

# Property Agent Matters

DRIVING LIFELONG PROSPERITY

Winter 2017

## THE CLEAN-UP BILL



**WOULD YOU LIKE TO  
RECEIVE OUR BUSINESS  
UPDATES VIA EMAIL?**

Hazlewoods LLP and Hazlewoods Financial Planning LLP produce regular updates, using our expert commentary to provide you with information about our services, events and topical premium business news.

**SIGN UP/UPDATE ONLINE: <http://bit.ly/hazlewoods>**

[www.hazlewoods.co.uk](http://www.hazlewoods.co.uk)

**HAZLEWOODS**

DRIVING LIFELONG PROSPERITY

---

# The clean-up bill

Unbelievably, we're at that time of year again, when the Christmas parties are in full swing, headaches will abound the next day and the hosts are faced with dealing with the aftermath, including the clean up bill.

April 2018 will feel no different for landlords of both residential and commercial properties, when the new regulations come into force, which establish a minimum standard of energy efficiency for new tenancies.

The rules do vary between the two categories of property, but broadly those with an EPC rating of F or G will need to be raised to a minimum of an E rating, if landlords wish to grant new tenancies. The regulations run to 96 pages for domestic and 71 pages for commercial, so this article certainly doesn't intend to cover all the minutiae, but below are considered to be the main points.

## RESIDENTIAL LANDLORDS

The new regulations apply to "relevant tenancies" which include an assured tenancy, a regulated tenancy and a domestic agricultural tenancy.

If the property is not required to have an EPC then the regulations do not apply; this could cover such buildings as those that are officially protected, used as a place of worship or for religious activities or HMOs which have not been subject to a sale in the previous ten years, or which have not been let as a single rental in the past ten years. Furthermore, furnished holiday accommodation may not need an EPC where the holidaymaker is not responsible for meeting the energy costs.

Fortunately, the regulations are not so costly for residential landlords because the improvements only need to be carried out, providing it is at no cost to them.

Firstly, they need to identify the possible improvements which could be through a relevant recommendations report, accompanying an EPC, a Green Deal advice report or a report prepared by a surveyor.

The improvements identified are only "relevant" if funding is available to cover the full cost of purchasing and installing the improvements from one or more of the following sources:

- A Green Deal Plan;
- Energy Company Obligation or similar scheme; or
- Funding provided by central government or local authority or third party at no cost to the landlord.

The Green Deal is a finance mechanism enabling homeowners to take out loans to pay for energy efficiency improvements, with repayments made through the savings on their energy bill.

The Energy Company Obligation is a requirement that the Government places on energy suppliers to provide households with energy efficiency improvements.

## COMMERCIAL LANDLORDS

The regulations are not so favourable to commercial landlords. There is no requirement that the improvements are at no cost to the landlord and, whilst they only apply to new or renewed tenancies entered into after 1 April 2018, no existing leases will be able to remain in existence after 1 April 2023, unless the EPC rating has been increased to at least an E.

There are two specific exclusions from the new regulations; where a commercial building is let under a tenancy granted for a term not exceeding six months, or if granted for a term of 99 years or more.

Where properties are mixed use, the separate parts will be subject to the regulations relevant to it e.g. the flat above will be subject to the residential regulations, whilst the shop below will be subject to the commercial regulations.

Improvements will only need to be carried out if the measure achieves an energy efficiency payback of seven years or less, the determining of which has to be calculated through the approved methodology and using relevant energy prices.

## PENALTIES

The penalties for non-conformance can be significant; potentially up to £4,000 for residential landlords and up to £150,000 for commercial landlords, so they are certainly not something to ignore!

If the Christmas party doesn't give you and your landlord clients a headache, these new regulations may well do. It is essential that you speak to your landlords and make sure they are aware of these regulations and the potential financial impact. With just a few months to go before their introduction, those with F or G rated properties need to start planning how they are going to improve their property to meet the minimum E rating.

# SDLT and MDR – another headache!

OK, so if the first article didn't give you a headache, this one might! There are no apologies for this, it's merely letting you practise for the Christmas party season.

Stamp Duty Land Tax (SDLT) is payable on the purchase of properties and the amount paid and applicable rate depends on the value of the property. Sounds simple, right?

Unfortunately, it is not always quite as straightforward as

multiplying the purchase price by certain rates, particularly when there is more than one property being purchased. In addition, the introduction of a 3% surcharge on the purchase of second homes has complicated matters further.

---

## STAMP DUTIES

Residential property	SDLT rate#
Up to £125,000	Zero
Over £125,000 to £250,000	2%
Over £250,000 to £925,000	5%
Over £925,000 to £1,500,000	10%
Over £1,500,000	12%
Over £500,000 if bought by a non-natural person (e.g. a company)*	15%

\* 15% rate applies to the entire consideration, subject to certain exemptions.

# 3% surcharge applies for additional residential property purchased by an individual or any purchases by a company, trust or partnership, where chargeable consideration exceeds £40,000.

## STAMP DUTIES

Non-residential or mixed use property	SDLT rate
Up to £150,000	Zero
Over £150,000 to £250,000	2%
Over £250,000	5%

## THE BASICS

SDLT is calculated in bands so, for residential property, 0% on the first £125,000 of consideration and 2% on the next £125,000 etc. (see tables for further details). However, where the 3% surcharge applies, this is calculated on the entire purchase consideration.

### Example -

#### Fred purchases a second home for £250,000.

The SDLT charge would be £10,000 calculated as:

$$\begin{aligned} &£125,000 \times 0\% \\ &£125,000 \times 2\% = £2,500 \end{aligned}$$

Plus the 3% surcharge on the whole consideration:

$$£250,000 \times 3\% = £7,500$$

## MULTIPLE DWELLINGS RELIEF

Multiple Dwellings Relief (MDR) 'does what it says on the tin' – it is a relief, which is available on the purchase of more than one residential property. Essentially, it works by calculating the mean price of the properties purchased, working out the SDLT charge on one property and then multiplying by the number of properties purchased.

### Example -

#### A block of three flats are purchased for £900,000.

Under the normal calculations, the SDLT charge would be £62,000

Calculated as:

$$\begin{aligned} &£125,000 \times 0\% \\ &+ £125,000 \times 2\% = £2,500 \\ &+ £650,000 \times 5\% = £32,500 \\ \hline &+ £900,000 \times 3\% = £27,000 \\ &\text{(SDLT surcharge)} \end{aligned}$$

With MDR, the mean value of the properties would be £300,000 (£900,000/3) and the SDLT charge would be £42,000 calculated as:

$$\begin{aligned} &£125,000 \times 0\% \\ &+ £125,000 \times 2\% = £2,500 \\ &+ £50,000 \times 5\% = £2,500 \\ \hline &+ £300,000 \times 3\% = £9,000 \\ &\text{(SDLT surcharge)} \end{aligned}$$

The SDLT charge would therefore be £14,000 per property and £42,000 in total when applying MDR. This is a saving of £20,000.

## FURTHER SAVINGS TO BE HAD?

On close inspection of the legislation, the additional 3% surcharge may not apply on certain multiple dwelling purchases.

In our above example, even if the individual did not own a residential property before the purchase of the block of flats, they would still be liable to the 3% surcharge on the whole consideration.

There is an exception, however, for purchases of dwellings with self-contained annexes, or outbuildings that are also dwellings if they equate to less than one third of the total price paid.

Examples could include a house with a self-contained granny annexe or a farmhouse which also has a cottage on the same plot. Bear in mind though, this exemption would only apply where the purchaser does not already own a residential property or if they are purchasing this property to replace their main residence. In all other cases the 3% surcharge would still apply.

## SIX OR MORE DWELLINGS

There is another option to consider when six or more properties are purchased together in one transaction. In this case it is possible to treat the purchase as a commercial one and apply the non-residential rates. The highest rate for non-residential property is 5% compared to 12% for residential purchases so the savings can be significant. The 3% surcharge will also not apply as it is not classed as a residential purchase.

Suppose that our earlier example was instead for the purchase of six flats for £1.8million. This leaves you with three different ways to calculate the SDLT payable. We will not bore you further with the calculations but it could bring about three very different results i.e.

1. Following normal rates and rules - £183,750
2. Claiming MDR - £84,000
3. Electing as commercial and applying non-residential rates - £79,500

In this case, therefore, it would be more beneficial to elect to treat the purchase as a commercial purchase with savings of over £100,000 compared to calculating under the normal rates for residential purchases.

## CRYSTAL CLEAR?

Calculating the SDLT charge is not as simple as multiplying a few numbers together and there are ways to minimise your bill. The legislation is complex and detailed and it is advisable to speak to a tax professional to ensure that you are taking full advantage of any reliefs and minimising your liability as far as possible.

Wishing you all a very Merry Christmas and a headache free New Year!

# PROPERTY BUSINESSES ARE CHARACTERISED BY HIGH RISKS AND GREAT REWARDS.

Whether you are a property developer, investor, agent, or in the construction industry, you need professional support if you want to steer a prudent, profitable path through the complexities of legislation and financial risk to ultimate sale or exit.

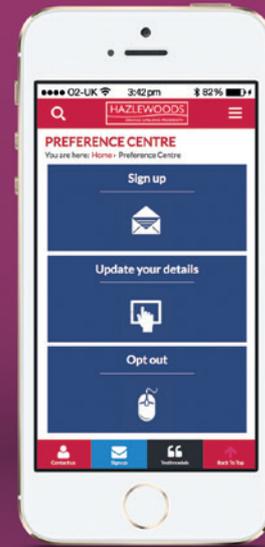
## UNDERSTANDING YOU

At Hazlewoods, our property accountants work with you to help you decide what service you need.

You have access to a comprehensive business support package, regardless of the size of your business.

# SIGN UP TO RECEIVE OUR UPDATES

<http://bit.ly/hazlewoods>



To find out more about how we process your personal data please visit our privacy policy:

<http://bit.ly/hazlewoods-privacy>

## MEET THE TEAM



**NICK HAINES**

Partner and Head of Team  
01242 237661  
[nick.haines@hazlewoods.co.uk](mailto:nick.haines@hazlewoods.co.uk)



**JOHANNE TISDALE**

Senior Manager  
01242 237661  
[johanne.tisdale@hazlewoods.co.uk](mailto:johanne.tisdale@hazlewoods.co.uk)



**MEGAN LEWIS-BOURKE**

Manager  
01242 237661  
[megan.lewis-bourke@hazlewoods.co.uk](mailto:megan.lewis-bourke@hazlewoods.co.uk)



**KATIE HASLAM**

Senior Associate  
01242 237661  
[katie.haslam@hazlewoods.co.uk](mailto:katie.haslam@hazlewoods.co.uk)



## WOULD YOU LIKE TO RECEIVE OUR BUSINESS UPDATES VIA EMAIL?

Hazlewoods LLP and Hazlewoods Financial Planning LLP produce regular updates, using our expert commentary to provide you with information about our services, events and topical premium business news.

SIGN UP/UPDATE ONLINE: <http://bit.ly/hazlewoods>

Windsor House, Bayshill Road, Cheltenham, GL50 3AT  
Tel. 01242 237661 Fax. 01242 584263

[www.hazlewoods.co.uk](http://www.hazlewoods.co.uk) / @Hazlewoods

# HAZLEWOODS

DRIVING LIFELONG PROSPERITY