

# Autumn Statement 2014 – Real Estate Tax

In today's Autumn Statement Chancellor George Osborne announced radical changes to Stamp Duty Land Tax on residential property<sup>1</sup> in the UK.

## Stamp Duty Land Tax Reforms

In today's Autumn Statement Chancellor George Osborne announced a radical overhaul of the way in which Stamp Duty Land Tax ("SDLT") will be charged on purchases of residential property in the UK. The changes are set to take effect almost immediately, i.e. on or after 4 December 2014.

Where a residential land transaction has exchanged but not completed before 4 December 2014, the purchaser will have the choice whether to pay SDLT under the old or the new regime, under transitional provisions.

The new system does not extend to non-residential property transactions (i.e. commercial or mixed commercial/residential real estate property), transactions subject to the 15% higher rate charge (i.e. acquisitions by prescribed non-natural persons), or the SDLT charge on rent, which remain unchanged following the Chancellor's Autumn Statement.

In summary, the changes in relation to residential property transactions entail:

- abolishing the much criticised "slab" system of SDLT on any purchase price paid for residential property (under which, if the total purchase price given for a residential property exceeded a rate threshold even by just £1, the whole amount would be charged at the higher rate, and not just the excess), and replacing it

with a "slice" system (as is used for income tax) so that the higher rate will only apply to the amount over the relevant threshold; and

- radically overhauling the rates and thresholds for SDLT on residential property.

The result, according to HM Treasury, is that 98% of people paying SDLT on residential property will pay the same or less, however if a property is bought for more than £937,500 the amount of SDLT will increase (save for purchases between £1 million and £1.125 million, where, in an anomaly, the amount of SDLT will decrease).

The new rates and thresholds are as follows:

Property value band	SDLT rate under new rules
£0 - £125,000	0%
£125,001 - £250,000	2%
£250,001 - £925,000	5%
£925,001 - £1,500,000	10%
£1,500,001 +	12%

HM Treasury have compiled the following table comparing the effects of the old and new regimes for various example properties:

<sup>1</sup> Broadly, "residential property" for SDLT purposes is any building that is used or suitable for use as a dwelling, or is in the process of being constructed or adapted for such use (including any land that forms part of the garden or grounds of such a building). However, where major interests in six or more separate dwellings are the subject of a single transaction those dwellings will generally not be treated as "residential property" for SDLT purposes. In addition, buildings used for certain communal residential purposes (e.g. children's homes, care homes, hospitals or hospices, prisons, halls of residence for students in higher education, hotels or inns) are also not regarded as "residential property" for SDLT purposes.

Example Properties	Tax paid under the old rules	Tax paid under the new rules	Change in amount of tax paid	Effective tax rate under the new rules
£125,000 – No stamp duty	No stamp duty	No stamp duty	No stamp duty	No stamp duty
£185,000 – Average help to buy home	£1,850	£1,200	Saving: £650	0.7%
£275,000 - Average family home	£8,250	£3,750	Saving: £4,500	1.4%
£510,000 – Average London home	£20,400	£15,500	Saving: £4,900	3.0%
£937,500 – No change in stamp duty	£37,500	£37,500	No change	4.0%
£2,100,000 – Stamp duty increase	£147,000	£165,750	Increase: £18,750	7.9%

Further calculations we have run show the following:

Example Properties	Tax paid under the old rules	Tax paid under the new rules	Change in amount of tax paid	Effective tax rate under the new rules
£1,100,000	£55,000	£53,750	Saving: £1,250	4.89%
£1,250,000	£62,500	£68,750	Increase: £6,250	5.50%
£1,500,000	£75,000	£93,750	Increase: £18,750	6.25%
£1,750,000	£87,500	£123,750	Increase: £36,250	7.07%
£2,000,000	£100,000	£153,750	Increase: £53,750	7.69%
£3,000,000	£210,000	£273,750	Increase: £63,750	9.13%
£4,000,000	£280,000	£393,750	Increase: £113,750	9.84%
£5,000,000	£350,000	£513,750	Increase: £163,750	10.27%
£10,000,000	£700,000	£1,113,750	Increase: £413,750	11.14%
£20,000,000	£1,400,000	£2,313,750	Increase: £913,750	11.57%

HMRC have released a new online calculator for SDLT liabilities under the new regime which can be accessible under the following URL:  
(<http://www.hmrc.gov.uk/tools/sdl/land-and-property.htm>).

For residential properties in Scotland the new rates will apply until 1 April 2015, when SDLT is expected to be replaced in Scotland by the Land and Buildings Transaction Tax.

Special computational rules apply for linked transactions (transactions which form part of a single scheme, arrangement or series of transactions between the same vendor and purchaser or, in either case, persons connected with them) and multiple dwellings relief (which may be available on transactions which include the acquisition of interests in more than one dwelling, and which can reduce the rate of SDLT to a minimum rate of 1%).

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