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Construction and real estate sector

Issues in the construction and real estate sector

Issue	Issue defined
Lack of credit - as banks seek to impose tougher loan to value criteria	As a result of the banking crisis, banks are unwilling to lend at levels seen before the recession. This can leave a significant equity gap - the issue is how this is filled. There are people in the market that can provide equity - but they are calling the shots. Construction projects have been seen to be put on hold as banks reconsider their lending criteria - leaving developments in limbo. Therefore: • where are you going to get funding from? • will it be structured tax efficiently? • are there any withholding tax implications?
Restructuring	A direct result of issues within the market gave rise to many businesses in the sector being subjected to significant scrutiny from NAMA, CERBERUS and mainstream banks. Currently there is significant movement in restructuring businesses to position them for future operations. Businesses need to be aware of the potential tax costs of restructuring debt and take advice on each particular situation as this is not an issue where one size fits all.
Cost of rationalising	A number of property businesses comprise of a lot of corporate vehicles. The administrative time and cost of running these can be prohibitive, in a market where businesses seek to manage their cost more stringently. Running a tighter ship needs to be coupled with the cost of any rationalisation programme. The cost of rationalising: • is it commercially viable to get rid of unwanted dormant companies? • what are the costs? • what time-frames are involved?
Tenant risk/void	Not only do businesses need to be concerned about the financial standing of their tenants and the potential loss of rental income, but add to that the risk of being liable to pay empty property business rates. Businesses need to evaluate their exposure to tenant risks: • is the business too exposed to a specific area or sector? • could leases be surrendered to balance the portfolio?
Maintaining morale/ motivating key individuals	With most businesses having seen the impact of the recession with job losses, consideration needs to be given to motivating and retaining key individuals through these turbulent times. It may be that staff are relocated or redeployed - but key issues such as the need for retraining need to be addressed: • are redundancy packages being structured tax efficiently? • are staff being remunerated tax efficiently?
Attractiveness to overseas buyers	Due to the reduction in property prices, Ireland and the UK seem more attractive to overseas buyers. We have seen new players entering the market to take advantage of this opportunity: • are there overseas buyers who would be interested in your assets/projects? • are there any Joint Venture (JV) opportunities?
Re-evaluation of financial viability	What made commercial sense in 2007 did not make sense in subsequent years, equally what made sense in 2013 and 2014 may not make sense in 2015 and subsequent years. With prices having gone down significantly: • is a sufficient return going to be made? • if not, what are the options? • how do you financially evaluate them?

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Financial reporting considerations	Conversion to Financial Reporting Standards (FRS) 102 or full International Financial Reporting Standards (IFRS) for all entities is something that may impact on you in the foreseeable future - whether or not you are a privately held business that intends to remain so, or if you are planning a listing: • have you thought about the impact of the new directives with regards inter-company balances, tangible fixed assets valuations and lease accounting on your business and financial statements? • have you reviewed how reporting under the new rules will impact on existing covenants? • are you taking these into consideration when negotiating new loan covenants? Property valuations will remain volatile and there is increased uncertainty within professional valuation: • how are the directors reviewing these - what challenges are being made on voids, tenant defaults and rental yields? • how are you supporting the valuations that are included and what disclosures are being made? • what are the key performance indicators? For construction this is likely to be earnings related and revenue recognition policies can impact on this: • how do you budget and control your long term contracts - where are the risks that will impact on future profits within those contracts? • what measures have been put in place to monitor this out-turn and the impact on cash?
Tax matters for construction	Construction tends to be a labour intensive industry: • have you reviewed your employee incentivisation schemes to ensure employees are rewarded and staff retention is ensured? • have you new build residential units which are being rented out? Construction Information Services (CIS) compliance is complex and can lead to real risk of financial cost to you and your subcontractors if rules are not followed. PAYE and National Insurance Contributions (NIC) reviews can save you money, and mitigate the risks of financial cost of an inspection. VAT on "white goods" - who reviews your VAT treatment and are you reclaiming all that you can?
Tax matters for property	• have you records of all capital allowance reviews on your existing portfolio and is there any acquisitions that can save you tax? • when did you last consider this? • have you a register of all land and buildings over which an option to tax has been registered for VAT? • have you considered that stamp duty land tax may be mitigated on restructuring but only if it is dealt with up front and in advance of a transaction? • do you have assets currently held in corporate vehicles that could be moved into a Limited Liability Partnership (LLP) to mitigate tax exposure on gains?

Contact

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