CHANGES TO UK RESIDENTIAL PROPERTY TAXATION

The UK's Autumn Statement on 3 December introduced a number of revisions to existing residential property taxation. In this note we assess the key points and consider the potential impact on the market.

The Changes, December 2014

Progressive stamp duty system replaces the previous slab structure and becomes less expensive for properties under £937,500

Stamp duty will rise for more expensive homes, a change that will disproportionately impact London, which already contributes 42% of stamp duty revenue in England and Wales

New system raises questions over the feasibility of a Mansion Tax, which could be watered down or discarded as a result

It is the latest in a series of tax changes that mean London is in the middle of the pack in terms of property taxation across major world cities

The Chancellor also announced increased charges for both properties held as 'enveloped dwellings' and non-dom residents

The main change announced by the Chancellor is the creation of a new stamp duty structure which came into immediate effect at midnight on 3 December.

Instead of the historic slab structure, stamp duty is now a progressive tax, more in line with income tax.

Those purchasing a residential property will now pay no stamp duty on the first £125,000 of property's value, 2% on the amount between £125,000 and £250,000, 5% on any additional amount up to £925,000, 10% between £925,000 and £1.5 million and 12% on everything above that.

The changes mean that those buying homes worth up to £937,500 will pay less stamp duty than under the old slab structure. However above this value, buyers will be paying more, although there is a small anomaly between £1.01 million and £1.11 million, where under the new regime buyers will still pay less tax.

Removing the slab structure of the old form of stamp duty will remove distortions in the market. A more progressive form of tax means that many more first-time buyers and home movers will be paying less duty when they buy a home, easing the pressure on saving the funds needed for a deposit. This could help ease progression up and down the property ladder. This measure, coupled with Help to Buy, will make it more affordable to buy a home, and we believe policymakers now need to turn their attention to supply – making sure there are enough new homes to meet demand across the country.

For more expensive homes, tax bills will rise, and this effect will be noticed particularly in London, a region that already contributes 42% of stamp duty revenue in England and Wales. The new rates are likely to increase this contribution and mean that the London region is contributing in an even more disproportionate manner to tax revenues. Some 86% of transactions of more than £937,500 last year took place in London and the South East.

The Government is expecting to take a hit to its stamp duty receipts as a result of the new measure. Last year it collected £6.4 billion in stamp duty on house sales alone. It expects overall stamp duty receipts, including stamp duty paid on commercial property, to rise in the years to come, but says that the measure will cost £760 million in receipts next year and £840 million in 2016-17.

While the majority of homebuyers in the UK will see immediate savings as a result of the new regime, the upper end of the market will see costs rise.

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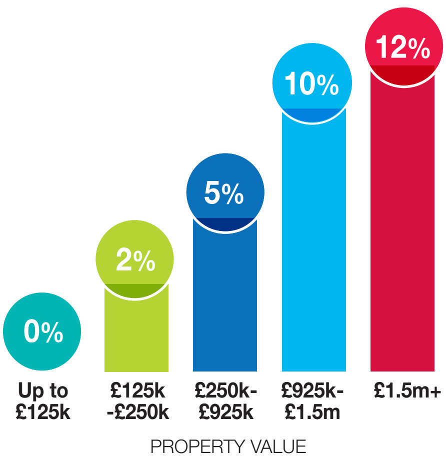
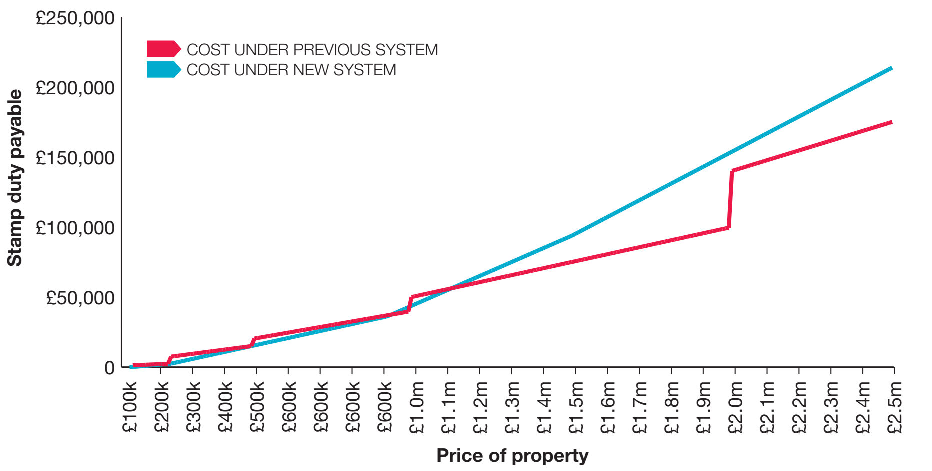
FIGURE 1 **The new stamp duty rates**
Percentage paid in each price band



Source: Knight Frank Residential Research

FIGURE 2
New versus old How new progressive stamp duty rates compare to the old 'slab' system



Source: Knight Frank Residential Research

In assessing the impact on the £1m+ market it is important to bear in mind that similar changes have taken effect in recent years, both in the UK and overseas. The lessons from these changes are that the market rarely reacts in a dramatic manner. While the increase in £2m+ stamp duty from 5% to 7% in 2012 undoubtedly led to weaker price growth above £2m, it also coincided with a period of record £2m+ sales volumes.

For vendors of properties worth substantially more than £1m, there is likely to be a period of harder negotiations ahead and values are likely in many instances to adjust downwards slightly to take account of the new higher charge.

It would seem unlikely that changes will deter vendors. With the opposition Labour Party voting in favour of the new regime it would seem that this is a change which is not going to go away – so there is little to be gained from delaying sales.

One question mark which still remains is whether this new change means that a Mansion Tax (a policy from the Liberal Democrat and Labour parties for a new annual charge on high value property) is still a feasible option for a new government after next May's election. While the Labour Party has confirmed they are still in favour of some form of Mansion Tax, the final form of this tax could well be watered down. Certainly, with the reforms to UK property tax seen in recent years it is difficult to argue that housing is "under-taxed".

If anything, a comparison of taxation between London, New York, Paris, Singapore and Hong Kong reveals that London is now in the middle of the pack in terms of property taxation. The position for non-resident buyers in Singapore and Hong is particularly notable – with effective stamp duty rates as high as 18% and 23% respectively in these markets.

Annual tax on enveloped dwellings

The Chancellor also took the opportunity in the Autumn Statement to announce a change to the annual charge for properties held as "enveloped dwellings", usually by companies.

The new rates, which come into force from 1 April 2015, form part of the government's Annual Tax on Enveloped Dwellings (ATED), a levy which was first introduced at Budget 2012.

Under the new ATED rules, the annual charges will be increased by 50%, taking the charge for a property valued between £2m and £5m from £15,400 to £23,350, and the charge for a property valued between £5m and £10m from £35,900 to £54,450. For the most expensive £20m properties, the charge will rise will rise to £218,200.

The Chancellor also announced a change to the charge payable by residents who have a non-domiciled tax status (i.e. they pay no UK tax). The annual charge of £30,000 a year, for those who have been resident for 7 out of the last 9 years, is unchanged. But the rate for those who have been resident for 12 out of the last 14 years will rise from £50,000 to £60,000. There will also be a new charge of £90,000 for those who have been resident for 17 of the past 20 years.

What the new charges mean for buyers

House price	Pre-03/12/14 stamp duty	Post-03/12/14 stamp duty	% difference	£ difference	Effective new stamp duty rate
£125,000	£0	£0	0%	£0	0%
£150,000	£1,500	£500	-67%	-£1,000	0.3%
£200,000	£2,000	£1,500	-25%	-£500	0.8%
£300,000	£9,000	£5,000	-44%	-£4,000	1.7%
£400,000	£12,000	£10,000	-17%	-£2,000	2.5%
£500,000	£15,000	£15,000	0%	£0	3.0%
£600,000	£24,000	£20,000	-17%	-£4,000	3.3%
£700,000	£28,000	£25,000	-11%	-£3,000	3.6%
£800,000	£32,000	£30,000	-6%	-£2,000	3.8%
£900,000	£36,000	£35,000	-3%	-£1,000	3.9%
£1,000,001	£50,000	£43,750	-12%	-£6,250	4.4%
£1,500,000	£75,000	£93,750	25%	£18,750	6.3%
£2,000,001	£140,000	£153,750	10%	£13,750	7.7%
£2,500,000	£175,000	£213,750	22%	£38,750	8.6%
£3,000,000	£210,000	£273,750	30%	£63,750	9.1%
£3,500,000	£245,000	£333,750	36%	£88,750	9.5%
£4,000,000	£280,000	£393,750	41%	£113,750	9.8%
£4,500,000	£315,000	£453,750	44%	£138,750	10.1%
£5,000,000	£350,000	£513,750	47%	£163,750	10.3%
£6,000,000	£420,000	£633,750	51%	£213,750	10.6%
£7,000,000	£490,000	£753,750	54%	£263,750	10.8%
£8,000,000	£560,000	£873,750	56%	£313,750	10.9%
£9,000,000	£630,000	£993,750	58%	£363,750	11.0%
£10,000,000	£700,000	£1,113,750	59%	£413,750	11.1%
£15,000,000	£1,050,000	£1,713,750	63%	£663,750	11.4%
£20,000,000	£1,400,000	£2,313,750	65%	£913,750	11.6%

Source: Knight Frank Residential Research

RESIDENTIAL RESEARCH

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