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Stamp of approval for Osborne?



Prime London for less than £1 million? A two-bedroom flat in Addisland Court, Holland Park, is £765,000

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Prime agents hate it but the property tax rise has been a bounty for the Chancellor, netting the treasury £223 million

Almost a year ago George Osborne took the property world by surprise and hiked stamp duty on top-end homes. Today it appears his gamble has paid off – but only just. Twelve days before the Chancellor of the Exchequer announces his fiscal blueprint for 2013 and beyond, research suggests that the new stamp duty rate of 7 per cent on property worth £2 million or more will have given the Treasury an extra £223 million in London – £73 million more than had been forecast.

Liam Bailey, head of residential research at Knight Frank, calculates that the number of homes sold in this upper price bracket fell 15 per cent during 2012-13. But the higher levy means that the cash amount of tax paid within this sector will have risen by a total of £194,398,500. Which is not a bad day's work for Mr Osborne.

Her Majesty's Revenue & Customs was unable to supply a figure for how much residential stamp duty the Treasury has collected since April 2012, but overall stamp duty receipts (which include commercial duty) shows that in 2011-12 £5.2 billion was collected, and this year £5.9 billion will be taken.

On this basis Lucian Cook, the director of residential research at Savills, agrees that residential stamp duty revenues will have risen, although he points that in part this is due to an increased focus on stamping out (if you will pardon the pun) duty evasion.

The fly in the Chancellor's ointment is that the hike has clearly constrained the prime London market in terms of the number of homes actually sold.

"The tax take is up which is what he wanted," says Bailey. "The question is if you had not raised the rate would transactions have increased and would you be better off? It is the unknown question."

Another enigma is the knock-on effect of the falling number of transactions. "Every time people move they spend a lot of money in the economy, white goods, carpets, local workers, removals, solicitors, and all of that produces a huge VAT take," points out Ed Mead, a director at Douglas and Gordon.

Buying agent Robert Bailey suspects that the rise has focused attention on property worth less than £2 million, circumventing the higher tax rate altogether. "Most people are going to opt for something under that threshold and then extend or improve the property to achieve the square footage they want," he said.

"I currently have a client who is considering buying two flats priced under £2 million and combining them into one. He can fund the building costs with what he saves in stamp duty."

However, buying two homes for up to £999,000 each is harder than you might assume. "The area that I specialise in is so ridiculously expensive that you can buy virtually nothing for under £1 million," says Seamus Wylie, a director of Ayrton Wylie, based in Belgravia.

"£1 million is, of course, a staggering amount of money — but the best you could hope for really would be a short-lease flat."

He says the 15 per cent stamp duty (plus annual levy of up to £140,000) introduced for those buying property via a company "envelope" has also had an impact on extremely wealthy overseas buyers.

"Some have just bitten the bullet and put the property in their name but some will now consider buying at under £2 million," says Wylie.

Charles McDowell, a top-end buying agent, serves an extremely wealthy clientele but even they are now running a little scared. "We have gone from being a safe, predictable market to an unpredictable one," he said. "They say to me, stamp duty has gone up to 7 per cent — what if it goes to 10 per cent in a couple of years?"

Unsurprisingly, prime agents remain united in their dislike of the new stamp duty. Trevor Abrahamsohn of Glentree International goes so far as describing it as a "fiendish plot" to win headlines. He says that his sales fell by 50 per cent after the announcement.

As to this year's budget, a Treasury official declined to comment on whether there are any plans for further property taxation.

Many pundits believe that it is unlikely that there will be another major shake-up hot on the heels of last year's bombshell and the endless debating over a mansion tax.

Cook, for one, sincerely hopes that the status quo is maintained. "The Government has already ramped up rates of stamp duty on high-value property and introduced extensive anti-avoidance legislation to protect its revenues," he said.

"Any further taxes risk significantly over-taxing property and being self-defeating."