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Taxman cracks down on 'granny annexe' property loophole

The amount recovered has increased by almost 400pc in the last three years

By Melissa Lawford

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Home buyers using a "granny annexe loophole" to cut their stamp duty bill have faced a crackdown from the taxman amid a rise in false claims.

HM Revenue & Customs (HMRC) has clawed back millions of pounds from [buyers making "granny annexe" tax relief claims](#). The amount recovered has increased by almost 400pc in the last three years, according to a Freedom of Information request by accountancy firm RSM.

Chris Etherington, of RSM, said: "They are going to war on granny annexes."

The loophole – officially known as "[multiple dwelling relief](#)" – allows buyers to pay less stamp duty if they are purchasing properties that are linked. This can include a portfolio of buy-to-let properties, or a house with an additional self-contained dwelling, such as a granny annexe.

The presence of an additional dwelling can save thousands in stamp duty. A buyer claiming multiple dwelling relief divides the total sale price by the total number of dwellings and pays stamp duty on the average cost.

STAMP DUTY CALCULATOR

For England and Northern Ireland

PROPERTY VALUE

£

First time buyer? Second property?

BRACKETS	RATE	DUTY
0 - £250,000	0%	£0
£250,001 - £925,000	5%	£0
£925,001 - £1,500,000	10%	£0
£1,500,001+	12%	£0

A buyer purchasing a property for £1m would face a stamp duty bill of £41,250, but a buyer purchasing four linked properties for a combined £1m could claim relief and pay only £10,000 – a saving of £31,250. This is because the taxman would consider this as four homes worth £250,000, rather than one valued at £1m, resulting in less stamp duty being due.

However, the system has become open to abuse. In one case, a buyer purchasing a seven-bedroom house claimed that an en-suite bedroom qualified as a separate dwelling because it had a built-in wardrobe with an electric socket.

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This claim was thrown out by HMRC and the buyer was ordered to pay extra tax. Hundreds have fallen foul of these rules.

In the tax year ending April 2022, HMRC investigated 222 claims for multiple dwellings relief and recovered £5.8m in falsely claimed stamp duty relief.

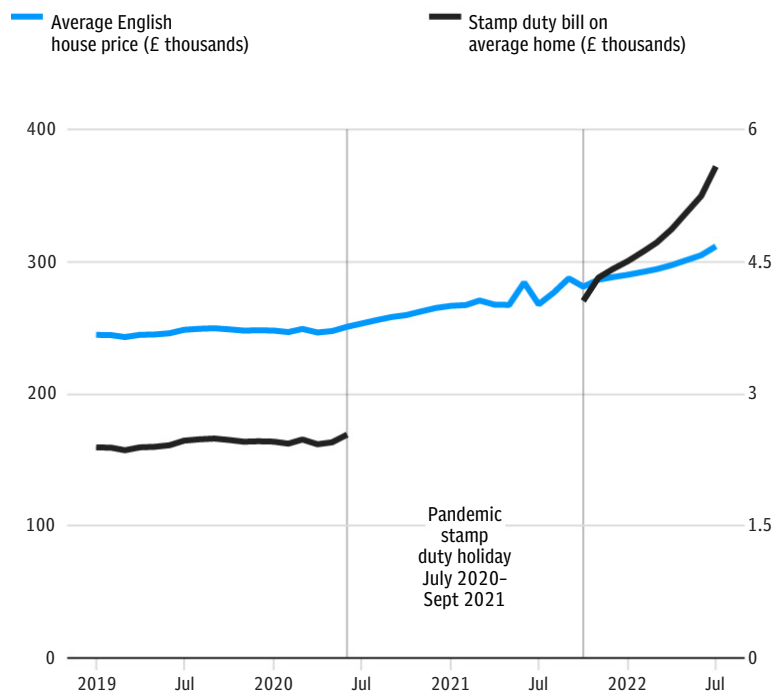
This was a surge of 383pc compared to the £1.2m recovered in the tax year ending April 2019, the last full year before the pandemic, when HMRC made 124 dwelling relief investigations.

HMRC has warned of a surge in buyers and homeowners being targeted by tax reclaim agents and lodging incorrect claims.

Mr Etherington said: "These reclaim agents trawl the Land Registry looking for larger property listings and then they put through spurious claims."

Marc Selby, of the Chartered Institute of Taxation, a professional body, said: "We are contacted by people saying they have received three or four letters from different reclaim agents and they want to ask for our opinion whether or not a claim would be legitimate. Sometimes they are a complete non-starter. These agents are often just firing off letters on the off chance."

RISING HOUSE PRICES MEAN STAMP DUTY BILLS HAVE SOARED



SOURCE: ONS

[Soaring house prices have triggered even bigger jumps in stamp duty bills](#) as homes get pushed into higher tax bands, forcing buyers to find ways to cut their bills.

Last year, HMRC launched a consultation on proposals to reform multiple dwelling relief to prevent abuse, which closed in February. Mr Etherington said the results could appear in the Chancellor's fiscal statement on October 31.

An HMRC spokesman said: "We want to help those eligible claim MDR while ensuring the right tax is paid. Our analysis indicates that up to a third of MDR claims are incorrect."

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