# E3 Consulting’s Reaction to Autumn Statement - Real Estate Tax Update



Today’s Autumn Statement focussed on economic performance and the wider economy, with a range of measures aimed at boosting growth.

A number of these impact the property and construction sector and $E^3$ Consulting’s Managing Director, Alun Oliver, highlights here the key property and tax issues for your information. If you wish to discuss any specific measures please do contact us.


### *Annual Investment Allowances*

Annual Investment Allowances (AIAs) are given at the rate of 100% and had been capped at £25,000 since April 2012 in the year incurred. The increase of these capital allowances for small and medium sized businesses up to £250,000 will take effect for expenditure incurred on or after 1st January 2013 and continue at this enhanced level for two years.

*AIAs accelerate the capital allowances benefit to tax-payers investing in qualifying plant & machinery expenditure. Whilst they would otherwise be entitled to either plant & machinery allowances at 18% or integral feature allowances at 8% per annum, this boost will provide a significant fillip to SMEs that will be able to achieve a 100% ‘write off’ up to this increased £250,000 cap. This will particularly benefit furnished holiday letting owners (FHLs) as well and businesses with annual expenditures of £1m or less – as such claims typically yield allowances of £250,000 or less.*

### *Business Rates – Small Business Relief & Empty Property Rates*

The Government is to extend the temporary doubling of Small Business Rate Relief for a further 12 months from 1 April 2013.

Subject to consultation, the Government will exempt all newly built commercial property completed between 1 October 2013 and 30 September 2016 from Empty Property Rates for the first 18 months, up to the state aid limits.

*The extension of Small Business Relief will undoubtedly help the SME sector with a further year of reduced rates. The Empty Property Rates (EPR) consultation is to be welcomed and follows a relentless campaign by the property sector to re-consider EPR as these are widely seen as a barrier to development.*

### *Carbon Reduction Commitment*

Seen as far too complicated, the Government is seeking to simplify the CRC scheme from 2013. It will also undertake a detailed review to consider effectiveness in 2016 and has flagged the "tax element" as a high priority for removal when public finances allow. The Carbon Allowance price for 2013-14 remains unchanged at £12 per tonne of carbon dioxide and £16 per tonne in 2014-15 and RPI adjustments thereafter.

*These measures highlight Government uncertainty as to CRC being the best mechanism to encourage UK industry to reduce carbon emissions. Enhanced Capital Allowances are the "carrot" to this "stick" and together many businesses are investing in modern new energy efficient assets to reduce their costs and carbon impact.*

### *Change to Corporate & Income Tax Rates*

The Government announced that the Corporation Tax rates would reduce further to 21% from the start of April 2014.

Income tax saw adjustment to the basic rate personal allowance increased to £9,440 and the threshold to higher rate income tax will increase by 1% consecutively for tax years beginning April 2014 and April 2015.

*Reductions in the headline rates of tax should always be welcomed, as they allow tax-payers to decide where to invest and/or exercise their entrepreneurial skills, which generally create more wealth and growth to underpin vibrant economies. The distinction between Corporation Tax at the Standard Company Rate and Small Company Rate of 1% now looks rather obsolete and perhaps needs revisiting to support the SME sector more, or a unified single rate?*

### *Enterprise Zones: First Year Allowances (FYAs) For Designated Areas*

Accelerated capital allowances relief on expenditure incurred by trading companies on qualifying plant and machinery at two new locations within Welsh Enterprise Zones (EZs):

- Ebbw Vale
- Haven Waterway

These "Enhanced Capital Allowances" potentially confuse some, as in this context these "enhanced allowances" DO NOT relate to the 100% allowances for certain energy or water efficient assets also known as Enhanced Capital Allowances (ECAs), but rather allowances 'greater than those ordinarily available' but for the project being located in the relevant EZ.

*Increasing the value and cash flow benefit of Capital Allowances is always well received by industry and should help stimulate wider economic activity. However there remains some concerns about the limited duration of the EZs and whether they are sufficiently long enough to truly incentivise regeneration. Government also continues to restrict participation in these 'additional' FYAs to other tax payers not within the charge to corporation tax, limiting the potential further, given the widespread (and bone fide) use of non corporate vehicles for property investment. There are also planning and other indirect tax benefits of locating new businesses within EZs.*

### *General Anti-Abuse Rule (GAAR)*

As previously announced, the Chancellor confirmed that draft legislation would be published later this month, together with a new consultation on penalties to be applied against promoters of aggressive tax avoidance schemes.

*This has been an on-going area of development and now with much media and public support to address the worst abuses. There are still many legitimate ways that tax payers can reduce their tax bills without falling foul of the proposals within a GAAR. The Devil, as always, will be in the detail – once published!*

### *PFI - Private Finance Initiative - PF2*

Government remains committed to private sector involvement in delivering infrastructure, but recognises the need for reform PFI. There has been widespread concern that the public sector has not been getting value for money and taxpayers have not been getting a fair deal now and over the longer-term. There are also issues around the lack of transparency of the financial performance of projects, the returns made by investors and future liabilities to the taxpayer created by PFI projects.

The Government's new approach to involving private finance in the delivery of public infrastructure and services through a long-term contractual arrangement, Private Finance 2 (PF2) continues to draw on private finance and expertise in the delivery of public infrastructure and services whilst addressing past concerns. It also published a suite of draft standard contract documents to help reduce complexity and costs.

*We welcome the additional £5bn allocated to infrastructure investment and the announcement to help kick start the Battersea Northern Line extension. New investment will create new jobs and stimulate economic growth. The new PF2 model will require further review and analysis, but retains private investment to finance construction and repayment over a longer contract period. The construction sector will welcome this new approach - if it helps to expedite project starts. Whilst improving transparency is* *perhaps overdue and few will argue against it, not all of these changes will lead to cheaper projects as the market will have to price the changes to equity levels and the associated tax consequences for PF2.*

### *Planning Reform*

Legislation introduced in October 2012 included new powers to appeal the affordable element of unviable section 106 agreements and tackle poorly performing local authorities. The Government is to "shortly" publish its response to Lord Matthew Taylor's review of planning practice guidance.

*Hopefully this response will seek to further simply the planning regime, whilst balancing protection for the environment and economic activity and growth. 'Joined up' Government might allow quicker development of key strategic projects without the need of costly and time consuming enquiries.*

### *VAT: Static Holiday & Large Caravans/Alterations to Protected Buildings & Self-Storage*

Following on from Budget 2012 and subsequent consultation the reduced 5% rate of VAT will apply to static caravans and large touring caravans from 6 April 2013.
Approved alterations to protected buildings, since 1st October have been liable to VAT, but following consultation the Government confirmed more generous transitional arrangements.
Self-Storage changes from 1st October 2012 have required an amendment to the Capital Goods Scheme ensuring that small firms can benefit from the scheme in the same way as their larger competitors.

*These measures are a 'tidying up' of the Budget 2012 changes that lead to much furore. VAT remains a complex area of tax that often warrants careful attention before entering into major transactions or committing to significant project expenditure!*

$E^3$ Consulting, property taxation specialists, operate from offices in Southampton and London and work with clients that own, operate, develop or invest in property across the UK as well as overseas. We also work closely with other professionals, including accountants, solicitors, surveyors, bankers or engineers to ensure their clients' projects are properly incorporating the appropriate tax breaks, incentives or costs.

If you would like to discuss any aspects further please contact our team to understand how you, or your contacts or clients, might be impacted (or indeed benefit) from these announcements. To see how much you could save against any current, future or even historic property expenditures contact us on healthcheck@e3consulting.co.uk or 0345 230 6450.

In addition to our website: www.e3consulting.co.uk

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