

SDLT relief for first-time buyers

(Lecture P1064 – 13.50 minutes)

For residential property acquisitions in England, Wales and Northern Ireland made on or after 22 November 2017, a new SDLT relief has been introduced for first-time buyers in respect of purchases up to £500,000 (Cl 41 F(No2)B 2017).

By virtue of new Sch 6ZA FA 2003 (as inserted by Cl 41(3) F(No2)B 2017), first-time buyers paying £300,000 or less will pay no SDLT. For purchases between £300,000 and £500,000, it is only the price in excess of £300,000 that is chargeable to tax.

This is subject to a rate of 5%, giving a maximum SDLT reduction of £5,000 compared to what would previously have been payable. There is no relief where the purchase price exceeds £500,000.

Conditions to satisfy

Para 1 Sch 6ZA FA 2003 sets out the eligibility criteria for this important SDLT relief:

- the subject-matter of the transaction must consist of a 'major interest' (ie. a freehold interest or a leasehold interest which has a term of 21 years or more) in a single dwelling;
- the relief is restricted to instances where the relevant consideration does not exceed £500,000;
- the first-time buyer must intend to occupy the property as an only or main residence; and
- the transaction must not be linked to any other land transaction, unless that other linked transaction essentially consists of an interest in land which forms part of the garden or grounds of the dwelling.

First time buyer

The first-time buyer in this context means an individual who has not previously acquired a 'major interest' in another residential property (Para 6 Sch 6ZA FA 2003). Because the 'no previous property' requirement applies to residential property anywhere in the world, the phrase 'major interest' is taken to include equivalent interests in other jurisdictions.

If the property is acquired jointly, all individuals must all meet the definition of being a first-time buyer.

Scotland

The relief, which must be claimed in the buyer's SDLT return, does not apply to purchases of Scottish residential property, given that they are covered by a separate land and buildings transaction tax regime.

Wales

The relief will be in point for pre-1 April 2018 purchases of residential property located in Wales. From that date onwards, SDLT is to be replaced in Wales by a special Welsh land transaction tax.

Withdrawal of relief

Para 5 Sch 6ZA FA 2003 provides that relief will be withdrawn where a later linked transaction has the effect of making the earlier transaction ineligible for relief. Two examples of this are where the later transaction:

1. takes the aggregate consideration above the £500,000 limit; and
2. includes the acquisition of another dwelling.

In these circumstances, additional tax becomes payable on the earlier transaction as if the original claim had not been made and a further SDLT return must be delivered.

Definition of a dwelling

The definition of what counts as a dwelling is detailed in Para 9 Sch 6ZA FA 2003.

Effect on property prices

This measure is part of the Government's commitment to support home ownership and first-time buyers. Introducing this SDLT relief will, they say, 'reduce the upfront costs for first-time buyers'. However, concern has been expressed that the exemption will simply have the effect of inflating property prices by the amount of the relief given. In reality, this seems somewhat unlikely. More importantly, since the new relief will not apply to acquisitions above £500,000, it effectively reintroduces the old slab rate distortion at prices around £500,000 in view of the fact that a price increase of £1 above that level will add £5,000 to the SDLT cost for a first-time buyer.

Parents helping children

Where parents are helping children to start climbing the property ladder, the first-time buyer relief makes it more likely that fathers and mothers will make a direct gift of money to their offspring rather than buying the house or flat in their own name – not only will this avoid the 3% supplementary charge but it may also qualify for the new SDLT relief.

Contributed by Robert Jamieson

Note: The Scottish government is consulting until 23 March 2018 on the proposed introduction of a land and buildings transaction tax threshold of £175,000 for first-time buyers in Scotland. The change is to be implemented through secondary legislation, intended to come into force in June 2018.