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STAMP DUTY LAND TAX: WHAT PROPERTY INVESTORS NEED TO KNOW

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In this guide, Market Financial Solutions outlines some of the most significant changes to Stamp Duty Land Tax (SDLT) over the years and the current state of the market. We also explore important factors for investors to consider before making a property purchase in the UK, as well as potential stamp duty reforms on the horizon.

Stamp duty was first introduced in 1694 as a form of taxation on a wide variety of goods. It was not until some 300 years later that we saw this tax focus solely on real estate.

SDLT was brought in through the Finance Act 2003 as a tax on UK land transactions payable by the buyer. The tax has been constantly evolving in the intervening 17 years. And these regular changes have made matters increasingly complicated for domestic and international buyers of English property.

Like most taxes, SDLT has been ever-changing since it was first unveiled. Different Chancellors within different governments have sought ways to reform the tax, be it to boost public coffers or aid certain types of property buyers.

One of the most significant changes came in December 2014. Until this point, residential property purchases in England and Northern Ireland were taxed as a single percentage based on the total value. Five years ago this moved to a banded system, with a different rate of tax applied to the amount in each band.

SDLT rates on residential property purchases have risen markedly in recent years, too. When the tax first arrived in 2003 there was a top rate of just 4% for properties valued at over £500,000 – this now stands at 15%.

When it comes to commercial property and mixed-use property, the increase for the top rate has been far more moderate. It has moved from 4% to 5% and applies to properties valued at over £250,000.

THE CURRENT STAMP DUTY RATES

The tables below outline the current SDLT rates for property purchases in England and Northern Ireland. While there are several bands for SDLT, the tax is calculated on the part of the property purchase that falls within each band.

TABLE 1: STANDARD STAMP DUTY RATES FOR RESIDENTIAL PURCHASES

Band	Rate
Up to £125,000	Nil
£125,001 - £250,000	2%
£250,001 - £925,000	5%
£925,001 - £1.5 million	10%
Over £1.5 million	12%

TABLE 2: STAMP DUTY RATES RESIDENTIAL PURCHASES BY FIRST-TIME BUYERS

Band	Rate
Up to £300,000	Nil
£300,001 - £500,000	5%
Over £500,000	Standard rates above apply

TABLE 3: STAMP DUTY RATES FOR NON-RESIDENTIAL OR MIXED-USE PROPERTIES

Band	Rate
Up to £150,000	Nil
£150,001 - £250,000	2%
Over £250,000	5%

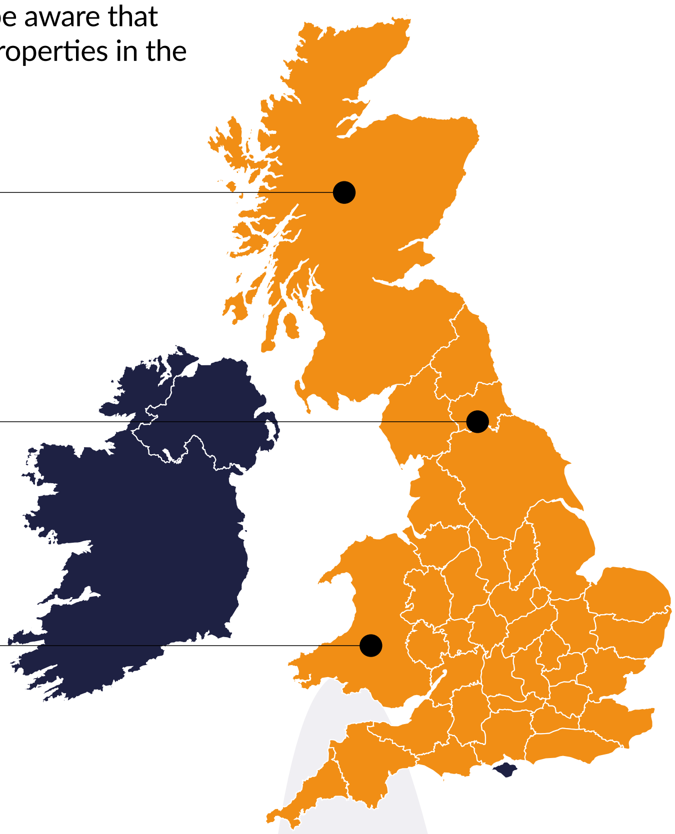
ADDITIONAL TAXES AND REGULATIONS

As well as the standard rates outlined above, additional taxes are owed on certain purchases. Most notably for property investors, there is a 3% surcharge on purchases of second homes. This means that if someone is buying a second property, they will have to pay an additional 3% surcharge for the entire purchase price of the property. This is on top of the SDLT that is already payable.

Regulation has also changed concerning the timeframe in which stamp duty must be paid. In March 2019 the SDLT payment deadline was reduced from 30 days to only 14 days.

STAMP DUTY ON PROPERTIES THE UK

Moreover, domestic and international buyers need to be aware that there are actually three different versions of SDLT on properties in the UK. These are highlighted on the map below.



SCOTLAND

Land and Buildings Transaction Tax in Scotland (since 2015)

ENGLAND

Stamp Duty Land Tax (since 2003)

WALES

Land Transaction Tax in Wales (since 2018)

These three versions operate in a similar way, with separate rules for residential and commercial properties. However, each enforces different bands, rates and rules for this type of tax.

"When it comes to getting one's finances in order, knowing precisely how much stamp duty must be paid on a property transaction is imperative. For brokers and lenders, including bridging loan providers, these equations are central to determining what is offered to a client."
Paresh Raja, CEO of MFS

FURTHER REFORMS ON THE HORIZON

While Brexit dominated the 2019 General Election, stamp duty was also a subject of debate. Indeed, it was a subject that Boris Johnson raised several times during his leadership campaign in June and July of last year.

Proposed changes to SDLT include:

- A 3% SDLT surcharge on residential property purchases in England and Northern Ireland by non-UK residents
- Removing the tax altogether on properties valued at below £500,000
- Reducing the rate payable on homes valued at £1.5 million and over from 12% to 7%

The upcoming Spring Budget on 11th March – the first under Johnson's tenure as Prime Minister and Rishi Sunak's as Chancellor – will offer a far clearer indication of what changes the UK property market can expect.

"I would expect more stamp duty changes to be introduced in 2020. Indeed, the SDLT surcharge for non-UK buyers looks certain, but other changes could follow."

SDLT REVENUE FALLING

The prominence of SDLT within political discourse is a reflection of its importance to the UK economy. Simply put, stamp duty is a significant contributor to GDP.

After all, demand for real estate remains high. In fact, there are approximately one million residential property transactions each year in England alone .

However, despite the introduction of higher rates and surcharges, SDLT revenue has not changed notably over recent years.

The total SDLT revenue in 2018/19 was approximately £11.9 billion. This was down from £12.9 billion in the preceding 12 months.

Brexit uncertainty curtailed market activity throughout the past three years, which has impacted the volume of property transactions completed during this period. Nevertheless, the stagnating SDLT revenue also reflects the need to strike a careful balance.

Increasing rates and tightening regulations are often designed to improve HMRC tax receipts. However, such changes can backfire by reducing market activity – the taxes may be higher, but there are fewer purchases to tax.

The new Conservative government must now assess if the balance is correct.

[2]https://www.gov.uk/government/statistics/annual-uk-property-transactions-statistics-2013

[3]https://www.statista.com/statistics/284328/stamp-duty-land-tax-united-kingdom-hmrc-tax-receipts/

GETTING TO GRIPS WITH STAMP DUTY

Paresh Raja, CEO of MFS, offers his thoughts on stamp duty and the importance of having a solid understanding of the tax:

"UK property has been a hugely popular investment asset for a long time. Both domestic and international buyers flock to British bricks and mortar because it can deliver both capital growth and healthy rental returns. Of course, the country also boasts beautiful houses and excellent places to live, which only adds to the appeal.

"But for any investor considering a property purchase in the UK, they must understand the tax implications. For those targeting real estate in England or Northern Ireland, this means having a strong grip on how stamp duty works.

"Ultimately, when it comes to getting one's finances in order, knowing precisely how much stamp duty must be paid on a property transaction is imperative. For brokers and lenders, including bridging loan providers, these equations are central to determining what is offered to a client.

"I would urge all investors to revisit SDLT rules prior to each and every property purchase. What's more, it is often worthwhile consulting with tax experts who can help in this regard."

Paresh Raja, CEO of MFS

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