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Stamp Duty Land Tax or a Wealth Tax?

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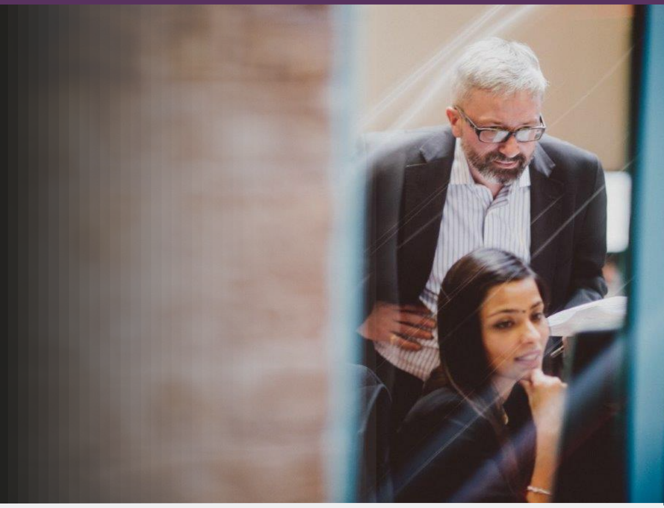

Many observers of the London property market would have been hoping for a reduction in Stamp Duty Land Tax rates in the UK government's recent budget announcement, but to no avail. It did not even get a mention. We continue to be stuck with a tax which is variously described as a tax on mobility, a tax on downsizing, a wealth tax, a tax on Londoners and a tax on overseas buyers. It is most definitely a tax on property buyers.

The rates increase progressively in accordance with the purchase price for residential property bought by individuals as shown below:

Price band	Rate
£0-£125,000	0%
£125,001-£250,000	2%
£250,001-£925,000	5%
£925,001-£1.5m	10%
£1.5m+	12%

If a buyer (or his or her spouse) owns more than one residential property at the end of the day of completion and, the property being purchased is not to replace a main residence, or It is to replace a main residence but the current residence has not yet been sold (at least by midnight on the same day), then each of the above rates applies **plus** 3%.

It is immaterial whether the other residential property is inside or outside the UK.

The extra 3% levy cannot be avoided by ownership being in the other spouse's name (husbands and wives are treated as a single unit for this purpose).

Purchase by a company

It has been commonplace for a company to be selected as the owning entity for residential property, especially in the case of overseas buyers. UK tax legislation is now designed to penalise purchasers who choose to buy in the name of a company, whether incorporated in the UK or overseas.

Stamp Duty Land Tax is charged at 15% on residential property, costing more than £500,000, bought by a company. There is no banding.

There are exceptions for properties to be used for:

- a property rental business; or
- property development and trading.

Many high-value properties in prime central London, are owned by companies and bought and sold by share transfers. The UK government has attacked such ownership structures by imposing an Annual Tax on Enveloped Dwellings (ATED) at the following rates:

Property value	Annual Tax 2016/17
£500,000-£1m	£3,500
£1m-£2m	£7,000
£2m-£5m	£23,350
£5m-£10m	£54,450
£10m-£20m	£109,050
£20m+	£218,500

There are reliefs, particularly where the property is commercially let, but to claim the relief a tax return must be filed with HMRC in April of each year. The property and its legal owner are then on the HRMC’s radar.

Offshore company owned property is now subject to Capital Gains Tax and, importantly, from April 2017 is also subject to Inheritance Tax.

Outlook

The current high rates of Stamp Duty Land Tax are expected to stay in place following the recent budget announcement. We can tell you what is involved and may be able to reduce the pain.

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Note: This is not legal advice; it is intended to provide information of general interest about current legal issues.