

E3 Consulting's Reaction to Spending Review & Autumn Statement 2015

- Real Estate Tax Update

25 November 2015
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Chancellor George Osborne delivered his Spending Review and Autumn Statement Today on Wednesday 25th November 2015

E³ Consulting highlights the initial key Property & Construction aspects - as referenced from the HM Treasury's Spending Review and Autumn Statement 2015.

Autumn statement 2015



1.154 Tackling tax avoidance - The government is aware of tax planning around the intangible fixed assets regime used to obtain more generous corporation tax relief than is intended by the legislation. It will therefore amend the regime to stop arrangements that use partnerships to obtain relief that was not intended. The government will also amend legislation to counter two types of avoidance involving capital allowances and leasing, which involve businesses artificially increasing the value of their capital allowances or lowering the amount of tax which they pay

1.171 Investing in skills to equip young people for the future - As part of the government's one-off restructuring of post-16 education and training, Sixth Form Colleges in England will be given the opportunity to become academies, allowing them to recover their non-business VAT costs. They will have the option of joining a Multi Academy Trust if they choose to, which will help drive up standards and improve efficiency of 16-19 education by enabling further collaboration between schools and Sixth Form Colleges.

1.251 The government is creating 26 new Enterprise Zones, including expanding 8 Zones on the current programme. These include 15 Zones in smaller towns and rural areas, spreading Enterprise Zone benefits to 108 sites across the country. This is in addition to the two announced earlier this year. The government will provide feedback to Local Enterprise Partnerships on unsuccessful applications and, where possible, the government will work with them to consider how the proposals could be improved. Since their start in April 2012, Enterprise Zones have laid down the foundations for success for 540 businesses, attracting over £2.2 billion pounds of private sector investment, building world class business facilities and transport links and attracting 19,000 jobs.

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1.254 providing £7 million of funding through the Regional Air Connectivity Fund to support new air routes promoting domestic and international connectivity and stimulating jobs and growth. These will include new routes from Newcastle to Norwich; from Carlisle to Belfast, Dublin and Southend; and from Leeds Bradford to Newquay.

1.255 - To back science-based and innovative companies in the North the government is:

- providing £250 million for small modular reactor development and wider nuclear R&D, creating opportunities for the North's centres of nuclear excellence in Sheffield City Region, Greater Manchester and Cumbria, as well as the nuclear research base across the UK. This builds on £25 million of UK funding for a Joint Research and Innovation Centre with China, to be based in the North West. This is on top of a total of more than £375 million over this Parliament for dedicated science and innovation facilities in the North
- doubling the size of the Enterprise Zones programme in the Northern Powerhouse, creating 7 new Zones, meaning that over a third of all new Enterprise Zones announced in this Spending Review will be in the North, while extending a further 2 Enterprise Zones.

1.261 The Midlands

- The government invests further in the Midlands through the Spending Review: the government will create a new Enterprise Zone in Stoke/Staffordshire Ceramics Valley and the extend the existing Enterprise Zone at Infinity Park Derby

1.268 South West

- The government will create new Enterprise Zones in the Heart of the South West, Dorset Green and will extend existing Enterprise Zones in Bristol (Bristol Temple Quarter and Somer Valley) and Cornwall/Isles of Scilly (Aerohub+).

1.269 South East

- Providing £7 million through the Regional Air Connectivity Fund to support new air routes promoting domestic and international connectivity and stimulating jobs and growth, including from Southampton to Munich and Lyon and from Oxford to Edinburgh.
- creating 4 new Enterprise Zones in Newhaven, Aylesbury Vale, Didcot Growth Accelerator and Enterprise M3, and extending the North Kent Innovation Zone

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1.270 East of England

- the government will provide £7 million through the Regional Air Connectivity Fund to support new air routes promoting domestic and international connectivity and stimulating jobs and growth, including from Norwich to Exeter and Newcastle, and from Southend to Carlisle.
- 4 new Enterprise Zones will be created in Cambridgeshire, Hertfordshire, Luton and across Great Anglia (Norfolk and Suffolk) while the existing Great Yarmouth & Lowestoft Enterprise Zone will be extended

1.271 London

The Spending Review and Autumn Statement provides support for key regeneration schemes, including:

- delivery of the new Olympicopolis cultural and university quarter in the Queen Elizabeth Olympic Park
- £97 million to fund a new Thameslink station at Brent Cross
- £55 million to extend the London Overground from Barking to Barking Riverside
- bringing together the publicly owned land around the Old Oak Common HS2 station into single control

1.272 The Spending Review and Autumn Statement is prioritising housing in London through new funding programmes for starter homes, Help to Buy: Home Ownership and through a new London Help to Buy with a special 40% equity loan.

1.273 The government will also provide £150 million funding support to the British Museum, Science Museum, and Victoria and Albert Museum to replace out-of-date museum storage, including at Blythe House, with new world-class facilities to preserve and protect over 2 million fragile and sensitive objects. Blythe House will be sold in due course.

2.66 As part of the government's one-off restructuring of post-16 education and training, Sixth Form Colleges in England will be given the opportunity to become academies, allowing them to recover their non-business VAT costs. They will have the option of joining a Multi-Academy Trust if they choose too, which will help drive up standards and improve efficiency of 16-19 education by enabling further collaboration between schools and Sixth Form Colleges.

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Table 3.1: Autumn Statement 2015 policy decisions¹

		£ million						
		Head	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Business, growth and skills								
2	Business Rates: small business relief extension ²	Tax	0	-700	+40	+15	0	0
3	Enterprise Zones	Tax	0	*	-10	-15	-15	-5
Property and housing								
5	Stamp Duty Land Tax: higher rates on additional properties	Tax	+30	+625	+700	+760	+825	+880
Avoidance, evasion and tax planning								
16	Capital allowances and leasing: reducing avoidance ³	Tax	+5	+25	+40	+30	+20	+20
17	Corporation Tax: disposals of intangible fixed assets to related parties	Tax	+15	+45	+70	+35	+30	+25

3.64 VAT reduced rate for energy saving materials - The government will consult on legislation for Finance Bill 2016 to ensure the reduced rate of VAT on energy saving materials is maintained in line with EU law. (Finance Bill 2016)

Property taxes

3.70 Stamp duty land tax: additional properties - Higher rates of SDLT will be charged on purchases of additional residential properties (above £40,000), such as buy to let properties and second homes, from 1 April 2016. The higher rates will be 3 percentage points above the current SDLT rates. The higher rates will not apply to purchases of caravans, mobile homes or houseboats, or to corporates or funds making significant investments in residential property given the role of this investment in supporting the government's housing agenda. The government will consult on the policy detail, including on whether an exemption for corporates and funds owning more than 15 residential properties is appropriate. The government will use some of the additional tax collected to provide £60 million for communities in England where the impact of second homes is particularly acute.

3.71 Stamp Duty Land Tax: application to certain authorised property funds - The government will introduce a seeding relief for Property Authorised Investment Funds (PAIFs) and Co-ownership Authorised Contractual Schemes (CoACSs) and make changes to the SDLT treatment of CoACSs investing in property so that SDLT does not arise on the transactions in units. There will be a defined seeding period of 18 months, a 3 year clawback mechanism and a portfolio test of 100 residential properties and £100 million value or 10 non-residential properties and £100 million value. These changes will take effect from the date Finance Bill 2016 receives Royal Assent. (Finance Bill 2016)

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3.73 Annual Tax on Enveloped Dwellings (ATED) and 15% rate of Stamp Duty Land Tax: scope of reliefs - The government will extend the reliefs available from ATED and the 15% higher rate of SDLT to equity release schemes (home reversion plans), property development activities and properties occupied by employees from 1 April 2016. (Finance Bill 2016)

3.74 Small Business Rate Relief (SBRR) - The government will extend the doubling of SBRR for a further year from 1 April 2016. (2)

Capital Gains Tax

3.75 Capital Gains Tax (CGT) for non-UK residents disposing of UK residential property - The government will amend the CGT computations required by non-residents on the disposal of UK residential property by removing with retrospective effect from 6 April 2015 a double charge that occurs in some circumstances and correcting an omission with effect from 25 November 2015. The government will also give HMRC powers to prescribe circumstances when a CGT return is not required by non-residents and will add CGT to the list of taxes that the government may collect on a provisional basis. (Finance Bill 2016)

3.76 Capital Gains Tax: payment window - From April 2019, a payment on account of any CGT due on the disposal of residential property will be required to be made within 30 days of the completion of the disposal. This will not affect gains on properties which are not liable for CGT due to Private Residence Relief. The government will publish draft legislation for consultation in 2016. (Finance Bill 2017) (7)

Avoidance and Evasion Tax evasion and compliance

3.77 A new criminal offence for tax evasion - The government will introduce a new criminal offence that removes the need to prove intent for the most serious cases of failing to declare offshore income and gains. (Finance Bill 2016)

3.86 Capital allowances and leasing - With effect from 25 November 2015, the government will amend legislation to counter 2 types of avoidance involving capital allowances and leasing. These changes will prevent companies from artificially lowering the disposal value of plant and machinery for capital allowances purposes, and make any payment received for agreeing to take responsibility for tax deductible lease related payments subject to tax as income. (Finance Bill 2016) (16)

3.89 Related Party Rules: partnerships and transfers of intangible assets - The government will amend the intangible fixed asset rules to clarify the tax treatment on transfers of assets to partnerships. This change has immediate effect. It will

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ensure that partnerships cannot be used in arrangements that seek to obtain a tax relief for their corporate members in a way that is contrary to the intention of the regime. The government will also consider a review of the intangible assets regime as part of the Business Tax Roadmap. (Finance Bill 2016) (17)

3.90 Taxation of asset manager's performance based rewards - The government will introduce legislation to determine when performance awards received by asset managers will be taxed as income or capital gains. An award will be subject to income tax, unless the underlying fund undertakes long term investment activity. (Finance Bill 2016)

There are many different aspects of these Government announcements. Most will be covered by the draft legislation to be published in the next few days and weeks, but some are longer term or simply promises to consult on certain aspects. 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 advising on Capital Allowances, Land Remediation Relief, VAT, Repairs and Maintenance and 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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