

Insights

AUTUMN BUDGET 2026: WHAT'S THE TAX IMPACT ON THE REAL ESTATE SECTOR?

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The biggest news for the real estate sector was a change to the tax treatment of overseas sovereign investors from January 2029. Other changes were less surprising, including a further 2% of income tax added to the tax rate for individual investors on their property income.

Sovereign investor changes

The Government has revived plans to tax overseas sovereign investors on income and gains from UK real estate. However, there are some helpful exemptions that were not included in the previous proposals. Most notably, investing via a REIT should lower the tax rate on income and gains from 25% to 15%.

The changes will apply to a variety of sovereign entities, including states, wholly owned state entities and sovereign wealth funds. These sovereign entities will become subject to UK tax on:

- income arising from UK land;
- capital gains on disposals of UK land and UK property rich vehicles; and
- UK trading income.

The headline rate of tax will be 25% corporation tax. However, this will be subject to certain reliefs.

A key relief will be a bespoke REIT regime, which should allow for 15% tax to be paid on property income distributions (**PIDs**) from a UK REIT. The treatment of capital gains realised within or from a UK REIT will be more complex, but reliefs such as the substantial shareholding exemption could exempt these gains from tax completely.

Other proposed reliefs include those concerning certain UK fund tax regimes, which may be available because sovereign investors will be “qualifying institutional investors”.

The consultation on the new proposals runs until 20 January 2027 and the reforms are expected to take effect from January 2029. The proposed transitional provisions include a time-limited stamp duty land (**SDLT**) relief to facilitate restructuring. So, where appropriate, a sovereign investor should be able to transfer its investments to a new REIT structure without an SDLT cost. We will be carefully monitoring the consultation process to assess the impact on sovereign investors' existing shareholdings in UK REITs.

Further increase in income tax rates on property income

From April 2027, individual landlords will face an increase in tax rates on their property income of 4% over current rates rather than the previously announced 2%. At the last Budget, the Government announced the rates would be only 2% higher. This means that, from April 2027, the income tax rates on property income will be 24%, 44% and 49% rather than the current 20%, 40% and 45%. As property income does not attract national insurance contributions, it will further narrow the gap between tax rates on earned income and passive income. The increase to 24% will also apply to PIDs paid by REITs. However, in the case of a non-resident investor in a REIT, given that many will benefit from treaty relief at 15% (or less), this may have little meaningful effect. In addition, the 24% withholding tax will apply to rental income under the non-resident landlord scheme, although this will not have an impact if the non-resident landlord benefits from gross payment status.

Business rates changes

Unsurprisingly, a number of measures were announced today to the reform of business rates for England:

- Small Business Rate Relief (SBRR) has been expanded with the threshold for full relief for retail, hospitality and leisure businesses increasing from £12,000 to £18,000 rateable value. This will take an estimated 70,000 additional businesses outside of business rates altogether.
- Retail, hospitality and leisure businesses not qualifying for full relief will see their business rates bills frozen in real terms, with no above-inflation increases for the next two years.
- The Government announced a move towards full retention of business rates by local billing authorities by the end of the decade, with elected mayors receiving a 20% share from April 2027.
- The Government intends to introduce a General Anti-Avoidance Rule for business rates and provide greater support for councils challenging avoidance schemes.
- Adult gaming centres and vape shops will no longer benefit from certain business rates reliefs.

Increasing the SBRR threshold to £18,000 will be a welcome announcement for small independent businesses occupying the smallest premises. However, the majority of city-centre restaurants, larger pubs, hotels and retail stores have ratable values well above £18,000 and will receive little to no benefit. Also, many hospitality businesses occupy more than one hereditament and therefore do not qualify for SBRR. Whilst the measure is well targeted at independent hospitality operators it is not transformational for the sector overall who continue to face rising labour, energy and occupancy costs.

The move to greater devolution in allowing local billing authorities to retain business rates revenue could also change the incentives facing local councils. Where councils retain a greater share of the revenues they collect, they may have a stronger financial incentive to scrutinise arrangements designed to mitigate business rates liabilities. Businesses using more complex rates mitigation arrangements should therefore expect these to come under increasing scrutiny. The potential for further disputes and litigation over where legitimate rates planning ends and unacceptable avoidance begins is likely to increase.

Capital allowances changes

To support investment and growth, the main rate first-year allowance on new assets will increase from 40% to 50% for expenditure incurred on or after 1 January 2027. This should help businesses that cannot benefit from full expensing, which has not been changed. The unwelcome news is that the writing down allowances for main rate expenditure will reduce from 14% to 12% from April 2027. This follows its fall from 18% to 14% in April 2026. This will further reduce the value of capital allowances on property purchases, where the plant and machinery are secondhand assets. These diverging rate changes underscore the Government's commitment to encouraging new investment.

The Government has responded to the consultation on pre-development costs by confirming that it will provide greater clarity on what type of expenditure qualifies for capital allowances under the existing rules. There is no sign yet that the Government proposes to change the rules.

Stamp duty land tax loophole closed

The Government is closing down a loophole so that claw back of an SDLT group relief claim can no longer be avoided by winding up the transferor where property is hived down to a company that is subsequently sold within three years of the hive down. It is no surprise that this change takes effect from 29 October 2026.

First time buyers

Although the Government has given some assistance for first time buyers in this Budget (including the new First Time Buyer ISA), it is a shame that it did not go further and add an enhanced stamp

duty relief targeted at them. Under existing rules, provided the property is no more than £500,000, the first £300,000 is free from stamp duty, whilst a rate of 5% applies to the value above £300,000. But some in the housing sector had called for an enhanced relief for first time buyers of new builds.

Mansion tax

After considerable speculation, the Chancellor has kept the threshold for the application of the High Value Council Tax Surcharge, or “mansion” tax at £2m. It has not been lowered, at least not yet, despite political pressure to do so in some quarters. For now, the mansion tax will remain taxing properties with a value of least £2m from April 2028. More significant property taxation reform (such as an abolition of SDLT and council tax in favour of alternative property tax) was not mentioned. This may have been earmarked for another day.

Zero rating for land intended for social housing

The Government has confirmed that it will legislate in early 2027 for a new zero rate of VAT on the sale of land to registered social housing providers. The new zero rate will take effect from 1 April 2027. This will be broadly welcomed by the social housing sector.

Tax administration

A number of measures were mentioned today. They include:

- HMRC increasing its ability to tackle non-compliance and recover unpaid tax, with investment in an additional 670 compliance officers, building on previous commitments to recruit 5,500 additional compliance officers, by 2029-30. The Government clearly expects this investment to generate more than £1.5 billion in additional tax revenue over the next six years. Consequently, businesses should assume that translates into more enquiries and more determined scrutiny of existing tax positions.
- Lowering the minimum expenditure threshold from £1bn to £300m for HMRC’s new advance tax certainty service launched this summer. The new threshold will apply from 4 November 2026. This change will make the service available to more investors.
- The Government is consulting on how property income data held by third parties is collected and reported to HMRC. The objective is to enable HMRC to make better use of the data to support taxpayers to get their tax right the first time, while reducing the tax gap and improving the efficiency of tax administration.

Related capabilities

- Corporate tax
- Real Estate Tax

Meet the team



Elizabeth Bradley

Partner and Global Practice Group
Leader - Tax, Employee Benefits and
Private Client, London

elizabeth.bradley@bclplaw.com

[+44 \(0\) 20 3400 2323](tel:+442034002323)



Anne Powell

Counsel, London

anne.powell@bclplaw.com

[+44 \(0\) 20 3400 2162](tel:+442034002162)



Rebecca Campbell

Partner, London

rebecca.campbell@bclplaw.com

+44 (0) 20 3400 4791



Morgan James

Senior Associate, London

morgan.james@bclplaw.com

+44 (0) 20 3400 4063

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