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The UK's Spring Budget 2024 and Its Impact on Real Estate

By **Adam Blakemore**
Partner | Tax

The Chancellor of the Exchequer delivered the United Kingdom (UK) Spring Budget for 2024 on 8 March 2024. The Budget was delivered against the backdrop of an anticipated general election in the summer or autumn of 2024 and featured a raft of measures which are intended to catch the eyes of the voting public. As with several previous Budget announcements, encouraging pieces of good news sit alongside tax-raising measures and anti-avoidance proposals which – although targeted – serve to chill the optimism.

The same is true of the Spring Budget 2024, with a number of key announcements impacting real estate, from the genuinely promising news of the introduction of the Reserved Investor Fund, to the extension of the transfer of assets abroad legislation and the wholesale replacement of the UK's current system for taxing non-UK domiciled individuals. In this article we explore these announcements in more detail.

Reserved Investor Funds (RIFs)

The government has announced in the Spring Budget 2024 that it will legislate to introduce the Reserved Investor Funds (RIF) – a new tax transparent unauthorised vehicle designed to enhance the UK's existing funds regime. The RIF will be open to professional and institutional investors. It is expected to be particularly attractive for investment in commercial real estate.

The government will proceed with the three "restricted" RIFs proposed in its consultation, namely RIFs where:

- at least 75% of the value of its assets are derived from UK property;
- all the investors are exempt from tax on gains; and
- the RIF does not directly invest in UK property or UK property-rich companies.

The Finance (No 2) Bill 2024 will define a RIF and allow for regulations to be made setting out the tax treatment of a RIF.

The regulations will set out the qualifying criteria for each type of RIF (including entry and exit provisions) and provisions concerning breaches of qualifying criteria (including providing for a deemed disposal and reacquisition of units by investors if a RIF ceases to meet the criteria). The qualifying criteria will largely follow that proposed in the HM Treasury and HM Revenue and Customs public consultation on RIFs, but with some modifications.

The regulations will also set out the chargeable gains treatment of RIFs and their investors. Broadly, the chargeable gains rules that apply to co-ownership authorised contractual schemes (including the rules concerning the taxation of gains by non-UK residents on UK property) will apply to RIFs, such that RIFs are not tax-transparent, the units in a RIF are treated as assets for capital gains tax purposes, and RIFs can make exemption elections.

RIFs will be treated as companies for stamp duty land tax (SDLT) purposes. To prevent avoidance, elections by unauthorised contractual schemes that are not RIFs to become a RIF will be treated as a land transaction subject to SDLT. Additionally, the regulations on SDLT seeding relief, stamp duty, SDRT, and capital allowances rules available to authorised contractual schemes will be available to RIFs.

RIFs will be added to the list of permitted property categories to allow individual policyholders to select RIFs within their life insurance policy without the policy being classified as a personal portfolio bond. For capital gains purposes, RIFs will be added so that insurance companies can invest in RIFs subject to provisions equivalent to those already in place for insurance companies. For SDLT purposes, the rules for REITs will be amended and RIFs will be added to the list of institutional investors. The exemption from tax on gains realised by REITs on disposals of certain property-rich entities will also be extended so that it applies to disposals of units in RIFs.

RIFs would be unregulated collective investment schemes (UCIS) and an alternative investment fund (AIF) that is not authorised by the FCA. Managers of RIFs would need to be FCA authorised or registered and there would be no direct regulatory limits on the assets or investment strategies that could be pursued. As a UCIS, RIFs would be subject to the FCA's marketing rules for non-mass market investments. Accordingly, RIFs could only be promoted to professional investors and certain other investor categories, such as certified high net worth investors, certified sophisticated investors, and self-certified sophisticated investors.

The new tax rules will take effect from a date to be specified in a statutory instrument.

Replacing Tax Rules for Non-UK Domiciliaries Rules With a Residence-Based Regime

One of the Chancellor’s most significant announcements in the Spring Budget was the proposed reformation of the UK’s regime for taxing non-domiciliaries. There has been increasing political pressure to substantially restrict or abolish the regime in previous years.

Currently, UK non-domiciliaries who do not have their permanent home in the UK do not have to pay UK tax on their foreign income or gains unless they remit any such income gains to the UK. Such non-UK domiciled individuals also have to pay an annual charge of either £30,000 or £60,000, depending on how long they have lived in the UK.

As announced at Spring Budget 2024, the Government will “abolish” the remittance basis of taxation for non-UK domiciled individuals and replace it with a simpler residence-based regime, which will take effect from 6 April 2025. The Government has announced that individuals who opt into the regime will not pay UK tax on foreign income and gains for the first four years of tax residence, offering a generous grace period for new arrivals to the UK.

In addition, certain transitional provisions for existing users of the remittance-based regime were announced in the Spring Budget, to soften the effect of the changes for current non-UK domiciled individuals living in the UK and using the remittance-based regime. It is clear that the government has attempted to tread a careful path between appeasing political pressure for reform of the “non-doms” regime (which has suffered from adverse publicity in certain parts of the UK’s media), and maintaining an attractive system for foreign individuals who provide investment into the UK’s economy.

The government also announced an intention to move to a residence-based regime for inheritance tax, with plans to publish a policy consultation on those changes, followed by draft legislation for a technical legislation, later in 2024.

Given that there will be a general election prior to these changes coming into force, it is not clear whether these changes will take place or whether a different government may opt for an even more radical overhaul of the current regime.

Changes to Anti-Avoidance Legislation: Transfer of Assets Abroad Provisions

The government will introduce legislation in Spring Finance Bill 2024, partially reversing the Supreme Court’s decision in *HMRC v Fisher* [2023] UKSC 44, so that the anti-avoidance legislation in the Transfer of Assets Abroad (TOAA) rules set out in Chapter 2 of Part 13 of the Income Tax Act 2007 will apply to certain indirect transfers of assets abroad by UK resident individuals acting through companies.

The background to the measure is that the Supreme Court in *HMRC v Fisher* found that the existing TOAA rules were expressly limited to transfers made by individuals and that transfers by shareholders of a company, even if they were also the directors, were not covered by the existing TOAA rules. The decision of the case meant that the TOAA rules applied in significantly narrower circumstances than HMRC had argued. The changes to the TOAA rules proposed in the Spring Budget 2024 will treat individuals who are participators in close companies (or non-resident companies that would be close if they were UK resident) as the transferors for the purposes of the TOAA rules.

The changes will take effect from 6 April 2024; however, the proposed legislation has not yet been published (as of 7 March 2023). Therefore all shareholders (not just majority holders) in close companies will be keen to understand the

impact of the legislation and whether there will be income tax charges when assets of their close company are transferred outside of the UK tax net.

Stamp Duty Land Tax — Abolishing Multiple Dwellings Relief

The Spring Finance Bill 2024 will abolish the Multiple Dwellings Relief (MDR) for SDLT. MDR is a bulk purchase relief in the SDLT regime that is available to any purchaser buying two or more dwellings in a single transaction, or linked transactions, and allows the purchaser to calculate the tax based on the average value of the dwellings purchased as opposed to their aggregate value.

The abolishment of MDR will come into effect for transactions with an effective date on or after 1 June 2024. The MDR can still be claimed for contracts which are exchanged on or before 6 March 2024, regardless of when completion takes place. This is subject to various exclusions, for example, that there is no variation of the contract after that date. MDR will also continue to apply to contracts which substantially perform before 1 June 2024.

This change will not impact individuals purchasing a single dwelling. It will only increase the SDLT payable by individuals purchasing two or more dwellings in single or linked transactions. This change will also impact businesses purchasing multiple dwellings in single or linked transactions.