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Insights

MINI-BUDGET SEPTEMBER 2022 – TAX IMPACT ON THE REAL ESTATE SECTOR

Sep 23, 2022

SUMMARY

Some key measures for businesses in this sector were:

- Cancellation of the planned increase in the rate of corporation tax from 19% to 25% from April 2023. The rate will remain at 19%.
- From November 2022 a reversal of the 1.25% national insurance increases introduced in April 2022.
- An immediate increase in the threshold by £125,000 for paying stamp duty land tax (SDLT) on the acquisition of residential property (see below for more).
- Announcement of tax incentives alongside planning liberalisation for new investment zones (see below for more on the tax incentives).

SDLT

The Chancellor announced an increase in the threshold which applies before buyers pay SDLT on residential properties by £125,000 for transactions with an effective date falling on or after 23 September 2022.

For standard buyers the threshold before the buyer starts paying SDLT will increase from £125,000 to £250,000. These buyers will therefore attract a £2,500 saving. In some areas of the UK the question has to be asked whether this alone will significantly impact on the volume of transactions, which is the intention.

However, the saving by this change for first time buyers is significantly more at £6,250. The threshold for starting to pay SDLT will increase from £300,000 to £425,000, with the maximum amount that an individual can pay while remaining eligible for the relief increased to £625,000.

The higher rate for additional dwellings is also changed so that 3% will apply to consideration up to £250,000, but the same rates for consideration over £250,000 apply as before.

The threshold for paying SDLT on rent on residential property will increase from £125,000 to £250,000.

The increase in the thresholds by £125,000 will not generate the biggest SDLT savings, but it may make multiple dwellings relief more attractive for some developments.

For standard buyers the new rates are:

Property or lease premium or transfer value	**SDLT rate**
Up to £250,000	Zero
The next £675,000 (the portion from £250,001 to £925,000)	5%
The next £575,000 (the portion from £925,001 to £1.5 million)	10%
The remaining amount (the portion above £1.5 million)	12%

Investment zones

The intention is not just to get Britain moving, but also to "get Britain building" and building in designated areas in investment zones in particular. The launch of the investment zones is a strategic part of the Government's growth plan and is intended to get business investing, building and creating jobs in those zones.

The tax reliefs on offer for a limited period of ten years are very attractive:

- There are enhanced capital allowances on expenditure:

  A rate of 20% for structures and buildings allowances, relieving 100% of the cost of investment over five years.

  100% first year allowances for companies' qualifying expenditure on plant and machinery.

- No SDLT for land and buildings bought for use or development for commercial purposes, and for purchases of land or buildings for new residential development.
- No employer NICs on salaries of any new employee working in the tax site for at least 60% of their time, on earnings up to £50,270 per year, with employer NICs being charged at the usual rate above this level.
- 100% relief from business rates on newly occupied business premises, and certain existing businesses where they expand in English Investment Zone tax sites.

What about the rest of the UK?

A question for a later day is how the Government will encourage capital investment in the UK outside of the investment zones after the withdrawal of the super deduction in April 2023. The Government says it will propose technical changes to the super-deduction as a result of the corporation tax rate staying at 19%, to ensure that the relief continues to operate as intended. It is assumed that these changes are minor as the intention was for the relief to last for two years, but we will need to see the detail of what is proposed.

It is also disappointing that the Chancellor did not take the opportunity to announce new incentives for real estate investors to invest in environmental and sustainability measures to improve their buildings' credentials.

What else was left out?

Plenty, after the speculation running ahead of the event, fuelled by the leadership campaign.

There was no general cut in VAT and no targeted VAT cut to help specific areas of our economy, such as the hospitality sector. They didn't get any help with business rates either.

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