

Construction and Related Trades



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Industry Background

The construction industry in the UK is very broad and covers a large number of different businesses (around 200,000 in total), including such specialists as electricians, plumbers, carpenters, glaziers and scaffolders. The largest proportion in number amongst these are general builders, who tend to offer a range of building services and domestic repair, maintenance and improvement work (RMI) to private householders and commercial clients. A typical general builder may find that domestic customers account for a significant proportion of their work (for example 80% or more), with local businesses making up most of the balance.

Government statistics indicate that there are around 40,000 general builders in Great Britain. The sector is characterised by a very large number of small and medium sized businesses. Nearly 90% of all construction contractors employ fewer than 8 people (including working proprietors) while almost 40% are sole traders with no employees. According to government figures (source: UK Business ONS © Crown copyright), 26% of all general construction businesses turn over less than £100,000 p.a while 11% turn over less than £50,000p.a.

The construction industry is hierarchical in nature and many smaller concerns sub-contract to larger businesses. These often, in turn, sub-contract to even larger construction companies - a medium sized firm might operate both as a sub-contractor and as a contractor simultaneously with all the administrative complexity which that can involve.

Within general building firms, working proprietors and their employees are often required to demonstrate a wide range of skills. These may include plumbing, plastering, bricklaying, decorating, joinery, electrical work and even interior design. The proprietor of a small firm is also likely to spend a considerable amount of time dealing with customers, costing new work and marketing the business. Certain jobs may be sub-contracted out to specialist operatives, who generally offer a narrower range of services.

Some Industry specific areas of advice from our experience

The complexity of VAT matters in connection with land and property is notorious and early VAT tax planning on each individual significant construction or development project is both essential and productive.

The VAT Flat Rate Scheme can increase bottom line profits especially where the main business input is labour.

As well as limited liability protection, there can also be annual tax/NI savings to be had by operating the trade from within a limited company.

Is ownership of the business correctly set up such as to minimise the various taxes and maximise the tax reliefs?

What are your future plans? Exit strategy or next generation involved? Plan in place to achieve this?

Taxable profit levels can be variable especially in view of 100% first year investment allowances for capital expenditure and a protective Working Tax Credit claim is advisable.

Wills: are they tax efficient particularly as regards the business?

Do the records show cash proceeds for sale of scrap? HMRC are not that naïve!

Are profit shares/extraction of profits made in the most tax/NI efficient way?

Can tax efficient wages be legitimately paid and justified to family members?

Is a 'Use of home as office' charge justifiable and claimed?

Are owners and staff arrangements of vehicles maximising tax reliefs?

Is a change of accounting date a good idea?

Are any loans (both business and personal) arranged in such a way as to maximise tax relief and minimise costs?

Are CIS deductions efficiently dealt with as necessary and appropriate to minimize cash flow disadvantages?



Some Industry specific areas of advice from our experience (cont'd)

Has the strategy on owners' company cars been reviewed in the light of taxable benefits and capital allowances now being driven (no pun intended) by CO2 emissions? (It can now even make sense for the company to provide low emission cars to non-employee family members such as children!)

The introduction of the Construction Industry Scheme (CIS) by HM Revenue & Customs (HMRC) in August 1999 led to a change in the rules for the payment of sub-contractors. These rules were substantially revised in 2007 and continue to be revisited by HMRC and evolve. This happens to such an extent that the Federation of Master Builders considers that the industry has an excessive burden of compliance with tax, VAT and health and safety regulations and that those in the construction industry are unfairly persecuted for even small infringements of an over complex set of requirements.



Use of Information Technology

How are you maintaining your books and records?

Are you reconciling cash and bank accounts regularly?

Do you know how much you owe or how much you are owed at any time?

The proper use of IT can provide you with regular and meaningful management information and save time and cost.

Would outsourcing your payroll and pension obligations be of benefit?

Would you welcome us maintaining or training you or your staff to operate a computerised accounting system, providing key financial and management information in a timely and understandable form?

In the long term, strong demand for new homes is likely to remain the underlying trend. However, the following factors will have a considerable influence on the financial performance of building contractors working in the new house-building and domestic RMI sectors over the foreseeable future:

- The availability - or otherwise - of mortgage finance.
- Interest rate movements
- Energy price increases, pushing up the cost of raw materials but also increasing consumers' utility bills and so reducing the level of available disposable income
- The availability of new building land and the extent to which planners are prepared to open up green field sites to developers
- Any moves by the government and local authorities to force developers to make greater use of brown field sites
- The rate at which house-builders are prepared to develop their existing stocks of available land
- The extent to which additional investment is made in social housing developments
- The extent to which central government acts to provide new housing regardless of the state of the housing market



Key Performance Indicators

Performance in this sector will generally be expressed in terms of the gross profit percentage rate achieved.

Gross profit rates as well as other measures will vary depending on the specific trade or activity, for example, gross margins and labour rates will vary for General Builders, Electricians, Plumbers, Carpenters, Painters, Scaffolders, Roofers, Glaziers etc. depending on the relative business inputs and mark-up on costs including materials and direct labour.

It is an arithmetical fact that the higher the gross profit percentage that can be achieved the less turnover is needed to cover overheads and a reasonable level of profit.

Ask us how your key performance indicators compare with others for your type of business activity.

Beyond the mark-up on costs some useful key driver analysis information relates to the number of chargeable hours for some construction industry related trades.

Ask about our own award winning "tax tools" software including "business analyst" based on key driver information.



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Tax Investigations

Approximately 10% of all investigations carried out by HM Revenue & Customs (HMRC) will be selected at random but these random selections will be targeted at trade sectors where tax is thought to be at risk. HMRC's stated aim is to spread the investigation net to cover all sectors, including the construction industry. Additionally, HMRC may have their own program of investigations targeted at this sector because of local knowledge, often the result of information obtained in the course of successful investigations into the same or a related type of business in the area.

When a business is selected for investigation other than at random, the most common reasons are:

- Information provided to HMRC by a third party
- Low and/or fluctuating Gross Profit Rate, or some other inconsistency in the accounts
- Low and/or fluctuating Drawings
- Unexplained introductions of cash into the business
- Technical offences, including failure or late notification of liability

Since HMRC is allowed only one enquiry into a return, added to the above reasons for selection for investigation will be an enquiry into a technical matter (e.g. the capital/revenue repairs argument).