SQUIRE PATTON BOGGS

UK Budget 2016

Real Estate

In a full Budget, the real estate sector did not escape the Chancellor's revenue raising attentions, but should also benefit from some changes.

Stamp Duty Land Tax

The SDLT rates for non-residential transactions are changing to move away from the current slab system.

For purchases and new lease premiums, the top rate increases to 5%. This will be charged on all consideration above £250,000. There will be no SDLT on the first £150,000 of consideration and 2% will be charged on the next £100,000. Anyone paying over £1.05 million will see their SDLT charge increase, with savings for smaller transactions.

For new leases, there will be a 2% rate to the extent the net present value of the total rent payable under the lease exceeds £5 million.

The new rates come into effect at midnight on 16 March, but do not apply where contracts have already been exchanged or where they are exchanged on Budget day.

The Chancellor also confirmed that the 3% additional SDLT rate on second or additional residential properties will apply from April. Some minor changes are being made to lessen some of the adverse effect of the new rates but there will be no relief for large institutional investors.

Business Rates

A raft of reforms were announced to reduce the business rates burden for smaller businesses. From 2017, the threshold for small business property relief will be £12,000 and the relief will be set permanently at 100%. There is a promise of a move to three-yearly revaluations, a move to CPI uplifts from 2020 and changes to the administration of the rating system.

Other Key Tax Changes

In a surprise move, capital gains tax rates for individuals are being cut from 6 April to 20% for higher rate taxpayers (from 28%) and 10% for basic rate taxpayers (from 18%). The lower rates will not apply to residential properties. Delaying a disposal into the new tax year could now be very attractive.

Corporation tax will be cut to 17% in 2020, 1% below the rate already announced. The current rate of 20% is due to reduce to 19% in April 2017.

As always, there was a focus on tax avoidance. The government is pressing ahead with implementing the OECD package of proposals aimed at avoidance by multinational businesses. This includes a restriction on tax deductibility of interest costs to 30% of UK earnings, subject to a threshold limit of £2 million net UK interest and with special provision for public benefit infrastructure projects.

The government is also proposing to tighten up the rules that allow some non-UK developers to avoid UK tax on their UK projects. In future, non-UK developers will be subject to UK corporation tax whether or not they have a UK permanent establishment under international rules.

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