grainger plc

Investing in homes since 1912

20 June 2014

By email
capitalgains.taxteam@hmrc.gsi.gov.uk

Dear Sir/Madam

Re: HMRC Consultation - Implementing a capital gains tax on non-residents

Introduction

We believe that the best and most sustainable way to address affordability in the housing market, including the private rented sector (PRS), is through increasing supply and building more homes. In our view, increasing the supply of housing for all housing tenures is critical. PRS, as the fastest growing tenure, is a key part of the solution.

The sector is at a critical stage with a significant amount of institutional investor interest which could truly make a positive change to renting in the future – increasing supply, improving quality and reducing price – however this interest is nascent and therefore investors are quite wary and require continued support and encouragement. It is important that they are not deterred from their investment ambitions.

General comments

The reasoning behind the proposed changes to the CGT regime is one which we accept – bringing treatment of non-residents in line with residents' CGT liabilities.

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In addition, we welcome the Government's explicit acknowledgment of wanting to support and not adversely affect institutional investment in the PRS and the build to rent sector.

The proposals however cause us concern for several reasons.

- Signal to overseas institutional investors

  The private rented sector is currently attracting significant institutional investor interest. The interest among these investors (many of which are overseas investors) however has not yet taken root and is fragile. Many of these investors are familiarising themselves with the PRS as an asset class and therefore are less confident and committed to the sector than they are to other more established asset classes. These proposed changes to CGT send mixed signals to these overseas institutional investors – despite the intention of the Government not to deter these very institutions – and risks undermining future investment in the PRS.

- Combined effect of recent tax changes and the complexity of their interaction

  The combination of these proposed changes to CGT, along with a number of other recent tax changes affecting residential investment particularly ATED, creates uncertainty for investors. In addition the administration of the CGT element of ATED and these CGT changes to non-residents is likely to be extremely difficult and will add a layer of cost and burden that is significantly unhelpful at this time in the economic cycle.

- Lack of sophistication in assessing diverse ownership

  Lastly, in our view these proposals do not effectively assess ownership structures and could inadvertently exclude genuinely diversely owned investors. The current proposals do not take into account the multiple vehicles and structures that are used by sophisticated investors and could end up applying to entities which the legislation intends to avoid.

The result of the above could, in our view, very likely lead to undermining the level of interest and willingness among overseas institutional investors to invest in the UK PRS and build to rent sector.

We have worked closely with the British Property Federation on their detailed submission to this consultation and urge the Government to take its points on board and amend these proposals accordingly.

Yours sincerely,

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