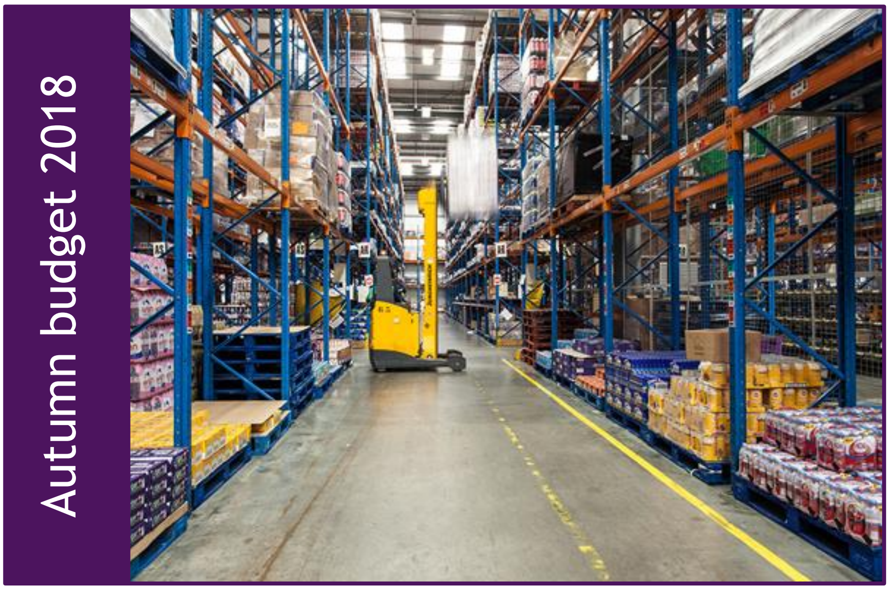
#Budget2018 – Real Estate & Construction Update



Chancellor Philip Hammond MP delivered another Autumn Budget – at least this time in Autumn and not the middle of December!

E3 Consulting highlights the initial key Property & Construction aspects – as referenced from the Budget 'Red Book' 2018.

Many of the points highlighted below will be welcomed by businesses across the property, construction and infrastructure arenas. But there are quite a number of more radical changes that may have longer term impacts to the property and construction sector – that will not become entirely evident for some time!

The confirmed changes to tax will massively increase the benefit of capital allowances against UK property expenditure as well as simplifying the position for SMEs and OMBs incurring more modest levels of capital expenditure.

Some of the changes 'kick in' immediately – whereas others will be fed through the next few tax years. Careful and timely advice is recommended to ensure you understand the impact of these immediate and future changes to the capital allowances rules. Tax payers need to remain vigilant as to the impact of any 'unintended consequences' of the precise legislation – in due course.

Taxation

3.3 The Budget introduces measures to reaffirm the UK's international competitiveness and support local growth. The Budget announces ***a new structures and buildings allowance*** and a ***temporary increase in the Annual Investment Allowance to £1 million***, to ***support business investment***. It also takes action to support high streets as they evolve, supporting a crucial part of local economies.

The New Structures and Buildings Allowances (SBAs) reverses the abolition in 2011 of the Industrial Building Allowances (IBAs) and will be a welcome boost to the property investment sector and all those businesses that own and invest in their own premises.

3.7 Personal Allowance and higher rate threshold – The Budget announces that the government will meet its commitment to raise the PA to £12,500 from April 2019, one year earlier than planned. The threshold will remain at the same level in 2020-21 and then increase by CPI.

Advancing these changes to Personal Allowances and the Higher Rate tax Threshold will be broadly welcomed as moving considerable numbers of tax payers out of income tax or significantly reduced tax liabilities.

3.22 Annual Investment Allowance (AIA) – The government will increase the Annual Investment Allowance to £1 million for all qualifying investment in plant and machinery made on or after 1 January 2019 until 31 December 2020, to help stimulate business investment.

Boosting AIAs to the first £1m for the next two years was partly expected as both CBI and IoD has lobbied hard on increasing the AIA cap over a number of years. At £1m this will greatly simplify the capital allowances for many Owner Managed Businesses as virtually all the available allowances will be given in the first year – for investments up to about £5m; given that on average some 20% of project expenditure is eligible for capital allowances.

3.23 Structures and buildings allowance (SBA) – New non-residential structures and buildings will be eligible for a 2% capital allowance where all the contracts for the physical construction works are entered into **on or after 29 October 2018**. This addresses a significant gap in the UK's current capital allowances regime, and will improve the international competitiveness of the UK's tax system. Further information on this measure was also published alongside the Budget.

Whilst half as generous as the previously abolished Industrial Buildings Allowances (IBAs) these new capital allowances category will provide a very real incentive to property owners to invest further and secure these allowances. For the first time – all new built commercial property will benefit from tax relief on the entire project cost – albeit some as SBAs at 2%, some as Plant & Machinery Allowances (PMAs) at 18% and Integral Feature Allowances (IFAs) at 8% but reducing to 6% from April 2019 (see below). Clearly the Chancellor is seeking to encourage UK businesses to relax the purse strings and invest now in UK means of production.

3.24 Capital allowances special rate reduction (8% to 6%) – From April 2019, the capital allowances special rate for qualifying plant and machinery assets will be reduced from 8% to 6% to more closely match average accounts depreciation.

As we know the Chancellor has to balance his books and thus there are always some measures taking away from industry, rather than giving to. Here Integral Feature Allowances (IFAs) and Long Life Asset Allowances (those for assets of 25 year economic life or more) are both part of the Special Rate Pool given at Writing Down Allowances (WDAs) of 8% per annum on reducing balance basis. These will now be reduced back to 6% from April 2019 (as they were prior to April 2008). Whilst these will reduce the cash flow benefit of these particular allowances – the SBAs (see above) will more than compensate for those investors undertaking new commercial projects from today!

3.53 Enhanced Capital Allowances (ECAs) – The government will end ECAs and First Year Tax Credits for technologies on the Energy Technology List and Water Technology List from April 2020. These ECAs add complexity to the tax system and the government believes there are more effective ways to support energy efficiency. The savings will be reinvested in an Industrial Energy Transformation Fund, to support significant energy users to cut their energy bills and transition UK industry to a low carbon future.

This was a bit of a surprise announcement, but recognises that the current system is perhaps more complex than necessary – and often debated with HMRC. Transformation of ECAs to link with EPCs or BREEAM ratings would have made more sense to maintain the 'carrot & stick' approach to encouraging Landlords and building owners to modernise their properties and improve their environmental impact – alongside the MEES regulations (the big stick!). That said the introduction of the SBAs makes ECAs a timing difference only and for the vast majority of building projects the 100% AIAs will suffice! So in all this is really a big simplification of the rules.

3.54 Enhanced Capital Allowances (ECAs) for electric vehicle charge points – The government will extend the ECA for companies investing in electric vehicle charge points to 31 March 2023. This will help achieve the government's ambition for the UK to become a world-leader in the ultra-low emission vehicle market.

Given the original delay to the introduction of this measure and the Governments focus on new automotive technologies to reduce diesel and petrol - it is no surprise to see this specific measure extended. This should help businesses across the UK prepare for the increasing take up of electric vehicles.

4.54 The government is determined to fix the broken housing market. Building more homes in the right places is critical to unlocking productivity growth and makes housing more affordable. At Autumn Budget 2017, the government set out a comprehensive package of new policies to raise housing supply by the end of this Parliament to its highest level since 1970, on track to reach 300,000 a year. At this Budget, the government sets out further steps to deliver this ambition.

4.55 Delivering housing investment – At Autumn Budget 2017, the government announced over £15 billion of new financial support, bringing total support for housing to at least £44 billion over a five-year period. The Budget announces further progress to implement this commitment, including:

- £291 million from the Housing Infrastructure Fund, funded by the NPIF, to unlock 18,000 new homes in East London through improvements to the Docklands Light Railway
- the British Business Bank will deliver a new scheme providing guarantees to support up to £1 billion of lending to SME housebuilders

- providing £653 million to 2021-22 for strategic partnerships with nine housing associations to deliver over 13,000 homes
- £75 million from the Home Building Fund for St Modwen plc, to fund infrastructure to build over 13,000 new homes
- a new five-year strategic business plan for Homes England, to be published on 30 October 2018

4.56 Housing investment for the long term – In September 2018, the government announced £2 billion new funding in the Affordable Homes Programme to give some housing associations long-term funding certainty to 2028-29. The government announces in this Budget that:

- • the Housing Revenue Account cap that controls local authority borrowing for house building will be abolished from 29 October 2018 in England, enabling councils to increase house building to around 10,000 homes per year. The Welsh Government is taking immediate steps to lift the cap in Wales
- • the Housing Infrastructure Fund, funded by the NPIF, will increase by £500 million to a total £5.5 billion, unlocking up to 650,000 new homes

4.57 Accelerating housing delivery – Alongside the Budget, Sir Oliver Letwin has published his independent review of the gap between housing completions and the amount of land allocated or permissioned. The review found no evidence that speculative land banking is part of the business model for major house builders, nor that this is a driver of slow build out rates. The review concluded that greater differentiation in the types and tenures of housing delivered on large sites would increase the market absorption rates of new homes – the binding constraint on build out rates on large sites – and has set out recommendations to achieve this aim. The government will respond to the review in full in February 2019. In order to minimise uncertainty for housebuilders, the government confirms that Help to Buy Equity Loan funding will not be made contingent on large sites with existing outline permission being developed in conformity with any new planning policy on differentiation. The government will honour any funding commitments made to sites with existing outline planning permission, regardless of any new planning policy on differentiation.

4.58 Planning reform – The government has already revised the National Planning Policy Framework, implementing 85 of the proposals set out in the Housing White Paper and Autumn Budget 2017, ensuring that more land in the right places is available for housing. The Budget announces that the government has launched a consultation on new permitted development rights to allow upwards extensions above commercial premises and residential properties, including blocks of flats, and to allow commercial buildings to be demolished and replaced with homes.

These Housing and planning measures could again help speed up development and enable town centres to be regenerated and modernised to meet the housing challenge. Care needs to be taken though to ensure that development does not go total unchecked – resulting in too much of a specific sector – student housing for example? We will comment further once we have had the opportunity to digest some of the other Budget publications.

If have any property tax issues please do get in touch for a no obligation discussion. You can phone the team on 0345 230 6450 or email healthcheck@e3consulting.co.uk. E3 Consulting provides specialist property tax advice to owners, investors and occupiers of UK real estate from offices in Southampton and London advising on Capital Allowances, Land Remediation Relief, VAT, Repairs and Maintenance and Community Infrastructure Levy (CIL). Please see our website or twitter to keep up to date with views and technical updates on property tax matters.

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