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Insights

UK MINI-BUDGET IN REVERSE – TAX IMPACT ON THE REAL ESTATE SECTOR

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SUMMARY

In an attempt to calm the markets and ensure the UK's economic stability the new Chancellor, Jeremy Hunt, gave a statement ahead of the scheduled Medium-Term Fiscal Plan on 31 October.

He announced a reversal of almost all the tax measures in the mini-Budget on 23 September that had not proceeded to a legislative phase in Parliament. Significantly, this means that Kwasi Kwarteng's cuts in national insurance contributions (**NICs**) and stamp duty land tax (**SDLT**) remain, although planned tax cuts elsewhere will be dropped.

Where does this leave us for the key tax measures in the real estate sector?

We are left with:

- An increase in the rate of corporation tax from 19% to 25% in April 2023, so if groups were looking previously at the jump in the rate and strategies to approach it, they should dust off those plans if indeed they were ever put back in the box.
- A cut in NICs - from November 2022 there will be a reversal of the 1.25% national insurance increases introduced in April 2022. This is unchanged.
- A cut in SDLT - thresholds for paying SDLT on the acquisition of residential property have been increased by £125,000 for first time buyers and for other buyers. This measure applies to acquisitions with an effective date on or after 23 September 2022. It is described in more detail in our mini-Budget blog. This is unchanged.
- Uncertainty about the future of new investment zones – tax incentives for new investment zones were not mentioned by Hunt. Presumably this will be addressed on 31 October. As new investment zones were designed to bring growth, and the Chancellor said he is still pro-growth

if the foundations of confidence and stability are in place, he may still be considering introducing them in some form.

Other headline tax announcements were:

- Keeping the basic rate of income tax at 20% indefinitely until economic circumstances allow a decrease, so not dropping it to 19% from April 2023 as Kwarteng had planned.
- Reversing the cuts to the dividend tax rate, so although NICs will be cut by 1.25%, a similar cut for dividend taxation will not go ahead. The 1.25% increases in the tax rates for dividends introduced from April 2022 will remain in place.
- As announced last week, cancelling the abolition of the 45% additional rate of income tax. This rate will continue as before from April 2023.
- Dropping the repeal of the off-payroll working reforms (or IR35), so groups will need to continue complying with these rules where workers provide their services via an intermediary.
- Cancelling the reintroduction of VAT-free shopping schemes for non-UK visitors.

What next?

The Medium-Term Fiscal Plan will be delivered on 31 October as planned. Today's announcement was designed to stop speculation about decisions the Government had already made to try to reassure markets. As mentioned above, that leaves open the possibility of fresh announcements at the end of October on other measures from Kwarteng's proposals, such as investment zones and potentially Hunt bringing forward some fresh ideas. Hunt made clear that more difficult decisions on tax and spending lay ahead as the Government tries to reduce its debt burden.

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