

Real Estate Tax Services News

Keeping you informed

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Autumn Budget 2024 Briefing

In brief

The Chancellor made various announcements on 30 October 2024 in her Budget impacting on the taxation of UK real estate. The following commentary is subject to the publication of the relevant draft legislation in the Finance Bill.

Key points for real estate clients

Capital Gains Tax ("CGT") rate

The main rates of CGT that apply to assets other than residential property increase from 10% and 20% to 18% and 24% respectively for disposals made on or after 30 October 2024. In addition, the main rate of CGT that applies to trustees and personal representatives increases from 20% to 24% for disposals made on or after 30 October 2024.

The residential property CGT rate will remain unchanged at 24%.

For carried interest, which is taxed at CGT rates where certain conditions are met, a new higher CGT rate of 32% is set to take effect on 1 April 2025. Further changes are also expected from 1 April 2026, when it is likely that carried interest will be taxed as trading profits at full income tax rates (i.e. up to 45% currently) and class 4 NIC. However, the amount of profits taxed will be subject to a multiplier of 72.5% giving an effective rate of 34.075% for higher rate taxpayers. It has been indicated that there will be bespoke rules introduced to ensure that the amount taxed reflects the nature of carried interest as a performance related reward.

Abolition of non-domiciled status

From 6 April 2025, the current rules for the taxation of non-UK domiciled individuals will end and will be replaced by a system based on tax residence.

Individuals will not pay UK tax on foreign income and gains (FIG) for the first 4 years of tax residence. From 6 April 2025, the government will introduce a new residence-based system for Inheritance Tax.

Transitional provisions are being considered including that for Capital Gains Tax purposes, current and past remittance basis users will be able to rebase personally held foreign assets to 5 April 2017 for the purpose of future disposals where certain conditions are met.

Stamp duty land tax (SDLT) on residential property

As expected, given Labour's election manifesto, and indications they gave during the election campaign, today's Budget has announced immediate increases in the amount of SDLT payable when acquiring residential property.

Thresholds

As expected, the temporary increases in SDLT rate thresholds, which were announced in 2022, will not be extended beyond their current expiry date of 31 March 2025.

From 23 September 2022, the residential nil-rate tax threshold was increased from £125,000 to £250,000. The threshold will revert back to £125,000 from 1 April 2025, which will mean an increase in the SDLT payable of £2,500 on homes costing £250,000 or more.

In addition, the nil-rate threshold for First Time Buyers' Relief was increased from £300,000 to £425,000 from 23 September 2022, and the maximum amount that an individual could pay while remaining eligible for First Time Buyers' Relief was increased to £625,000. From 1 April 2025, the nil-rate threshold for First Time Buyers' Relief will revert to £300,000, and the maximum amount that an individual can pay while remaining eligible for First Time Buyers' Relief will revert to £500,000.

Higher rate for additional dwellings

The surcharge for the purchase of properties by buyers of second homes, corporate buyers and other property investors has increased from 3% to 5% from 31 October 2024.

The increase means that the maximum rate of SDLT which can apply, depending on the value and circumstances of the transaction, will increase from 17% to 19%.

It is however worth noting that, where 6 or more residential properties (e.g. dwellings/units) are being acquired, it is likely that the rate will not exceed 5%, being the rate for commercial property.

The existing 2% non-resident residential property surcharge will remain. Interestingly this rate has not been increased as part of the Budget.

Annual Tax on Enveloped Dwellings ('ATED')

The annual ATED charges will increase in line with inflation as in previous years. An annual tax on enveloped dwellings is charged on the acquisition and holding of high-value residential properties (property over £500,000) through a company or other 'non-natural' person.

Capital Allowances - full expensing not to be extended to leased assets at this stage

Full expensing currently applies as a corporation tax relief specifically focused on companies investing in plant and machinery, attracting first year allowances at either 100% or 50% of qualifying expenditure. There has been a long-standing exclusion from this relief in respect of assets provided for 'leasing' (the definition of which is broadly drafted), albeit property landlords have to date been able to claim full expensing in relation to a specific category of assets deemed 'background plant and machinery'. The definition of background plant and machinery varies depending on the specific property type. However, in most instances it should include the majority of 'fixed' plant and machinery (e.g. lighting, ventilation, electrical power systems).

Full expensing claims have so far been restricted on any leased non-background plant and machinery (which could include any 'loose' plant and machinery such as furniture). The previous government announced that they would extend full expensing to this type of asset. However, in this Autumn Statement, the current government has 'parked' this, saying that they "will explore extending full expensing to assets bought for leasing or hiring, when fiscal conditions allow".

Aside from full expensing, the government have announced several capital allowances focussed consultations, aiming to provide taxpayers with greater certainty and simplicity in relation to tax relief available on capital expenditure. The outcome of these consultations could be wide-ranging and therefore impact the real estate sector. The issues to be consulted include simplification to the 'plant and machinery allowances' regime (including which assets qualify for this relief), the treatment of pre-development expenditure for capital allowances purposes and also the effectiveness of the existing 'land remediation relief' regime.

Contaminated Land Relief

It was announced that a consultation to review the effectiveness of Land Remediation Relief will be launched in Spring 2025.

Reserved Investor Funds ('RIFs')

As announced at Autumn Budget 2024, the government will proceed with the introduction of the Reserved Investor Fund (Contractual Scheme) (RIF). The RIF is designed to complement and enhance the UK's existing funds regime, by providing a UK based unauthorised contractual scheme with lower costs and more flexibility than the existing authorised contractual scheme regime. The intention is for the tax treatment of the RIF to be non-distortive and tax neutral, such that an investor investing through a RIF will be in a similar tax position to if they had invested in the underlying assets of the funds directly. Where possible, the tax rules will replicate the existing tax rules applying to Co-ownership Authorised Contractual Schemes ("CoACs").

The government will also make minor amendments to the tax rules in respect of Co-ownership Authorised Contractual Schemes (CoACS).

Secondary legislation will be brought forward before the end of the tax year 2024 to 2025.

Overseas Pension Schemes

Certain overseas pensions schemes can benefit from a UK tax exemption on rental income from a UK property business, and, via 'Qualifying Institutional Investor' status, from certain gains on the indirect disposal of UK property. From 6 April 2025, the relevant conditions for EEA schemes will be brought in line with schemes established in the rest of the world in terms of being required to be regulated by a regulator of pension schemes in the relevant country.

Business Rates

The small business rates multiplier in 2025 is frozen at 49.9p in the £ for small businesses with a rateable value under £51,000. In addition, companies in the retail, hospitality and leisure (RHL) sectors will see the current relief scheme extended. However, this relief will be cut from its current level of 75% to 40%. This would mean a single-property business with a gross rate charge of £100k would see their annual rates bill rise from £25k to £60k next April.

The Government has also announced that they will introduce permanently lower business rates multipliers for high street retail, hospitality and leisure (RHL) properties from 2026-27. However, the government intends to fund the relief through a higher multiplier for properties with a Rateable Value over £500k. This is likely to spell higher rates bills for other property types such as offices, factories or distribution hubs from 2026.

In addition, with the relief capped at £110k per business, this means that the most retail clients with larger property portfolios will still only receive £110k of relief, so this will not present a change to their rates bills.

As announced in the recent discussion paper, 80% Charity Relief for private schools will be removed from 1 April 2025. They have also confirmed that annual returns for Business Rates will be rolled out in 2026, as planned and will become mandatory from 2029.

A discussion paper has also been published setting the long-term direction of travel for transforming the business rates system which indicates that there are no immediate plans to fundamentally reform the Business Rates system.

Our view

The UK's Autumn Budget brings few direct changes to the taxation of UK property. However, several indirect measures will have a notable impact on the real estate market, as well as net returns for fund managers.

Although there are increases to the headline rates of CGT, the residential property CGT rate will remain unchanged at a higher rate of 24%, providing a degree of stability in an otherwise evolving UK tax environment.

Carried interest is currently taxed at CGT rates where certain conditions are met, however the new higher CGT rate of 32% set to take effect from 1 April 2025. Further changes are also expected from 1 April 2026, when it is likely that carried interest will be taxed at full income tax rates (i.e. up to 45% currently). It has been indicated that there will be bespoke rules introduced to ensure that the amount taxed reflects the nature of carried interest as a performance related reward.

The introduction of the Reserved Investor Fund ("RIF") regime, a new type of UK-based unauthorised investment fund with lower costs and more flexibility than the existing authorised contractual scheme regime, but with similar tax benefits, will be welcome news. The UK's fund industry has faced tough competition from established European fund jurisdictions, such as Luxembourg and Ireland. Introducing the RIF regime should help to level the playing field, aligning UK offerings with the efficiencies and investor protections found in other fund jurisdictions.

The removal of non-UK domicile status and the abolition of the remittance basis of taxation will reshape the landscape for non-UK domiciled property owners. This shift aims to increase transparency and fairness, aligning the UK more closely with international tax practices. However, current and past remittance basis users will be able to rebase personally held foreign property to 5 April 2017 where certain conditions are met.

Stamp Duty Land Tax ("SDLT") will also see an adjustment that will particularly impact buy-to-let landlords. The SDLT additional rate on second home purchases will rise from 3% to 5%, impacting company investors and buyers of additional residential properties.

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