

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

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Chancellor George Osborne MP delivered his sixth and final Budget statement of this parliament today, Wednesday 18th March 2015. Contrary to expectations, it was not filled with pre-election 'give-aways' but focussed on infrastructure and growth, whilst continuing pursuit of tax abuse, but aligning this with further tax simplification too.



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.

**Enhanced capital allowances - energy saving and water efficient technologies schemes will get a boost estimated by Government to be £40m** over the next four years from the annual update in Summer 2015 (typically published in Aug/Sept)

- To adopt the Waste Heat to Electricity sub-technology, and
- To remove the Packaged Chillers sub-technology.

In addition, the qualifying criteria for some sub-technologies in both schemes will be amended. The government intends to make these changes by Treasury Order in summer 2015, subject to State aid approval. See 2.175 later.

**Teasingly the Chancellor said the Annual Investment Allowance (AIA) would not revert to the £25,000 from 1<sup>st</sup> January 2016 but only hinted at the future amount as being "set at a more generous rate".** It is not clear if this is "more generous" than the proposed £25,000 or the current £500,000!

The British Chambers of Commerce, CBI and IoD have all called for the AIAs to remain in place at either £500,000 or increased to £1,000,000. As with all tax incentives, for them to truly have the desired impact they must have a degree of longevity to enable tax-payers to plan and implement their investments. We look forward to seeing the Governments further announcements on AIAs and expect the figure may be increased to £1m from January 2016.

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*Increasing the AIAs to £1m will effectively ensure businesses spending up to £4m per annum should get most, if not all the relevant qualifying expenditure as 100% in the year incurred. Great opportunity for SME businesses to accelerate their investment, but it is time to see AIAs set out for a five year, or longer, time frame rather than frequent changes over the last few years.*

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**2.28 Additional Business Rate retention pilots** - The government will pilot schemes in Cambridgeshire and Peterborough, and, subject to formal approval of Greater Manchester Combined Authority, in Greater Manchester and East Cheshire from 1 April 2015 to retain 100% of any additional growth in business rates above expected forecasts.

**2.29 City Deals** - Following the successful roll-out of City Deals across England, in 2014 the government signed an ambitious City Deal for Glasgow and the Clyde Valley, alongside the Scottish Government and the Glasgow and Clyde Valley local authorities. The government believes there is merit in extending the City Deal model further in Scotland and Wales. Budget 2015 announces that the government is opening negotiations with local partners and the Scottish and Welsh Governments towards City Deals for Cardiff, Aberdeen and Inverness. And in Inverness, the government is making funding available in 2015-16 to help progress the deal.

**2.30 Enterprise Zones** - The government will expand Enterprise Zones at Mersey Waters, MIRA, Humber, Manchester, Tees Valley (Prairie) and Oxford Science Vale, and will change the designation of two sites at Leeds Enterprise Zone to include Enhanced Capital Allowances. The government will also extend the Enterprise Zone at Discovery Park and create new Enterprise Zones at Blackpool and Plymouth, subject to business cases.

**2.31 Croydon Growth Zone** - The government commits, subject to a business case, to provide £7 million revenue funding from 2015-16 to 2019-20 to the Greater London Authority to enable them to support the delivery of the Croydon Growth Zone. This will enable the delivery of over 4,000 homes and 10,000 jobs.

**2.32 West Yorkshire devolution deal** - The government has agreed a new devolution deal with the West Yorkshire Combined Authority that sees the Combined Authority take further responsibility over skills, transport, employment, housing and business support.

**2.33 Brent Cross regeneration scheme** - The government will provide £97 million funding and ring fence the local 50% share of business rate growth to support the London Borough of Barnet and the Greater London Authority plans for the regeneration of Brent Cross, unlocking 7,500 new homes.

**2.34 Tech Nation** - Building on local strengths, the government will support the development of young, innovative tech businesses through an £11 million investment into Entrepreneur Hubs in Manchester, Leeds and Sheffield.

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**2.35 Knowledge transfer in chemicals sector** - The government will provide £1 million to the Centre for Process Innovation through Innovate UK to support knowledge transfer within this sector that is focussed in the North East.

**2.37 Selby to Hull electrification** - The government will, subject to an acceptable contribution from Hull Trains and subject to a business case, complete Selby to Hull electrification by the end of Network Rail's Control Period 6 (2019 to 2024).

**2.38 Muni theatre in Pendle** - The government will provide £56,000 to support the refurbishment of the Muni theatre in Pendle in 2015.

**2.39 Advanced wellbeing research centre** - The government will invest £14million to build a new sports and exercise research centre in Sheffield, which will form a key part of the city's Olympic Legacy park.

**2.40 High Speed Rail Investment Summit** - The government will fund a High Speed Rail Investment Summit in Birmingham, which will be delivered jointly by UK Trade and Investment and Marketing Birmingham and which will focus overseas investment to the UK on regeneration and supply chain opportunities created around High Speed 2.

**2.41 Estates regeneration study** - The government announces a study into the challenges faced by some of the largest housing estates in the Midlands, to help to frame future regeneration interventions in the region and identify approaches which can be applied in other areas.

**2.42 Energy research accelerator** - The government will make a £60 million investment into energy research, conducted by world-leading universities in the Midlands, to accelerate the application of energy research from lab to market. The Energy Systems Catapult will be located in Birmingham.

**2.43 Centre for Agricultural Informatics and Sustainability Metrics** - The government will invest £11.8million in creating a Centre for Agricultural Informatics and Sustainability Metrics in Harpenden, Hertfordshire from existing programmes.

**2.44 Ipswich Wet Dock Crossing and Lowestoft third river crossing** - The government will provide New Anglia Local Enterprise Partnership with £4 million funding for further development work on the Ipswich Wet Dock Crossing and Lowestoft Third River Crossing.

**2.45 Great Western direct award** - The government will, subject to negotiations, shortly agree a Direct Award with First Great Western until 2019 which will introduce the new Intercity Express Trains and improve rail services across the South West.

**2.46 Plymouth Airport study** - The government will undertake a study into whether there are viable options for the reopening of Plymouth Airport.

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**2.47 Reducing Severn River Toll** - The government will, once the Severn River Crossings are in public ownership post-2018, abolish VAT and reduce tolls by the equivalent amount and, abolish Category 2 (small goods vehicles and small buses) and include those vehicles in Category 1 (motor cars and motor caravans), therefore reducing the toll paid by small goods vehicles and small buses.

**2.48 Bristol bus rapid transit scheme** - The government has granted full approval to the North Fringe to Hengrove metrobus scheme, allowing construction to commence next month.

**2.49 London Land Commission** - The government announced in the London Long Term Economic Plan (LTEP) that it would launch a London Land Commission (LLC) tasked with producing: the most comprehensive database of public sector land in the country; and mapping of brownfield land in London. The government is going further, with £1 million RDEL funding to allow it to carry out these functions; and is agreeing the terms of reference between the Greater London Authority and the government on the LLC.

**2.50 Devolution of planning powers** - The government will consult on devolving planning powers over sightlines and wharves to the Mayor of London, allowing the Mayor to accelerate provision of new homes by reducing planning delays.

**2.52 Croxley rail link** - The government will provide a further £34 million to support the delivery of the Croxley rail link project, subject to a £16 million contribution from Transport for London and final approval of the scheme.

**2.53 Lewes to Uckfield rail line study** - The government will provide £100,000 for a further study into reopening the Lewes to Uckfield rail line.

**2.54 Housing Zones** - The government is announcing the first 20 Housing Zones outside London with the potential to deliver 34,000 homes and will continue to work with 8 other potential Housing Zones. In total these have potential to deliver up to 45,000 new homes.

**2.55 Barking Riverside** - The government continues to work with the Greater London Authority, London Borough of Barking and Dagenham and developers to unlock Barking Riverside, to support the construction of up to 11,000 homes. Transport for London will shortly launch the next public consultation on the proposed route of the railway extension.

**2.56 Northstowe** - The government intends to create a joint venture with a private sector partner to lead development on the Northstowe site. The government expects that three quarters of the homes started on the public-sector owned site by 2020 will be built under direct contract with the public sector, with the rest in that period delivered through serviced plots in line with the public sector's master-plan. (16)

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**2.57 Ebbsfleet** - The government will shortly consult on a specification to deliver a master-plan at Ebbsfleet, and has asked the Ebbsfleet Urban Development Corporation to work with the government by the Spending Review on a prioritised list of infrastructure needs for Ebbsfleet.

**2.58 Bicester** - The government supports Bicester's ambitions to become a garden town, and will make capacity funding available to support its proposals. The government will also work with Bicester on helping to meet its infrastructure needs, including through the potential for recoverable government investment, subject to a business case. The government will provide capacity funding to Basingstoke and North Northants to support their proposals for development on garden town principles.

**2.59 Public sector land housing target** - The government has already sold enough surplus public sector land to build over 100,000 new homes. The government is committed to releasing land with capacity for up to 150,000 homes between 2015 and 2020. The government will look to set departmental contributions by the Spending Round.

**2.60 Housing Finance Institute** - The government will work with Keith House and Natalie Elphicke to implement a Housing Finance Institute, as recommended by their review, of the role of local authorities in housing supply, in conjunction with the Local Government Association and businesses.

**2.61 Shared ownership** - Following an earlier consultation, the Homes and Communities Agency will amend guidance and model leases to help streamline the sales process for shared ownership properties in outright ownership. The government will also launch a wider review into shared ownership.

**2.62 Homeless families** - The government will consider options to support long-term investment in private rented accommodation for homeless families.

**2.80 Help to Buy: ISA** - The scheme will provide a government bonus to each person who has saved into a Help to Buy: ISA at the point they use their savings to purchase their first home. For every £200 a first time buyer saves, the government will provide a £50 bonus up to a maximum of £3,000 on £12,000 of savings. Further details are provided in the document "Help to Buy: ISA" which is published alongside the Budget.

**2.96 Capital Gains Tax entrepreneurs' relief: contrived structures** - The government will deny entrepreneurs' relief (ER) on the disposal of shares in a company that is not a trading company in its own right. The government will also prevent individuals from claiming ER on the disposal of personal assets used in a business carried on by a company or a partnership, unless they are disposed of in connection with a disposal of at least a 5% shareholding in the company, or a 5% share in the partnership assets. This affects disposals on or after 18 March 2015. (Finance Bill 2015)

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**2.98 Capital Gains Tax entrepreneurs' relief: restricting unfair tax advantages on incorporation** - As announced at Autumn Statement 2014, the government has prevented individuals from claiming ER on disposals of the reputation and customer relationships associated with a business ('goodwill') when they transfer the business to a related close company. This affects transfers on or after 3 December 2014. (Finance Bill 2015)

**2.99 Capital Gains Tax entrepreneurs' relief: deferral** - As announced at Autumn Statement 2014, the government has allowed gains which are eligible for ER, but which are instead deferred into investments which qualify for the EIS or SISR, to remain eligible for ER when the gain is realised. This benefits qualifying gains on disposals that would be eligible for ER on or after 3 December 2014 that are deferred into EIS and SISR. (Finance Bill 2015)

**2.100 Capital Gains Tax for non-UK residents disposing of UK residential property** - Following consultation the government has confirmed that from 6 April 2015 non-UK resident individuals, trusts, personal representatives and narrowly controlled companies will be subject to Capital Gains Tax (CGT) on gains accruing on the disposal of UK residential property on or after that date. Non-resident individuals will be subject to tax at the same rates as UK taxpayers (28% or 18% on gains above the annual exempt amount). Non-resident companies will be subject to tax at the same rates as UK corporates (20%) and will have access to an indexation allowance. Full details were set out in the response document 'Implementing a capital gains tax charge on non-residents - summary of responses', published on 27 November 2014. (Finance Bill 2015)

**2.101 Capital Gains Tax: private residence relief (PRR) on properties located in other jurisdictions** - The government will restrict access to PRR in circumstances where a property is located in a jurisdiction in which a taxpayer is not tax resident. In those circumstances, the property will only be capable of being regarded as the person's only or main residence for PRR purposes for a tax year where the person meets a 90-day test for time spent in the property over the year. (Finance Bill 2015)

**2.102 Capital Gains Tax: Annual Tax on Enveloped Dwellings (ATED)** - As announced at Budget 2014, the government will extend the related CGT charge on disposals of properties liable to ATED with effect from 6 April 2015 to residential properties worth over £1 million and up to £2 million and with effect from 6 April 2016 to residential properties worth over £500,000 and up to £1 million. (Finance Bill 2015)

**2.103 Capital Gains Tax: wasting assets** - The government will clarify that the CGT exemption for wasting assets only applies if the person selling the asset has used it in their own business. These changes have effect from 1 April 2015 for Corporation Tax on chargeable gains, and 6 April 2015 for CGT. (Finance Bill 2015)

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**2.110 VAT refunds for search and rescue charities** - The government announced at Autumn Statement 2014 that search and rescue, and air ambulance charities will be eligible for VAT refunds. This will be legislated for in Finance Bill 2015 and will take effect from 1 April 2015.

**2.111 Blood bikes** - From 1 April 2015, blood bike charities will be included in the VAT refunds scheme, along with search and rescue, and air ambulance charities as previously announced at Autumn Statement 2014. (Finance Bill 2015)

**2.112 Rapid response vehicles** - The government will provide a grant to support charities providing rapid response vehicles for medical purposes.

**2.170 Aggregates Levy rate** - the Aggregates Levy rate will remain at £2 per tonne in 2015-16.

**2.171 Aggregates Levy credits in Northern Ireland** - As announced at Autumn Statement 2014, the government will introduce an 80% levy credit for aggregate commercially exploited in Northern Ireland between 1 April 2004 and 30 November 2010 following its importation from another EU Member State. (Finance Bill 2015)

**2.172 Landfill Tax rates** - The standard and lower rates of Landfill Tax will increase in line with RPI, rounded to the nearest 5 pence, from April 2016; the Standard Rate will become £84.40 and the Lower rate £2.85. Additionally, the loss on ignition testing regime announced at Autumn Statement 2014 will be introduced from 1 April 2015. (Finance Bill 2015)

**2.173 Landfill Communities Fund value** - The value of the Landfill Communities Fund (LCF) for 2015-16 will be set at £59.4m, with the cap on contributions by landfill operators amended to 5.7%. The value of the LCF reflects devolution of Landfill Tax to Scotland from 1 April 2015 and the ongoing high levels of unspent LCF funds. The saving from the LCF will be used to fund a one-off £4.2m increase in Environment Agency funding to address waste crime.

**2.174 Landfill Communities Fund reform** - The government is consulting on a package of measures to reform the LCF, developed by a government-sector working group. The package will accelerate the spending of funds on community projects, reduce administrative costs and simplify administrative processes.

**2.175 Enhanced Capital Allowances: energy-saving and water-efficient technologies** - The list of designated energy-saving and water-efficient technologies qualifying for an Enhanced Capital Allowance will be updated during summer 2015, subject to state aid approval.

**2.176 Landlord's Energy Saving Allowance** - The Landlord's Energy Saving Allowance will no longer be available beyond 31 March 2015 for corporate landlords and 5 April 2015 for unincorporated landlords of let residential properties, as scheduled.

**2.177 Climate Change Levy main rates** - Climate Change Levy main rates will increase in line with RPI from 1 April 2016. (Finance Bill 2015)

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**2.178 Carbon Price Support rates** - Carbon Price Support (CPS) rates for 2017-18 will remain at £18/tCO<sub>2</sub>, in line with the £18/tCO<sub>2</sub> cap on the CPS rate from 2016-17 to 2019-20 announced at Budget 2014. The CPF trajectory will remain unchanged.

**2.179 Carbon price floor: excluding combined heat and power** - As confirmed at Autumn Statement 2014, from 1 April 2015 the government will exclude from the carbon price support rates, fossil fuels that are used by combined heat and power plants to generate good quality electricity that is self-supplied or supplied under exemption from the requirement to hold a supplier licence. (Finance Bill 2015)

**2.180 Coalition commitment to increase the proportion of revenue from environmental taxes** - Measures announced at this Budget will result in the proportion of revenue from environmental taxes having increased from 0.4% to 0.7% over this Parliament, in accordance with the coalition commitment.

**2.181 Business Rates: long term review** - As announced at Autumn Statement 2014, the government will conduct a review of Business Rates to report by Budget 2016. The terms of reference for this review were published on 16 March 2015.

**2.201 Maximising the yield from the Common Reporting Standard** - The government will invest £4 million in data analytics resource to maximise the yield from the Common Reporting Standard data.

**2.202 Implementing the previously announced civil penalty regime** - As announced at Autumn Statement 2014, the 2015 Finance Bill will include legislation on enhanced civil penalties for offshore tax evasion.

**2.203 Serial avoiders** - The government will introduce legislation for tougher measures for those who persistently enter into tax avoidance schemes which fail (serial avoiders), including a special reporting requirement and a surcharge on those whose latest tax return is inaccurate as a result of a further failed avoidance scheme. The government will also look to restrict access to reliefs for the minority who have a record of trying to abuse them through avoidance schemes that don't work and intends to develop further measures to name those who continue to use schemes that fail. Legislation will be introduced in due course that will widen the current scope of the Promoters of Tax Avoidance Schemes regime by bringing in promoters whose schemes regularly fail. (Future Finance Bill)

**2.204 Promoters of tax avoidance schemes** - The government will introduce legislation that will enable HMRC to issue Conduct Notices to a broader range of connected persons under the Promoters of Tax Avoidance Schemes regime. We will also legislate to ensure that the 3 year time limit for issuing Conduct Notices to promoters who have failed to disclose avoidance schemes to HMRC applies from the date when a failure is established. (Finance Bill 2015)

**2.205 General Anti-Abuse Rule penalties** - The government will introduce legislation, in a later Finance Bill, that will increase the deterrent effect of the



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General Anti-Abuse Rule (GAAR), by introducing a specific, tax-gearred penalty that applies to cases tackled by the GAAR. (Future Finance Bill)

**2.206 Accelerated Payments additional cases** - HMRC has continued to review cases after the Accelerated Payments legislation took effect and Budget 2015 announces that HMRC will be issuing an additional 21,000 Accelerated Payment Notices over and above the original estimated number. (31)

**2.207 Improvements to the Disclosure of Tax Avoidance Schemes (DOTAS) regime** - The government will introduce legislation that will ensure that DOTAS remains an effective information tool. This will include measures to:

- require employers to notify employees of their involvement in avoidance schemes relating to their employment and to provide details of those employees to HMRC (Finance Bill 2015)
- provide HMRC with a power to identify users of undisclosed avoidance schemes (Finance Bill 2015)
- increase the penalty for users who do not comply with their DOTAS reporting requirements (Finance Bill 2015)
- introduce protection for those wishing to voluntarily provide information to HMRC about potential failures to comply with DOTAS (Finance Bill 2015)
- require promoters of tax avoidance schemes to notify HMRC of any relevant changes to a disclosed scheme (Finance Bill 2015)
- enable HMRC to publish information about promoters and schemes (Finance Bill 2015) strengthen the descriptions of schemes which must be disclosed and to expand the coverage of Inheritance Tax (IHT), to include schemes seeking to avoid IHT charges during a person's lifetime and following death.

**2.208 Accelerated Payments group relief** - As announced at Autumn Statement 2014, the government will introduce legislation to ensure that the Accelerated Payments legislation works effectively where avoidance arrangements give rise to losses surrendered as group relief. (Finance Bill 2015)

**2.209 Employment intermediaries: penalties** - As announced at Autumn Statement 2014, the government will make a minor amendment to correct legislation underpinning the penalty regime for the late filing or non-submission of quarterly returns from employment intermediaries. This will take effect from 6 April 2015. (Finance Bill 2015)

**2.210 Corporation Tax loss refresh prevention** - The government will introduce anti-avoidance legislation, effective from 18 March 2015, to prevent companies from obtaining a tax advantage by entering contrived arrangements to turn historic tax losses of restricted use into more versatile in-year deductions. (Finance Bill 2015)

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**2.211 Capital Allowances** - As announced on 26 February 2015, the government will introduce legislation, with effect from 26 February 2015, to clarify the effect of capital allowances anti-avoidance rules where there are transactions between connected parties or sale and leaseback transactions. (Finance Bill 2015)

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 as the 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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