#23-03-2022 – Real Estate & Construction Update

Today, (Wednesday 23 March 2022) the Chancellor, Rishi Sunak MP, made his Spring Statement. Announcing various fiscal incentives to help boost growth, investment and productivity of the UK economy. Whilst cutting income tax, reducing fuel duty and boosting the thresholds for NI will reduce (slightly) family living expenses – it was mainly "Jam Tomorrow!"

***"A rather superficial Spring Statement – from a business perspective - with promises on future tax reforms to support growth, investment and innovation. Some changes around VAT, business rates on alternative energy as well as reform of capital allowances & R&D tax relief over, what may now become a busy summer! We look forward to the consultation period and urge Government to use this opportunity to set out realistic medium and longer term changes and move away from frequent chopping and changing rates and reliefs – so that business can see the changes as true incentives to investment."* - Alun Oliver, E³ Consulting Managing Director.**

Further details are expected over the next few days. Herewith we draw upon the 'HM Government Spring Statement' details summarised below. This summary focuses on the key tax, property and construction changes and does not cover all aspects:

2.21 To support businesses to invest and grow, the temporary £1 million level of the Annual Investment Allowance has been extended to 31 March 2023. This is the highest level of support for capital expenditure ever provided through the Annual Investment Allowance and provides generous relief for investment across over a million SMEs. The government is also helping firms to adopt new digital technologies, with Help to Grow: Digital, offering eligible SMEs a 50% discount on approved software worth up to £5,000.

2.22 To support the decarbonisation of non-domestic buildings, the government is introducing targeted business rates exemptions for eligible plant and machinery used in onsite renewable energy generation and storage, and a 100% relief for eligible low-carbon heat networks with their own rates bill. Spring Statement announces that these measures will now take effect from April 2022, a year earlier than previously planned.

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4.26 Capital allowances allow businesses to write-off their costs of qualifying capital vestments against their taxable profits over time. The extent and rate of write-off can impact business investment decisions.

4.27 In March 2021, the government announced the super-deduction – temporary enhanced first year capital allowances that will end in April 2023. It is the biggest two-year business tax cut in modern British history, announced in extraordinary circumstances, according to OBR Policy Measures Database.

4.28 Ahead of April 2023, the government is considering reforms to best support future business investment. The super-deduction is expected to cost around £10billion a year at its peak. The government's priorities are to ensure that any future support aligns with the government's fiscal objectives and that taxpayer money is effectively targeted. As part of this the government will look at how reforms could best support economic growth, and ensure the UK remains a competitive place to invest.

4.29 The super-deduction allows companies to write-off the costs of qualifying plant and machinery investments against taxable profits (excluding cars, second-hand assets and assets held for leasing). It provides a deduction of 130% of qualifying main rate plant and machinery expenditure (instead of 18% through normal writing down allowances), and 50% of qualifying special rate plant and machinery (instead of 6%).

4.30 Once the super-deduction has ended, the UK's capital allowances regime will include:

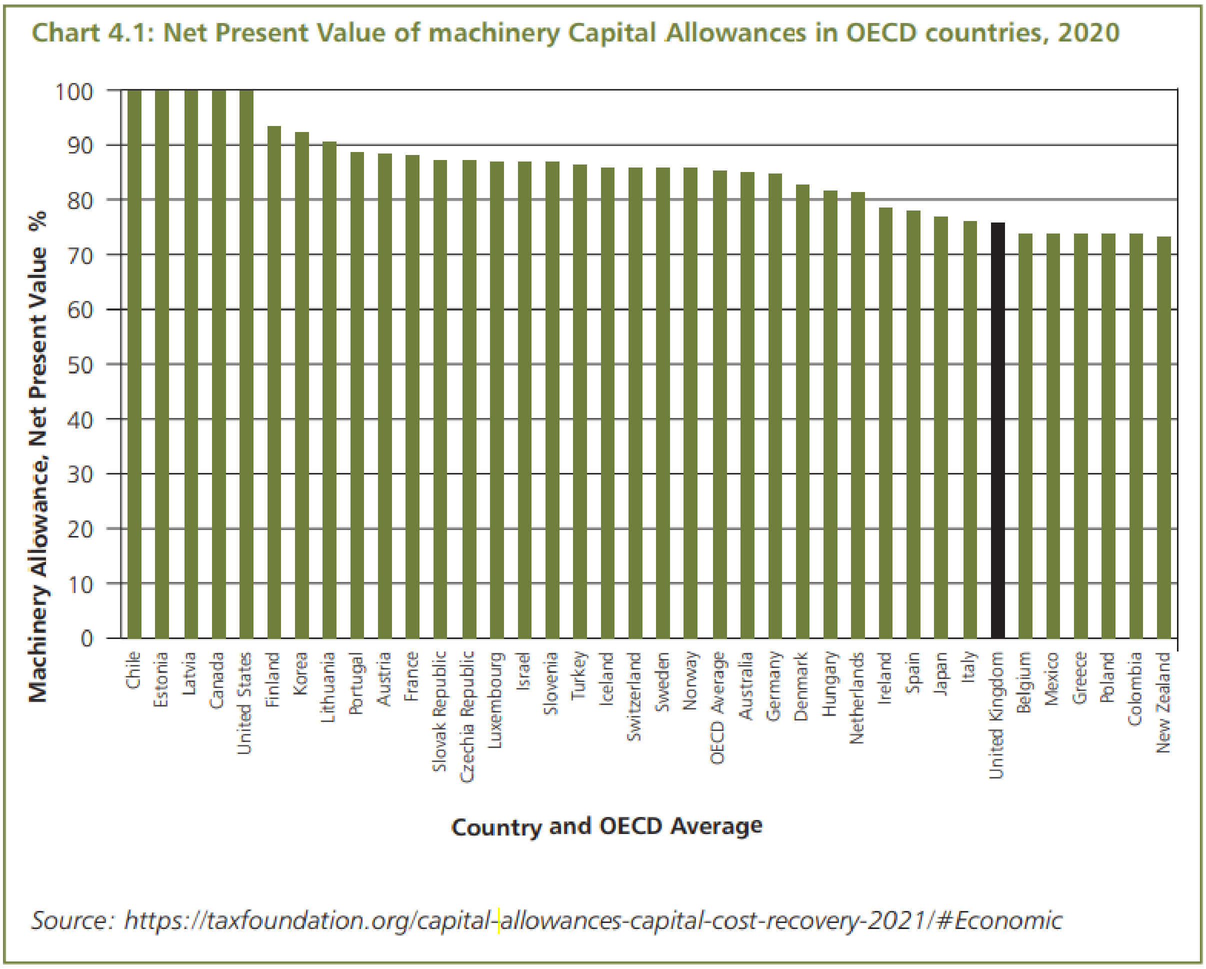
- the **Annual Investment Allowance**: this allows businesses to deduct in-year the full value (100%) of qualifying plant and machinery investment (excluding cars) in one go, up to a limit of £200,000. That limit has been temporarily increased to £1 million until 31 March 2023. It is available to sole traders and partnerships, as well as to incorporated companies, covering the qualifying plant and machinery expenditure of over 99% of businesses

- Writing Down Allowances: these allow businesses to make deductions of the value of plant and machinery investments at a deemed rate, in calculating their taxable profits. There are two rates: 18% for main rate assets and 6% for special rate assets (those that are integral features of buildings; typically have usable lives over 25 years; and cars with CO_2 emissions above a set threshold)

- Structures and Buildings Allowance: this allows businesses to deduct 3% a year of the cost of construction and renovation of non-residential structures and buildings allowances for specific assets or activities: including 100% First Year Allowances for zeroemission cars; and 100% in-year deduction for qualifying capital expenditure on R&D. The UK's regime is relatively simple. For plant and machinery capital investments, there are generally only two rates of Writing Down Allowances; businesses may pool assets in order to write down the total value; and under the Annual Investment Allowance, businesses may claim 100% of their qualifying expenditure, up to a limit, in the year in which it is incurred.

4.31 However, while no other country in the G7 allows businesses to claim 100% of expenditure on a permanent and uncapped basis (also known as full expensing), without the super-deduction, the UK's generosity lags competitors – according to Tax Foundation, Capital Cost Recovery 2021, Capital Allowances, 2021. An analysis of the Net Present Value of different countries' capital allowances suggests that despite the UK's highly competitive headline corporation tax rates, the overall tax treatment provided for capital investment is less generous than the OECD average.

Chart 4.1: Net Present Value of machinery Capital Allowances in OECD countries, 2020



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4.32 It is important that the government prioritises improving the areas that have the biggest impact, to ensure the UK tax system is more effective at driving growth.

Below are some illustrations of the types of changes that the government could make, with indicative costings. Some changes may be attractive due to their simplicity, upfront support and generosity. However, they might also come at a high cost for comparatively modest impact on business investment decisions. Conversely, other changes might be more complex, but also more effective. It is possible that a combination of changes could achieve the best balance across simplicity, generosity and impact on investment.

- Increase the permanent level of the Annual Investment Allowance, for example to £500,000. At its peak, this could cost around £1 billion in a single year. Previously an Annual Investment Allowance threshold of £1 million has covered around 25% of Annual Investment Allowance eligible plant and machinery expenditure.

- Increasing Writing Down Allowances for main and special rate assets from their current levels of 18% and 6% to 20% and 8%. At its peak, this could cost £2 billion in a single year. This would particularly support those investing above the permanent Annual Investment Allowance level.

- Introduce a First Year Allowance for main and special rate assets where firms can deduct, for example, 40% and 13% in the first year, with the remaining expenditure written down at standard Writing Down Allowances. At its peak, First Year Allowances of 40% and 13% could cost £3 billion in a single year. This would particularly support those investing above the permanent Annual Investment Allowance level. However, it may add a layer of complexity to the UK's capital allowances regime.

- Introduce an Additional First Year Allowance, to bring the overall amount that can be claimed to greater than 100% of the initial cost. An additional capital allowance of 20% in the first year, on top of standard Writing Down Allowances on 100% of the initial cost across the first and subsequent years. This would spread relief over time, while giving relief on over 100% of the initial capital cost. At its peak, an additional allowance of 20% could cost over £4 billion in a single year. It may add a layer of complexity to the UK's capital allowances regime.

- Introduce full expensing, to allow businesses to write off the costs of qualifying investment in one go. No other country in the G7 has implemented this on a permanent basis. Full expensing of plant and machinery could cost significantly more than the above options. At its peak, this could cost over £11 billion in a single year.

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4.33 These changes relate to capital expenditure on general plant and machinery. However, the government could also consider changes to other allowances, such as the Structures and Buildings Allowance, or new reliefs targeted at specific investments (such as the current Enhanced Capital Allowances within designated Freeport areas).

4.34 The government is considering options ahead of Budget later this year, and as part of this will continue to review the latest evidence, including the impact of the super-deduction and views of businesses.

Alun Oliver said *"Jam Tomorrow! Is the overwhelming sentiment of today's Spring Statement. We welcome the publication of the Tax Plan – albeit at only eight pages it is far from substantive and rather superficial".*

There are promised reviews and reforms to cut taxes on business investment by reforming Capital Allowances and R&D tax reliefs – subject to consultation with business over the summer and to be confirmed in the Autumn Budget Statement.

Today's announcements were largely focussed on households and some recognition that family budgets are very challenging across the country. There are many aspects that will impact and support the construction, property & infrastructure sectors including boosting the energy efficiency and alternative energy sources (Energy Saving Measures – ESM) for households to become Zero rated for VAT from April 2022.

We will now await the various consultation documents and proposed changes and in turn draft tax legislation. Hopefully the Chancellor will ensure any measures are set out for a reasonable period of five to ten years so we can at last move away from these one and two year changes that do not drive changes in behaviour because timescales are completely unrealistic – for site acquisition, seeking planning approval, funding and building new facilities – we hope the tax reforms simplify the myriad of current incentives set out in the Statement as "over a thousand of tax reliefs and allowances" to ensure that the changes deliver growth, investment, secure jobs and long-term prosperity!"

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 hello@e3consulting.co.uk.

E3 Consulting provides specialist property tax advice to homeowners, developers investors and occupiers of UK real estate from offices in Bournemouth and London advising on Capital Allowances, Land Remediation Relief, VAT, Repairs and Maintenance and Community Infrastructure Levy (CIL).

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