

A basic CALCULATOR TOOL taking account of changes to STAMP DUTY (LAND TAX), affecting short term tenancies and leases, as from 1<sup>st</sup> December 2003, amended 26<sup>th</sup> March 2006.

**These notes and the calculator tool have been prepared by ARLA with the help and co-operation of the Inland Revenue and should be read in conjunction with the ARLA GUIDANCE NOTE on Stamp Duty (Land Tax). Whilst believed to be accurate it is up to any person or company etc, when taking a lease or tenancy that may have some liability for SDLT, to take his or her own formal advice.**

From 1<sup>st</sup> December 2003 the way that Stamp Duty, to be known as Stamp Duty Land Tax [SDLT], is calculated on short term (up to seven years) residential leases/tenancies is changing. These changes plus a further amendment from 26<sup>th</sup> March 2006 mean that the vast majority of such tenancy agreements/leases will not be liable for duty [SDLT] to be paid upon them.

The core change is the threshold (of rental income under a tenancy or lease) over which SDLT becomes due and the method of calculating that threshold – based on a computation of what is known as Net Present Value [NPV] which includes using a discount % (the Temporal Discount Rate) set out in the Finance Act. If the NPV computation provides a figure in excess of £125,000 then SDLT is due to be paid based upon 1% of the difference between £125,000 and the NPV amount. Where the NPV amount is less than £125,000 then no SDLT is due. *{There are different arrangements for “Premium Leases” and the calculation of SDLT on these is explained separately}*

**PREMIUM LEASES** – are treated a little differently in the way that payable duty is calculated. There is no allowance for, or computation of, NPV of rent when calculating the amount of duty payable under a Premium lease; instead, the total premium is considered as the single “relevant consideration” under the same main charge scale table as used for the sale (price) of a property – and those relevant SDLT % rates apply.

Total Premium/Relevant Consideration	SDLT percentage
Not more than £125,000	0% *
More than £125,000 but not more than £250,000	1%
More than £250,000 but not more than £500,000	3%
More than £500,000	4%

\* As long as the nominal relevant rent figure payable under the Premium lease is less than £600 per annum and/or where the total value of such annual amounts is less than that – otherwise, the SDLT payable will be 1%.

**As a professional agent you will want to be able to broadly explain to impending tenants their potential liabilities in general terms and perhaps indicate the circumstances and potential (but not the amount) for duty they may be liable to pay. So, you might like to know how to work out this NPV.**

- Q.** Don't I just add up the total rent due to be paid under the fixed term of the tenancy and if it's less than £125,000 then no SDLT is payable? **A.** No.
- Q.** I forgot the % discount. So, I just add up the total rent due to be paid under the fixed term of the tenancy and take the 3.5% discount off and if the result is less than £125,000 then SDLT is payable? **A.** No.
- Q.** I forgot, you break it up into each year don't you. So, I just apply the 3.5% discount to total rent due in each year, add the results together, and if the total is less than £125,000 then SDLT is payable? **A.** No.

It's not quite so simple as that because you have to apply this special NPV function, which includes the 3.5% discount.

- Q.** What is Net Present Value (NPV) and how is it calculated?  
**A.** NPV is a recognised mathematical “function” which can be found in Microsoft Excel spreadsheets. It is almost impossible to “describe” it in words but, here goes..... The output of an NPV calculation provides a figure, which represents the value of an investment based on a discount rate applied over the length of each period in a series of periods and where the range or series of payments are equally spaced in time, and occurs at the end of each period.

Does that help? No! Don't worry; you don't need to understand how it works mathematically in order to come up with the correct answer. No more than you need to actually know how to calculate a % or Cosine of an angle when you've got a calculator that does it automatically for you.

**ARLA** Association of Residential Letting Agents  
*“promoting the highest standards in residential lettings”*

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- Q.** So, how will people work it out!  
**A.** The Inland Revenue provide a “Calculator Tool” on their website ([www.hmrc.gov.uk](http://www.hmrc.gov.uk)). Or, you can set up a basic version of your own in Microsoft Excel on your PC. And here’s how: -

Open a new spreadsheet in excel. Increase the width of column A to about 30. Increase the width of column B to about 15. The other columns can be left at their default setting, usually about 9.

- |  |  |
|--|--|
| In cell <b>A1</b> type the words             | Rent to be paid during   |
| In cell <b>A2</b> type the words             | Year 1 or part thereof   |
| In cell <b>A3</b> type the words             | Year 2 or part thereof   |
| Similar in cells <b>A4</b> to cell <b>A8</b> | Year 3,4,5,6,7 or part thereof                                     |
| In cell <b>A11</b> type the words            | Net Present Value - NPV equals                                     |
| In cell <b>B13</b> type the words            | Is the NPV figure over £125,000 ?                                  |
| In cell <b>B15</b> type the words            | If <b>NO</b> , SDLT not due  |
| In cell <b>A19</b> type the words            | SDLT %   |
| In cell <b>B17</b> type the words            | If <b>YES</b> , enter the number <b>1</b> in cell B19              |
| In cell <b>B21</b> type the words            | If <b>YES</b> enter the number <b>1250</b> in cell B23             |
| In cell <b>A25</b> type the words            | Because the NPV is over £125,000 the SDLT payable by the tenant is |
| In cell <b>B11</b> type the formula          | =NPV(3.5%,B2:B8)   |
| In cell <b>B27</b> type the formula          | =Sum(B11*B19)%-B23   |

You might want to format some of the cells to make it look pretty. You should end up with something that looks like this: -

	A	B	C	D	E
<b>1</b>	<b>Rent to be paid during</b>				
<b>2</b>	Year 1 or part thereof	£ -			
<b>3</b>	Year 2 or part thereof	£ -			
<b>4</b>	Year 3 or part thereof	£ -			
<b>5</b>	Year 4 or part thereof	£ -			
<b>6</b>	Year 5 or part thereof	£ -			
<b>7</b>	Year 6 or part thereof	£ -			
<b>8</b>	Year 7 or part thereof	£ -			
<b>9</b>					
<b>10</b>					
<b>11</b>	Net Present Value - NPV equals	£ -			
<b>12</b>					
<b>13</b>		Is the NPV figure over £125,000 ?			
<b>14</b>					
<b>15</b>		If NO, SDLT not due			
<b>16</b>					
<b>17</b>		If YES, enter the number 1 in the cell B19			
	SDLT %	<input type="text"/>			
<b>21</b>		If YES, enter the number 1250 in cell B23			
		£ -			
<b>25</b>	Because the NPV is over £125,000 the SDLT payable by the Tenant is				
<b>26</b>					
<b>27</b>		£ -			

*Now, to test whether it works with a few quick examples!*

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**Example 1.** The initial fixed term of the tenancy is 8 months and the rent is £3000 per month. This means that the total rent due in Year 1 is £24,000. Enter the figure 24000 in cell B2. Is the NPV over £125k? No, (its £23188.41p) so no SDLT is due.

**Example 2.** The initial fixed term of the tenancy is 4 months and the rent is £18420 per month. This means that the total rent due in Year 1 is £73680. Enter the figure 73680 in cell B2. Is the NPV over £125k? No, (its £71188.41p) so no SDLT is due.

**Example 3.** The initial fixed term of the tenancy is 12 months and the rent is £11250 per month. This means that the total rent due in Year 1 is £135,000. Enter the figure 135000 in cell B2. Is the NPV over £125k? Yes, (its £130434.78p) so SDLT is due at 1% of the difference between the NPV (£130434.78p) and the threshold (£125,000) e.g. £54.35p

Remember, if this tenancy in example 3 was set up as an initial periodic from day 1 – because of the 12-month presumption in such cases, the result and liability would be the same **and then** if the tenant remains after twelve months the NPV recalculation must be revisited by entering rent for the first year and rent for the (presumptive periodic) second year. Total duty due, £1314.59 minus the £54.35 already paid equals £1260.24 now due.

**Example 4.** The initial fixed term of the tenancy is 18 months and the rent is £8000 per month. This means that the total rent due in Year 1 is £96,000. Enter the figure 96000 in cell B2. The total rent due in Year 2 (for the 6 months) is £48,500. Enter the figure 48000 in cell B3. Is the NPV over £125k, Yes, (its £137562.14p) so SDLT is due at a rate of 1% on the difference, e.g. £125.62p

**Example 5.** The initial fixed term of the tenancy is 2 years and 8 months (with break clauses) and the rent is £5250 per month. This means that the total rent due in Year 1 is £63,000. Enter the figure 63000 in cell B2. The total rent due in Year 2 is also £63,000. Enter the figure 63000 in cell B3. The total rent due in Year 3 is £42000. Enter the figure 42000 in cell B4. Is the NPV over £125k? Yes, (its £157562.33p) so SDLT is due at a rate of 1% of the difference over the £125,000 threshold, e.g. £325.62p payable at commencement, irrespective of the fact that the tenancy term could be foreshortened by the break clauses.

If we use Example 5 above but assume that there is a rent review clause which says something like “*At the end of each year of the tenancy the rent will be increased by 2% over the prevailing RPI, or, by a minimum of 4%, whichever is the greater.*”

How does that affect our calculation?

**Example 5(a).** The initial fixed term of the tenancy is 2 years and 8 months (with break clauses plus a rent review clause) and the initial rent is £5250 per month. This means that the total rent due in Year 1 is £63,000. Enter the figure 63000 in cell B2. The total rent due in Year 2 (taking account of the minimum 4% rent review clause) is now £65,520 (5460x12). Enter the figure 65520 in cell B3. The total rent due for the 8 months of Year 3 is £43,680 including another 4% increase, (5678.40p x 8). Enter the figure 43680 in cell B4. Is the NPV over £125k? Yes, (its £161,430.04p) so SDLT is due at a rate of 1% of the difference over the £125,000 threshold, e.g. £364.30p payable at commencement, irrespective of the fact that the tenancy term could be foreshortened by the break clauses.

For more detailed information about the implications of the changes to SDLT read the “ARLA Guidance Note on SDLT” which can be viewed or downloaded via the [www.arla.co.uk](http://www.arla.co.uk) website and/or visit the Inland Revenue website [www.hmcr.gov.uk](http://www.hmcr.gov.uk)