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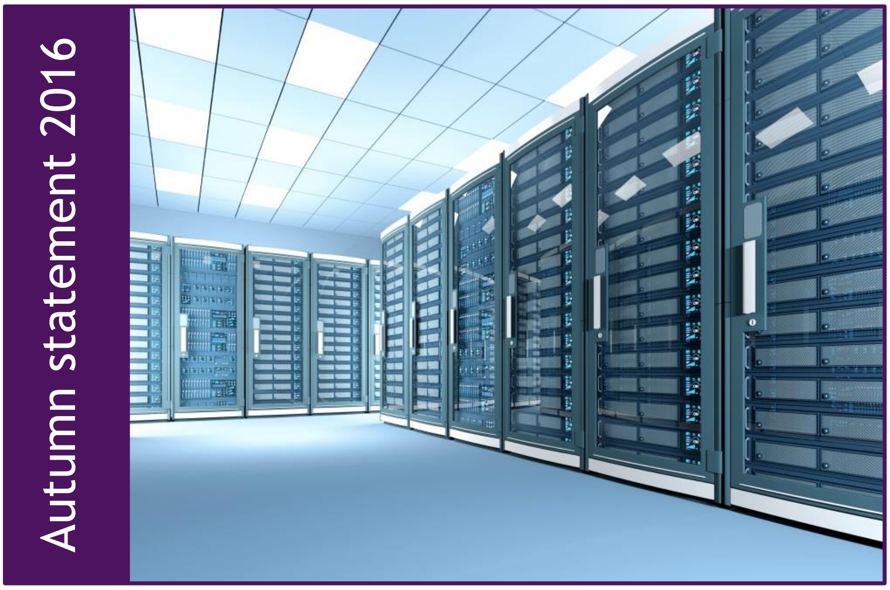
#AS2016 – Real Estate & Construction Update



Chancellor Philip Hammond MP delivered his first and last Autumn Statement today on Wednesday 23rd November 2016.

E3 Consulting highlights the initial key Property & Construction aspects – as referenced from the Autumn Statement 'Green Book' 2016.

Many of the points highlighted below will be welcomed by businesses across the property and construction arena, not least the investment in improving UK productivity, connectivity, housing and infrastructure.

The confirmed changes to interest deductibility and loss restrictions will make capital allowances more important in mitigating the rising tax effect of these changes. 'Plain vanilla' tax planning through this discrete tax legislation will continue to yield valuable tax savings for all businesses investing in property – where careful and timely advice is sort to 'untangle' the complex capital allowances rules. Tax payers need to remain vigilant as to the impact of any 'unintended consequences' of the precise legislation.

Taxation

4.5 Personal allowance and higher rate threshold – The government will meet its commitment to raise the income tax personal allowance to £12,500 and the higher rate threshold to £50,000, by the end of this Parliament. Next year, the personal allowance will rise to £11,500 and the higher rate threshold to £45,000. Increases to the personal allowance over the last Parliament took 4 million of the lowest paid out of income tax altogether.

4.6 Once the personal allowance reaches £12,500, it will then rise in line with CPI as the higher rate threshold does, rather than in line with the NMW. This will lock in the increases the government has made to the personal allowance over the past 6 years, so they are not eroded by inflation, while increasing the sustainability of the public finances in the long term.

4.14 New tax allowance for property and trading income – As announced at Budget 2016, the government will create two new income tax allowances of £1,000 each, for trading and property income. Individuals with trading income or property income below the level of the allowance will no longer need to declare or pay tax on that income. The trading income allowance will now also apply to certain miscellaneous income from providing assets or services.

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4.23 Business tax road map – To continue providing the certainty that businesses need to make their long-term investments, the government is recommitting to the business tax road map and the principles that it sets out. This includes cutting the rate of corporation tax to 17% by 2020 and reducing the burden of business rates by £6.7billion over the next 5 years.

Corporate tax

4.24 Tax deductibility of corporate interest expense – Following consultation, the government will introduce rules that limit the tax deductions that large groups can claim for their UK interest expenses from April 2017. These rules will limit deductions where a group has net interest expenses of more than £2 million, net interest expenses exceed 30% of UK taxable earnings and the group's net interest to earnings ratio in the UK exceeds that of the worldwide group. The government will widen the provisions proposed to protect investment in public benefit infrastructure. Banking and insurance groups will be subject to the rules in the same way as groups in other industry sectors.

4.25 Reform of loss relief – Following consultation, the government will legislate for reforms announced at Budget 2016 that will restrict the amount of profit that can be offset by carried-forward losses to 50% from April 2017, while allowing greater flexibility over the types of profit that can be relieved by losses incurred after that date. The restriction will be subject to a £5 million allowance for each standalone company or group. In implementing the reforms the government will take steps to address unintended consequences and simplify the administration of the new rules. The amount of profit that banks can offset with losses incurred prior to April 2015 will continue to be restricted to 25% in recognition of the exceptional nature and scale of losses in the sector.

4.26 Bringing non-resident companies' UK income into the corporation tax regime – The government is considering bringing all non-resident companies receiving taxable income from the UK into the corporation tax regime. At Budget 2017, the government will consult on the case and options for implementing this change. The government wants to deliver equal tax treatment to ensure that all companies are subject to the rules which apply generally for the purposes of corporation tax, including the limitation of corporate interest expense deductibility and loss relief rules.

4.33 Business rates – To remove the inconsistency between rural rate relief and small business rate relief the government will double rural rate relief to 100% from 1 April 2017.

4.42 Making Tax Digital – In January 2017, the government will publish its response to the Making Tax Digital consultations and provisions to implement the previously announced changes.

4.43 Tax simplification – The government welcomes and has responded to the reviews the Office of Tax Simplification (OTS) has published this autumn, including on the alignment of income tax and NICs. The government has now asked the OTS to carry out reviews on aspects of the VAT system and on Stamp Duty on share transactions.

4.44 Tax Enquiries: Closure Rules – The government will legislate to provide HMRC and customers earlier certainty on individual matters in large, high risk and complex tax enquiries.

4.48 Strengthening tax avoidance sanctions and deterrents – As signalled at Budget 2016, to provide a strong deterrent to those enabling tax avoidance, the government will introduce a new penalty for any person who has enabled another person or business to use a tax avoidance arrangement that is later defeated by HMRC. This new regime will reflect an extensive consultation and input from stakeholders and details will be published in draft legislation shortly. The government will also remove the defence of having relied on non-independent advice as taking 'reasonable care' when considering penalties for any person or business that uses such arrangements.

4.49 HMRC counter avoidance – The government is investing further in HMRC to increase its activity on countering avoidance and taking cases forward for litigation, which is expected to bring forward over £450 million in scored revenue by 2021-22.

National Productivity Investment Fund

3.4 Improving productivity requires targeted and sustained investment. The government prioritised capital spending at Spending Review 2015 and is now setting out plans to go further. The Autumn Statement announces a new NPIF which will be targeted at 4 areas that are critical for improving productivity: housing, transport, digital communications, and research and development (R&D).

Table 3.1: National Productivity Investment Fund (£ million)[1]

	2017-18	2018-19	2019-20	2020-21	2021-22[4]
Housing					
Accelerated construction	285	635	665	380	*
Affordable housing[2]	1,120	1,125	880	340	*
Housing Infrastructure Fund	60	300	945	1,425	*
Transport					
Roads and local transport	365	500	430	650	*
Next generation vehicles	75	100	110	115	*
Digital railways enhancements	30	55	165	285	*
Cambridge-Milton Keynes-Oxford corridor	5	135	0	0	*
Digital Communications[3]					
Fibre and 5G investment	25	150	275	290	*
Research and Development					
Research and Development funding	425	820	1,500	2,000	*
Total	**2,390**	**3,820**	**4,970**	**5,485**	**7,000**

[1] Figures represent the total costs associated with the funding allocations announced at the Autumn Statement, including the impact on Devolved Administration budgets through the application of the Barnett formula.
[2] The affordable housing line includes the impact on Housing Association spending of £1.4 billion extra capital grant from central government to fund 40,000 new homes, and introducing tenure flexibility across the Affordable Homes Programme.
[3] Figures show PSGI impact of policies only, and do not include funding for the Digital Infrastructure Investment Fund.
[4] Capital budgets have not yet been set for 2021-22. Allocation of the £7 billion will be made in due course alongside wider capital budgets.
Source: HM Treasury.

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3.5 The NPIF will provide for £23 billion of spending between 2017-18 and 2021-22. This builds on existing plans for major investment over this Parliament, including the biggest affordable house building programme since the 1970s, resurfacing 80% of the strategic road network, the largest investment in the railways since Victorian times, and prioritising science and innovation spending. The NPIF will take total spending on housing, economic infrastructure, and R&D to £170 billion over the next 5 years.

3.18 Future transport – The NPIF will invest a further £390 million by 2020-21 to support ultra-low emission vehicles (ULEVs), renewable fuels, and connected and autonomous vehicles (CAVs). This includes £80 million for ULEV charging infrastructure, £150 million in support for low emission buses and taxis, £20 million for the development of alternative aviation and heavy goods vehicle fuels, and £100 million for new UK CAV testing infrastructure. In addition to the tax incentives for ULEVs in company tax and salary schemes set out in the tax chapter, from today to the end of March 2019 the government will also offer 100% first-year allowances to companies investing in charge-points for electric vehicles.

3.19 Rail: capacity and smart ticketing – From 2018-19 to 2020-21, the NPIF will allocate an additional £450 million to trial digital signalling technology, to expand capacity, and improve reliability. Around £80 million will be allocated to accelerate the roll out of smart ticketing including season tickets for commuters in the UK's major cities. Construction of High Speed 2 Phase 1 will start next year, the government has announced its preferred route for Phase 2b of High Speed 2, and is looking forward to receiving a business case for Crossrail 2. The government is also investing £5 million in development funding for the Midlands Rail Hub, a programme of rail upgrades in and around central Birmingham that could provide up to 10 additional trains per hour.

Digital communications

3.20 The government will invest over £1 billion by 2020-21, including £740 million through the NPIF, targeted at supporting the market to roll out full-fibre connections and future 5G communications. This will bring faster and more reliable broadband for homes and businesses across the UK, boost the next generation of mobile connectivity and keep the UK in the forefront of the development of the Internet of Things.

This will be delivered through:

- £400 million for a new Digital Infrastructure Investment Fund, at least matched by private finance, to invest in new fibre networks over the next 4 years, helping to boost market ambitions to deploy full-fibre access to millions more premises by 2020

- a new 100% business rates relief for new full-fibre infrastructure for a 5 year period from 1 April 2017; this is designed to support roll out to more homes and businesses
- providing funding to local areas to support investment in a much bigger fibre 'spine' across the UK, prioritising full-fibre connections for businesses and bringing together public sector demand. The government will work in partnership with local areas to deliver this, and a call for evidence on delivery approaches will be published shortly after the Autumn Statement.
- providing funding for a coordinated programme of integrated fibre and 5G trials, to keep the UK at the forefront of the global 5G revolution; further detail will be set out at Budget 2017 as part of the government's 5G Strategy.

Cities, regions, and nations

3.49 Local infrastructure - The government will award £1.8 billion to Local Enterprise. Partnerships (LEPs) across England through a third round of Growth Deals. £556 million of this will go to the North of England, £392 million to LEPs in the midlands, £151 million to the east of England, £492 million to London and the south east, and £191 million to the southwest. Awards to individual LEPs will be announced in the coming months. This funding of local infrastructure will improve transport connections, unlock house building, boost skills, and enhance digital connectivity. The government will give mayoral combined authorities powers to borrow for their new functions, which will allow them to invest in economically productive infrastructure, subject to agreeing a borrowing cap with HM Treasury. The government will also consult on lending local authorities up to £1 billion at a new local infrastructure rate of gilts +60 basis points for three years to support infrastructure projects that are high value for money.

3.50 English devolution – The government remains committed to devolving powers to support local areas to address productivity barriers. The government will continue to work towards a second devolution deal with the West Midlands Combined Authority and will begin talks on future transport funding with Greater Manchester. The government will transfer to London, and to Greater Manchester, the budget for the Work and Health Programme, subject to the two areas meeting certain conditions, including on co-funding. The government has also confirmed the Greater London Authority's (GLA) affordable housing settlement, under which the GLA will receive £3.15 billion to deliver over 90,000 housing starts by 2020-21, and will devolve the adult education budget to London from 2019-20 (subject to readiness conditions). The government will continue to work with London to explore further devolution of powers over the coming months.

3.51 Regional productivity – The government has published a strategy setting out an overall approach to building the Northern Powerhouse, through addressing the key barriers to productivity that the region faces. The government will also publish a Midlands Engine strategy shortly.

3.52 Northern Powerhouse Investment Fund and Midlands Engine Investment Fund – The Autumn Statement confirms the arrangements for these funds, and the British

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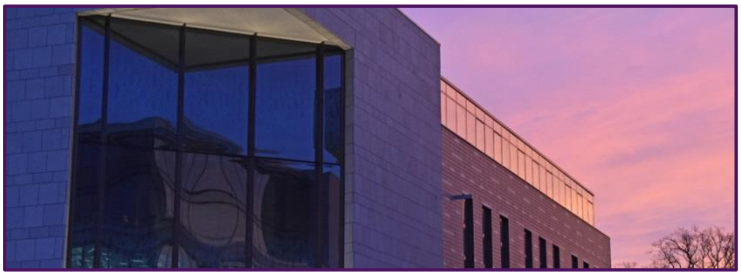
Business Bank will make its first investments from the Northern Powerhouse Investment Fund in early 2017 to support local SMEs and its first investments from the Midlands Engine Investment Fund shortly after.

3.53 Scotland – The government will work with local partners and the Scottish government towards a city deal for Stirling. The government has confirmed funding for city deals in Aberdeen and Inverness, is making progress towards a deal with Edinburgh, and will consider proposals for a deal with the Tay cities once they are brought forward, meaning all Scottish cities have the opportunity to agree a city deal. The government is also continuing to work with the Scottish government to implement the Scottish government's fiscal framework and new powers set out in the Scotland Act 2016.

3.54 Wales – The government is making good progress in discussions with local partners and the Welsh government on a city deal for the Swansea Bay City Region. It will also consider options for a growth deal in north Wales and looks forward to receiving proposals from local partners. The government is also continuing to support the implementation of the £1.2 billion city deal for the Cardiff Capital Region, which was agreed in March.

3.55 Northern Ireland – The government continues to work closely with the Northern Ireland Executive towards the introduction of a Northern Ireland rate of Corporation Tax, subject to the Northern Ireland Executive demonstrating it has placed its finances on a sustainable footing.

5.20 Investing in culture – £7.6 million will be provided for urgent repairs at Wentworth Woodhouse, subject to approval of a sustainable business case for the Grade I listed country house. The government will also be supporting a new creative media centre in Plymouth, the development of the ***new Studio 144 arts complex in Southampton***, and a Royal Society of the Arts pilot to promote cultural education in schools.



Thankfully there are not too many surprises or changes to the mainstream tax positions, as main aspects were confirmations of previous announcements. But there are many different aspects of the Autumn Statement – not least an on-going theme of tax simplification. Most will be covered by the draft legislation due to be published in the next few days and weeks, but some are longer term or simply promises to consult on certain aspects over the next year or so in refining the legislation to deal with tax abuse and further encourage and simulate growth and investment.

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.

If have any property tax issues please do get in touch for a no obligation discussion. You can phone the team on 0345 230 6450 or email healthcheck@e3consulting.co.uk.

E3 Consulting provides specialist property tax advice to owners, investors and occupiers of UK real estate from offices in Southampton and London advising on Capital Allowances, Land Remediation Relief, VAT, Repairs and Maintenance and Community Infrastructure Levy (CIL). Please see our website or twitter to keep up to date with views and technical updates on property tax matters.

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