

SDLT REFORM ON RESIDENTIAL PROPERTY

Earlier today George Osborne announced a significant change to the way in which residential property transactions will be taxed. Somewhat ironically after the Independence referendum in Scotland, the Chancellor's changes will bring the rest of the UK's taxation of residential property into line with the recently introduced taxation system in Scotland.

The new regime introduces a progressive system, working in a similar way to Income Tax, whereby increasing rates of Stamp Duty Land Tax ('SDLT') apply to different bands of the purchase price. The SDLT rate will start at 0% on the first £125,000 of the purchase price, before increasing, as set out in the table below, up to a new maximum of 12% on the purchase price above £1.5m; previously the maximum rate of SDLT on personal transactions was 7%.

The following bands have been announced:

Property value (£)	Tax rate on part of property price within band (%)
0-125,000	0
125,001-250,000	2
250,001-925,000	5
925,001-1,500,000	10
1,500,001+	12

For example, the SDLT payable on a property costing £2m will be calculated, as follows:

	Rate	SDLT payable
First £125,000	0%	£0
Next £125,000 (£125,000 to £250,000)	2%	£2,500
Next £675,000 (£250,001 to £925,000)	5%	£33,750
Next £575,000 (£925,001 to £1,500,000)	10%	£57,500
Next £500,000 (£1,500,001 to £2,000,000)	12%	£60,000
Total SDLT		£153,750

The Government's reason for the change is to reduce the distortions that occurred under the existing 'slab' structure, whereby SDLT was charged at a single rate on the whole purchase price, thereby improving the fairness of the tax system. The new regime will see those purchasing residential property with a purchase price of below £937,500 paying less SDLT than under the existing system. Those acquiring properties above £937,500 will see the SDLT increase.

The table below illustrates the SDLT payable at different house prices between the 'old' and 'new' regimes.

Property value (£)	Under 'old' regime		Under 'new' regime		Change in SDLT (Decrease)/Increase (£)
	SDLT (£)	Effective tax rate (%)	SDLT (£)	Effective tax rate (%)	
£275,000 (Average UK house price)	8,250	3.0	3,750	1.4	(4,500)
£510,000 (Average house price in London)	20,400	4.0	15,500	3.0	(4,900)
£937,500	37,500	4.0	37,500	4.0	0
£1,500,000	75,000	5.0	93,750	6.3	18,750
£3,000,000	210,000	7.0	273,750	9.1	63,750
£5,000,000	350,000	7.0	513,750	10.3	163,750

Transitional arrangements

The changes to the regime will come into effect from midnight tonight. There is good news for those who have exchanged but not yet completed, who can choose whether to use the old or new system under transitional rules introduced.

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