

# E3 Consulting's Reaction to Budget Statement - Real Estate Tax Update

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Chancellor George Osborne MP delivered his seventh Budget statement today, Wednesday 8<sup>th</sup> July 2015. 'Billed as the Conservative's first budget for 16 years, there was significant measures to reform welfare and modify the UK tax regime. Whilst continuing pursuit of tax abuse, both by offshore entities and NonDoms.



E<sup>3</sup> Consulting highlights here the key Property & Construction aspects - we hope you find it useful (where applicable references relate to the Budget Red Book) - but do contact us to discuss any matters that might affect you or your projects in greater detail.

**1.288 The government is inviting bids for a new round of Enterprise Zones.** The existing Enterprise Zones have supported the creation of over 15,000 jobs throughout England. This new round will focus on ensuring that all places in England can benefit, including rural areas where appropriate, and the government encourages towns and districts to work with LEPs to develop bids.

*It is always important to review in detail the legislation and proposals for these 'New Enterprise Zones' as they often have a blend of measures (tax, ratings, employment or planning reliefs) to encourage businesses to locate within the designated area.*

**1.310 The government supports the extension of the Birmingham Enterprise Zone,** which will support Birmingham to build on the government's investment in HS2 to generate further benefits for the city of Birmingham, and will consider a business case as part of the Spending Review.

**2.58 Reform of the Wear and Tear Allowance - From April 2016,** the government will replace the Wear and Tear Allowance with a new relief that allows all residential landlords to deduct the actual costs of replacing furnishings. Capital allowances will continue to apply for landlords of furnished holiday lets. The

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government will publish a technical consultation before the summer. (Finance Bill 2016)

*This appears to be aimed at ensuring the tax relief is properly focussed and paid to those landlords that maintain their properties in good order. Historically some simply claimed their notional relief without ever improving the property - such that the tenant's conditions simply deteriorated over time. Whilst there will be a need for better record keeping, it seems a fair and appropriate measure to support maintaining (if not improving) the Nation's building stock.*

**2.59 Restricting finance cost relief for landlords** - The government will restrict the relief on finance costs that individual landlords of residential property can get to the basic rate of tax. The restriction will be phased in over 4 years, starting from April 2017. (Summer Finance Bill 2015)

**2.117 Corporation tax rates** - The government will reduce the corporation tax rate from 20% to 19% in 2017 and 18% in 2020. (Summer Finance Bill 2015)

*A bit unexpected, but all the same a reduction in the CT rates is always welcome! It will reduce the cost burden on businesses and help business improve their cash flows as well as have funds to meet Living Wage obligations etc.*

**2.118 Corporation tax payment dates** - The government will introduce new payment dates for companies with annual taxable profits of £20 million or more. Where a company is a member of a group, the £20 million threshold will be divided by the number of companies in the group. Affected companies will be required to pay corporation tax in quarterly instalments in the third, sixth, ninth and twelfth months of their accounting period. The measure will apply to accounting periods starting on or after 1 April 2017. The government will publish legislation in draft in the autumn.

*The Red Book shows this change bring in over £7.5bn tax receipts in the 17/18 and 18/19 tax years - so a significant boost to the Exchequer's cash flows. It will also probably encourage of the affected businesses to accelerate their tax planning and preparation and finalisation of their tax computations - so they are optimising their tax payments due.*

**2.120 Capital allowances: Annual Investment Allowance (AIA)** - The government will increase the permanent level of the AIA from £25,000 to £200,000 for all qualifying investment in plant and machinery made on or after 1 January 2016. (Summer Finance Bill 2015)

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*This measure was pre-announced in the last Budget, although without specifying the level of the capped amount. At £200,000 per annum this will continue to be advantageous to SMEs investing in their business or premises. However larger businesses will continue to find the cap too low to influence any investment decisions.*

*Fixing it as a 'permanent' feature of allowances rather than time limited will also enable some businesses to factor it into their investment decisions.*

## Environment and energy taxes

**2.150 Climate Change Levy (CCL)** - The government will remove the Climate Change Levy exemption for renewably sourced electricity from 1 August 2015. There will be a transitional period for suppliers, from 1 August 2015, to claim the CCL exemption on any renewable electricity that was generated before that date. The government will discuss the details of this transitional period with stakeholders over the summer and autumn, to determine an appropriate length for it. (Summer Finance Bill 2015, Finance Bill 2016)

**2.151 Aggregates Levy** - The government will reinstate exemptions from the Aggregates Levy that were recently found lawful by the European Commission. From 1 August, businesses can stop paying tax on the exempted materials and reclaim tax paid on these since the exemptions were suspended in April 2014. (Summer Finance Bill 2015)

**2.153 Business energy tax reform** - The government will review the business energy efficiency tax landscape and consider approaches to simplify and improve the effectiveness of the regime. The review will consider the Climate Change Levy (CCL), Carbon Reduction Commitment energy efficiency scheme and their interaction with other business energy efficiency policies and regulations. A consultation will be launched in the autumn.

## Property tax

**2.154 Stamp Duty Land Tax (SDLT):** application to certain authorised property funds. As previously announced, the government intends to introduce a seeding relief for Property Authorised Investment Funds (PAIFs) and Co-ownership Authorised Contractual Schemes (CoACSs) and intends to make changes to the SDLT treatment of CoACSs investing in property so that SDLT does not arise on the transactions in units, subject to the resolution of potential avoidance issues. (Finance Bill 2016)

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**2.155 Business rates: administration and avoidance** - The government has today published progress updates on action it is taking to improve the administration of business rates, including the appeals system, and on tackling business rates avoidance.

**2.156 Business rates: local newspapers** - The government is today publishing a consultation on the introduction of a business rates relief for local newspapers.

There are many different aspects of these budget announcements. Most will be covered by the draft legislation to be published in the next few weeks within the Summer Finance Bill 2015, but some are longer term or simply promises to consult on certain aspects. Over the coming weeks as more detail becomes available we shall comment further on those matters that are most pertinent to our clients - operating across the property and construction sectors, as well as owners and occupiers from wider industry.

E3 Consulting provides specialist property tax advice to owners, investors and occupiers of UK real estate from offices in Southampton and London. Please see our website or twitter to keep up to date with views and technical updates on property tax matters.

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