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SDLT Surcharge

Since the SDLT Surcharge came in to force in April 2016 I have seen and heard of several landlords disposing of excellent rental properties due to the landlords desire to purchase an

additional property, eg a new family home etc. So - that's good! Afterall, the aim of the surcharge is to force a release of much needed properties back onto the sales market.

The way landlords and my clients handle and manage their finances is, of course, entirely up to them and it's certainly none of my business. However... I can't help but wonder why some landlords are choosing to dispose of otherwise excellent rental properties. This article aims to go through a couple of simple calculations and prove that actually, the SDLT surcharge will probably impact your wealth less than you think - in fact, after a year, a property owner could be wealthier by retaining an additional property and paying the surcharge rather than disposing of their rental property.

But first the caveats; clearly, there will be people who simply can't afford the upfront costs of the surcharge - therefore this article is aimed at property owners who are in the fortunate position of having some spare resources and capital. Also you should consult tax advisors, solicitors, accountants and financial advisers for advice on your personal circumstances.

Let's take Mr Bloggs; he has a rental property worth £150,000 that generates a rental income of £700 pcm. He and his fiancé have decided to a buy a family home together and they have enough money to lay down a deposit on a £300,000 property. Mr Bloggs is aware of the SDLT surcharge and has correctly calculated that he will have an additional £9000 to pay to HMRC in the form of SDLT surcharge. He therefore elects to sell the rental property. They buy the family home and live happily ever after.

Let's see what the costs look like after 1 year:

1) Scenario as detailed above:
Rental income = £0
Cost of sale of rental property = -£2,500
Capital growth at (a modest) 2% = £6,000
Total Income/growth = £3,500

2) Alternative Scenario - Mr Bloggs digs deep, raids some savings, borrows some money from family and keeps the rental property:

SDLT Surcharge = -£9,000
Rental Income = £8,400
Capital Growth at (a modest) 2% = £6,000 and £3,000
Total income and growth = £8,400

Agreed... these are simple figures (costs identical to both scenarios have been omitted) and are gross values - equity, borrowing costs and other variables will complicate these figures much more - and not many people are in the position to conjure up £9,000 and give it to HMRC. But nonetheless, the outcomes detailed above are not even close and are easily in favour of keeping the second property! And capital growth could be higher than 2%.

So to summarise; as with all decisions involving finances make sure you do the calculations and some projections. As a moderate risk-taker, business owner and landlord I have never made money by saving money (especially in the current climate of ultra-low interest rates) - sometimes costs need to be accepted; stretching yourself now can make a big improvement to your finances in a few years. And actually, perhaps that's an alternative side-affect of the SDLT Surcharge - landlords might keep their properties rented on a long term basis and provide some much needed stability to the rental market.

This document is authored by Chris Chambers of Proudhouse Property Management.

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