SQUIRE PATTON BOGGS

UK Autumn Budget 2018
Real Estate Tax

In an upbeat Budget speech that appeared to hand out cash left, right and centre, it was difficult to spot where the Chancellor plans to find all the money to fund the spending pledges. But amongst the many announcements, there were some tax changes that are relevant to the UK real estate sector, including confirmation of some previously announced reforms.

SDLT

Now that both Wales and Scotland are responsible for stamp taxes on property transactions, Stamp Duty Land Tax (SDLT) only applies to England and Northern Ireland. There are no changes to the main rates, just an extension of first time buyers' relief for shared ownership purchases, giving relief on the first £300,000 of an initial share purchased, provided the property's value does not exceed £500,000. Interestingly, this relief has been backdated to November 2017 so there may be opportunities for buyers to reclaim SDLT previously paid.

The threat of a new 3% premium for non-resident buyers did not materialise, but there will be a consultation in January on a 1% premium for purchases of residential property by non-resident buyers.

Capital Allowances

There will be a new Structures and Buildings Allowance, giving relief for qualifying capital expenditure on new non-residential structures and buildings. The relief will only be available for expenditure incurred where all the contracts for physical constructions works are entered into on or after 29 October 2018. There will be no relief for the cost of land or dwellings.

An annual allowance equal to 2% of the cost of construction or conversion or renewal will be given spread over a 50-year period from the time the building or structure starts to be used. The allowance will be given to the owner of the building who incurred the expenditure or the person who buys it before it is used. The right to allowances will then transfer with the property, with no clawback or adjustment of the amount previously claimed – the claim will always be limited to 2% of the original cost.

Relief for plant and machinery will continue to be given at higher rates, although the rate for integral features and long life items is being reduced from 8% a year to 6% a year and some enhanced allowances for energy-efficient and water-saving equipment are being withdrawn. On a more positive note, the annual investment allowance (effectively, a 100% first year allowance) is being temporarily increased from £200,000 to £1,000,000, which should give a boost to investment in plant and machinery.

For those with long memories, this all sounds rather like a new version of the old industrial buildings allowance or hotels allowance but at a less generous rate. Time will tell how much of an incentive the additional allowance proves to be.

Non-Residents

The Chancellor has confirmed plans to UK tax on capital gains tax on disposals by non-residents of all UK property from April 2019. The charge will apply to both direct and some indirect disposals of property interests. In addition, the plans to extend corporation tax to non-resident companies owning UK property have been confirmed.

Both proposals have been consulted on since 2017 and draft legislation was published over the summer. There are still some important gaps in the new rules that we can now expect (hope?) will be filled. Guidance has been promised during 2019 on the corporation tax changes.

Early Capital Gains Tax (CGT) Payment

From April 2019, non-residents disposing of UK property will have an accelerated timetable for payment of any tax due on the sale. These rules will be extended to UK residents from April 2020. This was first proposed in 2017 and draft legislation was published in July.

Sellers will need to be alert to the new rules to ensure that they comply with them.

On a Lighter Note

There were a number of announcements aimed at reducing the burden of business rates on the High Street, but one announcement caught our eye – a 100% exemption for public lavatories, including those owned privately but made available for public use. What a relief!

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