



‘Bold moves’ for overseas real estate sector in UK budget

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The first reactions from overseas property professionals are coming in to today’s (Wed 8 July’s) UK budget, which saw some ‘bold moves’ that are likely to affect overseas property investors.

Chancellor, George Osborne, announced that mortgage interest relief for buy-to-let homebuyers is to be cut to the basic rate of income tax.

In addition, permanent non-dom status to be abolished – from April 2017, anyone who has lived in the UK for 15 of the past 20 years will pay same level of tax as other UK citizens. There is also to be Green Paper consultation on proposals for “a radical change” to the pension saving system.

London property expert, Jeremy McGivern, the founder of property search agent, Mercury Homesearch, says there has been some tinkering and a couple of bold moves.

“The Right to Buy policy is ludicrous and is effectively selling tax payer assets on the cheap. The Help To Buy ISA is not particularly smart from an economic perspective but will help to buy a few votes. In reality it will help people get onto the property ladder but will push prices up at the bottom end. How then will the next generation of buyers get onto the ladder?”

“For London the changes to the non-dom rules will send a shiver down the spines of a number of people. We don’t have the details but I expect that the changes to the policy will only affect a very small number. As this will not be phased in until 2017 it will give those affected the opportunity to organise their affairs so I imagine there will be a number of very happy tax advisors.

“The changes Osborne has suggested are pretty sensible and it is a pleasure to see a government use a laser rather than a wrecking ball to refine what is an otherwise sensible piece of legislation.

“The biggest change, however, is the change to mortgage relief for buy to let investors. This certainly helps to level the playing field for first time buyers. I am sure that this will cause serious problems for investors who are overleveraged and may also be a concern for developers who rely on investors. This is especially true when one considers the cumulative effect of CGT for international buyers and higher stamp duty at the top end.

“Fortunately the government will also wait until 2017 to introduce these changes so those who have overstretched themselves will have time to unwind their positions so I don’t expect this to have a negative effect on prices on the whole although I have been advising my clients for the last 18 months to avoid high density new-build developments as I see a high probability of price falls in such developments.”

Select Property, which offers property investment opportunities in the UK, Dubai, UAE and the Middle East, says, “If you’re a property investor, there’s been a lot to take in.

“As predicted this morning, Mr Osborne has raised the Inheritance Tax threshold to £500,000 for individuals and £1 million for married couples by introducing a “family home allowance”.

“This means that if you’re a married couple you will now be able to bequeath assets, including property, up to the value of £1 million completely tax free.

“Crucially for the property market, Osborne has also announced plans to introduce an ‘Inheritance Tax credit’ which means that people will be able to downsize to a smaller property without missing out on this new incentive.

“The idea is that larger properties will come back onto the market and increase buyer and seller demand.”

The changes to buy-to-let mortgage tax reliefs are important for any investor that has used a mortgage to fund a property investment.

“Currently you can use all the interest you pay on your mortgage annually to offset your tax bill.

“From April 2017, however, there will be restriction in tax relief for interest paid on buy-to-let properties to just the base rate.

“As we reported earlier this week, cash investments are the only sure fire way investors can protect themselves from any changes to rates of interest by not borrowing money.”

The announcement that Manchester will get an additional £30million worth of funding under Northern Powerhouse proposals and further devolved powers is “incredibly positive news for property investors in Manchester, recently named by HSBC as the UK’s number one buy-to-let hotspot.”

Louise Reynolds, Director of award-winning, overseas property agency, Property Venture, says property investors, both abroad and in the UK, will need to take into account the muting effect of mortgage interest tax relief, being restricted to the basic rate tax band in the future.

“This may pinch the profitability for big portfolio buy-to-let landlords, but many landlords tend to own only a handful of buy-to-let properties. So whilst

this is aimed at creating a more level playing field in the UK for homebuyers alongside investors, it is unlikely to create waves.

“HMRC is to receive more funding to clamp down on those actively trying to avoid tax. Landlords abroad and in the UK have always been required to declare rental income for tax purposes, so this is really more about enforcement.

Although it may be wise for some landlords, like many businesses, to revisit their business structure given the revision to dividend taxation, aimed at ‘owner-as-sole-employee’ drawing dividends rather than income from a company.’

“At the high end of the market, it remains to be seen if the change in non-dom status, whereby those who are almost permanently based in the UK will be taxed fully on worldwide income, drives any of them away or merely reduces their spending power.”

James Greenwood, of [Stacks Property Search](#), says, “We welcome the restriction of mortgage interest relief for buy to let investors to basic rate income tax. There has been a threat of a bubble being created sub-£500k which is primarily investor-driven and is squeezing ever more first-time buyers out of the market forever.

“We have to decide if we want to be a nation of owner-occupiers or renters. On the one hand, these new rules may force up rental prices which is bad news for tenants, but if we are to encourage home ownership, and make life easier for first time buyers, then the marginal dampening down of investor demand could help check run-away prices in some of the hotter spots, and at the crucial under-£500,000 level.

“Stricter rules on non-doms is likely to further check property price inflation in Prime Central London, but will have little effect on the market outside London.

“The rent a room scheme for homeowners will encourage a much more efficient use of housing stock through the use of spare capacity. This is good news for tenants, and also good news for homeowners who are struggling with mortgage repayments. So full marks for Mr Osborne on this initiative!

“The IHT changes may help to release large homes onto the market; but equally the increase in threshold may mean that the older generation hang onto the family home longer than they might have as they won’t need to sell and pass

some of the equity over through tax-planning. So the effect on the property market may turn out to be negligible.”

Mark Parkinson, Director, of Middleton Advisors says, the extent of the changes in non-dom status may create a shock in the prime property sector. “The main area likely to effect the prime property segment of the market that Middleton operate in is the abolition of the non-dom tax status. As ever the devil will be in the detail, but it appears to be aimed at second generation non-doms, and those who have been UK residents for more than 15 years. We believe that this will result in some increased supply of stock and vendors’ price expectations will become more realistic. It does not necessarily follow that all those caught by this change will divest themselves of their UK property. Neither does it necessarily follow that all those caught by this change will leave the UK. Although some tightening of the non-dom rule was expected, the extent of the changes will come as a shock to many and in the short term, probably, the prime property market.

Martin Bikhit, Managing Director, of Central London sales and lettings agent, Kay & Co, says the Chancellor’s move to raise the inheritance tax allowance to £1m is a sensible proposal given the huge appreciation in property prices. “The average property price in Prime Central London now stands at £2,080,742, so this is a far more sensible threshold.

“The Chancellor’s intention to restrict mortgage interest relief on residential property to the basic rate of income tax from April 2017, phased in over four years, is likely to make the rental market less attractive to buy-to-let investors in a market where an increasing number of people rent homes, which may push up rents for tenants as supply decreases.”

While Matt Cobb, Director of London agent Hatton Real Estate says, “Landlords are going to take a hit over time with mortgage interest tax relief being phased out over four years however this may result in landlords simply putting rents up. Overall, I don’t believe that the budget will have any significant impact on house prices as demand remains strong and supply limited.”

Edward Corry-Reid, of agent Aylesford International does not think inheritance tax will make a huge difference to the prime property market. ” In Prime

Central London we're talking one or small two bedroom flats at £1m, and whilst there will be lots of people pleased that they can pass properties of this value on I do not believe many of them will be RBKC based.

The abolition of non-dom status for people born in the UK to parents domiciled here will not make a difference to our market or trigger an exodus of non-doms. People who have grown up here and have UK domiciled parents will have an affinity for the UK, which will keep them rooted here despite a higher tax burden. The infrastructure, schools, and stability here will outweigh any financial gains in moving overseas to Switzerland or offshore.

“However, more interesting is how a lower corporation tax, a phasing out of the bank levy, and the introduction of a surcharge on bank profits will impact on the number of businesses basing themselves in the UK, particularly with reference to financial institutions and the high net worth individuals they employ, who in the past have tended to support the property market in Prime Central London.”

Colleague, Brendan Roberts, says, “Before the election, I spoke to several ‘non-dom’ clients about the threat of changes to the non-dom status. These were people who are older, long established wealthy families, who had been resident in London for many years; their answer was, ‘where else do you go – Geneva, Zurich, Monaco?’ None of the alternative tax friendly locations seemed to present an attractive alternative. They viewed any changes in non-dom tax as the price of living in London, to them the best city in the world to live in. That said, these are people who can afford to live anywhere.

As for the endless chatter about non-doms packing their bags pre-election and waiting to leave – I think it is all nonsense. There are those for whom the non-dom status narrowly makes sense because their wealth is only just enough to justify using it, and any change will hurt them most, yet their wealth is not enough to justify relocation. The super wealthy will, I think, react just as our clients did pre-election, believing that there is no real viable alternative to maintain their chosen lifestyle. London still offers tax advantages to wealthy residents that qualify and London has all the advantages, so this change to taxing non-doms will not really affect the super-wealthy non-doms.”

Mark Pollack, Director, of [Aston Chase](#), says the non-dom change is not unreasonable. “Although the changes to non-dom tax status will inevitably be

disappointing to some, my view is that it was inevitable and not entirely unreasonable. Indeed, I suspect a lot of the people affected will have already been making plans in anticipation of this change, so I don't envisage any significant negative impact on the PCL market."