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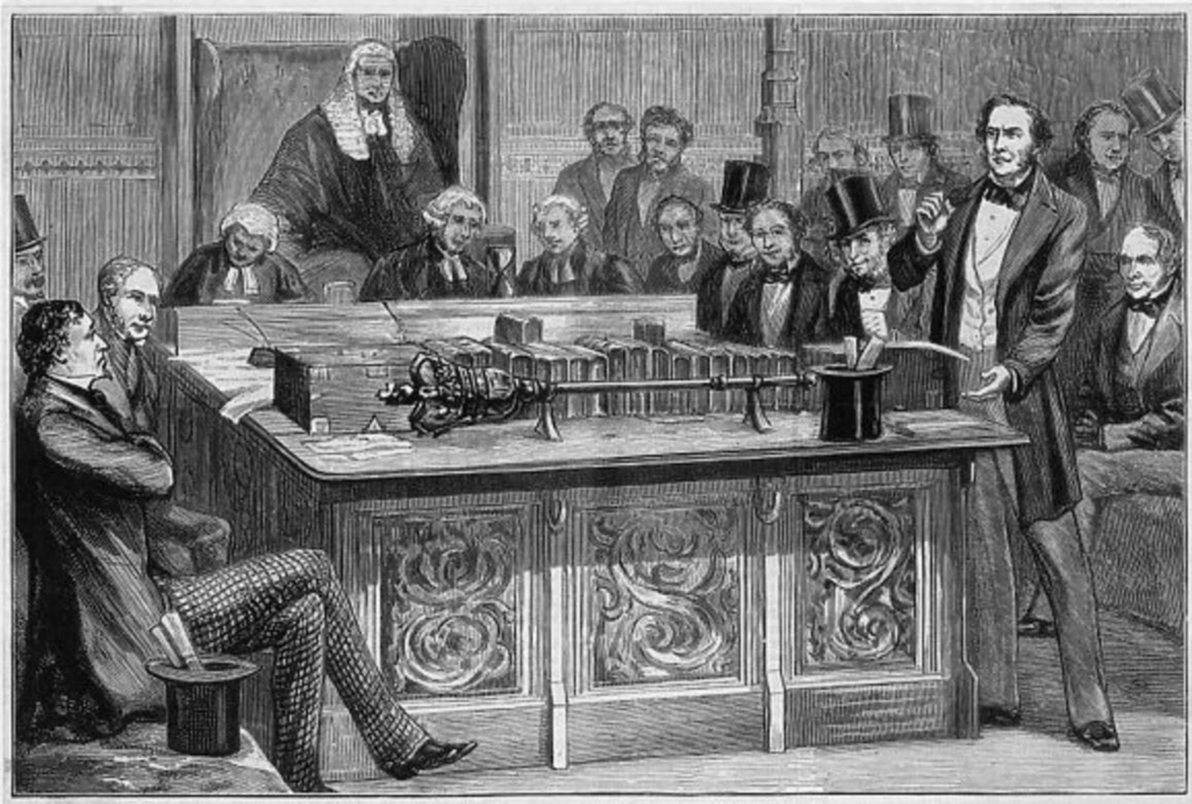
Spring Budget 2024
Some of the more nerdy bits and pieces for the real estate investment management industry



MR. GLADSTONE ATTACKING MR. DISRAELI'S FIRST BUDGET IN THE HOUSE OF COMMONS. 1852

General

Jeremy Hunt presented his Spring Budget yesterday, at which point a number of associated documents were published. As usual, we are not commenting on everything, but instead picking up a few things that we think are relevant for the real estate investment management industry, particularly where we have been involved in the protracted process of getting to this point.

Reserved Investor Fund

This is a topic that we have been following for several years. It had previously been called the Professional Investor Fund and is an element of the post-Brexit review of the UK funds regime. Alongside yesterday's budget statement, HM Treasury (HMT) and HM Revenue and Customs (HMRC) published a summary of responses to last year's consultation on the Reserved Investor Fund (RIF). This includes the conclusions drawn and a commitment that the implementing legislation will be included in the forthcoming Finance Bill. You can find the document here.

As the paper notes, *this new fund would fill a gap in the current UK funds range for an onshore lower-cost alternative to existing fund structures*. It is based upon the existing Co-ownership Authorised Contractual Scheme (CoACS) without the regulatory baggage of being fully authorised. It has many of the attractive features of an offshore unit trust, but onshore.

As noted in the government conclusions, *the RIF will be able to be promoted to certified high net worth individuals, self-certified sophisticated investors, sophisticated investors, per se professional clients, elective professional clients, and so on.*

It is noted that the government will proceed with all three restricted RIFs. These are:

- where at least 75% of the value of the RIF's assets is derived from UK property (so the RIF is 'UK property rich' for the purposes of the non-resident capital gains rules); or
- where all investors in the fund are exempt from tax on gains; or
- where the fund does not directly invest in UK property, or in UK property rich companies.

There will be a seeding relief to allow assets to be transferred into a RIF without triggering Stamp Duty Land Tax (SDLT). This follows the equivalent provisions for the CoACS. There had been an attempt during the consultation to reduce the minimum amount to be eligible for seeding relief from £100 million to £20 million. This was not accepted.

There had also been discussions regarding the introduction of an unrestricted RIF alongside this restricted version. This is not being progressed.

We strongly support the introduction of the RIF. Although some of the situations that we envisaged its use at the time of the original proposals have another solution in the form of the unlisted Real Estate Investment Trust (REIT) rules that came into effect on 1st April 2022, we think that it will be the preferred vehicle in many situations.

We have been involved in the consultation process on this over the years and John drafted the responses on behalf of the Investment Property Forum (IPF).

As we have previously commented, huge credit goes to Melville Rodrigues who has pushed forward this initiative from day one.

Pension changes

This is a topic that we have been covering in our newsletter over the years. We would highlight a couple of things:

- Longstanding readers of this newsletter will have followed our involvement in the lobbying for changes to encourage defined contribution (DC) pension schemes to move away from a focus on cost to “value for money” and other changes that would facilitate investment in illiquid assets including in real estate. There is a further commitment to progressing this. This is very welcome and we hope will also encompass Master Trusts;

- The government is keen to encourage UK DC pension schemes and the Local Government Pension Scheme (LGPS) to invest in the UK and has announced an imminent consultation on disclosure of allocation to UK investment. This is particularly flagged as investment in UK equities. We will, of course, be arguing for the importance of investment in UK real estate;

- The government had previously announced proposals for a “pot-for-life” approach to UK DC pensions. Whilst superficially attractive, it would, in our opinion, be very difficult to operate in practice and risks undermining the initiative to encourage greater investment in illiquid assets. We are therefore hoping that the Chancellor’s downgrading of this from “proceeding with” to “continuing to explore” is an intermediate step to “quietly shelving whilst nobody is looking”.

Non-doms

In a surprise move, at least to us, the non-dom regime is being abolished from April next year. This is not directly real estate related, but we know that some people’s carried interest and co-investment arrangements will be affected.

In an equally surprising twist to the non-dom changes, assets transferred into a trust before then will be excluded from inheritance tax.

SDLT MDR

Multiple Dwellings Relief is to be abolished from 1st June, apparently because it is being abused. We have only seen it used in genuine PRS bulk purchase transactions so think it would have been better to target the actual abuse rather than abolish it for everyone. The ability to apply the commercial SDLT rate to acquisitions of six or more dwellings seems to still be there.

John Forbes
6th March 2024