Budget 2017 key points

Introduction

Philip Hammond MP, the Chancellor of the Exchequer, announced his first ever autumn budget on 22nd November 2017. Compared to some of the previous budgets we have seen, 2017 held no major surprises, with a raft of sensible measures intended to provide stability in the lead up to Brexit, but nothing that is likely to transform the rather gloomy growth figures which provided the backdrop to the Budget.

Reaction from the marketplace was mixed, with the RICS saying his performance "*did little to ameliorate the undertow of structural concerns*" and the Institute of Directors saying "*companies will still be disappointed with what they got*". However, response at a local level was more positive, with Hampshire Chamber saying "*this was a fairly well balanced Budget that showed Philip Hammond has been listening to business*". Dorset Chamber were more negative with faint praise, saying "*the Chancellor didn't do a bad job in the circumstances*". In this article, E^3 Consulting highlight some of the key changes impacting the property and construction sectors as well as referencing the relevant Red Book paragraphs.

5.5 & 5.28 - SDLT Relief for First Time Buyers

The biggest headline in this year's budget, attracting a huge amount of press coverage, was the removal of SDLT charges for first time homebuyers. From 22nd November, first time buyers no longer face SDLT on residential property purchases up to £300,000, and will see reduced SDLT liabilities on properties between £300,000 and £500,000. For properties sold for more than £500,000, SDLT will remain at the current standard rates, leading to quite a sharp jump which will be particularly difficult for those buying in London.

Whilst this has grabbed all the headlines, there are concerns over how much difference it will actually make, with the expectation being that house prices are likely to rise to take into account the saving in SDLT. The RICS described the move as "*well-intentioned but ultimately misguided*". Similarly, the conditions for being a 'first time buyer' require you **never** to have held an interest in a property, including where they have inherited a part interest from, say, a grandparent, and sold it. It might be worth reviewing inheritance plans in light of this, to ensure that potentially valuable savings are not inadvertently lost later down the line.

"While this will no doubt give a cashflow boost to some of those attempting to get onto the property ladder, shortening the time needed to save before purchasing their first home, the longer term impact remains to be seen"

3.30 & 3.32 - Taxation of Capital Gains By Non-Residents

One of the biggest changes from a property point of view was the treatment of capital gains arising from fixed property owned by non-residents. Previously only the sale of residential properties by non-residents was subject to UK Capital Gains Tax, the Government announced that from April 2019, all disposals of UK property including commercial will fall within the scope of CGT, extending CGT to all Non-Resident Landlords holding their property investments offshore.

The Government has also announced that they will legislate to bring NRLs with a UK property business within the charge to corporation tax rather than income tax as at present. Draft legislation for this is expected to be published in summer 2018 with changes due to take effect from April 2020. This will reduce the headline tax rate paid (as corporation tax is now lower than income tax), but may restrict some of the reliefs and deductions currently available. However, it will mean that non-resident landlords will now become entitled to 150% relief for the remediation of contaminated or derelict land, which they are currently not able to claim.

"As offshore structures come under more and more public scrutiny, these changes will likely have an impact on those who currently hold property offshore, or are planning to do so, as it will eliminate some of the tax advantages. Those currently holding property offshore should consider whether any restructuring or additional planning may be necessary in advance of the rule changes to ensure that their position is protected or if the erosion of the offshore position may lead to on-shore ownership"

5.31 - Up To 100% Council Tax Surcharge For Empty Properties

Continuing with the Government's desire to discourage people leaving properties empty during the current housing crisis, councils will now have the power to levy an increased surcharge on council tax of up to 100% where the property is unoccupied and unfurnished for two years or more. While this increases the power councils have to dis-incentivise owners abandoning properties, it is questionable whether this goes far enough, as many investors may well be seeing enough capital growth to allow them to treat the increased council tax as a minor expense rather than changing their behaviour.

"Likely to be a popular move targeting those who are holding long-term empty properties, but questions must remain about whether the Government has gone far enough in helping improve the housing shortage"

5.14 - CIL Consultation

The Government has announced a new consultation on CIL, following on from the CIL review published in February of this year. Proposals for a low level 'Local Infrastructure Tariff' or LIT, which appeared in the review, and were proposed to apply across all developments with fewer exemptions, appear to have been dropped by the Government. However, the consultation will include one of the review's other proposals for a 'Strategic Infrastructure Tariff' or SIT, which will apply for combined authorities and enable them to fund large scale infrastructure projects, such as CrossRail.

Other proposals to be included within the consultation include removing the restrictions on use of s.106 contributions, speeding up the process of setting and revising CIL rates, allowing Local

Planning Authorities (LPAs) to set differential rates for change of use and changing CIL indexation from the current BCIS All-In Tender Price Index to House Price Inflation.

The British Property Federation has said of CIL "*CIL is currently perceived as a problem and unless it becomes a more transparent tool, it could hamper investor and developer confidence*". In view of that, the Government's proposed consultation potentially fails to go far enough, as it seems likely that more structural reform is required to improve the contribution CIL makes to infrastructure provision across the country.

"While it is welcome to see the Government responding to the CIL Review which was fairly damning of the current process, we were expecting some slightly more radical proposals to be considered. The changes proposed have the potential to make an already over-complicated system even more challenging to navigate without significant benefits, so we will be following the detailed consultation in due course very carefully"

3.48 – Enhanced Capital Allowances Changes

The Government announced that there would be amendments to the list of assets qualifying for the Enhanced Capital Allowances (ECA) scheme. This offers 100% tax relief on energy and water efficient assets. The main changes are the removal of:

- localised rapid steam generators
- biomass fired warm air heaters

and the addition of:

- evaporative air coolers
- saturated steam to electricity conversions
- white LED modules for backlit illuminated signs.

There will also be amendments to the qualifying criteria for 9 current technologies with effect from the effective date of the 2017-8 Finance Act.

"Nothing too radical here, but it is a good reminder that it is worth reviewing the qualification criteria regularly to ensure that assets incorporated within your property spend will meet them and entitle you to the significant cashflow advantage the 100% ECA scheme offers"

3.31 - Freeze of Indexation Allowance For CT

In order to bring Corporation Tax capital gains in line with treatment for individuals, indexation allowance will be frozen at based on the RPI for December 2017, so companies will receive relief for inflation to January 2018 but not thereafter. This helps to close what was seen by many as an anomaly and will help to raise additional income for the exchequer.

"Given the low interest rates in recent times, this may not have a huge impact in the near future, but could be more influential as interest rates rise. If income tax is any guide, it may also signal the imminent total withdrawal of indexation."

3.27 - Rates on Non Residential Properties

The Chancellor announced that the proposed business rates switch from RPI to CPI will be brought forward by two years, now coming into force in April 2018. Because CPI is generally lower than RPI, this move is expected save businesses approximately £2.3billion. He also announced an additional £435million of support for businesses facing significant increases in Business Rates bills, including a £1,000 discount for public houses with a rateable value of up to £100,000. Rates will also be based on more regular revaluations, moving from five yearly to three yearly, a change which will help mitigate the large jumps we have seen in the past.

"Given business rates reform being such a big topic for SMEs, many will have expected something more in the Budget to address this. However, this represents a step in the right direction and will be welcomed by businesses facing large increases"

SDLT Payment Window Shortened To 14 Days

The Government has decided to postpone the reduction of the payment window from thirty days to 14 days until 1st March 2019. The proposals, which had been due to come into force as early as January 2018, were deferred following responses to a consultation last year. This delay will give time for the planned revision and simplification of the current SDLT forms.

"This is a good example of the Government taking on board consultation responses and will no doubt be welcomed by lawyers and others dealing with property transactions"

ATED Payments Increased By CPI

As expected, the Annual Tax on Enveloped Dwellings (ATED) has risen by the Consumer Price Index (CPI), leading to an increase of 3%. This tax applies to non-natural persons owning an interest in UK residential property worth more than £500,000 and not qualifying for a relief. ATED is payable annually and is due to rise in line with CPI each year, so for property with an ATED value of £5-10million, the annual charge will increase from £54,950 to £56,550.

"If it ain't broke… ATED seems to be broadly achieving its purpose, and this annual rise by CPI does not come as a particular surprise, but for those who are within the scope of ATED, it will be important to budget for these annual increases"

Overall

This year's budget was a mix of widely anticipated tweaks and a few larger structural changes. Many of the measures will need to be fully fleshed out and clarified over the coming weeks, but there is plenty there to keep those in the property and construction sectors on their toes. Please do contact the E³ Consulting team if you have any questions about these changes, or wish to discuss the wider impact on your business or projects in more depth.

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 follow us on twitter to keep up to date with views and technical updates on property tax matters.

www.e3consulting.co.uk @E3Consulting