James Murray MP
House of Commons
London
SW1A 0AA

10 January 2022

Dear James,

FINANCE BILL: CLAUSES 36 and 37

Thank you for your questions at the Finance Bill Public Bill Committee on 5 January, in relation to Clauses 36 and 37 regarding build-to-rent developers with freehold interest, accommodation with personal care, and student accommodation. I am following up with written responses to your questions.

Clause 36: Would a developer who holds a completed development as build-to-rent for the duration of the RPDT, and disposes of the development after the expected lifetime of the tax avoid the RPDT charge?

It is highly unlikely for a large housebuilder that traditionally sells developments to change their business models to hold completed developments as build-to-rent investments. The two are commercially very different practices and the built-to-rent sector views the chance of traditional housebuilders entering the rental market to avoid the tax as low. I can confirm, though, that a developer in the scenario you describe would not be subject to the RPDT because the profits from the sale of such a development would be neither trading profits, nor realised in an accounting period in which the tax applies.

Why are build-to-rent developments using forward funding arrangements not excluded from the tax?

The RPDT will apply to companies that make trading profits from selling residential property, including where the purchaser is a member of the same group or is acquiring the property for investment purposes. This will often be achieved using a type of financing called 'forward funding' whereby the eventual owner funds the project to completion.

Developers using 'forward funding' arrangements to construct developments that they sell to investors pay Corporation Tax on the trade profits, the same as any other developer, and the Government sees no reason to exempt their otherwise taxable profits from RPDT.

Clause 36(5): Would a developer be subject to the RPDT if they retain a freehold interest in a block of flats while granting long leases to leaseholders?

A developer in this scenario would be in scope of the RPDT because the granting of a long lease in a development is a relevant disposal of an interest in land that is held as trading stock for RPDT purposes.

Clause 37(2): Does the exemption for 'accommodation with personal care' include permanent sheltered accommodation, where care is available but not routinely provided on a permanent basis?

No. The exemption applies to institutional accommodation for those in need of personal care and applies where a company develops, for example, a traditional care home. This exemption is not relevant to developers whose business model involves developing individual units in a retirement community or similar development.

I touched on this aspect when replying in the debate, making the broad point that the tax will apply to property sales where additional services happen to be provided. I see from the record that I began that response by referring specifically to student accommodation, but the point applies as much to accommodation where care or other services are provided. I hope this clarification is useful.

Clause 37(2) and (3): Does the exemption for student accommodation extend to privately owned student houses?

No. The exemption covers purpose-built student accommodation (PBSA) that is generally restricted to occupation during term time by students undertaking a course of education. This type of accommodation does not compete directly with the residential property market. Converting a residential property into a house in multiple occupation (HMO) does not bring such a property in scope of the exemption in Clause 37(2)(j) as the HMO is not specifically designed or adapted for use primarily as student accommodation.

I am copying this letter to the Chairs and other members of the Public Bill Committee, and am depositing a copy of this letter in the Library of the House.

Yours sincerely,

THE RT HON LUCY FRAZER QC MP