

UK Budget 2016 changes affecting the property and construction sector

April 2016

Lower business rates: from April 2017, rate payers that occupy a single property with a rateable value of £12,000 or less will pay no business rates. Currently, this 100% relief is available for a business that occupies a property (e.g. a shop or office) with a value of £6,000 or less. There will be a tapered rate of relief on properties worth up to £15,000. This means that 600,000 businesses will pay no rates.

Reduction in Capital Gains Tax (CGT): from April 2016, the higher rate of Capital Gains Tax will be cut from 28% to 20% and the basic rate from 18% to 10% (CGT does not apply to the main home). These reduced rates will not apply to residential property and carried interest (the share of profits or gains that is paid to asset managers).

Future cut in Corporation Tax: the main rate of Corporation Tax will be cut again from 20% to 17% in 2020, benefitting over 1 million businesses.

New stamp duty rates for commercial property from 17 March 2016: the way stamp duty on freehold commercial property and leasehold premium transactions is calculated will change. Currently, these rates apply to the whole transaction value. From 17 March 2016 the rates will apply to the value of the property in each tax band. The new rates and tax bands will be 0% for the portion of the transaction value up to £150,000; 2% between £150,001 and £250,000, and 5% above £250,000. Buyers of

commercial property worth up to £1.05 million will pay less in stamp duty. Stamp duty rates for leasehold rent transactions will also change, with a new 2% stamp duty rate on leases with a net present value over £5 million.

New tax allowances for money earned from the sharing economy: from April 2017, there is a new tax-free £1,000 allowance for property income. Individuals with property or trading income won't need to declare or pay tax on the first £1,000 they earn from each source per year.

Making sure large companies can't artificially shift profits out of the UK: Relief on interest payments will now be capped at 30% of UK earnings, with exceptions for groups with legitimately high interest payments. The government intends in the next five years to increase the tax take from large companies and multinationals through rules to prevent hybrid mismatches, taxing outbound royalty payments better and making sure offshore property developers are taxed on their UK profits.

Inheritance tax: it was announced in the Summer 2015 Budget that UK residential property held in corporate structures would be subject to inheritance tax. These proposals are likely to be enacted into legislation and become effective from 6 April 2017.

TECHNICAL UPDATE

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