

As Benjamin Franklin put it, “In this world nothing is certain but death and taxes.” The taxman might be another nail in the coffin of the housing market.

Later this year, builders will face tax bills that some of them may struggle to pay.

That might sound odd because many builders earned enormous profits during the housing boom. But profits are not the same as cash flow. And for some builders, cash is in short supply.

New homes that were completed and sold during the latter stages of the boom generated large profits for builders. Many builders calculate their preliminary tax using the 100 per cent rule. Under this rule, the amount of tax they had to pay last year was 100 per cent of their liability to tax for the preceding year.

Since in the early stages of such developments there were costs to be paid but no revenues, there was nothing due to be paid to the Revenue last year. All the taxes associated with profits on these developments are due later *this* year.

But many builders operated by rolling over profits from one project into the next, bigger project. For some, accumulated profits over the boom years now largely take the form of hundreds of unsold houses and apartments. Lots of bricks and mortar, but few liquid assets.

If they can't sell these units over the next few months, builders could find themselves stuck for cash when the tax deadline arrives. Banks are clamping down and will not lend funds to tide them over the deadline.

We might even see builders offering unsold houses to the Revenue as payment. In that case, how will the Revenue value these assets and what will they do with all these houses? The mind boggles.