

2016 Budget: SDLT changes

On 16 March 2016, the Chancellor delivered the 2016 Budget. The Budget contained two significant announcements regarding Stamp Duty Land Tax (“**SDLT**”):

1. With effect from 17 March 2016, SDLT on commercial property transactions will be based on a new “slice” system; and
2. As announced in the 2015 Autumn Statement, higher SDLT rates will apply to the purchase of additional residential properties from 1 April 2016.

SDLT changes for commercial and mixed use property

The new SDLT rate structure for commercial and mixed use property takes effect from 17 March 2016 (subject to transitional rules for transactions where contracts are exchanged before that date).

SDLT on purchase price and premiums

A new “slice” system will apply to the purchase of commercial and mixed use property and to leases of commercial and mixed use property granted or assigned for a premium. The new system is similar to that which has applied to residential property since 4 December 2014 (there is an [article](#) on the residential system on our website). The new rates are as follows:

Property value band	SDLT rate
First £150,000	0%
Next £100,000 (above £150,000 to £250,000)	2%
Remaining amount (above £250,000)	5%

Whereas, under the old “slab” regime, once the purchase price entered into a new band the entire purchase price was taxed at the rate applicable to that band, under the new “slice” regime each portion of the purchase price will be taxed at the rate that applies to that portion. Below is a worked example of the SDLT chargeable on a £650,000 commercial property under the old regime and under the new regime.

Old “slab” regime

Entire 650,000 @ 4% = **£26,000**

New “slice” regime

First 150,000 @ 0% = £0

Next 100,000 @ 2% = £2,000

Remaining 400,000 @ 5% = £20,000

= **£22,000**

The effect of the changes will be that SDLT on properties where non-rental consideration in £1.05 million or less will be the same as or lower than the SDLT that would have been payable under the old regime. For higher value properties the SDLT will be higher. The comparative rates for a range of property values are set out in the table below.

Purchase price	SDLT under old regime	SDLT under new regime	Saving under new regime
£275,000	£8,250	£3,250	£5,000
£500,000	£15,000	£14,500	£500
£750,000	£30,000	£27,000	£3,000
£1 million	£40,000	£39,500	£500
£2 million	£80,000	£89,500	- £9,500
£5 million	£200,000	£239,500	- £39,500

SDLT on rent

SDLT on rent was already based on the “slice” system and will continue to be. A new 2% band for rents with a net present value of over £5 million has been introduced for transactions that complete on or after 17 March 2017 (subject to the transitional provisions discussed below). The rates for rent consideration are:

Net present value of rent	Rate
First £150,000	0%
Next £4,850,000 (above £150,000 to £1.5 million)	1%
Remaining amount (above £5 million)	2%

Then do the new rates apply from?

The new rates apply to transactions that complete on or after 17 March 2016.

Buyers may elect to pay SDLT under the old rules if either:

- a) The contract is substantially performed before 17 March 2016 (i.e. a substantial part of the consideration is paid to the seller or the buyer takes possession of the property); or
- b) Contracts are exchanged before 17 March 2016 and not varied on or after 17 March 2016.

SDLT on additional residential properties

The Budget confirmed that the increased rates on additional residential properties will apply from 1 April 2016. We wrote an [article](#) on the proposed changes following the 2015 Autumn statement. Following consultation a number of changes and clarifications have been made to the original proposals, in particular:

- The higher rates will not apply to the purchase of a first or replacement main residence even if the purchaser owns additional properties (unlike with capital gains tax, purchasers will not be able to elect which property will be treated as their main residence, this will be decided on the facts).
- Where a purchaser owns two or more properties and sells their main residence, the higher rates will not apply to a purchase of a replacement main residence provided the purchase is within 36 months. Of the disposal (or of 25 November 2015 if the disposal occurred before that date).
- The higher rates will apply to purchases by individuals where the property is a replacement for their sole existing property or main residence but the existing property is not sold until after the purchase of the new property. However the purchaser will be entitled to claim a refund of the additional SDLT paid if they dispose of the original property within 36 months. This will mean that where a person purchases a replacement main residence before selling their existing one they will need to find additional financing to cover the additional SDLT (and incur additional financing costs) until their original property is sold and the excess SDLT can be reclaimed.
- The proposed exemption for companies and funds making significant investments in residential property has been scrapped.
- Spouses and civil partners will only be entitled to one main residence between them unless they are separated and likely to remain so permanently.
- In the case of joint purchasers, the higher rates will be payable if either or both them own (or have relevant interest in) another property.

The applicable rates for purchases of additional residential properties (from 1 April 2016) are:

Purchase price	SDLT Rate
First £125,000	3%*
Next £125,000 (above £125,000 to £250,000)	5%
Next £675,000 (above £250,000 to £925,000)	8%
Next £575,000 (above £925,000 to £1.5 million)	13%
Remaining amount (above £1.5 million)	15%

*If the purchase price is less than £40,000 then the higher rates will not apply so the SDLT rate will be 0%. However there is no 0% band for additional properties where the purchase price is £40,000 or more.

When do the higher rates apply from?

The higher rates will apply to purchases of additional properties which complete on or after 1 April 2016 unless contracts were exchanged on or before 25 November 2015.