



UK BUDGET MARKS CHANGES FOR CHANNEL ISLANDS COMMERCIAL PROPERTY INVESTORS

MARCH 2016

As a result of yesterday's UK Budget announcement, Channel Islands commercial property investors could see a reduction in Stamp Duty Land Tax (SDLT), but significantly higher rates will be chargeable on high value properties.

Heralding "a budget for small businesses", the Chancellor has, from midnight last night, introduced a sliding scale of SDLT for commercial property, along similar lines to the rebased SDLT rates on residential property which were introduced in the 2015 Budget.

The result is a reduction in SDLT due on 90% of commercial property purchases, but a significant increase in SDLT on commercial property purchases over £2m.

For example, on the purchase of a commercial property at a price of £250,001, the new SDLT rates will result in a reduction in SDLT from £7,500 to £2,000. A similar reduction can be seen on purchases at around £500,000.

Therefore, for investors in lower value commercial properties on the UK high street, their purchasing costs could be reduced by a significant sum. It remains to be seen whether the reduction in SDLT will result in upwards price adjustments.

However, the chancellor usually gives with one hand and takes away with the other. For example, Channel Islands investors in UK residential property will be well aware that, from 1 April 2016, an additional 3% SDLT will be payable on purchases of residential properties made in the name of a company or by individuals purchasing a second home or buy-to-let property.

Therefore, it will be property investors at the higher end of the market who will subsidise the Chancellor's giveaway at the lower end. At a purchase price of £1m, there will be virtually no change in SDLT rates. The SDLT rates start to increase significantly on purchases of £2m+. For example, on a purchase price of £2m, investors would face an additional SDLT liability of almost £10,000.

On a purchase price of £5m, SDLT rises by almost £40,000 to £239,500. That represents an increase in the SDLT rate of almost 20%. For a reasonable-sized investment of £10m, SDLT costs will increase by over 22% to £489,500.

PREVIOUS v NEW SDLT RATES ON COMMERCIAL PROPERTY

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Property Purchase Price	Previous SDLT Due	New SDLT Due
£250,001	£7,500	£2,000
£500,001	£20,000	£14,500
£1,000,000	£40,000	£39,500
£2,000,000	£80,000	£89,500
£5,000,000	£200,000	£239,000
£10,000,000	£400,000	£489,500

Collas Crill Senior Associate, Jeff O'Boyle, warned that the budget will cause further pain in the buy-to-let sector.

"Because of the fear that a 3% increase in SDLT on buy-to-let investments will lead to a reduction in housing development, the Chancellor had originally announced that investors with 15 or more properties in their portfolio would not face the 3% increase. This exemption was intended to maintain demand for buy-to-let development from larger investors, such as pension schemes. However, in a shock announcement, the Chancellor has taken a U-turn by announcing that there will be no exemption from the 3% increase for large investors."

"By applying the 3% hike to both small and large property investors, the Chancellor may have killed-off a number of housing developments. Property developers in the build-to-rent sector often rely on investment from buy-to-let investors so the Chancellor's announcement could reduce investment and derail a number of much-needed housing developments. Reduced investment in the sector will lead to further shortages of rental properties, increased demand from tenants and an inevitable increase in rents."

The Chancellor also announced that he will introduce legislation in the next Finance Bill to prevent offshore structures being used to avoid UK tax on profits that are gained from UK property developments. The UK Government is of the opinion that it would be inequitable to allow property developers to use offshore structures to avoid paying UK tax on their trading profits, so the Government intends to close this option down for developers of UK property.

"Whilst the forecasts for long-term growth in the UK residential market remain strong, in light of the Chancellor's recent assault on the buy-to-let market, Channel Islands investors would be well-advised to seek legal advice as well as tax advice on the most appropriate means of structuring their property investments," said Jeff.

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