BRITISH PROPERTY FEDERATION

BPF comments on HMT's consultation on the abolition of 36 tax reliefs

Introduction

The British Property Federation is the voice of property in the UK, representing businesses owning, managing and investing in property. This includes a broad range of businesses, comprising commercial property developers and owners, financial institutions, corporate and local private landlords and those professions that support the industry, including law firms, surveyors and consultants.

Background

We welcome the efforts of Government to review the UK's tax system in search of ways in which it can be made less complex, as well as the opportunity to comment on the Government's proposals to abolish a number of tax reliefs. However, whilst we are supportive of the intention behind the Government's consultation document, we believe that it is wrong to abolish certain reliefs which encourage exactly the sort of capital investment that the economy desperately needs at the moment.

We set out below some more detailed comments which we have received from members on specific reliefs intended for abolition.

Land remediation relief

At a time when the UK is in dire need of additional spending on capital projects to stimulate economic growth, and given the current difficulties faced by developers in accessing finance, it is disheartening that the Government is proposing to make capital investment still more difficult and expensive by removing land remediation relief (LRR).

LRR makes a valuable contribution to the viability of development schemes which require the decontamination of land before they can go ahead. Whilst it is true that the availability of LRR is not usually the determining factor in the decision by a developer to work on a contaminated site, it will often form part of the developer's financial appraisal and its availability will therefore influence the decision as to whether or not to proceed with the development. Abolishing LRR will tip some marginal schemes into non-viability and will make it more likely that developers will steer clear of contaminated brownfield land so that its potential may not be realised. We would therefore recommend that LRR be retained.

If the relief is nevertheless to be abolished, it is important that transitional arrangements recognise the long lead times for what are often complex redevelopment projects involving contaminated land – from acquisition through planning to remediation and construction. We would recommend that any development schemes for which it can be shown that, at the time of the 2011 Budget announcement, the financial modelling assumed that LRR would be available should benefit from the relief, even if the remediation expenditure is incurred after 1 April 2012. A long-stop cut-off date for incurring the remediation expenditure should be much later, for example 1 April 2017.

Finally, where a claim for relief in respect of trading properties has been submitted before any abolition of LRR, but no relief has yet been claimed as the property remains unsold (which is particularly relevant given the state of the property market outside London over the past few years), then transitional arrangements must ensure the taxpayer retains the right to claim the benefit of the LRR when the property is eventually sold.

Flat conversion allowances

It is unfortunate that the Government is proposing to abolish flat conversion allowances (FCAs) at the same time as it is trying to alleviate the chronic shortage of homes in the UK by encouraging the conversion of commercial to residential property. The abolition of FCAs will almost certainly reduce the likelihood that owners of commercial property will find it economically worthwhile to convert their property into residential units, and will also lessen the positive impact of any measures which Government takes to encourage such conversion. We would therefore recommend that the decision to abolish FCAs is revisited in light of the urgent need for additional homes in this country. At the very least, a more thorough investigation into the reasons behind the low uptake of this relief should be undertaken.

Conclusion

As noted above we are supportive of the Government's aim to reduce complexity in the tax system, and we accept that the abolition of reliefs should form part of that exercise. However, it is important that it is not done in a way that cuts across other important policy objectives, such as encouraging investment and growth. We have already seen an extended (and continuing) attack on the tax relief available for capital expenditure, which feels sadly mistimed. Removing these more targeted measures at this time would seem to us to compound that mistake.

We would be happy to take part in any future discussion in relation to the above issues.

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