Briefing note

March 2017

Property Sector: Budget 2017

Despite the hopes and representations from various landlords and professional bodies, the property sector was perhaps most notable by its absence from the whole of the Budget speech. However, there were some Budget measures which will impact on the sector and these are set out below.

Overview

Landlords of residential properties will no doubt have been left disappointed by the Chancellor's first and last Spring Budget as the much hoped for reversals of the interest relief restriction and SDLT surcharge did not occur. However, a delay for some from the introduction for quarterly reporting will be welcome. Property developers will also have to contend with more anti-avoidance rules and the potential impact of the transactions In land rules which had been previously announced.

Making Tax Digital (MTD)

Despite scathing opposition from most quarters, the MTD project continues unabated. Whilst a lot of the details about the requirements of MTD are still unknown, broadly, unincorporated businesses and landlords with income over the VAT threshold will have to start retaining records digitally and filing returns quarterly from April 2018. The quarterly figures do not have to have tax or accounts adjustments but you can choose to pay tax quarterly based on these figures if you choose.

This represents a change to the previously announced rules and a deferral for those unincorporated business and landlords with income of between £10,000 and the VAT registration limit. The introduction of MTD for businesses will now be delayed for a year until April 2019, when VAT registered businesses will also need to start keeping records digitally. Businesses reporting under Corporation Tax will be brought within the regime in April 2020.

In an effort to simplify the tax system, a new cash basis of accounting will be brought in from 6 April 2017 for landlords with income up to £150,000. In simple terms this means that you only pay tax on the income you have received and similarly, claim a deduction for expenses you have paid. However, the interest expense will be restricted as for other businesses and if you incur expenses which you take time to pay for, you may end up worse off. Some types of expenses will also be disallowable, for example, capital costs. The cash basis will be deemed to automatically apply unless the tax payer opts out.

To be sure that you are adopting the right basis you may have to calculate profits under both the cash and accruals basis so the end result may be far from simple!

Business Rates

The press fallout from the recent rates increases due to the revaluation exercise has made business rates an unexpected headline issue.

To soften the blow for smaller businesses the Chancellor has announced three further measures in addition to the £3.6 billion transitional relief which was announced in November 2016:

- Support for small businesses losing Small Business Rate Relief to limit increases in their bills to a maximum of £600.
- Providing English local authorities with funding to support £300 million of discretionary relief, to allow them to provide support to individual hard cases in their local area.
- The introduction of a £1,000 business rate discount for public houses with a rateable value of up to £100,000, for one year from 1 April 2017.

The Government had also previously announced an aim to deliver more frequent revaluations of properties – at least every 3 years. The Government will set out its preferred approach for delivering this aim at Autumn Budget 2017 and will consult ahead of the next revaluation in 2022.

Issues affecting corporates

The Corporation Tax rate has been confirmed as 19% from April 2017 and 17% from April 2020.

The surprise announcement in the Budget was that the new tax free dividend allowance of £5,000 introduced from 6 April 2016 will reduce to £2,000 from April 2018. This means that the tax on extraction of profits will become slightly more expensive for most company owners.

Issues affecting individuals

The lack of any Budget announcement on the interest relief restriction means that higher tax rate landlords of residential property with financing will start to find their tax relief restricted and tax bills rise. The restrictions will be phased in from April 2017 and by April 2020, the tax relief on interest will be fully restricted to only giving a 20% tax credit irrespective of the tax rate applying to the rental income.

Whilst the Government's manifesto included a "tax lock" such that there would be no increase to Income Tax, NI or VAT, it is now clear that this lock only applied to employees' NI as the rate of Class 4 NI has been increased by 1% from April 2018 and a further 1% from April 2019. Class 4 NIC is payable by sole traders and partners in trading partnerships. NI is not payable on rental income.

The personal allowance continues to rise in line with previous announcements and will reach £11,500 from 6 April 2017. This is only available in full to those individuals with income of less than £100,000.

The higher rate tax threshold will be £33,500 from 6 April 2017. The NIC upper threshold is aligned with the higher rate tax threshold.

This means that an individual can earn up to £45,000 from 6 April 2017 before they pay any higher rate income tax.

The Government have confirmed that the intention is still for the personal allowance to reach £12,500 and the higher rate band to be £50,000 by the end of the Parliament.

Presumably prompted by the popularity of AirBnB, a consultation into Rent–a-room relief has been announced to ensure that it is used to exempt long term rental rather than exempting short term lets. Rent-a-room relief enables an individual to receive £7.5k for renting a room out in their house tax free.

Stamp Duty Land Tax

Sadly, the headline here was the lack of any announcements - the 3% surcharge remains, as do the apparently market stifling rates applying to the largest of homes.

As announced at Autumn Statement 2015, the Government consulted in 2016 on a reduction in the Stamp Duty Land Tax (SDLT) filing and payment window from 30 days to 14 days, as well as on the SDLT filing and payment process generally. After consideration of the responses, the Government will delay the reduction in the filing and payment window until after April 2018.

Anti-Avoidance changes

HMRC introduced revised anti-avoidance transactions in land rules in 2016 to set out where disposals of land with some element of development or planning gain should be taxed to income or as capital. Primarily these were announced to ensure that offshore developers were subject to UK tax on UK land transactions however they also affect UK based developers. Budget 2017 has extended these rules such that they will apply to contracts entered into prior to 5 July 2016 where properties have been disposed after 8 March 2017.

The Government will consult on options to combat missing trader fraud in the provision of labour in the construction sector. Their favored solution is to introduce a reverse charge mechanism so that the recipient of the service accounts for VAT. It will also consider other changes including to the qualifying criteria for gross payment status within the Construction Industry Scheme.

Other changes

Insurance is always a major cost to property owners and the steady rise of Insurance Premium Tax over the last few years will not have gone unnoticed. It is due to rise again to 12% from June 2017 and Budget 2017 has announced some anti-forestalling rules to prevent people paying for insurance in advance purely to avoid the rise.

It has been announced that there will be a consultation into the taxation of employer provided living accommodation. This legislation has been in place for many years and so it is likely that significant changes may be proposed.

Start the conversation today

Contact your BHP account manager or one of our tax specialists.

Elaine Skelton
elaine.skelton@bhp.co.uk

Zoe Roberts
zoe.roberts@bhp.co.uk

Sheffield / Leeds / Cleckheaton / Chesterfield / York

www.bhp.co.uk 0333 123 7171 @bhpaccountants