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Residential Property Developer Tax – who's getting the bill?

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The Autumn budget has confirmed the new Residential Property Developer Tax (RPDT) will apply from April 2022. The idea behind the tax is to raise money necessary to remove and replace unsafe cladding from residential properties. This 4% levy will only apply to larger developers of residential property; with the tax on profits arising where the relevant land is held as trading stock. It is intended that the tax will be time limited, with the goal of raising £2bn of revenue over a 10-year period. After industry consultation, the build-to-rent sector, purpose-built student accommodation and most social housing developments have been excluded from RPDT. This means that those remaining residential developers are now left to foot a greater proportion of the bill than had previously been anticipated.

Most would agree that it is 'fairer' for larger property developers to fund replacing unsafe cladding than the residents themselves or the taxpayer. However, there are a few potential knock-on effects to consider when the RPDT is introduced.

Developers have been quick to point out that there are numerous factors at play that will strangulate their profits:

- Those developers who have either not used flammable cladding, or those that have already taken steps to replace flammable cladding will feel particularly hard-done-by. While the logistics involved in not charging those more conscientious developers may be too onerous, RPDT stands to tar all large developers with the same brush.
- Developers are still in recovery mode from Covid 19. While most people's impression was that the construction industry kept working in lockdown, CHAS' surveys showed that over 70% of construction businesses experienced a decrease in turnover, and 80% of cancelled or postponed projects.
- Corporation tax rates are due to increase from 19% to 25% in April 2023, narrowing profit margins.
- Developers anticipate unemployment levels in the industry will rise as developers attempt to cut costs in other ways.

While there may be a degree of crying wolf here, it is certainly true that the profit margins available to developers have been cut in recent years, mainly through greater contributions in s.106 agreements. The RPDT, combined with the above factors, will cut developer profits again. If fewer developments are profitable, then fewer will be built out. This will impact on the ability of developers to meet the government's housing targets and create the affordable homes we need.

This underlines the nuance in implementing a tax like this. If the government doesn't get it right, it could end up ultimately hurting those seeking affordable housing and the taxpayer.