STAMP DUTY HOLIDAY

What Does it Mean for Buy to Let Investors?

On Wednesday 8th July, Chancellor Rishi Sunak announced plans to introduce a 'stamp duty holiday' under a new scheme which aims to revitalise the economy amidst the UK coronavirus pandemic. These new changes to UK stamp duty rules are set to come into effect immediately, remaining in place until 31st March 2021, and will lead to significant savings for around 90% of buyers. But what does the UK stamp duty cut mean for buy to let investors? We've provided answers to some commonly asked questions about the stamp duty holiday and what it could mean for those investing in buy to let property.

WHAT IS STAMP DUTY AND HOW MUCH WILL IT COST?

Stamp duty is a tax which is paid by those purchasing property in the UK. Stamp duty Tax varies slightly by location. In England and Northern Ireland, this tax is named Stamp duty Land Tax, while in Scotland it's Land and Buildings Transaction Tax and in Wales, it's Land Transaction Tax.

The amount that each individual buyer has to pay depends on their circumstances and the overall cost of the property. Normally, those purchasing a buy to let property would need to pay 3% tax on anything under £125,000, 5% tax on a property worth £125,000 to £250,000, and 8% on a value of £250,000 to £925,000. The percentages change for buy to live purchases. For buy to live purchases (provided the buyer sells their previous home), a property worth less than £125,000 requires zero tax, while a value of £125,000 to £250,000 would call for a tax of 2%, and 5% tax for a value of between £250,000 to £925,000. Meanwhile, first-time buyers of a buy to live property are exempt from stamp duty tax on properties worth less than £300,000.

With these new UK stamp duty rules, those buying a second home only need to pay stamp duty on properties with a value of over £500,000, while buy to let investors will pay 3% tax on a property up to the same value.

HOW IS STAMP DUTY CALCULATED?

Stamp duty can be calculated either manually or with the help of a stamp duty calculator. At RWinvest we have our own stamp duty calculator – however, the percentages included in this calculator are not yet up to date with the recent stamp duty rules. If you would like to work out your potential tax payments during the stamp duty holiday, the below guide offers the relevant information.

Property Purchase Price	Stamp Duty Rates
£0 - £500,000	3%
£501,000 to £925,000	8%
£925,001 to £1.5million	14%
£1.5million+	15%

For purchases between 8 July 2020 and 31 March 2021

HOW MUCH WILL BUYERS SAVE WITH THE NEW STAMP DUTY?

The new UK stamp duty cut could save buyers as much as £15,000, which is the amount usually payable on a second buy to live property worth £500,000. Even when buying a buy to live home worth £200,000, buyers would normally need to pay £1,500 in tax, whereas they'll save this money during the stamp duty cut.

HOW LONG WILL THE STAMP DUTY HOLIDAY LAST?

The stamp duty holiday is set to last until 31st March 2021, which leaves plenty of time for buyers to take advantage of the tax savings available. However, the new rules will most likely cause a boom in investors reentering the market, so you may want to act sooner rather than later if you don't want to lose out to another buyer on a particular property.

WHAT DOES THIS MEAN FOR FIRST-TIME BUYERS?

First-time buyers normally don't need to pay stamp duty tax if their property is worth less than £300,000. Like other buy to live buyers, first time buyers won't need to pay any stamp duty tax on a property worth less than £500,000. This gives first-time buyers more leeway than usual in the type of property they can buy before paying tax.

HOW WILL THE NEW STAMP DUTY IMPACT BUY TO LET?

A lot of buy to let investors are keen to find out how the new stamp duty cut will affect them and their upcoming investments. The good news is that buy to let investors are also able to make some significant savings depending on the price of the property they're buying.

With past stamp duty tax rules, buy to let investors would need to pay 6% tax on a property worth £500,000 – that's a tax of £30,000. With the rules under the stamp duty holiday, buy to let investors will now only pay 3% tax on a property of this value. This means that the stamp duty cut will result in savings of up to £15,000 for buy to let investors in the UK. However, it's worth keeping in mind that for those buying an off-plan property, these new tax rules will only apply to investors purchasing a property within a development which is due to complete before 31st March.

WHAT WILL HAPPEN IF I HAVE EXCHANGED BUT NOT COMPLETED?

Those buying property only need to pay stamp duty tax once their purchase has completed. This means that if you exchanged before Wednesday 8th July but haven't yet completed, you'll still benefit from the new stamp duty cut.

WHAT HAPPENS IF I RECENTLY COMPLETED AND HAVE NOT YET FILED MY STAMP DUTY RETURN?

Unfortunately, those who have already completed on their purchase prior to 8th July will not be eligible for the new stamp duty holiday rules.

IS STAMP DUTY PAYABLE BY OVERSEAS BUYERS?

Overseas buyers are still required to pay the same stamp duty costs as those living in the UK. This means that if you're buying a property in the UK from overseas, you're still able to save on stamp duty tax on purchases before 31st March.

Once the stamp duty holiday is over, however, overseas residents buying residential property in England and Northern Ireland will be required to pay a 2% surcharge on top of stamp duty costs from April 2021.

WHAT DOES THIS MEAN FOR HOMEOWNERS LOOKING TO SELL?

Stamp duty doesn't affect homeowners selling their property, as it only applies to those buying a new property.

WILL THIS HELP THE HOUSING MARKET?

According to property industry experts, these new stamp duty cuts will help revive the housing market following the impact of UK coronavirus restrictions. Rightmove reported a 22% increase in traffic to their website immediately following the announcements of the tax break, which suggests a lot more interest in the market from prospective buyers.

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