

MCPHERSONS PROPERTY TAX E-NEWS – September 2023

Welcome to our monthly newsletter for property landlords. We hope you find this informative and please contact us to discuss any matters further.

VAT on 'Rent to Serviced Accommodation' Supplies

In a recent case between Sonder Europe Ltd and HMRC, the First Tier Tribunal ruled that supplies of leased apartments in the UK that were then let out as holiday accommodation (known as the 'rent to serviced accommodation' business model) were subject to the Tour Operators' Margin Scheme (TOMS).

HMRC had argued that the supplies being made were not 'designated travel services' and were not subject to TOMS.

The Tribunal found that the accommodation was not materially altered or processed before being provided by Sonder to the customer, so it met the definition of a "designated travel service" and was subject to TOMS. Whilst the ruling does not have legal precedent and may be appealed, the case is significant because the VAT payable on supplies under the TOMS is likely to be much lower than under standard VAT accounting.

It may be that HMRC decides not to appeal, or conversely, we may see that the law itself is changed to exclude this kind of supply from TOMS. We will keep you

updated on any developments in this area.

An update on UK house prices: Could there be a crash?

In recent months, interest rate rises have made mortgages more expensive and rising inflation has reduced peoples' spending power, resulting in falling house prices.

The Nationwide Building Society published its figures for July (see [here](#)), which showed that after the dramatic rise in prices that resulted in the peak of August 2022, prices have since fallen by almost 5%.



The annual decline in house prices as at July 2023 was 3.8%, slightly more than the annual decline figure for June 2023 (3.5%). In other words, July saw a 0.2% month on month fall in house prices. The figures show that the largest price falls are in the South West and the smallest are in Northern Ireland.

Nationwide's report comments on affordability, saying that "a prospective buyer, earning the average wage and looking to buy the typical first-time buyer property with a 20% deposit,

would see monthly mortgage payments account for 43% of their take home pay (assuming a 6% mortgage rate). This is up from 32% a year ago and well above the long-run average of 29%."

Overall, buying a house has not become more affordable because asking prices have not decreased enough to balance out the increased mortgage interest rates. However, in the longer term, if wages increase faster than house prices do, buying a house could become more affordable.

It is uncertain whether we will see a housing price crash. Back in March, the Office for Budget Responsibility (OBR) predicted that house prices would decrease by 10% over the next two years and some commentators predict that further interest rate rises could cause steeper price falls this Autumn.

The Nationwide report, however, says that a so-called 'soft landing', in which house price growth is achieved in 2024, is still achievable given the fact that unemployment is still low (below 5%) and, overall, borrowers will be able to weather the interest rate storm because a high proportion are on fixed-rate mortgages.

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Plans for heat pumps in Scotland

On 25 July, the Scottish Government published a consultation that proposes to downgrade the Energy Performance Certificate (EPC) ratings of homes with gas boilers compared with homes with more energy-efficient systems such as heat pumps.

Already, legislation will ensure gas boilers are banned in newly-built homes from April 2024.

The Scottish Government has pledged to ensure that all homes will have a 'band C' EPC rating by 2033, where it is "technically and legally feasible and cost-effective".

The Consultation explores ways in which the yet-to-be-published Heat in Buildings Bill will ensure this target is met, along with the other Government target of prohibiting the use of direct emissions heating systems in domestic and non-domestic buildings by 2045.

There are concerns, however, that it will not be feasible to meet the targets; heat pumps are considered to be the most energy-efficient alternative to gas boilers, but the costs of operating them are uncertain and they are considered unsuitable for around 40% of Scotland's houses. Alternatives are available but their efficiency and operating costs are also uncertain.

The consultation can be viewed [here](#).

Northern Ireland Housing Market

In a recent report by the Office for National Statistics (ONS), it is said that Northern Ireland is the most affordable UK region in which to buy a house.

In Northern Ireland, the average house costs 5.1 times the average household annual income, compared with 5.3 in Scotland, 6.4 in Wales, and 8.4 in England.

NI house prices saw their second consecutive quarterly fall in January to March 2023. The official House Price Index saw a 1.8% decline compared to the final quarter of 2022, giving an average price of £172,000.

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Recent data from HMRC shows that the number of NI house sale transactions dropped by 20% in the first half of 2023; there were 11,030 housing transactions in the first six months of the year compared to 13,810 in the same period of 2022.



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