

Finance Bill 2015 – 16

Scottish Land & Estates is a membership organisation representing landowners, land managers and rural businesses across Scotland. The majority of these are small to medium sized family businesses. We welcome this opportunity to provide written evidence to the House of Commons Public Bill Committee on the Finance Bill (“the Bill”) and have limited our comments to Clause 24 of the Bill. Our comments are supported by Historic Houses Association Scotland.

Clause 24: Relief for finance costs related to residential property businesses

Scottish Land & Estates considers that this clause will have a detrimental impact on rural businesses as drafted. As far as we are aware there has disappointingly not been consultation with stakeholders on this particular policy and we are concerned that if it is implemented as it stands it will be flawed and require subsequent revision. The impact assessment undertaken by the UK Government also does not adequately consider the impact on business, rural or otherwise.

While the intention is to remove the ability to offset interest payments on mortgages to purchase residential properties for letting against income tax for higher rate taxpayers, the provisions as drafted are extremely wide and will impact on interest and other costs on loans to improve existing properties and loans to acquire new ones. We have serious concerns that the clause will restrict the ability to offset interest payments on loans secured against properties which include let dwellings when those loans are intended for general investment not buy-to-let purposes. There is no distinction made in the draft between property that is secured for the loan and the purpose of the loan. Companies with let property will continue to be able to deduct their finance costs from their taxable profits as well as paying a lower rate of tax than sole-traders and partnerships. This is manifestly inequitable.

Many of our members are unincorporated family businesses which own and receive income from residential property and contribute to the housing supply market in rural Scotland. At a time of uncertainty in agriculture this assists rural business diversification. Property owned by estates and rural businesses is more often than not older than average and requires significant investment and upgrade to meet modern building and energy standards. The effect of this clause would make it more difficult for businesses to bring property up to standard and actually inhibit the creation of new homes. We also perceive a key difference between residential property owned in this way and a property acquired to augment a person’s income and assets through a buy-to-let mortgage. Indeed, estates and rural businesses will frequently secure a loan on let property as security for raising money for investment in business development. This need not be simply to acquire a further property for letting, but could be for numerous business purposes.

As we understand the clause, an estate which has unallocated finance for investment in their business which also includes a private rented cottage, risks being unable to offset all the interest paid on that finance against their income tax. This would in our view traditionally be an accepted business expense.

We would suggest the UK Government bear in mind that the rural residential sector in Scotland is already impacted with Energy Performance Certificate costs, numerous changes to the private tenancy regime including a further Bill in the Scottish Government's legislative programme and change to relief on furnished lets. If this clause is enacted there will be a further unnecessary burden placed on business with significant additional work involved in apportionment when a business is not solely comprised of residential property and effort in preparing tax accounts of a diversified business. This would seem to us to be at odds with the UK Government's desire to reduce the administrative burden on businesses.

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