Estate Agents and Surveyors

GLOVER STANBURY
CHARTERED ACCOUNTANTS

Some Industry specific areas of advice from our experience

VAT: Flat Rate Scheme often increases the bottom line – make sure you come out of the scheme before you sell though.

There can be annual tax/NI savings to be had by operating the trade from within a limited company but with any premises being owned personally…

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

Do your accounting procedures etc. comply with the Estate Agents Act?

VAT can be recovered on the fuel element of mileage expenses for business use of personal vehicles by staff.

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

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

Should spouses be partners or shareholders of the business in order to reduce overall tax bills?

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?

Are owners and staff arrangements of vehicles maximising tax reliefs etc.?

Where practical, part time workers can be considerably more cost effective due to employer's NI savings compared to full timers.

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?

Industry Background

Estate agents in Devon and Cornwall have described Home Information Packs (HIPs), introduced as mandatory in 2007 and which cost the seller more than £300 to complete, as a "resounding and expensive flop". After continued opposition and a consensus that HIPs had actively hindered the process of buying/ selling a property, their mandatory production was abolished with immediate effect by a Government announcement shortly after the general election in May 2010. Energy Performance Certificates (EPCs) which were previously part of the HIP are still however required.

The Property Misdescriptions Act, makes it illegal for an estate agent who is acting under a vendor's instructions to knowingly or negligently make false or materially misleading statements about a property.

Many estate agency/surveyors businesses are independently owned firms with only a single outlet. According to government statistics included in ONS UK Business, over 10% of all estate agency businesses turn over less than £50,000 p.a. 33% of all businesses in this sector turn over less than £100,000 p.a. while 69% turn over less than £250,000 p.a.

- Specialist estate agents face competition from a number of sources, including:
- Solicitors, who are allowed to negotiate a property transaction with both the buyer and the seller; as well as market properties themselves
- Independent 'property shops', through which vendors may market their property for a usually fixed fee
- Private 'DIY' sales through classified advertisements and the specialist press or eBay
- Home swaps and home swap agencies
- Property developers' own on-site sales offices
- Web-based 'virtual estate agents'
- Independent property sales websites; a number of sites now market properties both regionally and nationally
- The supermarket giants

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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 CO_2 emissions? (It can now even make sense for the company to provide low emission cars to non-employee family members such as children!)

Although the majority of independent estate agents operate primarily in the mid-market selling a range of different properties, some focus on the upper end and specialise in high value and unique houses. Some choose to join franchise schemes or affinity or affiliate groups and this may or may not involve fees and relinquishing control of certain aspects of the business.

The internet is recognised by most estate agents as an opportunity as well as a potential threat. Most have their own websites on which property details are listed, while the Rightmove website is widely used by agents as a marketing channel for properties on their own books.

An agent might be engaged on a sole agency basis, joint sole agency (two agents appointed) or multiple agency (several agents appointed). In addition, in some cases they may work on a sub- agency basis, selling properties that were originally marketed with another agent. Some agents may also work as buying agents, working for the purchaser rather than the vendor to secure a suitable property at the best possible price.

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?

At times when the property market is buoyant, estate agents might adopt novel marketing strategies in order to ensure that a property sells for the maximum price possible. For example, some estate agents hold pre-marketing viewings whereby selected buyers are offered the opportunity to see a house before it officially goes on the market. Others hold 'speed viewings' - using the open house approach to show the property to a large number of potential buyers. The agent then rings around the viewers and seeks offers at and then above the asking price, until only a single 'bidder' is left.

As well as undertaking house surveys and valuations, many estate agents also offer financial services to house buyers. This is known as 'linked selling'. In some instances the agent refers clients to a financial adviser, from whom commission is received. Financial services offered might include mortgage arrangement and insurance. Some estate agencies rely heavily on proceeds of linked financial sales.

Additional sources of income will often include residential letting, leasing and property management services.

Key Performance Indicators

Most of the operating costs incurred by an estate agent/surveyor are fixed and bear little relationship to the number of properties sold or the amount earned from commissions and fees. It is not therefore usual to express financial performance in terms of a gross profit rate or similar ratio. The financial performance is largely governed by the following:

- Number of instructions completed (throughput)
- The total value of each transaction
- The amount of average commission or fees earned per instruction
- The extent of any time based/lump sum or other form of
- remuneration

The business performance can also be reviewed in relation to the overall average trend by comparing the annual sales figure with the average turnover index for the sector.

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

Ask us how your numbers compare for your type of activities.

Ask about our own award winning “tax tools” software including “business profitability Industry analyst” based on key driver information.

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 Estate Agents and Surveyors. 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).

You can pay a small premium to ensure your professional fees are covered in the event of an investigation – be VAT, PAYE or tax affairs generally.

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