

## New SDLT regime: what does it mean for you?

### What's happened?

With effect from 4 December 2014 the old "slab" system, under which Stamp Duty Land Tax ("SDLT") was charged at a single rate depending on which band the purchase price fell into, has been replaced by a new "slice" system for residential property, whereby SDLT is charged at multiple rates, with the relevant rates being applied to the portion of the purchase price which falls into the corresponding band (in the same way that each rate of income tax is applied only to the portion of income above the lower threshold for the corresponding band). The band limits and corresponding rates under the new regime are as follows:-

Property value band	SDLT rate
First £125,000	0%
Next £125,000 (above £125,000 to £250,000)	2%
Next £675,000 (above £250,000 to £925,000)	5%
Next £575,000 (above £925,000 to £1,500,000)	10%
Remaining amount (above £1,500,000)	12%

### What does this mean in practice?

Under the old "slab" system, once the purchase price entered into a new band (even just by £1) the higher SDLT rate was applied to the entire purchase price. For example, under the old system a property purchased for £250,000 would come within the 1% SDLT rate and so incur SDLT of £2,500 but if the purchase price were £255,000 the entire price would be taxed at the higher 3% rate and it would incur SDLT of £7,650. This tended to create distortions in property prices as small increases in purchase price could entail significantly higher costs for the buyer when the SDLT was factored in.

Under the new regime, the portion of the purchase price which falls into each band will be charged at the appropriate rate. To use the same example again, a property purchased for £250,000 would be taxed as follows:

The first £125,000 at 0% = £0  
 The next £125,000 at 2% = £2,500  
 £2,500

If the purchase were £255,000 it would be taxed as follows:

The first £125,000 at 0% = £0.00  
 The next £125,000 at 2% = £2,500  
 The next £5,000 at 5% = £250  
 £2,750

So, whereas under the old regime the £5,000 added to the purchase price resulted in an additional £5,250 in SDLT, under the new regime it would result in only an additional £250.

Further examples illustrating how the new regime is likely to affect SDLT 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
£200,000	£2,000 (1%)	£1,500 (0.6%)	£500
£350,000	£10,500 (3%)	£7,500 (2.14%)	£300
£500,000	£15,000 (3%)	£15,000 (3%)	£0
£750,000	£30,000 (4%)	£27,500 (3.67%)	£2,500
£1million	£40,000 (4%)	£43,750 (4.38%)	- £3,750
£2million	£100,000 (5%)	£153,750 (7.68%)	- £53,750

The value bands and corresponding rates in the new regime are geared towards lowering SDLT for low to mid value properties. While the reduction in SDLT compared to the old regime will be lower for purchase prices that would previously have fallen at the top end of a value band (e.g. properties worth £250,000 or £500,000), buyers are unlikely to be disadvantaged by the new regime for properties purchased for less than £1million. For property values significantly over £1million, the significant value taxed at 10% (on value over £925,000) and 12% (on value over £1.5million) will start to bite and SDLT bills for top end properties will be significantly higher than under the old regime. This has led to owners of some of the most expensive properties offering to pay some or all of the buyer's SDLT to incentivise buyers (according to the Evening Standard, the owner of a £75million property in the One Hyde Park development in Knightsbridge offered to pay the £8.9million SDLT for the buyer). This suggests that for buyers of these properties there may be room to negotiate with sellers to lessen the impact of increased SDLT bills provided they have sufficient bargaining power.

### Does the new regime apply to all property transactions?

Other than the fact that the new regime does not apply to non-residential property transactions, there are a couple of other significant exceptions to the new regime:

- The SDLT payable on the “net present value” of rent payable under a lease (this is based on the rent payable over the course of the term) was already based on a “slice” system, with SDLT being charged at 1% for the portion over £125,000. This will remain unchanged. Since no SDLT is payable unless the net present value is over £125,000 this will not generally effect long residential lease where ground rent is typically low.
- SDLT is still charged at 15% of the entire value of the property for residential properties purchased for more than £500,000 by companies and certain other corporate bodies.

### When does the new regime apply from?

The new regime came in on 4 December 2014 and applies for transactions taking place on or after this day. There are transitional arrangements which apply to purchases where exchange of contracts occurred before 4 December 2014 and completion took place on or after 4 December 2014. Under the transitional arrangements buyers may elect whether to pay SDLT under the old or new regime. Buyers are advised to seek advice before deciding which regime to apply, but the table above gives

an indication of which regime is likely to be more advantageous for basic property transactions. If you were entitled to take advantage of the transitional arrangements but did not do so then you can amend your return any time within 13 months of completion.

### What should I do?

**If you are completing on a residential property purchase where contracts were exchanged on or after 4 December 2014** then you should use the new regime to calculate your SDLT liability (HMRC have produced an online calculator to help you work out how much SDLT to pay, available here: <http://www.hmrc.gov.uk/tools/sdl/land-and-property.htm> but we would advise buyers to discuss this with their solicitor).

**If you exchanged contracts before 4 December 2014 but did not complete before 4 December 2014** then we would advise you to contact your solicitor to see whether you can take advantage of the transitional arrangements and, if so, which regime you should elect to apply (this applies even if you have already submitted your SDLT return as the return can be amended up to 13 months after completion).

**If you are looking at purchasing a high value residential property** then the SDLT bill is likely to be substantial under the new regime. We would advise such purchasers to negotiate with sellers to try and minimise the burden of the additional SDLT by splitting it between buyer and seller or negotiating a discount on the asking price to reflect the significant SDLT bill, although this will obviously depend on your negotiating position.

**If you are a seller** and have been lowering asking prices for properties at the lower end of SDLT bands in order to bring them into a lower band and make them more attractive to the buyer (or ensuring all contents are carefully valued and deducted from the chargeable value), this should no longer be necessary as only the value which falls within the higher band will be taxed at the higher rate, not the entire purchase price.