Chair's view, Issue 2

Welcomes



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Welcome to Property Tax Voice July 2016

Buy To Let landlords perhaps could be forgiven for feeling a tad under siege from the government at the moment.

First, the renewals basis of allowances for white goods, carpets, etc. installed in unfurnished or partly furnished residential rental properties was withdrawn by HMRC. This resulted eventually in a revised “renewals basis” being introduced by statute, with the quid pro quo that furnished properties have lost the ages old “10% wear and tear” allowance (much to the annoyance of a lot of landlords of furnished properties).

Second, tax relief is to be restricted from 6 April 2017 for finance costs incurred in residential property letting businesses, potentially seriously affecting heavily geared buy-to-let landlords. Basically the restriction works by disallowing finance costs in calculating the taxable rental profit, and then introducing a tax credit equal to 20% of the disallowed costs.

Third, and the most recent change from 1 April 2016, Stamp Duty Land Tax (SDLT) has increased substantially for the purchase of a residential property where the buyer cannot certify it is their first purchase of a property or they are replacing an existing main residence. The increase works by adding a supplement of 3% to each

incremental SDLT rate for the purchase of each residential property where the buyer cannot appropriately certify as above. This would increase the SDLT on the purchase of a £300,000 property from £5,000 to £14,000.

The draft rules for the SDLT supplement changed in nature between first proposal late last year and final inclusion in the Finance Bill 2016 with effect from 1 April 2016. There was to be an exemption for bulk purchases of 15 properties or more (it was never really clear whether this meant purchases of 15 properties in one go or every property purchased after a portfolio of 15 properties was achieved). In the end, it did not really matter because the exemption never made it into the Finance Bill, being consigned to the “too difficult” pile.

There was debate with the Treasury (in which of course the CIOT took a significant part) on various aspects of the 3% supplement, including what to do about buyers who are selling their existing main residence but buy the new main residence first. This can occur perhaps because a sale falls through or the purchase is made with bridging finance to allow time to renovate. The Treasury was minded to include some form of relief for this but, perhaps understandably was reluctant to allow relief from the 3% supplement upfront and then claw it back if the sale of the existing main residence did not proceed for any cause. For some reason, they seemed to think buyers would forget to pay the resulting additional SDLT! In the end, buyers in the position of completing on the purchase of the new main residence before completing the sale of the old must pay the 3% supplement and then reclaim it from HMRC if the sale of the old main residence completes within three years of the purchase.

There is a nasty quirk with joint purchases. The 3% supplement must be paid if any joint purchaser cannot certify as above. Clearly, this catches parents helping their children on the property ladder if the parents take a stake (however small) in the property, as many mortgagees require nowadays. The offspring would be able to certify but not the parents (unless they are wandering nomads). This taints the whole purchase with the 3% supplement and is a trap for the unwary.

The position of purchases of residential properties with separate “granny flats” caught the attention of the national newspapers until the government announced a specific exemption for such properties.

Some newspapers have commented that persons resident overseas buying their first property in the United Kingdom are not liable to the 3% supplement but this is not necessarily the case. A residence which is a person's main residence situated overseas is still counted and so a person with an existing overseas main residence could not certify as required unless also selling the overseas main residence, i.e. the person actually is moving to the United Kingdom.

This is not intended to be a technical article on the 3% SDLT supplement, to read more on this subject see Juliet Minford's *Tax Adviser* article.

We live in interesting times, particularly if you are a buy-to-let landlord.