

RELIEF FOR TRANSFERS INVOLVING MULTIPLE DWELLINGS

FA03/S83/SCH6B

EXAMPLES

1. The freehold of a new block of 20 flats is purchased for £2.5 million. There is no headlease and none of the flats is subject to a long lease.

The transaction is a relevant transaction for the purposes of the relief as it involves the acquisition of more than one dwelling – i.e. the 20 flats. The freehold is treated as if it were interests in the individual dwellings. The chargeable consideration divided by the number of dwellings is £125,000. This is below the normal 0 per cent SDLT threshold but the minimum rate of tax under the relief is 1 per cent.

The tax due is therefore 1% of £2.5 million = £25,000.

2. The freehold of a block of 10 flats is purchased for £1.4 million. There is no headlease but five flats are let on 99-year leases.

The transaction is a relevant transaction for the purposes of the relief as it involves the acquisition of more than one dwelling – i.e. the five untenanted flats. The freehold is treated as if it were interests in the individual dwellings. The chargeable consideration is apportioned between the five untenanted flats (£1,250,000) and the five tenanted flats (£150,000).

The rate of tax on the consideration attributed to the untenanted flats is set by the amount of that consideration divided by the number of dwellings concerned. This is £250,000 so the rate of tax is 1 per cent. The tax due in respect of these flats is therefore 1% of £1,250,000 = £12,500.

The rate of tax on the consideration attributed to the tenanted flats is set by the chargeable consideration for the transaction (£1.4 million). As the transaction involves six or more dwellings, it is treated as involving non-residential property so the rate of tax is 4 per cent. The tax due in respect of these flats is therefore 4% of £150,000 = £6,000.

The total tax due on the transaction is therefore £12,500+£6,000 = £18,500.

3. The freehold reversion of a block of 20 flats is purchased. A 999-year headlease over the whole block has been granted to a company controlled by the tenants, with ten flats let on 99-year leases and the rest on leases of less than 21 years

The transfer of the reversion is not a relevant transaction for the purposes of the relief as all the dwellings are subject to the 999 year headlease - a lease of more than 21 years. No relief is due. If the transfer had been of the headlease this would be a relevant transaction in respect of the ten flats subject to leases of less than 21 years.

4. A 999 year headlease over five flats and four lock-up shops in a block is purchased for a premium of £1.25 million and annual rent of £6,000. Two of the flats are subject to 99 year underleases.

The transaction is a relevant transaction for the purposes of the relief as it involves the acquisition of more than one dwelling – i.e. the three untenanted flats. The lease premium is apportioned between the three untenanted flats (£750,000), the two tenanted flats (£100,000) and the four shops (£400,000).

The rate of tax on the premium attributed to the untenanted flats is set by the amount of that premium divided by the number of dwellings. This is £250,000 so the rate of tax is 1 per cent. The tax due in respect of these flats is therefore 1% of £750,000 = £7,500.

The rate of tax on the premium attributed to the tenanted flats and the shops (£500,000) is set by the total premium (£1.25 million). As the transaction involves both residential and non-residential property, the rate of tax is 4 per cent. The tax due in respect of these flats and shops is therefore 4% of £500,000 = £20,000.

Tax due on the net present value of the rent payable under the lease is calculated in the usual way. In this case the net present value is £165,739 and the tax due is 1% of £15,739 = £157 (rounded to the nearest pound).

The total tax due on the transaction is therefore £7,500+£20,000+£157 = £27,657.

5. The freeholds of four houses and two lock-up shops are purchased in separate linked transactions. Two of the houses cost £250,000 each and the other two cost £350,000 each. The lock-up shops cost £150,000 each.

The transactions involving the houses are relevant transactions for the purposes of the relief. The rate of tax on these transactions is set by the total consideration given in these transactions (£1,200,000) divided by the number of dwellings. This is £300,000 so the rate of tax is 3 per cent. The tax due is therefore 3% of £1,200,000 = £36,000.

The transactions involving the shops are not relevant transactions for the purposes of the relief. The rate of tax on these transactions is set by the total consideration given in all the linked transactions (£1,500,000). As the linked transactions include both residential and non-residential property, the rate of tax is 4 per cent. The tax due is therefore 4% of £300,000 = £12,000.

The total tax due on the transactions is therefore £36,000+£12,000 = £48,000.

6. The freehold of a building divided into six flats is purchased for £1.2 million and relief is claimed. The flats are let on Assured Shorthold tenancies but, two years later, the tenancies cease and the purchaser begins work to convert the building into a hotel.

At the time of purchase, the transaction is a relevant transaction as it involves the acquisition of more than one dwelling – i.e. the superior interest in six flats where the term of the lease is less than 21 years. The rate of tax is set by the total consideration given, divided by the number of dwellings. This is £200,000 so the rate of tax is 1 per cent. The tax due is therefore 1% of £1.2 million = £12,000.

When conversion work starts, within three years of the effective date of the transaction, the flats cease to be suitable for use as dwellings. The change is deemed to have taken place immediately before the purchase so the transaction ceases to be a relevant transaction. The rate of tax is now set solely by the consideration given. The subject-matter of the

transaction is now non-residential so the rate of tax is 4 per cent. The tax due is therefore 4% of £1.2 million = £48,000.

The purchaser is required to make a further return within 30 days of conversion work starting and pays the additional tax due of £36,000.

7. A purchaser agrees to purchase the freehold of an uncompleted block of six flats for £1.2 million. The consideration is paid prior to completion. Six months later, the contract is varied to provide for construction of four larger flats. The consideration is unchanged.

The purchase was a relevant transaction as it involved the acquisition of more than one dwelling – i.e. the six flats. The contract was substantially performed when the full consideration was paid. The rate of tax was set by the total consideration given, divided by the number of dwellings. This was £200,000 so the rate of tax was set at 1 per cent. The tax due at the time the contract was substantially performed was therefore 1% of £1.2 million = £12,000.

The variation of the contract is deemed to have taken place immediately prior to substantial performance. The rate of tax is now set by the consideration divided by the revised number of dwellings. This is £300,000 so the rate of tax is now 3 per cent. The tax due is therefore 3% of £1.2 million = £36,000.

As the rate of tax has increased, the purchaser is required to make a further return within 30 days of the contract variation and pay the additional tax due of £24,000.

If however the number of flats had been increased, this change would be ignored for the purposes of SDLT.

8. A purchaser acquires the freehold of a block of eight flats for £1 million. Six months later he grants 99-year leases of two flats to unconnected third parties. After a further six months, the remaining six flats are knocked together to make three flats.

The purchase is a relevant transaction as it involves the acquisition of more than one dwelling – i.e. the eight flats. The rate of tax is set by the total consideration given, divided by the number of dwellings. This is £125,000. As the 0% band does not apply under the relief, the rate of tax is 1 per cent.

The grant of the leases is not an event which requires recalculation of the tax due, even though it occurs within the 'relevant period' following the original purchase. Neither does it bring that period to an end as the whole of the interest acquired in that purchase has not been disposed of.

The combination of the six remaining flats to make three also takes place within the relevant period. This is a relevant event for the purposes of para. 6 so a recalculation is required. The event is deemed to have occurred immediately before the original purchase.

The rate of tax is now set by the original consideration of £1 million, divided by five – that is, the three combined flats and the two in respect of which leases were granted. The result is £200,000 so the rate of tax is still 1 per cent and the amount of tax due is unchanged. No further return is required.

9. A wealthy individual purchases a freehold estate consisting of a mansion, stable block and four acres of gardens, together with twelve flats and houses for domestic and estate workers, farm buildings and fifty acres of farmland for £12 million.

The transaction is a relevant transaction as it involves the acquisition of a total of 13 dwellings – the mansion, the flats and the houses.

The mansion, stable block and gardens are treated as part of a single dwelling. The consideration attributed to dwellings is £8 million and the remaining consideration attributed to the farm buildings and farmland is £4 million.

The rate of tax on the dwellings consideration is set by the amount of that consideration, divided by the number of dwellings. £8 million divided by 13 is £615,385 so the rate of tax is 4 per cent. The rate of tax on the remaining consideration of £4 million is also 4 per cent as the farm buildings and farmland are non-residential property and the transaction as a whole is a 'mixed' transaction, so the non-residential scale of rates applies.

The whole transaction is therefore taxed at 4 per cent. This is no different from the rate which would apply in the absence of the relief, so relief is not claimed.

10. An individual acquires the freeholds of six semi-detached houses. Six months later, he sells two houses to an unconnected third party, who combines them into one. After another six months he sells another two houses to his wife, who combines them into one. After a further six months he combines the two remaining houses into one and sells it to an unconnected third party.

The first sale is not an event for the purposes of FA03/SCH22/PARA6. It brings the relevant period to a close in respect of those houses, because the sale is to an unconnected third party, so the subsequent combination of the two houses into one does not affect the original purchaser's relief.

The second sale is not an event for this purpose. However the relevant period is not affected, because the sale is to a connected person, and the subsequent combination of the two houses into one is an event in respect of the original purchase. The amount of tax due is recalculated on the basis of five dwellings – that is, the combined houses, the two which were previously sold on and the two remaining in the original purchaser's hands.

The combination of the remaining two houses into one is an event for this purpose. The amount of tax due is recalculated on the basis of four dwellings – that is, the two combined houses and the two sold to the unconnected third party.

The sale of the last remaining house brings the relevant period completely to a close, eighteen months after the transaction.