failure, companies should review their business practices, including working capital, strategic and operational management, and explore the possibility of obtaining Sales Credit Insurance.

Contact Us..

For further information and/or advice on any of the matters discussed in this newsletter, please contact:
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