Eastons
Property Made Simple

Stamp Duty Explained

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What's in our Guide.

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Guide taken from Which Property guides January 2016

"This guide is to offer insight into all aspects of the current UK Stamp Duty system. We hope you find it helpful"

David Bell, **Director**
Eastons Group

Stamp duty is a tax on land and property transactions. Its full name is 'stamp duty land tax' (SDLT) but most people shorten it to 'stamp duty', and that's what we'll call it throughout this guide.

You'll have to pay stamp duty if you're buying a house or flat worth £125,000 or more. The amount of stamp duty you'll be liable for will depend on the value of the property, and is tiered like income tax - see our page on stamp duty rates for more details.

Stamp duty on buy-to-let property and second homes

In the 2015 autumn statement, the chancellor announced that people buying a second home or buy-to-let property - ie any property that won't be the buyer's primary residence - will have to pay an extra 3% on each level of stamp duty. Check out our buy-to-let stamp duty page to find out more.

When do I have to pay stamp duty?

When you buy a property costing over £125,000 the stamp duty is usually payable within 30 days of the 'effective date'. This 'effective date' is usually the day of completion.

There are a few circumstances under which the stamp duty is payable earlier.

If you pay for the property before completion, or you move in before the day of completion, the 30-day clock starts ticking on this earlier date.

If you use a solicitor or conveyancer - someone who helps with the legal side of buying a house - when buying the property, they'll usually handle the payment of stamp duty on your behalf. It's your responsibility, though, to make sure the right amount of tax is paid to HMRC.

Do I always have to pay stamp duty?

There aren't many occasions when you won't have to pay stamp duty on properties costing over £125,000.

Even if you swap properties with someone else, with no cash changing hands, you'll still each have to pay stamp duty on the market value of the property you're buying. It also doesn't matter if you're buying the property outright or with a mortgage - the same stamp duty rules still apply.

One occasion when you don't have to pay stamp duty, though, is divorce or separation. This only applies if one partner is transferring their share of the house or flat to the other - if you sell the property to a third party, the buyer will have to pay stamp duty in the usual way.

Stamp duty for first-time buyers

First-time buyers have to pay the same stamp duty rates as everybody else.

Anyone buying a house, including first-time buyers, won't pay any stamp duty on the first £125,000 of a house, so if you're buying a house costing less than this, you won't pay stamp duty at all.

But when buying a house costing more than £125,000, you will be charged percentages, which increase as the value of the property does.

Is stamp duty payable on fixtures and fittings?

No, stamp duty is not payable on things like domestic appliances (washing machines, dishwashers etc), carpets, curtains and furniture. If these items are included in the price you pay for the house, you can usually deduct them before calculating your stamp duty bill.

Watch out though - HMRC won't let you get away with putting an unrealistically high price on fixtures and fittings. Leave just enough furniture in each room to showcase the room's purpose and plenty of room to move around.

You don't want buyers scratching their heads and saying, "What is this room used for?"

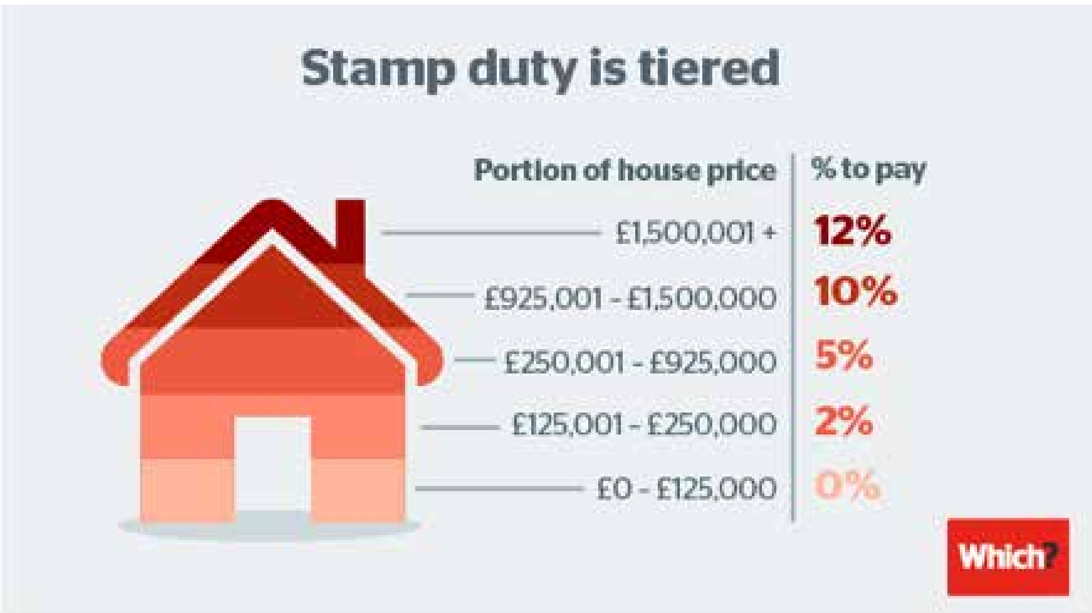
Stamp Duty Rates

We explain stamp duty rates and how much you'll pay depending on the value of the property you're buying.

You won't have to pay stamp tax on the first £125,000 of a property, but as stamp duty is tiered, you'll pay a percentage on portions of the value over that.

Current stamp duty rates are set out in the graphic below. You can scroll down to see an example of how the tier system works and to find out how stamp duty will change for buy-to-let investors from April 2016.

If you're concerned about what stamp duty means for you, it's worth speaking to a mortgage adviser or any of the sales team at Eastons



Take a look at this example to see how it works:

- Property price: £275,000
- Portion 1: £0 - £125,000 - 0% tax, so total paid for this chunk of the purchase price = £125,000
- Portion 2: £125,000.01 - £250,000 - 2% tax (£2,500) + £125,000 = £127,500
- Portion 3: £250,000.01 - £275,000 - 5% tax (£1,250) + £25,000 = £26,250
- Total paid: £278,750 (£3,750 of which is stamp duty)

Buy to Let Stamp Duty Rates

Buy-to-let stamp duty rates

From April 2016, anyone buying a second home or buy-to-let property - ie any property that won't be your primary residence - will have to pay an extra 3% on each tier of stamp duty.

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In the 2015 autumn statement it was announced that, from April 2016, anyone buying a second (additional) home or buy-to-let property will have to pay an additional 3% in stamp duty.

Valuing property just below a stamp duty threshold

Before the introduction of the tiered system, those selling a property were often advised to avoid valuing a property just above a stamp duty threshold, as this would dramatically increase a buyer's stamp duty bill. If a property was valued above a stamp duty threshold, even by just a penny, the buyer would have had to pay a higher rate of tax on the entire purchase price.

However, under the new system, the buyer only has to pay the higher rate of tax on that additional amount, so there are no huge increases to their overall tax bill.

Breaking a property into smaller units for stamp duty purposes won't work - HMRC will treat them as one transaction.

Stamp duty changes

Under the old stamp duty system, the rate you had to pay increased in bands according to the value of a property, and it wasn't tiered. So on a property costing between £250,001 and £500,000, for example, you would have paid 3% of the entire value of the property.

The new system, which came into effect on 4 December 2014, is also arranged in bands - but the rate is tiered, like income tax, meaning that it's only payable on the portion of the property's value that falls into each band. So, on a property costing between £250,001 and £500,000, you'll pay 0% on the first £125,000, 2% on the next £125,000, then 5% on anything over £250,000.

Buy to Let Mortgages

Buy-to-let landlords and people buying second or holiday homes will soon have to pay more stamp duty. Here, we explain the new buy-to-let stamp duty rates. Under measures announced in the 2015 Autumn Statement, anyone purchasing an additional property, including buy-to-let landlords and those buying second homes, will have to pay a 3% surcharge on top of current stamp duty rates from April 2016.

Stamp duty for buy-to-let investors and second homeowners

The new second home and buy-to-let stamp duty rates are tiered, just like existing stamp duty rates and income tax. Each tier, or portion of the property price, will be subject to an extra 3% stamp duty on top of the usual rate paid by those buying a home they are intending to live in

New stamp duty rate will apply to additional properties purchased from April 2016
If total property price is £40,000 or less
If total property price is over £40,000

Take a look at this example to see how it works:

- Property price: £275,000
- Portion 1: £0 - £125,000 - 3% tax (£3,750)
- Portion 2: £125,000.01 - £250,000 - 5% tax (£6,250)
- Portion 3: £250,000.01 - £275,000 - 8% tax (£2,000)
- Total paid: £287,000 (£12,000 tax)

Investing in a buy-to-let property

Investing in property has been very popular in the last few years. Recently, however, the buy-to-let sector has been coming under intense scrutiny, with the Bank of England monitoring closely for signs of the market overheating. Buy-to-let can be profitable, but it's not always straightforward.

Not only do prospective landlords have to become experts on the local property market and obtain a suitable mortgage, they also need to be prepared for the various landlord responsibilities they'll face. If you're buying a property with the intention of letting it out, you'll need a buy-to-let mortgage. The best rates are typically on offer to buyers with deposits of at least 25%, but it is possible to unlock decent deals with a 15% deposit. Mortgage rates and fees tend to be a little higher than on residential mortgages, too. The criteria can also be strict, with lenders looking closely at how much rent you're likely to bring in compared to your mortgage repayments.

Once you've bought the property, you need to consider the additional costs of letting a home, including landlord insurance, maintenance costs, agent fees and void periods.

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