AUTUMN BUDGET 2017

What is the impact for the Real Estate Sector?

Philip Hammond's first Autumn Budget strove for a bright future of change, challenge and opportunity for the UK economy, with a focus on housing, infrastructure and generating world-leading expertise in the tech sector. The full Budget can be found here. Some highlights for the Real Estate Sector are below.

Property Taxes

- SDLT will not be charged on the first £300k of properties purchased by first time buyers at a price of up to £500k. This is effective immediately from 22 November 2017. 95% of first time buyers who pay SDLT will benefit and 80% of first time buyers will pay no SDLT at all.
- HMRC has already amended its online SDLT calculator, which indicates that a first time buyer will be deemed to be someone who has never previously bought a property, inherited a property or is a beneficiary of a trust which owns a property. References to "property" are deemed to include freehold or leasehold property of at least 21 years.
- All gains on non-resident disposals of UK property accrued on or after April 2019 will be brought within the scope of UK tax. Fortunately for institutional investors, such as pension funds, there are proposals to make targeted exemptions.
- From April 2020, non-resident companies will have income that they receive from UK property, as well as any gains arising from the disposal of UK property, charged to corporation tax rather than income and capital gains tax respectively.
- A minor tweak will be made to the rules charging higher SDLT rates for additional residential properties where individuals are increasing a share in their own home, are affected by a divorce court order or where properties are held in trust for children. This will reverse what has been seen as unfair impact in these scenarios.
- Consultation will take place on rent-a-room relief to ensure it is better targeted at longer-term lettings.

Business Rates

- The switch to CPI indexation (from RPI) will now happen two years earlier in April 2018
- Revaluations will follow a three (rather than five) year pattern after the next revaluation in 2022.
- Legislation will retrospectively address the "staircase tax" (the Supreme Court decided in *Woolway v Mazars* that non-contiguous floors within the same office block could not be taken to be the same unit or hereditament for the purpose of paying business rates). Businesses will be able to ask for valuations to be recalculated based on the previous practice backdated to 2010.
- Pubs with a rateable value of up to £100k will continue to receive a £1k discount for a further year from April 2018, subject to state aid limits.
- New pilots for 2018-19 will be announced with further local authorities (in addition to London) being able to retain their business rates.

Housing

- As can be seen with the headline-grabbing changes to SDLT, there is a strong focus on helping the first time buyer. The government aims to raise housing supply by the end of this Parliament to its highest level since 1970, looking at reaching 300,000 new homes being built per year by the mid-2020s.
- Consultation will be carried out on a new policy encouraging local authorities to grant permissions outside their plan on condition that a high proportion of the homes are offered for discounted sale for first time buyers, or affordable rent. The green belt will not be affected by this, however.

- Consultation will take place on introducing minimum densities for city centre/transport hub housing development; looking at proposals to support conversion of empty space above shops; converting retail and employment land into housing; and, a new permitted development right to allow commercial buildings to be demolished and replaced with homes.
- Consultation will take place on a number of measures designed to ensure that planning permissions are built-out faster, including an urgent review looking at the gap between housing completions and the amount of land allocated or permissioned for housing. A report will be available by Spring Statement. The Chancellor indicated that if property was being held back purely for commercial reasons, compulsory purchase powers may be used to get the sites developed-out.
- A central register of residential planning permissions from local authorities will be created, which will reveal what progress has been made towards the sites being built-out.
- Local authorities will be able to increase the council tax premium on empty homes from 50% to 100% to encourage owners to bring them back into use.
- The Homes and Communities Agency will be re-branded as Homes England and will have its ability to invest and use planning powers strengthened, giving it greater impact in the market.
- The government will be finalising a Construction Sector Deal to support innovation and skills in the sector and ensure that the workforce is ready and in place to build the new homes needed.
- A large-scale regional pilot of the Right to Buy for housing association tenants will go ahead in the Midlands.
- Consultation will take place on the barriers to landlords offering longer, more secure tenancies to tenants who want them.

Community Infrastructure Levy

- DCLG is launching a consultation on the following:
  - removing restriction of S.106 pooling towards a single piece of infrastructure where the local authority has adopted CIL, in certain circumstances;
  - speeding up the process of setting and revising CIL in order that the levy can respond to the market better;
  - allowing local authorities to set rates which better reflect the uplift in land values between a proposed and existing use, rather than a simple flat rate relating to the end use of the land;
  - changing the indexation of CIL rates from being linked to build costs to house price inflation instead; and
  - creating the option for a Strategic Infrastructure Tariff in addition to a CIL.

Transport and Infrastructure

- The government has announced a number of funding packages, along with an Industrial Strategy. Some highlights are:
  - improvements to local transport connections across the UK;
  - digital rail upgrades;
  - projects to develop 5G mobile and full-fibre broadband networks, as well as improvements to mobile communications for rail passengers, particularly along the Trans-Pennine route.
  - specific infrastructure projects such as upgrading the Tyne & Wear Metro and rail/road connections between Cambridge and Oxford;
  - five new garden towns; and
  - North of Tyne will be able to elect a Mayor in 2019.

Tax Evasion and administration

- Time limits for assessing non-deliberate offshore tax non-compliance will be extended so that HMRC can go back 12 years without needing to establish deliberate non-compliance.
- A VAT domestic reverse charge will be introduced into the construction labour supply chains from 1 October 2019.
- No business will be mandated to use Making Tax Digital until April 2019 and at that stage it will only apply to those over the VAT turnover threshold.

- The government is looking at reforming the penalty system for late or missing tax returns, adopting a points-based approach. It will consult on harmonising penalties and interest due on late payments. It is not clear what the impact will be on SDLT, but it is worth a reminder that a new Land Transaction Tax (LTT) will apply in Wales from April 2018 and that the deadline for both SDLT and LTT will reduce to 14 days in the 2018/19 tax year.

It will be interesting to see how the Scottish Draft Budget, being produced on 14 December, will respond to the above measures, and especially whether Land and Buildings Transaction Tax will follow the precedent set by the changes to SDLT.

Who to contact

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