BHP Chartered Accountants

Briefing note

November 2017

Property Sector: Budget – November 2017

The Chancellor's second Budget of 2017 was expected to contain significant measures to address the nation's housing supply and, whilst there were several laudable aims mentioned, the Chancellor admitted there is no single magic bullet and instead announced a raft of measures to help "fix the dysfunctional housing market, and restore the dream of home ownership for a new generation".

Overview

There is no doubt that solving the housing supply gap needed to be a priority, and the Chancellor's stated aims of releasing land for development, encouraging and supporting SME housebuilders and developing the next generation of construction workers to address some of the labour gaps are to be welcomed. However, other than the SDLT exemption for first time buyers, there were few tangible changes which will immediately impact the property construction sector.

Similarly, for property investors there were few changes to bring either disappointment or delight.

Increasing the housing supply

Various measures have been announced to promote the Government's aims of:

- making more development land available
- supporting SME housebuilders
- providing training to the construction sector

The Government will provide additional funding of £15.3bn over the next five years, bringing the total to £44bn. This includes:

- £1.1bn for a Land Assembly Fund, enabling Homes England (previously Homes and Communities Agency) to work with private developers to develop strategic sites
- £2.7bn for the Housing Infrastructure Fund
- £630m for housebuilding on small stalled sites
- £1.5bn for the Home Building Fund, to support SMEs who cannot access other forms of finance
- £204m for developing skills across the construction sector

Planning reforms are also being introduced. Interventions will be made where local plans fail to progress. The Government will also consult on measures to ensure brownfield and urban land is used as efficiently as possible, including easier conversion or demolition of commercial or empty space to residential.

The Government will also respond to the Community Infrastructure Levy review by issuing a consultation on various proposals.

Currently, local authorities have the option to charge a 50% council tax premium on "empty homes". This is set to increase to a possible 100% council tax premium, with a view to encourage bringing empty homes back into use.

Stamp Duty Land Tax Changes

First time buyers

Whilst the SDLT exemption for first time buyers is welcome news, for most first time buyers finding the deposit and meeting affordability criteria for mortgages is more challenging.

From 22 November 2017, first time buyers will benefit from a permanent exemption from SDLT on purchases up to £500,000, which will abolish SDLT on the first £300,000. Where there are joint purchasers, both must be first time buyers to qualify for the relief.

Additional rate changes

A 3% additional SDLT charge can arise in cases where the purchaser of a residential property holds other residential property or is a company.

Relief from the charge will be granted to individuals in cases where:

- a court order issued on a divorce or dissolution of a civil partnership prevents someone from disposing of their interest in a main residence
- a spouse buys property from their spouse
- a person buys a property as the deputy of a child
- a purchaser adds to their interest in their main residence

The Government will also introduce anti avoidance rules to prevent abuse of relief for replacement of a purchaser's only or main residence. The changes will have effect from 22 November 2017.

VAT fraud in labour provision in the Construction Sector

Following a consultation, the Government will introduce a VAT domestic reverse charge to prevent VAT losses. This will shift responsibility for paying VAT along the supply chain to remove the opportunity for it to be stolen.

Changes will impact from 1 October 2019 to ensure that businesses have time to prepare for the change.

Changes affecting Landlords

HMRC have confirmed that landlords can continue to calculate their allowable deductions for motoring expenses based on mileage rates (45p / 25p per business mile), instead of deducting apportioned actual costs and capital allowances. This method was originally allowed via an Extra Statutory Concession and will now be brought into legislation.

HMRC have announced they will be consulting on how Rent a Room Relief is currently used. This relief can exempt up to £7,500 of rental income from renting out a room in your home. This relief was initially introduced to encourage people to use their spare rooms to provide long term housing, however it has been more frequently used to exempt occasional income from lettings through Airbnb and other similar portals.

Non-UK resident company landlords

At present, non-UK resident individuals are subject to tax on gains from the sale of UK residential property, but not commercial property.

Non-UK resident companies are also subject to tax on gains from the sale of certain UK residential property (property caught under the ATED rules – ie value over £500,000 and not rented to third parties), but not commercial property.

From April 2019, the Government intends to extend the tax charge for both non-UK resident individuals and companies to include gains arising from the sale of UK commercial property.

The tax charge will also apply to gains on the sales of shares in companies which derive their value from UK property.

Commercial properties and shares in property-rich companies held by non-UK residents will be re-based to their April 2019 market value so that only increases in value after that date will be taxed.

From April 2020, non-UK resident companies will be subject to corporation tax on their UK rental income and gains.

At present, such companies are subject to income tax on rental income from UK properties and capital gains tax on residential properties.

Capital Gains Tax - 30 day payment window delayed

The introduction of the thirty day payment period between a gain arising on the sale of a residential property and payment of the tax has been delayed from April 2019 to April 2020.

Capital Gains Tax to increase for corporate property owners

At present, companies (but not individuals) can claim indexation allowance when calculating capital gains, which effectively gives relief for increases in value that are purely due to inflation.

Where assets are sold on or after 1 January 2018, indexation allowance will be frozen at the amount that would be due based on the Retail Price Index for December 2017.

Longer tenancies

The Chancellor announced that the Government would be consulting on barriers to longer tenancies in the private rented sector and how they might encourage landlords to offer them to those tenants who want the extra security.

Any tax incentives provided to landlords would be welcome news to this sector who have suffered from various additional tax charges. However, they would have to be sufficiently significant to counter the commercial risks. Watch this space!

Business Rate changes

The Chancellor announced that to create fairness in the system the planned switch in indexation from RPI to the main measure of inflation (currently CPI) will be brought forward to 1 April 2018.

Legislation will also be introduced retrospectively to address the so called "staircase tax". This will allow businesses to ask the Valuation Office to recalculate valuations so that bills are based on previous practice backdated to April 2010.

Non-domestic property ratepayers will also have their revaluations carried out more frequently. After the next revaluation, future revaluations will now be carried out every three years rather than every five with the next revaluation due in 2022.

Start the conversation today

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