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Insights

AUTUMN BUDGET 2024 – WHAT'S THE TAX IMPACT ON THE REAL ESTATE SECTOR?

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SUMMARY

The real estate sector was not ignored by Budget announcements today. There were no seismic changes – the changes announced were less impactful than the speculation in the weeks preceding the Budget. However, there are a series of measures for the sector, some taking effect immediately and others in stages.

STAMP DUTY

The Chancellor unexpectedly announced an increase to the SDLT surcharge for those buying second homes from 3% to 5% with effect from 31 October 2024. Companies buying residential property for more than £500k will also have to pay an extra 2% rising from 15% to 17% with effect from the same date.

However, the Chancellor did not go ahead with a measure that was in the Labour manifesto. Non-resident buyers of residential property were expecting their surcharge to go up from 2% to 3%. This was not announced today, so we can only assume that this may emerge later in the Parliament.

The nil rate bands for those buying residential property look to be falling from 1 April 2025 to £125k in general and £300k for first time buyers, at a cost of £2.5k. Although Rachel Reeves made no comment about it, the Government documents issued today are consistent with this change and it is already taking place under the current law.

Unfortunately, there was no comment about multiple dwellings relief. The relief was withdrawn from 1 June 2024, much to the surprise of the real estate industry, who had been expecting reform to stop abuses rather than abolition. The BTR sector had been lobbying for it to be reintroduced for their sector to support the Government's mission to grow the UK's housing stock and make it more affordable. They are likely to be disappointed.

CAPITAL ALLOWANCES

Corporates will be pleased to see the Corporate Tax Roadmap. This document is intended to give companies increased certainty about the Government's plans for tax for the duration of the Parliament. The Government has confirmed its commitment to maintain full expensing during this period, writing down allowances and structures and building allowances. The real estate sector is also likely to welcome further clarity on the availability of capital allowances and a consultation on relief for pre-development expenditure. The Chancellor seems keen to understand the impact of the current rules on investment in renewable energy and major infrastructure projects.

TAX CLEARANCES

A planned consultation on new processes to allow investors in major projects to obtain increased advance certainty about the tax that will apply will also be welcomed. We have seen a reduced number of tax clearances being given in recent years, so this potential change in direction is appreciated and will go down well with business.

CAPITAL GAINS TAX

Whilst the capital gains tax rate for those selling shares will increase from April 2025, the rate for individuals selling second homes or properties that are let out will continue to be 24%. The rate was previously 28% and reduced by the previous Chancellor earlier this year to make it easier to sell second homes. His aim was to release more properties into the market to allow more buyers to move home or get onto the property ladder. The feared equalization of capital gains tax rates with income tax rates has not come to pass.

CARRIED INTEREST

The Chancellor is taking a two staged approach to reform the taxation of carried interest. With effect from April 2025, she is increasing the capital gains tax rate for carried interest for higher rate taxpayers from 28% to 32%.

However, this is just an interim step as the second step is a more substantial reform to the taxation of carried interest. This reform will take effect from April 2026. From that date all carried interest will be taxed within the income tax framework, with a 72.5% multiplier applied to 'qualifying' carried interest. The big question is what is qualifying – some clues are given in documents published today. Specifically, the government is exploring the case for further conditions for carried interest to be treated as qualifying: a minimum co-investment requirement and a minimum time period between a carried interest award and receipt.

Private equity executives will be interested to see how the consultation proceeds and how it impacts on their investments.

RESERVED INVESTOR FUND

In a positive move for the UK funds industry, it is good to see that the Chancellor has confirmed her commitment to the new reserved investor fund (RIF), which was given the green light by the last Government. The vehicle is a new tax transparent unauthorised vehicle, intended to compete with some offshore vehicles.

Whilst we still don't have a launch date, we have been updated on the Government's timing. They will issue secondary legislation before the end of this tax year, which hopefully means that funds can be launched next year. Investors who have been waiting in the wings ready to launch new RIFs will be pleased with the update, and will be interested to see whether any detailed changes have been made to the draft regulations issued earlier this year following consultation.

It is hoped that in certain situations the new RIF will bring more holdings of UK real estate onshore, and will provide an answer to investors who no longer want to use offshore equivalents.

BUSINESS RATES

The Chancellor is also going to reform business rates in stages. Some of the measures announced will benefit retail, hospitality and leisure (RHL).

There is an intention to introduce permanently lower multipliers for RHL from April 2026-27. The Chancellor intends to fund this sustainably via a higher multiplier on properties with a rateable value of at least £500k (which includes the majority of large distribution warehouses). In the meantime, in 2025-2026 support will be given for RHL in the form of 40% relief up to a cash cap of £110k per business.

Read more on the topic: Autumn Budget 2024 – Carried interest: a new regime incoming.

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