HM Revenue & Customs

Annual tax on enveloped dwellings

Who is likely to be affected?

Companies, partnerships with company members, and collective investment schemes (collectively referred to as non-natural persons (NNPs)), in particular those required to submit detailed information for each property eligible for a relief from the annual tax on enveloped dwellings (ATED).

General description of the measure

This measure will reduce the administrative burden on those businesses who hold properties eligible for a relief from ATED and for which there is no tax liability.

The measure changes the filing obligations, information requirements, and in some cases the time limits for delivering a return. There will be no change in relation to properties which have an ATED liability.

This measure also makes a consequential change to the aggregation rule where connected persons hold different interests in the same property.

Policy objective

This measure contributes to making the tax system simpler by reducing the administrative burdens for those businesses which hold properties within ATED that meet the criteria to claim a relief.

It also makes a consequential change to the connected persons rule to ensure that the policy continues to work as intended following the reduction in the ATED entry threshold.

Background to the measure

At Budget 2014 the Government announced a lowering of the £2 million ATED entry threshold to £500,000. The Government consulted between July and September 2014 on options to simplify the administration of ATED for businesses. Currently, a business is required to provide detailed property information and deliver a return in respect of each property, even where it is eligible for a relief. This creates a significant administrative burden where there is no ATED liability.

Detailed proposal

Operative date

These measures will have effect for the chargeable period 1 April 2015 to 31 March 2016 and thereafter.

For chargeable persons who hold properties eligible for a relief from ATED, for the 2015-16 year only, returns must be filed by 1 October. For subsequent years the normal filing date of 30 April will apply. This revised time limit will enable HMRC to synchronise these changes with the new IT system to be launched during 2015.

Current law

Sections 159 and 160 of Finance Act 2013 and SI 2014/1844 make provision for an ATED returns. Section 161 of Finance Act 2013 requires a return to include the market value of the property.

Sections 132 to 150 of Finance Act 2013 set out the reliefs that are available from ATED and the conditions that need to be met in order for a property to be eligible for such a relief.

Section 110 of Finance Act 2013 provides that different interests held by connected persons in the same property should be aggregated and ATED paid on the aggregate amount (where that amount falls within the ATED entry threshold). However, where the connected person is an individual the company’s interest must be more than £500,000 for the aggregation rule to apply.

Proposed revisions

Legislation will be introduced in Finance Bill 2015 to amend Finance Act 2013 to introduce a new type of return, a “relief declaration return”, for those persons holding properties eligible for a relief from ATED. For each type of relief being claimed a relief declaration return must be filed in respect of one or more properties held for that chargeable period. No details will be required of the individual properties eligible for that relief. A separate return will be required where a property is acquired during the year that qualifies for a different type of relief. The return will not require valuation details for relief properties. A return will be required, as now, in respect of any property which ceases to qualify for a relief, i.e. where ATED is due.

The overall result is that businesses who hold properties eligible for a relief will generally only be required to deliver one relief declaration return a year for all properties covered by a particular relief instead of, as now, multiple detailed returns. This offers a significant reduction in the administrative burden.

The regulations and the Published Returns Notice will be amended to provide for this new type of return.

Legislation will also be introduced in Finance Bill 2015 to amend the aggregation rule to introduce a limit of £250,000 for properties valued up to £2 million.

Summary of impact

<table>
<tr><td rowspan="3">Exchequer impact (£m)</td><td>2014-15</td><td>2015-16</td><td>2016-17</td><td>2017-18</td><td>2018-19</td><td>2019-20</td></tr>
<tr><td>-</td><td>negligible</td><td>negligible</td><td>negligible</td><td>negligible</td><td>negligible</td></tr>
<tr><td colspan="6">This measure is expected to have a negligible impact on the Exchequer.</td></tr>
<tr><td>Economic impact</td><td colspan="6">The measure is not expected to have any significant economic impacts.</td></tr>
<tr><td>Impact on individuals, households and families</td><td colspan="6">These changes are not expected to have any direct impact on individuals as ATED is charged on companies, corporate partnerships and collective investment schemes falling within ATED.

The measure is not expected to impact on family formation, stability or breakdown.</td></tr>
<tr><td>Equalities impact</td><td colspan="6">These changes are not expected to have an impact on any of the legally protected equality groups.</td></tr>
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<tr><td>Impact on businesses and civil society organisations</td><td colspan="3">ATED impacts on businesses holding UK residential property. An estimated 10,000 corporate businesses that buy or hold residential properties will be able to claim relief against the charge when the £2 million entry threshold is lowered in April 2016 to properties worth more than £500,000. The average annual reduction in administrative burden on business is expected to be £1.7 million as it reduces the number of relief returns that businesses need to file and the accompanying information that is required within the return. For example, a single return will cover multiple relievable properties eligible for the same type of relief instead of separate detailed returns being required for each individual relievable property.

This measure will have no impact on civil society organisations as these are exempt under the current legislation.

Estimates of compliance costs are shown in the table below, including an estimate of total costs for a five year period at present value.</td></tr>
<tr><td rowspan="16"></td><td colspan="3"></td></tr>
<tr><td></td><td>Cost</td><td>Time Period (yrs)</td></tr>
<tr><td colspan="3">Compliance Costs</td></tr>
<tr><td>One-off Costs</td><td>£ negligible</td><td>N/A</td></tr>
<tr><td>Average Annual Costs</td><td>N/A</td><td>N/A</td></tr>
<tr><td>Total Costs (PV)</td><td>£ negligible</td><td>N/A</td></tr>
<tr><td colspan="3">Compliance Benefits</td></tr>
<tr><td>One-off Benefit</td><td>N/A</td><td>N/A</td></tr>
<tr><td>Average Annual Benefit</td><td>£ 1.7m</td><td>5</td></tr>
<tr><td>Total Benefit (PV)</td><td>£ 8.3m</td><td>5</td></tr>
<tr><td>Net Benefit (NPV)</td><td>£ 8.2m</td><td>5</td></tr>
<tr><td colspan="3">Impact on Administrative Burden (included in Net Benefit)</td></tr>
<tr><td>Increase</td><td>Decrease</td><td>Net Impact</td></tr>
<tr><td>£0</td><td>£0.7m</td><td>-£0.7m</td></tr>
<tr><td colspan="3"></td></tr>
<tr><td colspan="3"></td></tr>
<tr><td></td><td colspan="3">The impact on the administrative burden (included in net benefit) represents the expected savings for the first year. The £1.7m average annual benefit represents the average saving over five years.</td></tr>
<tr><td>Operational impact (£m) (HMRC or other)</td><td colspan="3">For HM Revenue & Customs this will mean a reduction in processing ATED returns. Some additional compliance work may be required to risk assess relief returns from existing risk profiling tools. The costs are expected to be negligible.</td></tr>
<tr><td>Other impacts</td><td colspan="3"><u>Small and micro business assessment</u>: the impact of this measure is anticipated to be the same irrespective of business size.

Other impacts have been considered and none have been identified.</td></tr>
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Monitoring and evaluation

The measure will be monitored and assessed through information collected from tax returns.

Further advice

If you have any questions about this changed, please send an email to ated.technicalqueries@hmrc.gsi.gov.uk