

Property Agent Matters

DRIVING YOU TO LIFELONG PROSPERITY

Spring 2016

The arrival of Spring and the Easter bank holiday can conjure up images of baby chicks and rabbits. George Osborne's March Budget had its own 'rabbit out of the hat' moment with the announcement of a Sugar Tax (luckily it didn't affect our Easter eggs!). In this edition, we will focus on the property tax announcements from the Budget as well as the Stamp Duty Land Tax (SDLT) changes that were previously announced in the Autumn Statement last year.

CHANGES TO SDLT ON RESIDENTIAL PROPERTIES

Following the announcements that mortgage interest relief would be restricted to the basic rate of tax for buy-to-let landlords from 2017, the Chancellor delivered a further blow in the Autumn Statement.

As many property agents are aware, from 1 April 2016 second or additional residential

property purchases will be subject to a 3% (SDLT) surcharge. Property purchases with a value of less than £40,000 will remain free from SDLT, however, all additional property purchases above this amount will be subject to a 3% surcharge going forward (as listed in the below table).

Residential property value (£)	Current SDLT rate	New SDLT rate (additional residential purchases)
Up to £40,000	Zero	Zero
Over £40,000 - £125,000	Zero	3%
From £125,001 - £250,000	2%	5%
From £250,001 - £925,000	5%	8%
From £925,001 - £1,500,000	10%	13%
From £1,500,001	12%	15%

For example, the SDLT on a second property purchase of £265,000 would now be calculated as follows:

3% on the first £125,000 = £3,750
Plus: 5% on the next £125,000 = £6,250
Plus: 8% on the remaining £15,000 = £1,200

The total SDLT due, therefore, would be £11,200.

This is compared to £3,250 under the current rules (2% on £125,000 plus 5% on £15,000); in this case an increase in tax due of almost £8,000.

Some key points to note on the new surcharge include:

- Married couples/civil partners will be treated as a 'unit' and can only own one residence between them with any second purchase being subject to the higher rate.
- Unmarried couples will be able to own one property each (but not jointly) before being subject to the higher rate.
- In a joint purchase, if one of the purchasers already owns a property the 3% surcharge will apply to the entire transaction, regardless of how small an interest that purchaser has in the new property.
- Mixed use property (e.g. part residential, part commercial) purchases will not be subject to the additional 3% SDLT.
- If selling the main residence and purchasing another within 36 months the higher rates will not apply. If the main residence has not been sold at the point of purchase, the higher rates will apply but a refund can be claimed if the previous main residence is subsequently sold within 36 months.
- The first purchase of a residential property by a company will be subject to the higher rates to reduce the risk of avoidance of the 3% rate.

The surcharge is expected to raise £625m in additional taxes in 2016/17 and is being introduced to try and dampen the buy-to-let market so that more people have the opportunity to become home owners. We wait and see what impact this might have on property agents' commission levels and the demand for buy-to-let properties.

On top of the introduction of the surcharge, from April 2017 the SDLT filing and payment date will be shortened from 30 days to 14 days.

BUDGET 2016 UPDATE

As we have just highlighted, George Osborne has enjoyed fiddling about with SDLT in recent years, overhauling the residential SDLT system in his 2014 Autumn Statement and announcing the new additional rate for second homes in the 2015 Autumn Statement.

In the latest Budget, changes were announced to the SDLT system for non-residential property. It had seemed odd that back in 2014 the residential SDLT system was completely revamped from a cliff-edge structure to a progressive banding method whilst the taxation of non-residential property stayed the same. This has now

been aligned from 17 March 2016 with the following new rates for purchases:

£0-£150,000 – 0%
£150,000 – £250,000 – 2%
Over £250,000 – 5%

The SDLT on leases on commercial property was already taxed on a marginal 'slice' basis but an additional rate has now been introduced for leases which have a net present value on the rent of over £5m. These leases will now be subject to a 2% SDLT rate.

Additionally, taxpayers were awarded a cut in Capital Gains Tax from the rates of 18% and 28% for basic and higher rate taxpayers to 20% and 10%. The enthusiasm for buy-to-let landlords was short-lived however, as immediately the Chancellor clarified that this cut would not apply to residential properties. Another sign, as if we needed one, that this Government is determined to reduce the tax incentives of private landlords.



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