Overseas homes buyers face 2% stamp duty surcharge

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Estate agents said the year-long lead time before the introduction of the surcharge would draw purchase activity into this year and early 2021 © Bloomberg

A stamp duty land tax surcharge of 2 per cent is to be brought in on non-UK residents, setting up a likely surge in property purchases as overseas buyers look to beat its introduction in April 2021.

The measure comes four years after the introduction of a 3 per cent surcharge on second homes and buy-to-let property. Housing market analysts said most overseas buyers would be liable for both surcharges, which together would leave the buyer of a home worth £800,000 paying an extra £40,000 in stamp duty, if the new surcharge is levied as expected on the whole of the property purchase price.

Applying in England and Northern Ireland, the non-UK resident surcharge on purchases "will help to control house price inflation and to support UK residents to get on to and move up the housing ladder", the Treasury said. The tax revenues it generates, estimated in Budget documents at an average £105m a year, will be used for tackling rough sleeping.

Lucian Cook, residential research director at estate agent Savills, said the year-long lead time before its introduction would draw purchase activity into this year and early 2021, something reflected in the Treasury estimates of its tax effects in this tax year and next.

“They are anticipating it will have some sort of distorting effect from those seeking to avoid it,” he said.

According to Treasury estimates, it will receive an extra £250m in overall tax revenues in 2020-21 ahead of its introduction, while revenues would drop by £355m in 2021-22. Stamp duty land tax on residential purchases brought in £8.37bn in 2018-19.

In its assessment of the Treasury costings, the Office for Budget Responsibility, the independent fiscal watchdog, said there was a high level of uncertainty over the behavioural effects of the tax. “The policy is being announced a year before implementation, creating an incentive to bring forward transactions,” it said.

The surcharge plan has attracted opposition from developers, who use early-stage money from overseas buyers to kick-start their housing schemes.

Dean Clifford, co-founder of London-focused developer Great Marlborough Estates, said London’s economy would be damaged by the “punitive” new tax. “The capital has the most globalised housing market of any UK city and while there has been a lot of criticism of ‘off-plan’ sales to overseas investors, the fact is they provide a crucial source of development finance.”

Any chilling effects of the new tax on overseas purchases may be offset partly by recent falls in sterling, which make UK homes cheaper for many foreign buyers. Tomer Aboody, director of property lender MT Finance, said: “With values in the prime market taking a well-publicised hit, non-UK property buyers are still purchasing at what they consider to be below-market level.”

But other factors will also influence the extent to which the new surcharge dissuades non-resident buyers. Neal Hudson, director at market research company Residential Analysts, said: “A lot of it will depend on why the investor is buying — for capital growth, an income yield or purely as a store of value.”

Mr Hudson added that developers may accelerate work on their housing schemes, particularly those reliant on off-plan sales. “People will be rushing to complete construction and get the sale over the line before April 2021. We might see a bit of a spike not only in overseas sales but also in terms of new-build activity in city centres. It could have quite an impact on the market.”

The new surcharge has been long in the making: it was proposed by Theresa May, then prime minister, at the Conservative party conference in October 2018. The government has changed its view more than once on the rate at which it should be charged, switching between 3 per cent and 1 per cent before settling on 2 per cent.

When launching the surcharge in November ahead during the election campaign, Rishi Sunak, then chief secretary to the Treasury, said it would help home ownership and help reduce house prices. “That’s what excessive foreign ownership has done over the past few years,” he said.