

At the end of a highly political Autumn Statement earlier today, George Osborne pulled one rabbit from the hat which has an immediate and, for many, a positive impact for residential property buyers.

#### **SDLT – Residential Rates**

For the last ten years SDLT has been calculated using a “slab” approach so that if the consideration for the property tips over into the next band, the SDLT rate is calculated based on the total consideration. From midnight tonight the system is being reformed and SDLT will be calculated in a similar way to income tax, so that SDLT at the relevant rate only applies to the part of the price falling within each band.

According to the Government’s figures, the changes represent a tax cut of £800 million, reducing the SDLT charge for the vast majority of residential purchases.

The new rates are:

<b>Property Value (£)</b>	<b>Tax Rate: charged on part of property price within each tax band (%)</b>
0-125,000	0
125,001-250,000	2
250,001-925,000	5
925,001-1,500,000	10
1,500,000+	12

The saving is best demonstrated using an example. When purchasing the average UK home at £275,000, SDLT is currently charged at 3% of the whole price resulting in £8,250 of SDLT. Under the new regime, the first £125,000 will have no SDLT payable, £2,500 will be payable on £125,001-250,000 and £1,250 will be payable on the excess over £250,000. Therefore, a total of £3,750 of SDLT is payable, a saving of £4,500.

The new higher rates mean that there may be significant increases in the SDLT charge. The tipping point is a price of £937,500 above which more SDLT will be payable. For example, on a purchase at £2.1 million, the SDLT charge rises from £147,000 to £167,500.

The new rules apply where completion occurs on or after 4 December 2014. If contracts are exchanged before 4 December but the deal completes after today, the buyer can choose whether to pay SDLT under the new or old rules.

This “progressive” system has already been adopted for Scotland’s devolved land and buildings transaction tax which comes into effect next April. In the meantime, the new SDLT rates will apply to Scotland.

#### **SDLT – Commercial Property**

There is no change to the rates of SDLT charged on purchases of commercial property. The “slab” system remains, with a rate of 4% applying to deals where the price exceeds £500,000.

#### **CGT on Disposals of Property by Non-residents**

Last week HMRC released the responses to the consultation on implementing a capital gains tax charge on disposals of UK residential property by non-residents. The Government still intends to go ahead with the charge, albeit with exemptions for institutional investors.

We now have more detail on the way the tax charge will operate. In particular, the rate for companies will generally be 20% but where there is potential overlap with the CGT charge on enveloped dwellings (at a rate of 28%), this charge will take precedence. The rate for individuals will be the same as current CGT rates (18% or 28% depending on income).

Private residence relief will be available to non-resident individuals. But the individual must have been in the property for at least 90 midnights in the tax year (this may result in some non-resident individuals needing to keep a careful eye on their residence status). Draft legislation will be published next week.

#### **Annual Tax on Enveloped Dwellings**

Completing a package of changes aimed at non-resident owners of residential property, the Government has been surprised at how much tax they have raised through the annual tax on enveloped dwellings. This is the charge imposed on non-resident companies that hold UK residential property. The amount of the charge increases each year in line with inflation. For 2015-16, the amount will increase by inflation plus 50% for properties worth more than £2 million.

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