Residential property developer tax: CIOT response

Large Corporate

07 September 2021

The CIOT has responded to the recent consultation on the design of the new tax: residential property developer tax.

The government has consulted on the design of a new tax, residential property developer tax (RPDT), ahead of its inclusion in the 2021-22 Finance Bill. The primary objective is ‘to raise revenue to help fund the package of measures designed to bring an end to unsafe cladding’. The government is consulting on the design and administration of the tax to ensure it is proportionate and works as intended, minimising impact on housing supply where possible. The tax will be applied to profits from UK residential development that exceed an annual allowance of £25 million.

As with most consultations, we think Stage 1 of the government’s Tax Consultation Framework (Setting out objectives and identifying options) is a valuable part of the process and should not be omitted. A stage 1 consultation would have allowed for a transparent consultative evaluation of different options to achieve the government’s policy intent in the way that best balances the competing objectives.

A key concern for the CIOT is the very short timescale for developing and implementing a wholly new tax ready for April 2022. It is challenging for both the sector and for HMRC. The limited timescale for development underlines the practical need to align RPDT to existing legislation and systems as far as possible. An important practical aspect is that software providers will have little time to design and build a RPDT module once the design is finalised. Similarly, HMRC will obviously need to have new systems in place to administer and collect RPDT by April 2022 and to produce timely guidance.

The rate of RPDT is yet to be announced pending decisions on design. We recognise that the design and rate are linked but a reasonably firm indication of the rate range as soon as possible would provide some level of certainty as it impacts residential development projects under negotiation currently. We noted that if a quarterly payment regime is adopted for RPDT, a company or group with a 30 April year end could be due to make a quarterly payment as early as July 2021 but without knowing the rate or basis of charge.

A central theme of our response is to adopt existing statutory or accounting definitions as far as possible in designing the new tax, an approach that accords with the government’s objective of simplicity and the Office of Tax Simplification’s recommendations. Consistency of definitions with divergences only for clear specified policy reasons reduce complexity.