

How does the 2021 budget impact property investors and developers?

Opinions

31.03.21

Chancellor Rishi Sunak delivered the 2021 Budget on 3 March 2021. Whilst the majority of the speech detailed the recovery and rebuilding of the economy following the pandemic, the Chancellor also revealed the country is in the worst recession in 300 years. However, it is predicted that the economy will bounce back by mid-2022.

Housing updates

The 95% mortgage is back with a new government-backed mortgage guarantee scheme. Eligible first time buyers and home movers will be able to secure a 95% mortgage on either new-build or existing properties valued at £600k or less. The scheme is being launched as a response to the Covid pandemic and in a bid to turn generation rent into generation buy. The scheme will run from April 2021 to December 2022. Many of the nation's biggest lenders have already backed this scheme.

Stamp duty extension

The stamp duty holiday has been extended until 30 June 2021 and will be tapered until the end of September to avoid a completion trap. All buyers purchasing a home under £250,000 will not pay a penny in stamp duty up until 30 September 2021.

This extension is great news for property investors who can take advantage of the tax savings many have enjoyed with the stamp duty holiday thus far. By purchasing property now and completing before the end of June, investors and developers can save themselves some money before the threshold changes.

- July 2021 – stamp duty threshold decreases from £500,000 to £250,000 on residential properties
- October 2021 – stamp duty threshold decreases from £250,000 to £125,000

Tax updates

Income tax thresholds have been frozen this year. This is promising for those investing in commercial property with a SSAS or SIPP as there is no change to the lifetime pension pot allowance.

The government also released a super tax deduction to encourage businesses to reinvest their cash back into their business. Businesses will be able to claim back 130% on qualifying plant and machinery investments. There will also be a 50% first-year allowance for qualifying special rate assets.

Capital Gains Tax remains the same

The most important announcement for property investors and developers from the 2021 Budget was the lack of CGT increase. The media widely speculated that CGT would be increased in response to the government's heavy spending due to COVID-19. There is no CGT surge this year and annual exemptions are frozen until 2026.

Corporation Tax increased

Corporation tax will be particularly interesting for those (both individuals and companies) who have incorporated their property portfolios into limited companies. The Chancellor announced a corporation tax increase to 25% as of April 2023. Companies turning over less than £50,000 in profit will remain paying the 19% rate. As of 2023 corporation tax rates will taper between £50,000 and £250,000. The maximum rate of 25% will only apply to businesses making over £250,000 after April 2023.

For the entrepreneurial investor, the rise in corporation tax will affect them.

Tax considerations for property investors and developers

With this in mind, it has been suggested that investors and developers may consider adding to their portfolios throughout 2021 and 2022 before the rate rises in April 2023.

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