# Stamping Down

## Why Cutting Residential Stamp Duty is Easier than You Think

By Alex Morton

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## About the Author

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## About the Centre for Policy Studies

The Centre for Policy Studies is the home of a new generation of conservative thinking. Its mission is to develop policies that widen enterprise, ownership and opportunity, with a particular focus on its core priorities of housing, tax, business and welfare.

Founded in 1974 by Sir Keith Joseph and Margaret Thatcher, the CPS is primarily responsible for developing a host of successful policies, including the raising of the personal allowance, the Enterprise Allowance, the ISA, transferable pensions, synthetic phonics, free ports and the bulk of the Thatcher reform agenda.

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# Contents

# Executive Summary

## As recently as 1997, residential stamp duty land tax (SDLT) was charged at a single rate of 1%, levied on a minority of homes.

Since then, rates have steadily been ratcheted up, with the top rate now reaching 12% and ordinary homes in many areas becoming heavily taxed – with the average home in London and the South East paying a marginal rate of 5%.

The result is that SDLT has become a tax on mobility and aspiration – as well as one of the least popular taxes that the Government imposes.

It is not just acting as a barrier to people living in the kind of home that they or their family need, but having a serious impact across the economy.

As this paper will show, SDLT has reached a point where it is actively counter-productive. The current high rates are:

- Reducing the number of transactions being undertaken.
- Pushing down the number of new-build properties (because of the fundamental relationship between transactions and housing supply).
- Reducing aspiration and ownership.
- Reducing the welfare and economic productivity of the UK economy.
- Cutting planning levies to government

In 2005, the median amount paid in stamp duty was £1,585 in England and £2,324 in London. Today, the average buyer in England can expect to pay nearly £2,400, and the average London buyer £13,500.

The only positive moves in recent years were a shift from 'slab' to 'marginal' rates, which meant you no longer had to pay the percentage on the whole property but only on the share above the given threshold, and a limited first-time buyer exemption for most properties (though this second reform risks creating a new odd 'cliff edge' at around £500,000 where it is completely withdrawn).

These higher rates have severely dampened the number of transactions taking place in the housing market. SDLT receipts from primary residences (i.e. people's homes) in 2017/18 were just £5.1 billion in real terms. This represents a significant fall in real terms. Moreover, the average receipt per transaction has plummeted as the higher end of the market becomes gummed up.

The new Government has said that it wants to take action on stamp duty for people's homes. We argue that it should be bold.

Some have suggested abolishing SDLT outright, or switching the burden from buyer to seller.

While the latter proposal would be impractical, the former certainly has an appeal. Stamp duty is an unpopular and ineffective tax. Yet eliminating it completely on primary residences would be an expensive proposition.

This paper therefore models two alternative scenarios, and tests them against the real world impacts of higher SDLT. First, the complete abolition of stamp duty on the main home.

Second, a compromise measure that would return SDLT on primary residences to what it traditionally has been – a modest transaction tax that catches high-level property transactions while protecting the average buyer.

Under this scenario, the stamp duty threshold for someone's primary residence would be raised from £125,000 to £500,000. There would then be a 4% charge on each £1 of from £500,000 to £1,000,000, and a 5% charge on each £1 over that figure.

This may seem like a radical cut in rates – and it is. However, it would only take the rates broadly back to where they were in 2005, although it would be based on the current reformed 'marginal' system, where you only pay increased rates on the portion of the value above the threshold, in order to avoid distortions and cliff edges. This would reduce the SDLT liable down even further.

This plan would remove nine out of ten homes from SDLT entirely, and reduce the rate down for the remaining purchasers substantially. But due to how far the current tax distorts the property market, it would actually be surprisingly affordable.

The static cost of eliminating stamp duty on the main home would be approximately £5.1 billion. The model of major reductions we propose would cost approximately £3.7 billion per annum. But the actual cost of both would be much lower because of various dynamic impacts.

Taking an average of various economic studies, each 1% fall in SDLT raises housing transactions by approximately 20%. This means the dynamic impact of reducing the tax, as described above, would be 22% more transactions and abolishing it would mean 25% more transactions. At the higher end of the market, they would increase by approximately 40-50%. These higher transactions would have the following impacts:

1. SDLT revenues increase.

   This is fairly obvious – while rates would be lower, there would be more transactions, so more revenue raised. The structure of the tax would also be highly progressive, with the vast bulk of the burden falling on the richest if we cut the rate as we propose.

2. Higher transactions increase housing supply.

   One of the most powerful and consistent relationships in the housing market was that one new-build house is constructed for every 8.5 transactions on average before Help to Buy was introduced. Greater transactions act as a signal to housebuilders that the market is in good health, and the more people are moving, the greater the potential customer base for new build properties. More transactions and more supply mean that the Government needs to spend less on increasing housing supply through other measures such as grant.

3. The Government will realise greater planning gain.

   An increase in housing supply, as per point 2, also means more revenue for the Government in terms of the levies paid by developers for infrastructure etc. in return for new homes.

4. There would be a significant economic welfare gain.

   SDLT currently deters people from moving, leaving many homes under- or over-occupied or and discouraging mobility (with a knock-on impact on the jobs market).

While 4 is something that is beyond the scope of this paper to quantify, the first three are not. Taking into account reasonable estimates on these, the dynamic cost of abolishing SDLT for residential properties falls from £5.1 billion to roughly £3.3 billion per year, while the cost for our proposed reductions on SDLT above £500,000 and abolition below £500,000 falls to roughly £1.56 billion per year.

If we could return the number of transactions to their long-term average before the financial crisis up from just under 800,000 a year now to 1.3 million a year, then because the 22%-25% impact of higher transactions due to stamp duty reductions would have an impact on a larger number of transactions, this would reduce the cost to £2.2 billion per year for abolition, and £0.2 billion for the major reduction package we propose. This is because more transactions mean more new builds and more planning gain.

This would mean that a major reduction in tax could largely pay for itself, and also shows that there is less of a need, as some have suggested, to increase rates in other parts of the stamp duty system in order to pay for SDLT cuts.

Under the reduction model, we would not propose to cut the existing surcharge for second homes or commercial properties – but neither would we raise them. Already, the levy on second homes is at the boundary of what is feasible and practical. Likewise, raising the commercial rate would just risk creating stagnation and stopping moves within the commercial sector.

If the Government wanted to minimise revenue losses, alongside these changes there is a case for imposing a matching 3% surcharge on buyers of residential property who are non-resident in the UK. This would not make the UK property market unaffordable for overseas buyers, but would help address widespread concerns about properties, especially in London, being bought and left unused. Nor would it punish people based on their nationality, as those actually living and working in the UK, or moving here, would be exempted. This would raise an estimated £500 million helping ensure that SDLT cuts for primary residences were more affordable and possibly even revenue neutral.

The recommendations in this report would mean that the Government could take either all or nine out of ten homes out of stamp duty. The latter option would leave a high but not excessive rate on the top 10% of properties. Whatever the preferred option, cutting stamp duty would jolt the housing market back into life, as well as helping millions of Britons fit their accommodation to their life and work rather than vice versa. We urge the Government to take this forward as soon as possible.

**Key Recommendations on Stamp Duty**

1. Either eliminate stamp duty on the main home altogether **or**
2. Raise the threshold from £125,000 to £500,000 and introduce a 4% charge on value of the property from £500,000 to £1,000,000, with a 5% surcharge on value over that figure
3. Keep existing charges for commercial property and second homes
4. Impose a 3% surcharge on properties bought by those not living or working in the UK, to deter homes being left empty as investment vehicles

# PART 1 - How higher stamp duty is stamping out mobility

## Residential stamp duty is now at levels where it has a serious impact across the UK economy. It:

- Reduces the number of transactions being undertaken.
- Has major welfare impacts due to people being unwilling to move.
- Reduces aspiration and ownership as it makes it harder for people to move into ownership.

Crucially, as this paper discusses, the reduction in transactions also ends up reducing the number of new build properties. This in turn:

- Forcing government to spend more to generate new homes to counteract this reduction.
- Reducing planning levies created by new homes.

Ultimately, as this paper shows, the current rate of residential SDLT is so high that abolishing it for the first £500,000 and paring it back to 4% or 5% for the most valuable 10% of properties would cost approximately £1.56 billion once you take account of fairly immediate direct impacts. Abolishing primary residence SDLT would cost roughly £3.3 billion once you accounted for all these fairly immediate direct impacts. Part of this could be made up through a 3% surcharge on non-resident overseas buyers.

The case for cutting stamp duty is not just about money, however. Stamp duty is seen by voters as the least fair tax in the country, with the exception of inheritance tax.[1] This is because voters have seen the evidence, in their everyday lives, of how it is crippling mobility and aspiration – preventing people from living in the kind of homes, and therefore leading the kind of lives, that they hope for. It is no coincidence that the public backed the introduction of an exemption for most first-time buyers in 2017 by 61% to 22%.[2]

This paper largely discusses stamp duty in England, and takes the English figures as its baseline unless otherwise stated, since in Scotland and Wales this tax is devolved and data from Northern Ireland is collected separately – but many of the principles apply to the whole of the UK. We would therefore hope that the reforms outlined here would be adopted across the country.

## The growth of stamp duty in England

The rise and rise of stamp duty is a relatively new phenomenon. In 1997, SDLT on residential property was set at a single rate of just 1% on all transactions above £60,000. By 2019, however, the maximum rate had shot up to 12%. The tax had also become far more complicated, with five rates at different levels. In addition, there were special rules for those who are purchasing a property either as a first-time buyer or as

1 Stephan Shakespeare, *Voters in all parties think inheritance tax unfair*. Link.
2 YouGov and The Times, *YouGov / The Times Survey Results*. Link.

an additional purchase to their primary residence (so as a second home or as a buy-to-let investment). The former get significant exemptions; for the latter, an additional 3% rate is applied to all purchases over a £40,000 threshold. This has created a hugely complex and high system of stamp duty taxation.

**SDLT in 1997, 2005 and 2016** [3]

| | |
|---|---|
| Jan 1997 | Under £60,000 = 0% |
| | Over £60,000 = 1% |
| 2005 | Under £120,000 = 0% |
| | From £120,000 to £250,000 = 1% |
| | From £250,000 to £500,000 = 3% |
| | Over £500,000 = 4% |
| 2016 (unless first-time buyer or additional purchaser) | Under £120,000 = 0% |
| | From £120,000 to £250,000 = 1% |
| | From £250,000 to £925,000 = 5% |
| | From £925,000 to £1,500,000 = 10% |
| | Over £1,500,000 = 12% |
| 2016 for additional purchaser | Under £40,000 = 0% |
| | From £40,000 to £125,000 = 3% |
| | From £125,000 to £250,000 = 5% |
| | From £250,000 to £925,000 = 8% |
| | From £925,000 to £1,500,000 = 13% |
| | Over £1,500,000 = 15% |
| 2016 for first-time buyer | Under £300,000 = 0%* |
| | From £300,000 to £500,000 = 5% |
| | From £500,000 to ££925,000 = 5% |
| | From £925,000 to £1,500,000 = 10% |
| | Over £1,500,000 = 12% |
| | *For purchases over £500,000, SDLT is charged at 2% from £125,000 to £250,000 and 5% from £250,000 to £925,000 |

See below on changes from 'slab' to 'marginal rate'

3 Stamp duty rates, *History of Stamp Duty Taxes*. Link.

In 1997 stamp duty was a very low tax for most people. The median English property did not pay stamp duty at all, while the median London property paid around £1,000.[4] Even as recently as 2005, the median English property was still paying a rate of 1%, equivalent to just £1,585, while in London the median figure was just £2,324.[5]

It was after this that the levels of SDLT really began to increase rapidly. By 2019 the median English property of £240,000 was paying a marginal rate of 2%, while the median property in London and the South East (£468,330 and £322,000 respectively) were paying a marginal rate of 5%. That equates to costs of £2,300 for the median home across England, £6,054 in the South East and £13,459 in London.

SDLT has therefore moved from a small cost that was not particularly noticeable to a major burden. This is not just due to high levels of house price inflation. If SDLT had been kept at the same rates as 1997 then the South East median property would be just paying £2,620, and the London median property would be paying just £4,080. It is the fact that the rates have soared more than the fact that house prices have risen that has driven up the stamp duty for the average buyer.

**Average SDLT payable on 1st January 1997**

| Property | Marginal SDLT rate (£) | SDLT Paid (£) |
|---|---|---|
| England average | 55,789 (0%) | 0 |
| South East average | 69,008 (1%) | 690.08 |
| London average | 83,066 (1%) | 830.66 |

**Average SDLT payable on 31st December 2005**

| Property | Marginal SDLT rate (£) | SDLT Paid (£) |
|---|---|---|
| England | 158,572 (1%) | 1,585.72 |
| South East | 195,620 (1%) | 1,956.20 |
| London | 232,432 (1%) | 2,324.32 |

**Average SDLT payable on 1st January 2019**[6]

| Property | Marginal SDLT rate (£) | SDLT Paid (£) |
|---|---|---|
| England | 244,413 (2%) | 2,388 |
| South East | 321,094 (5%) | 6,054 |
| London | 469,186 (5%) | 13,459 |

As mentioned above, it was not just the rates that had increased, but the complexity of the tax.

4 The median English property price for the year ending December 1997 was exactly £60,000 (rounded to nearest £5,000). For London, the median property price for the same year was £86,000. This means £860 was paid under the slab system; Office for National Statistics, *Median house prices for administrative geographies: HPSSA dataset 9, Table 1a*. Link.

5 Ibid.

6 Nationwide, *UK house prices since* 1952. Link; Office for National Statistics, *Table 503: Housing market: simple average house prices by new/other dwellings, type of buyer and region, United Kingdom, from 1986*. Link.

**1997 changes**
- <£60,000: 0%
- £60,000 - £250,000: 1%
- £250,000 - £500,000: 1.5%
- >£500,000: 2%

**1998-2000 changes**
- Consistent increase in the top rates so that in 2000:
- £250,000 - £500,000: 3%
- > £500,000: 4%

**2005-2006 changes**
- Base threshold doubles and then increases to £125,000.

**2008 changes**
- Base threshold temporarily increased, for just over a year, to £175,000 in response to financial crisis.

**2010 changes**
- Temporary base threshold of £250,000 is introduced for first-time buyers.

**2011-2012 changes**
- 5% rate over >£1m
- 7% rate over >£2m
- First-time buyer base threshold abolished.

**2014 changes**
- ‘Slab’ system becomes ‘marginal’ system, i.e. marginal not total value.
- <£125,000: 0%
- £125,000 - £250,000: 2%
- £250,000 - £925,000: 5%
- £925,000 - £1.5m: 10%
- >£1.5m: 12%

**2016 changes**
- Second-home surcharge of 3% introduced, including for buy-to-let properties.

**2017 changes**
- First-time buyer relief introduced so that threshold is £300,000 and 5% charged between £300,000 and £500,000.

**2019 changes**
- Rates remain the same as they were in 2014. First-time buyer relief remains in place Second-home surcharge remains in place.

Of course, as the flow chart above sets out below, the increase from a single rate over £60,000 to where it currently stands was not a deliberate decision. Instead, it was a cumulative result of consistently trying to squeeze more and more revenue from SDLT.

## A major positive reform in recent years – a move from slab to marginal

One positive reform made in this period was the move from a 'slab' structure to marginal rates.

Under the 'slab' structure, SDLT was charged at a single rate on the whole purchase price of a property. When the price went above the threshold for a higher rate, tax would be charged at the higher rate on the whole value of the sale rather than the part of the price above the threshold. This created a strange system where one extra pound paid could increase the stamp duty owed by hundreds or thousands of pounds. This meant sales clustered below the threshold before suddenly leaping upwards, creating an odd structure to sales.

The new 'marginal' scheme brought in in December 2014 was created in such a way that rates would only apply to the part of a property's selling price that fell within each value band. For example, the difference in SDLT paid on a property costing £249,999 and a property costing £250,001 was around £5,000 under the slab structure. Under a marginal system, it is just £5 more, cutting the total bill from £7,503 to £2,505. Likewise, under a slab system, there would have been a £5,000 jump just as someone crossed the £500,000 threshold. This is illustrated in the table below – how the marginal system makes much more sense.

| Purchase price (£) | Slab System SDLT due (£) | Marginal System SDLT due (£) |
|---|---|---|
| 249,999 | 2,499.99 | 2,499.99 |
| 250,001 | 7,503 | 2,500.01 |
| 499,999 | 14,999.99 | 14,999.99 |
| 500,001 | 20,000.01 | 15,000.01 |

As you would imagine, this change generated considerable savings for the vast majority of home buyers – indeed for all those who paid a price of less than £937,500. The average family home ended up costing £4,500 less in tax (in 2014 prices).[7] This also meant that those selling properties could accurately price them rather than having to avoid the threshold levels in order to escape prohibitive SDLT bills.

| Example properties | November 2014 | January 2015 | Change in tax paid |
|---|---|---|---|
| £125,001 home in much of UK | £1,250 | 2 pence | Saving: £1,249.98 |
| £185,000 – Average Help to Buy home | £1,850 | £1,200 | Saving: £650 |
| £275,000 – Average family home | £8,250 | £3,750 | Saving: £4,500 |
| £510,000 – Average London home | £20,400 | £15,500 | Saving: £4,900 |
| £937,500 – No change in stamp duty | £37,500 | £37,500 | No change |

7 HM Treasury, *Stamp duty reforms on residential property*. Link.

## How much does SDLT raise?

By 2017/18 SDLT revenue ran at £12.565 billion in England, with the share made up from residential properties running at £9.07 billion.[8] Once you exclude the roughly £4 billion raised via Higher Rates for Additional Dwellings (HRAD) – the extra rate charged on those who are purchasing a second property to live in or as an investment – the total remaining is £5.125 billion. This is the value of 'normal' residential SDLT in England, the main focus of this paper.[9]

SDLT, however, varies hugely by region. A majority of that £5.125 billion raised in 2017/18 came, as you would expect, from London and the South East – £1.91 billion from London, and £1.25 billion from the wider South East.[10] At the other extreme, the North East contributed just £55 million.

**SDLT receipts by region 2017/18 (excluding HRAD)[11]**

| Region | Receipts (£ million) |
|---|---|
| North East | 55 |
| Yorkshire and the Humber | 165 |
| East Midlands | 185 |
| West Midlands | 225 |
| North West | 235 |
| South West | 470 |
| East of England | 630 |
| South East | 1,250 |
| London | 1,910 |
| Total | 5,125 |

This is despite the share of transactions being fairly evenly spread by region.

**Residential property transactions by region 2018**

| Region | Number of Transactions[12] | Share of transactions |
|---|---|---|
| North East | 48,000 | 4.2% |
| East Midlands | 105,000 | 9.2% |
| Yorkshire and the Humber | 111,000 | 9.7% |
| West Midlands | 113,000 | 9.9% |
| East of England | 132,000 | 11.6% |
| South West | 135,000 | 11.8% |
| London | 144,000 | 12.7% |
| North West | 150,000 | 13.2% |
| South East | 197,000 | 17.3% |

So despite being around 3 in 10 transactions, London and the South East generated over 60% of the receipts raised by SDLT on primary residences.

## Revenue from SDLT is falling, because it has reduced the number of transactions in the market

In 2017/8, some £5.1 billion in SDLT was raised by taxing primary residences. This is substantially less than the £7.1 to £7.2 billion raised in 2014/15 and 2015/16 (excluding HRAD) – even adjusting for the £159 million cost of the SDLT exemption for first-time buyers in the 2017 Budget.[13]

8 HMRC, *Quarterly Stamp Duty Land Tax Statistics*. Link. All figures in this paragraph. £9.3 billion from table T1. £4 billion from table T3.

9 HMRC, *Annual Stamp Tax Statistics: 20117-18 Commentary*. Link.

10 Ibid.

11 Ibid.

12 Office for National Statistics, *UK Stamp Tax Statistics*. Link.

13 HMRC, *UK Stamp Tax Statistics 2017 to 2018 – Tables*. Link.

Why are revenues falling? Because levels of SDLT are now so high that they have moved from being merely an irritation in the mid-2000s to making moving home actively unaffordable in much of the country. That means fewer people moving, and less money for the Treasury.

The figure below sets out the levels of normal, primary residence level receipts in recent years, adjusted for inflation.[14] This explains why the figures are different from the table above, since we took the raw data and adjusted them for inflation, as calculated using the government deflator series. SDLT has fallen in real terms from a peak in 2014/5 and 2015/6 of around £7.6 to £7.7 billion to around £5 billion today. It is clear that higher rates are not working effectively to generate revenue, irrespective of their wider consequences.

**Real terms residential SDLT receipts on primary residences (excluding HRAD)[15]**

| Financial Year | Receipts (£ million) |
|---|---|
| 1997/98 | 1,101 |
| 2005/06 | 5,414 |
| 2014/15 | 7,590 |
| 2015/16 | 7,652 |
| 2016/17 | 5,338 |
| 2017/18 | 5,216 |
| 2018/19 | 4,565* |

* All figures are for England only, except 2018/19, where receipts are for England, Northern Ireland, and a small number of Welsh transactions which occurred before, but were not completed before SDLT was devolved to the Welsh government in the 2018/19 financial year. The reason the 2017/18 figure here of £5.216 billion differs from the previous page's £5.125 billion is that this one is in real terms.

We can see the problem much more clearly by studying transaction figures. The key change is not the *number* of transactions, which has only dipped slightly, but their value. What is happening is that there are fewer high-value transactions and more low-value. Real receipts per transaction have thus fallen fairly sharply. The higher part of the market appears to be clearly impacted by the high rates of SDLT.

| Year | Real term receipts (£ million) | Transactions (million) | Real receipts per transaction |
|---|---|---|---|
| 2014/15 | 7,590 | 1.051 | £7,222 |
| 2015/16 | 7,652 | 1.054 | £7,260 |
| 2016/17 | 5,338 | 1.058 | £5,045 |
| 2017/18 | 5,216 | 1.033 | £5,049 |

This cooling of the top end of the market may in part be following the Brexit vote – but the effect was clear ahead of the referendum as receipts flatlined in this period. Multiple groups, bodies and individuals have warned of a shift away from sales in the parts of the market most heavily impacted by stamp duty, and argued that the current policy was and is likely to lead to a general slowing of the market. The House of Lords Select Committee on Economic Affairs, in their report *Building More Homes*, concluded: '*The weight of evidence suggests that stamp duty land tax can deter people from moving into a smaller home, acting as a barrier to making the best use of the houses that we already have.*'[16]

We also have good evidence from lower stamp duty rates on transactions from when in 2008-9, as part of the response to the financial crisis, there was a temporary 1% cut in the rate on houses worth between

14 Figures adjusted into real terms using government deflator series with 2018/9 = 100; HM Treasury, *GDP deflators at market prices, and money GDP.* Link.

15 HMRC, *Stamp Duties: Yield attributable to residential property, by Standard Statistical Region.* Link; HMRC, *Quarterly Stamp Duty Statistics.* Link.

16 House of Lords Select Committee on Economic Affairs, *Building more homes.* Link.

£125,001 and £175,000. This led to a 20% increase in transactions in that range.[17] As we will set out in Part 2, this general 20% shift after a 1% increase or decrease in transactions accords with an extensive economic literature confirming that cutting stamp duty increases transactions by significant amounts.

As stamp duty has risen, its impact has been felt especially among those in more expensive regions: according to a recent LSE survey, some 49% of respondents in London and the South East (and 57% in London) said SDLT would be a 'very important' or 'decisive' factor in deciding whether to sell their current home and buy another (a downsizing move for most of them).[18] As we saw earlier, these parts of the country create a high share of SDLT revenue despite only being a small share of transactions.

## SDLT's impact is about more than just revenue

Many people have studied the effects of SDLT before. But too often, their analysis starts with, and stops with, the immediate cost or benefit to the Treasury in terms of direct revenue – the direct cost or benefit from raising or lowering the rate of stamp duty on primary residences.

But this will always be difficult, not least because stamp duty revenue will inevitably fluctuate over time – when confidence is high and house prices are rising, people are far more likely to discount SDLT than in a stagnant market for example. What we can say is that increasing SDLT has a clear dynamic impact in terms of reducing transactions – which we discuss more in Part 2.

But limiting analysis to the direct impact on revenue fails to focus on are a series of second order impacts from excessively high SDLT rates which are at least as important. These are:

A. Reducing levels of new build and a need for government spend to make up supply.

B. The impacts through lower Section 106 and other planning gain.

C. The welfare loss caused by people living in the 'wrong' homes.

## A. Reducing levels of new builds and a need for government spend to make up supply

Stamp duty, by reducing the transactions in the market, has a clear knock on impact in reducing the levels of new builds coming forward. This in turn has an impact because government has to increase spending to try to make up this shortfall – assuming it wants to deliver the same number of homes.

This is because there is a clear and powerful relationship between new builds completed and transactions in the wider market.

Developers in this country operate on a 'build to sell' policy. This was set out fairly clearly in the Letwin Review, which explained that the speed at which homes are built out once a permission is granted is a function of the speed at which developers can sell them. The speed at which they can sell them in turn depends on the size of the market. If there are more people looking to buy a house, then the developer will have a larger number of people to market their homes to.

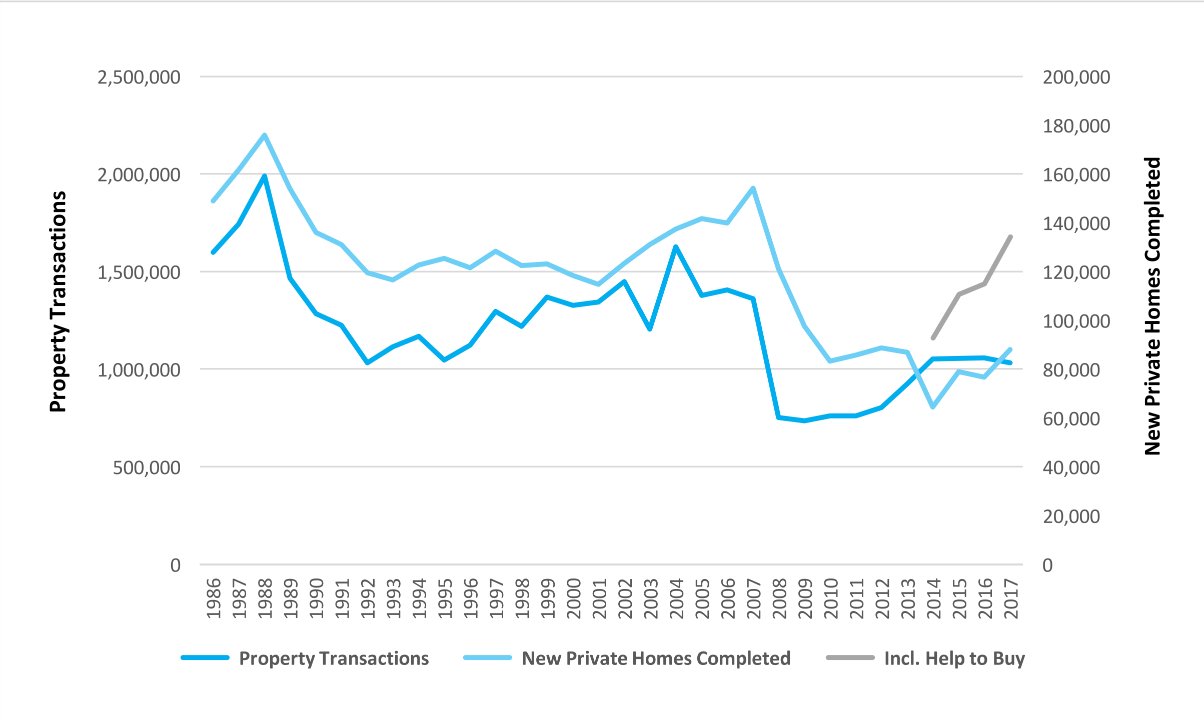
17 Christian Hilber and Teemu Lyytikäinen, *Stamp duty, mobility and the UK housing crisis*. Link.

18 Kath Scanlon, Christine Whitehead and Fanny Blanc, *A taxing question: Is Stamp Duty Land Tax suffocating the English housing market?* Link.

While the share of the new builds in the overall market may fluctuate over time, it is constant enough that the number of transactions is fairly clearly and directly linked to the number of new builds, and vice versa. The more transactions there are, the larger the potential and actual market, and the more new builds will be developed.

The chart below shows very clearly how the number of new homes and the total number of transactions moves together over time (the recent introduction of Help to Buy, which we will return to later on, has shifted this relationship, which is why the developers support it).

**Transactions versus new homes completed**




Between the mid-1980s (and very probably beforehand) and the introduction of Help to Buy, the ratio of new homes built to transactions completed remained within a range of around 1:8.5 to 1:12. There were only two of the 27 years in which this was not true – and those were at the height of the global financial crisis.

In other words, if the volume of housing transactions is 1 million in any given year, you can confidently expect the number of new builds to be in the range of 83,000 to 117,000. Double the number of transactions, and you would expect the number of new builds to double too.

**Historical relationship between transactions and new homes completed**[19]

| Year | Number of Property Transactions (million) | Number of New Private Homes Completed (H2B) | Ratio | Proportion new builds |
|---|---|---|---|---|
| 1986 | 1.6 | 148,890 | 10.7 : 1 | 9.30% |
| 1987 | 1.744 | 161,740 | 10.8 : 1 | 9.30% |
| 1988 | 1.99 | 176,020 | 11.3 : 1 | 8.80% |
| 1989 | 1.467 | 154,000 | 9.5 : 1 | 10.50% |
| 1990 | 1.283 | 136,060 | 9.4 : 1 | 10.60% |
| 1991 | 1.225 | 131,170 | 9.3 : 1 | 10.70% |
| 1992 | 1.032 | 119,530 | 8.6 : 1 | 11.60% |
| 1993 | 1.114 | 116,630 | 9.6 : 1 | 10.50% |
| 1994 | 1.168 | 122,700 | 9.5 : 1 | 10.50% |
| 1995 | 1.047 | 125,470 | 8.3 : 1 | 12.00% |
| 1996 | 1.122 | 121,550 | 9.2 : 1 | 10.80% |
| 1997 | 1.296 | 128,240 | 10.1 : 1 | 9.90% |
| 1998 | 1.22 | 122,510 | 9.6 : 1 | 10.00% |
| 1999 | 1.368 | 123,180 | 11.1: 1 | 9.00% |
| 2000 | 1.327 | 118,330 | 11.2 : 1 | 8.90% |
| 2001 | 1.343 | 114,850 | 11.7 : 1 | 8.60% |
| 2002 | 1.45 | 123,320 | 11.8 : 1 | 8.50% |
| 2003 | 1.204 | 131,060 | 9.2 : 1 | 10.90% |
| 2004 | 1.627 | 137,330 | 11.8 : 1 | 8.40% |
| 2005 | 1.379 | 141,740 | 9.7 : 1 | 10.30% |
| 2006 | 1.405 | 139,910 | 10.0 : 1 | 10.00% |
| 2007 | 1.362 | 154,210 | 8.8 : 1 | 11.30% |
| 2008 | 0.751 | 121,100 | 6.2 : 1 | 16.10% |
| 2009 | 0.735 | 97,620 | 7.5 : 1 | 13.30% |
| 2010 | 0.761 | 83,280 | 9.1 : 1 | 10.90% |
| 2011 | 0.762 | 85,870 | 8.9 : 1 | 11.30% |
| 2012 | 0.804 | 88,740 | 9.1 : 1 | 11.00% |
| 2013 | 0.925 | 87,010 | 10.6 :1 | 9.40% |
| 2014 | 1.051 | 92,850 (28,376) | 11.3 : 1 | 8.80% |
| 2015 | 1.054 | 110,710 (31,838) | 9.5 : 1 | 10.50% |
| 2016 | 1.058 | 115,050 (38,409) | 9.2 : 1 | 10.90% |
| 2017 | 1.033 | 134,220 (46,296) | 7.7 : 1 | 12.90% |
| **Average** | **1.210** | **123,903** | **9.7 : 1** | **10.48%** |

19 UK Housing Review, *Numbers of property transactions in England and Wales.* Link; House of Commons Library, *Housing supply statistics for the UK: Table 2.5.* Link; Ministry of Housing, Communities and Local Government, *Help to Buy (Equity Loan scheme): Data to 30 June 2018, England.* Link.

This link is not merely about correlation, but causation. It is accepted wisdom within the construction industry that an increase in the number of transactions will increase the number of new builds being created. Conversely, a fall in the number of transactions will reduce the number of new builds.

On this data, assuming all other things were equal, and taking the mid-point of the ratio range of 1:10.25, an increase in transactions from 1 million to 2 million over a three-year period would increase the number of private homes being built from 102,500 to 210,000.

In fact, the data shows that the total number of new builds is even more sensitive to transaction levels than you might imagine. The data in the table above uses early quarterly data, which tends to underestimate the number of homes actually being built.

Recently, improved data has been gathered in this area, though it is not available as far back. The table below shows the levels of house building corrected for actual delivery. (To add to the complexity, one data source operates on the financial year, another on the calendar year.) This gives a final ratio of 8.54 transactions to each new build. So, on average, for every 8.5 transactions taking place in any year, one home is built. The more transactions, the more homes

**Figures across all tenures corrected for actual delivery**

| | 2015 or 2015/16 | 2016 or 2016/17 | 2017 or 2017/18 | Average |
|---|---|---|---|---|
| Quarterly estimates of new housing delivery[20] | 141,470 | 141,280 | 163,410 | 148,720 |
| Updated estimates of new housing delivery[21] | 163,940 | 183,570 | 195,290 | 180,933 |
| Adjustment | 22,470 (+15.8%) | 42,290 (+29.9%) | 31,880 (+19.5%) | 32,213 (+21.6%) |

This has a hugely important consequence. If you reduce transactions by 100,000, then you will, on average, reduce the number of homes being built by 11,709. Assuming government does not want to see new-build numbers fall, it will have to spend more to support the sector to make good the shortfall through programmes like the affordable housing budget.

It is therefore ironic that Governments of both parties have been ever more concerned, since the mid-2000s, with increasing the supply of housing – but have simultaneously overseen a rapid and steady increase in stamp duty, thereby cutting transactions in the market and so cutting the number of new builds delivered. At the Autumn Budget 2017, for example, the Government announced over £15 billion of new financial support for housing, bringing the total support to at least £44 billion over a five-year period.[22] Yet part of this will just be going towards undoing the harm of SDLT.

20 House of Commons Library, *Housing supply statistics for the UK*: *Table 2.5*. Link

21 Ministry of Housing, Communities and Local Government, *Help to Buy (Equity Loan scheme): Data to 30 June 2018, England*. Link.

22 HM Treasury and Philip Hammond, *Budget 2018: documents*. Link.

The current high level of stamp duty also has a bearing on the long-term future of Help to Buy. Help to Buy – as the chart above shows – has managed to push up supply relative to transactions by making new builds more attractive relative to other properties, since you can buy more with the Government help you receive.

The implication is that for any given number of transactions in the housing market, more new builds will be developed than previously. In 2017 for example, the data showed that 46,296 homes were delivered under the Help to Buy mechanism – a very large share of the total. If Help to Buy was wound down tomorrow, this could impact on housing supply fairly rapidly.

The 2018 Budget announced that Help to Buy had been extended from 2021 to 2023, with the Chancellor setting aside £8.67 billion for the purpose.[23] There is a clear intention within Government to wind the scheme down at that point – but the same could be said of previous pledges to run the scheme down in 2021. The Government will only be able to end Help to Buy if new-build numbers have recovered sufficiently to sustain the market without it. And that will only happen if there is a much higher volume of transactions – something that higher SDLT makes more difficult.

## B. The impacts through lower Section 106 and planning gain

Another major cost to government from higher SDLT is the impact this has on Section 106 and planning gain – levies that are put on developers in return for having planning permission granted. Reducing the number of sales reduces the number of new builds, which in turn reduces the level of Section 106 and other planning gain, which is a direct hit to government finances.

Currently, government (at both national and local level) devotes much of the revenue from planning gain towards affordable housing – some two thirds of the total in 2016-17.[24] If revenue from Section 106 or planning gain falls, the government will have to choose between less affordable housing being built or more money being spent to support the market. In addition, Section 106 and planning gain can also help pay for the wider costs of infrastructure, which would be needed to cater for the inhabitants of these homes. Again, if revenue from Section 106 or planning gain fails, the government needs to step in to make this up.

So how is the system working? Research commissioned by MHCLG shows that the level of contributions agreed with developers has remained stable per new home permissioned between 2011-12 and 2016-17.[25] However, because the number of homes being built has risen (e.g. on the calendar year figures above from 88,740 to 134,220), so developer contributions have risen, from £3.7 billion to £6 billion.[26]

This £2.3 billion a year extra has obviously has helped a cash-strapped Treasury in terms of infrastructure and affordable housing delivery. For 2016/17, developer contributions were equivalent to over £40,000 per new house in that year, so each home not being built will, on average, mean £40,000 has to come from government.[27] If SDLT is depressing the number of new homes built – which there is clearly a very

23 HM Treasury and Philip Hammond, *Budget 2018: documents*. Link.

24 Ministry of Housing, Communities and Local Government, *The Incidence, Value and Delivery of Planning Obligations and Community Infrastructure Levy in England in 2016-17*. Link.

25 National Audit Office, *Planning for new homes*. Link.

26 Ministry of Housing, Communities and Local Government, *The Incidence, Value and Delivery of Planning Obligations and Community Infrastructure Levy in England in 2016-17*. Link.

27 £40,552 exactly; Department for Communities and Local Government, *House building; new build dwellings, England: March Quarter 2017*. Link.

convincing case for – that is £40,000 per home that is not built that the government has to spend.

## C. The welfare cost caused by people living in the 'wrong' homes

High levels of SDLT on primary residences have reduced the number of transactions, and cut house-building and revenue, which are all direct costs. But they have also caused a more subtle problem – more people are living in the 'wrong' homes for them in terms of size or location.

The primary impact of this is not, of course, a direct hit to government finances. It is in the damage to people's lives and aspirations. Because people are moving less frequently – due to the friction imposed by high SDLT rates along with wider house price increases – they are less able to match their living situation to their needs, whether that be moving to be nearer family members, downsizing to a retirement home, moving to the suburbs to accommodate a growing family, or moving to a distant town to pursue an attractive employment opportunity.

But our primary purpose in this section of the report is not to convince people that stamp duty is a bad thing – every scrap of polling or anecdotal data we have shows that they know that perfectly well. It is to show those in Government, and particularly the Treasury, that the economic benefits of cutting stamp duty make it a highly sensible decision despite the immediate costs.

In 2017-18, the overall rate of under-occupation in England was 38%. That means there were around nine million households living in under-occupied homes – that is, they had at least two more bedrooms than they 'needed'[28] And this is a growing problem. Among owner-occupiers, the rate of under-occupation has leapt from 41.1% in 1997/98 to 50.5% in 2016/17.[29]

Breaking this down by age shows that this is very heavily skewed toward older people. So, for example, there are over 3.5 million older under-occupiers, while there are just 87,000 under-occupier households aged 16-24 and 567,000 aged 25-34.

**Under-occupying by age group 2014-17**[30]

| Age | Number of under-occupiers (000's) |
|---|---|
| 16-24 | 87 |
| 25-34 | 567 |
| 35-44 | 876 |
| 45-54 | 1,467 |
| 55-64 | 1,789 |
| 65+ | 3,520 |

This data is an average over 3 years 2014-17 so is lower than the 9 million as under-occupancy has been rising in this period.

The under-occupation phenomenon is generally focused on owner-occupiers. Over half (54%) of owner-occupied homes are under-occupied, whereas just 15% are in the private rented sector.[31] Indeed, analysis by the Joseph Rowntree Foundation in 2012 showed that 85% of larger homes (three or more-bedroom dwellings) owned by older people were 'released' as a result of death rather than house moves.[32]

28 Ministry of Housing, Communities and Local Government, *English Housing Survey: Headline Report, 2017-18*. Link.
29 Ministry of Housing, Communities and Local Government, *English Housing Survey*. Link.
30 Gov.UK, *Households under-occupying their home*. Link.
31 Ministry of Housing, Communities and Local Government, *English Housing Survey: Headline Report, 2017-18*. Link.
32 Peter Kenway, *Older people's housing: choice, quality of life, and under-occupation*. Link.

It should be said emphatically at this point that we are not suggesting that everyone should be forced to adjust the size of their home to their actual requirements. If elderly people want to remain in their family home, and turn the spare bedrooms into an exercise space, or an artist's studio, or junk storage, that is their perfect right.

But it is also a basic economic principle that the more you tax a transaction, the more you reduce its frequency. If people are weighing up whether to downsize, the fact that they have to pay stamp duty on the next property in the chain will very certainly have an impact on that decision. It may also make a younger family who need the extra space more reluctant – or less able – to afford to make the leap even if the house should become vacant.

Cutting SDLT, in other words, does not force anyone to do anything. But it removes an obstacle to them doing what they might otherwise want to do. The higher SDLT rates climb, the more people will be blocked from moving to a home that better suits them and their needs.

Various studies have indeed found that SDLT, by inhibiting movement, has a very high impact on welfare.

As one LSE study says: *'Our empirical findings suggest that stamp duty induces substantial misallocation of dwellings. This imposes a hefty welfare loss on society as a whole… each transaction prevented by the tax rate hike from 1% to 3% destroys the welfare of the trading partners by somewhere between a similar 1% and 3% of the price of the dwelling. At the same time, each prevented transaction depresses tax revenue. Our calculations suggest that the welfare loss associated with the tax rate hike from 1% to 3% is massive, possibly above 80% of the revenue increase.'*[33]

Of course, in recent years, the rate has gone well above 3%, potentially making these effects even more pronounced. One Australian study estimated the welfare impact of a whole range of taxes, and found that SDLT was the most damaging of all: *'stamp duty change reduces welfare by 72 cents per dollar of revenue raised'.*[34] This welfare effect is harder to measure than transactions, revenue or planning gain, but it is colossal nonetheless.

33 Christian Hilber and Teemu Lyytikäinen, *Stamp duty, mobility and the UK housing crisis.* Link.

34 Liangyue Cao, Amanda Hosking, Michael Kouparitsas, Damian Mullaly, Xavier Rimmer, Qun Shi, Wallace Stark, and Sebastian Wende, *Understand the economy-wide efficiency and incidence of major Australian taxes.* Link.

# PART 2 - How to reform the system

Current levels of stamp duty on primary residences are counterproductive and hugely damaging. Action is necessary. But there is one crucial benefit to the current system – it is doing so much economic damage that reducing SDLT would largely pay for itself.

## Abolition or major cuts would largely pay for themselves

The simplest solution would be to simply abolish SDLT for primary residences. This would cost £5.1 billion.[35] Given that currently the Government raises £787.1 billion across the UK, this would amount to 0.65% of total tax take.[36] This is also before we consider the fact that the real cost would be much lower once you take account of dynamic effects.

Against this is the argument that the Government has a debt of around 86.7% of GDP and still runs a deficit.[37] In addition, SDLT is an unpopular tax but a legitimate one – if set so that it only impacts more valuable properties, and does so at a reasonable rate rather than a punitive one.

We therefore model two different scenarios. The first is the outright abolition of SDLT. The second, which we prefer on cost grounds, although we think either is sensible, is to reduce SDLT so that the vast majority of homes do not pay it – and for the higher value properties that do pay it, the rate returns to broadly where it was in 2005, a level that was still raising a reasonable amount of revenue without seriously reducing the number of transactions.

In either case we would retain the marginal-not-slab system that only sees you pay a given rate over a particular threshold, rather than on the entire lump sum. This also means that if we move back toward the level of rates payable in 2005, it would mean hefty reductions both compared with now and 2005 for the same property.

## What would this system look like for those purchasing a home?

The outright abolition scenario is easy to model – no one pays any stamp duty.

The reduction scenario is only slightly more complicated:

1. No SDLT on primary residences until £500,000 is reached.
2. Returning to rates above £500,000 to 2005 rates, as set out below, but only at the marginal rate.

This would create a highly progressive situation where most people they would not be penalised for trying to own their home, or move to a more suitable home, with the most expensive homes still making a reasonable contribution to the Exchequer.

35 SDLT receipts for 2017/18 for primary residential for England only; Policy Exchange, *Taxing Issues? Reducing housing demand or increasing housing supply*. Link.

36 Office for Budget Responsibility, *Public finances databank: Aggregates (2018-19 prices)*. Link.

37 Office for National Statistics, *UK government debt and deficit: December 2018*. Link.

**New SDLT rates and thresholds for primary residences**

| | |
|---|---|
| New rates | Under £500,000 = 0% |
| | From £500,000 to £1,000,000 = 4% on each £1 |
| | Over £1,000,000 = 5% on each £1 |

The median UK property, which is worth £227,000, would pay no SDLT at all – nor would the median South East or London home, which are worth £325,000 and £485,000 respectively.

A property worth £600,000 would pay just £4,000 compared to £20,000 now. A property worth £800,000 would pay just £12,000, as against £30,000 today. And a property worth £3 million would pay £120,000 compared to £273,750.

So, this would keep a highly progressive structure without imposing punitive and self-defeating levels of SDLT, and represent a serious and substantial tax cut for all those trying to buy or move house. Indeed, roughly nine out of 10 properties would be exempted from the system entirely – and all properties would see a saving of at least £15,000 on tax bills.

**Examples of SDLT payable at present and in future under this rate**

| Cost of property | SDLT paid now | SDLT paid in 2005 | SDLT under reform |
|---|---|---|---|
| £200,000 | £1,500 | £2,000 | £0 |
| £250,000 | £2,500 | £2,500 | £0 |
| £400,000 | £10,000 | £12,000 | £0 |
| £500,000 | £15,000 | £15,000 | £0 |
| £600,000 | £20,000 | £24,000 | £4,000 |
| £800,000 | £30,000 | £32,000 | £12,000 |
| £1,000,000 | £43,750 | £40,000 | £20,000 |
| £1.2 million | £63,750 | £60,000 | £30,000 |
| £3 million | £273,750 | £150,000 | £120,000 |

Another advantage of this would be to reduce complexity in the system, as first-time buyers would be brought under the main SDLT regime too. In doing so, those buying their first home at between £300,000 and £500,000 would no longer have to pay any SDLT – so this would also be a support mechanism for all but the most expensive first-time buyers. It would also remove the current cut-off point around £500,000, which is in danger of developing into a new cut-off threshold for first-time buyer properties.

## How much would this cost on a static analysis?

Obviously, a static analysis of the total abolition of SDLT would be a cost of £5.1 billion. The sharp reductions we propose would cost about £3.73 billion.[38] We calculate this second figure of £3.73 billion based on the average properties worth between £500,000 and £1,000,000 and average property worth more than £1,000,000 multiplied by the average rates,

38 See Appendix for an explanation of how this was calculated.

receipts, and numbers of homes sold. Our new system on a static analysis would raise £1.4 billion or so, which compares with the current revenue on primary residence SDLT of £5.1 billion means a loss of around £3.7 billion.

**Cost on static analysis**

| | | Difference between current and proposed | | Aggregate | |
|---|---|---|---|---|---|
| Static analysis | Average prices | Average rates | Average receipts | Number | Total receipts |
| **£500,000 or less** | - | - | - | - | £0 |
| **£500,001 to £1,000,000** | £659,143 | 2.47% | £16,277 | 70,000 | £445,600,000 |
| **More than £1,000,001** | £2,082,031 | 1.94% | £40,352 | 12,800 | £948,500,000 |
| **Total** | £291,599 | 2.22% | | 791,500 | £1,394,100,000 |
| **Lost revenue versus now** | | | | | **£3,730,900,000** |

Any changes will of course be subject to a time lag as the official transaction date is the date of contract completion rather than the date on which the price is agreed. In the UK, it takes an average of 50 days for completion, rising to an average of 58 days in London – the longest for any region.[39] This lag means that the time it takes for the market to settle into a new equilibrium may take up to two months – but after this the market should have largely adjusted.

## The dynamic costs across all areas would be much lower

As set out above, the static costs of this reduction in SDLT would be about £3.7 billion, and of outright abolition £5.1 billion.[40] However, in reality, both would cost less, since there are a series of impacts that government would be directly able to be set against:

- Revenue increases due to higher transactions to partially offset lower rates.
- Higher transactions mean more homes without government support.
- Higher transactions and more homes mean higher levels of planning gain.

These exclude the substantial indirect impacts around homeowners' economic welfare, described above, which are impossible to quantify, but obviously would make the case for major reductions in SDLT much stronger. However, as we will see, even the direct three impacts above, there is a very strong case for at least our option of major cuts to SDLT from current levels.

39 Nicky Burridge, *Revealed: How long it REALLY takes for a property to sell.* Link.

40 £2.1 billion for the changes to the main rate of SDLT affecting primary and additional residencies, plus £1.1 billion for changes to First Time Buyers Relief.

41 Deloitte, *The economy impact of stamp duty: Three reform options.* Link; Michael Carlos Best and Henrik Jacobsen Kleven, *Housing Market Responses to Transaction Taxes: Evidence From Notches and Stimulus in the UK.* Link; Ian Davidoff and Andrew Leigh, *How Do Stamp Duties Affect the Housing Market?* Link; Jos Van Ommeren and Michiel Van Leuvensteijn, *New Evidence of the Effect of Transaction Costs on Residential Mobility.* Link; Ben Dachis, Gilles Duranton and Matthew A. Turner, *The effects of land transfer taxes on real estate markets: Evidence from a natural experiment in Toronto.* Link; Christian Hilber and Teemu Lyytikäinen, *Transfer taxes and household mobility: Distortion on the housing or labor market?* Link; Michael Best and Henrik Kleven, *The surprising power of tax stimulus to the housing.* Link.

## So what would the dynamic benefits be?

There have been a range of academic studies looking at the impact of SDLT around the world (or the equivalent property transaction tax).[41] All of them find that SDLT has a large impact on housing transactions and household mobility: on average they suggest that if SDLT were reduced by 1% (as a proportion of the value of the house) then housing transactions would increase by perhaps around 20%. This is not an exact figure, but it is representative of the general evidence.

For example, Best and Kleven (2013) found that a one percentage point cut in stamp duty led to a 20% to 23% increase in property turnover. Hilber and Lyytikainen (2012) found that a 1.5% reduction in stamp duty lead to a 30% increase in transactions, so again a 20% increase for each 1% change. Dachis et al. (2012) found that a percentage point increase in stamp duty was estimated to reduce transaction activity by 15%. And finally as noted in Part 1, the temporary 1% cut in the tax rate – due to the 2008-09 SDLT holiday on houses worth between £125,001 and £175,000 – led to a 20% increase in transactions at that level.[42]

Given how congested the property market has become, especially in London,[43] and how effective stamp duty cuts have previously been in boosting transactions in the UK,[44] we believe that it is reasonable to assume that the reforms we propose will increase transactions by at least this level, i.e. a 20% increase in transactions for each 1% reduction in SDLT.

The table below shows the estimated impact of both an outright abolition of SDLT and our proposed changes on transaction numbers. For each band, the change in average SDLT rates is given, along with the current number of transactions in each band (taken from 2017-18) and the estimated number of transactions that would occur following our reforms (assuming mid-points here when calculating the number of transactions x value of transactions).

Under the reduction model, the highest number of extra transactions is likely to be for properties between £250,000 and £500,000, which we estimate will increase by over 100,000. The largest proportional increase in transactions is likely to come from homes between £500,000 and £1,000,000, where the change in average SDLT rate is the highest. We estimate these bands would see average SDLT bills falling by 2.47%, leading to an estimated increase in transactions of 49%. Overall, we estimate transactions across England after our proposed cuts will increase by 22.3%, and transactions would immediately go up by 176,504 from the current total of 791,500 to 968,004.[45]

42 Christian Hilber and Teemu Lyytikäinen, *Stamp duty, mobility and the UK housing crisis*. Link.

43 Property Wire, *Record £100,000 fine for illegal short term subletting in London*. Link; Royal Institute of Chartered Surveyors, *Housing market activity set to weaken again next year*. Link.

44 Michael Best and Henrik Kleven, *The surprising power of tax stimulus to the housing market*. Link.

45 Total primary residential transactions figure of 791,500 calculated by using 2017/18 transaction figures for England by price band from tables 5a and 5c of the stamp duty statistics. The total primary residential transactions for each price band are aggregated together. See here: https://www.gov.uk/government/statistics/uk-stamp-tax-statistics

Please note, there is a discrepancy when you minus total HRAD transactions off total residential transactions, you get a figure of 791,600 rather than 791,500.

### Estimate of impact of change in transactions with abolition under £500k and cuts above[46]

| SDLT band | Change in average SDLT rate and current transactions | Total transactions given 20% increase per 1% decrease in SDLT |
|---|---|---|
| £125,000 or less | 0.00% | Small (*) |
| | 155,698 | 155,698 |
| £125,001 to £250,000 | 0.62% | 12% |
| | 296,102 | 332,622 |
| £250,001 to £500,000 | 1.96% | 39% |
| | 256,900 | 357,515 |
| £500,001 to £1,000,000 | 2.47% | 49% |
| | 70,000 | 104,572 |
| More than £1,000,001 | 1.94% | 39% |
| | 12,800 | 17,762 |
| ***England aggregated*** | | ***22.3%*** |
| | | ***968,004*** |

(*) There will be an impact even here since lower SDLT will help allow the sale of larger family homes and downsizing into properties worth less than £125,000, but we exclude it as we cannot realistically calculate it. But is another positive factor.

If we abolished SDLT outright, this would mean properties under £500,000 would see the same cut in rates and so increased transactions as under the reduction option, but properties above this in the £500,000 to £1,000,000 and above £1,000,000 categories would see even more additional transactions as set out in the table below. This would take the total increase to 25.2%, or by 199,458, taking the total to 990,875.

### Estimate of impact of change in transactions abolition option[47]

| SDLT band | Change in average SDLT rate and current transactions | Total transactions given 20% increase per 1% decrease in SDLT |
|---|---|---|
| £125,000 or less | 0.00% | Small* |
| | 155,698 | 155,698 |
| £125,001 to £250,000 | 0.62% | 12% |
| | 296,102 | 332,622 |
| £250,001 to £500,000 | 1.96% | 39% |
| | 256,900 | 357,515 |
| £500,001 to £1,000,000 | 3.44% | 69% |
| | 70,000 | 118,160 |
| More than £1,000,001 | 1.94% | 110% |
| | 12,800 | 26,880 |
| ***England aggregated*** | | ***25.2%*** |
| | | ***990,875*** |

* Again an impact will exist even here since lower SDLT will help allow the sale of larger family homes and downsizing into properties worth less than £125,000, but we exclude it as we cannot realistically calculate it. But is another positive factor.

46 All transactions here for primary residences in England only with £250,000 or less split in two using data on number of SDLT non liable properties.

47 All transactions in this table are for primary residences in England only. Here and in all other calculations the £250,000 or less band has been split in two, using data on the number of SDLT non-liable transactions and the authors own calculations.

## Boost to revenue due to higher transaction numbers

If stamp duty is abolished on primary residences, any extra transactions created will not be taxed, so there will be no extra revenue at all. Under the reduction plan, however, the increase in transactions above the £500,000 threshold would generate more transactions, which will generate additional SDLT revenues, and these will partially counterbalance the cost of cuts in the rate charged.

We estimated that a cut in revenue as we propose will immediately generate around 176,504 new transactions as more people will move, and these extra transactions will mean revenue will total £1.97 billion, rather than the £1.39 billion that was quoted higher up in this paper, an additional £580 million in revenue. This takes the predicted revenue loss from £3.7 billion under a static analysis to roughly £3.1 billion on revenue alone. How we arrive at this figure of £1.97 billion in extra revenue is set out below.

**Revenue after reducing SDLT on primary residences**

| | | Forecast average SDLT receipts | | Change in transactions | | Aggregate | |
|---|---|---|---|---|---|---|---|
| Dynamic analysis | Average prices | Average receipts paid | Reduction in rates | % increase | Increase | Forecast Transactions | Total receipts |
| **£125,000 or less** | | £0 | 0% | 0% | 0 | 155,698 | £0 |
| **£125,001 to £250,000** | £180,724 | £0 | 0.62% | 12% | 36,520 | 321,666 | £0 |
| **£250,001 to £500,000** | £346,866 | £0 | 1.96% | 39% | 100,615 | 357,515 | £0 |
| **£500,001 to £1,000,000** | £659,143 | £6,366 | 2.47% | 49% | 34,572 | 104,572 | £665 million |
| **More than £1,000,001** | £2,082,031 | £74,102 | 1.94% | 39% | 4,962 | 17,762 | £1.3 billion |
| **Total** | £291,599 | | 2.22% | 22.3%[48] | 176,004 | 968,004 | £1.97 billion |
| **Lost revenue** | | | | | | | -£3.13 billion |

The long-term case for SDLT cuts on primary residences is in fact slightly higher. This is because the levels of transactions at present are much lower than their long run average. As the table below shows, transactions between 1998 and 2007 averaged around 1.37 million homes but fell to 890,000 between 2008 and 2017, which means the impact of cuts is likely to be understated.

**Average levels of transactions over time each year**

| Year | Million transactions[49] |
|---|---|
| 1998-2007 | **1.37 average per year** |
| 2008-2017 | **0.89 average per year** |

48 This figure is an aggregation of the above price bands, which is why the 2.2% average rates reduction for England does not lead to the 44.4% (2.22%*20) increase in transactions. The main reason that transactions do not increase more for England as a whole is mainly because of the large number of transactions (155,000 plus) under £125,000, which currently do not pay SDLT because they are already under the existing threshold, and thus will not see any rate reduction. Consequently, our model predicts transactions will remain static for this price band.

49 UK Housing Review, *Numbers of property transactions in England and Wales*. Link;

In part, some of the fall in transactions has been down to higher stamp duty. However, mortgage restrictions have also reduced transactions, while high house prices have made it harder for people to afford to buy rather than rent. Further, more attractive new build homes might increase the numbers moving. Thus, it is possible that together a series of other reforms to increase transactions through higher mortgage access and more affordable housing could get us back to the previous levels and then on top of that, SDLT cuts for primary residences would deliver yet further increases in transactions.

If we can get transactions back to the levels seen in the past, this will boost SDLT revenue still further, since any increase in transactions due to lower SDLT will be applied to a higher base. These are UK figures, but the fact that transactions were 64% higher in this earlier period mean if we could return England's transactions to this higher level, this would increase transactions from the current level of 793,000 a year to 1.3 million a year. This means our 22% increase in transactions would apply to a higher base of 1.3 million not 791,500 transactions, giving us a total of 286,000 additional transactions due to SDLT cuts. If there was this 64% increase in transactions, this would add an additional 64% in revenues, meaning they would be higher by £870 million (assuming this increase in transactions were spread equally across all price points). This gives a range of £580 million to £950 million in higher revenue from SDLT cuts.

This also points to the fact that government should prioritise increasing transactions more widely as this would boost SDLT receipts – e.g. through simplifying the purchase process and so on. Though this is beyond the scope of this paper, it shows that there are ways to boost revenue without higher rates.

## There will also be savings in terms of necessary expenditure to increase housing supply

As was shown in Part 1, there is a link between the number of transactions and housing supply. Assuming all other things are equal, our 1:8.5 ratio suggests that if the number of transactions rose by 100,000, it would mean an additional 11,764 units would be built each year.

Under the abolition model, transactions are predicted to increase by 25.2% or an additional 199,375 across England, rising up to 990,875. This would lead to about 23,455 extra private sector properties.

Under the reduction model, the number of transactions is predicted to rise by 22.3%. This would translate into an increase in housing from 793,000 or so to 968,000 as set out above, or an additional 176,504 more transactions. Given the link between transactions and new homes, this would generate around 20,765 additional private sector properties.

In both cases, higher housing supply reduces the need to spend money on affordable housing grant in order to maintain the same level of housing transactions.

The cost of each unit replaced due to lower transaction levels would be at least that of the average funding from central government to create an affordable housing unit, which is currently £24,280.[50] This translates to a saving of £569 million under abolition and £504 million under the initial reduction scenario, which would see an extra 176,504 transactions take place.

However, as we saw above, if the total level of transactions increased to the long-term average, this in turn would mean our SDLT

50 UK Housing Review, *Housing expenditure plans*. Link.

cuts would have an effect on a higher base, which could mean up to an additional 286,000 transactions meaning an 33,600 extra homes under the reduction scenario. This would save the government £816 million every year. Under the abolition scenario this would mean an additional £921 million every year.

## Additional planning gain from greater new build numbers

An increase in the number of transactions would also bring greater levels of contribution from Section 106 obligations and the Community Infrastructure Levy. As discussed in Part 1, as the number of homes being built rose, so the developer contributions rose from £3.7 billion to £6 billion. The more homes are built, the greater the Section 106 contributions.

Thus, new homes being built due to higher transactions will generate additional planning gain, which is the next clearly calculable benefit from cutting SDLT.

Because revenue will be higher from high value properties, we have separated London from the rest of the country (due to its much higher average house price).

Working from the reduction scenario, we multiply our estimates for increased supply in London and the rest of England (4,134 and 16,651 respectively) by £121,901 and £32,951. (These figures are the revenue contributions from Section 106 obligations and Community Infrastructure Levy contributions, divided by the number of new private builds).[51]

If we add the total extra revenue from London and the rest of England together to get a total extra revenue raised from the planning gain of about £1.05bn.

Under the abolition option, this would be £1.25 billion, based on around 154,052 extra private homes in most of England and 5,332 homes in London.

Again, as noted, prior to the financial crisis transaction volumes were running at substantially higher levels, at about 1.37 million transactions per year on average. If we could return to this level, it would boost the revenue from additional planning gain, by 64.2% in both cases. This would mean a total additional gain in the reduction option of £1.72 billion and in the abolition option of around £2 billion.

## So how much does cutting SDLT cost the government?

Taken together, it is clear that the cost of a major reduction in SDLT would be much smaller than it first appears, due to fairly direct and immediate changes in spending.

It is generally true that the Treasury underestimates dynamic gains. The dynamic analysis cost of approximately £1.56 billion for reduction and £3.306 billion for abolition is far lower than the static analysis cost of £3.7 billion and £5.1 billion respectively. If we could increase transactions, then this could increase the revenue gains still further and bring the cost of reform down to £0.2 billion for our proposed reduction in SDLT and £2.2 billion for abolition of SDLT.

This is all *before* you consider any welfare gains around downsizing and so on. The Treasury may well dispute the exact size of these figures. But it is clear that a major stamp duty cut is very much more affordable than many people realise.

51 Ministry of Housing, Communities and Local Government, *Live tables on house building: new build dwellings: Table 253: permanent dwellings started and completed, by tenure and district.* Link; Ministry of Housing, Communities and Local Government, *The Incidence, Value and Delivery of Planning Obligations and Community Infrastructure Levy in England in 2016-17.* Link.

### Approximate fiscal impact of our changes if we reduce SDLT on primary residences

| Transaction increase | Static analysis[52] | Revenue gain from more transactions | Lower grant to build homes[53] | Planning Gain | Dynamic analysis cost |
|---|---|---|---|---|---|
| +22.3% | -£3.7 billion | +0.580 billion | +£0.504 billion | +£1.05 billion | -£1.56 billion |

Approximate fiscal impact of our changes if we abolish SDLT on primary residences

### Approximate fiscal impact of our changes if we abolish SDLT on primary residences

| Transaction increase | Static analysis[54] | Revenue gain from more transactions | Lower grant to build homes[55] | Planning Gain | Dynamic analysis cost |
|---|---|---|---|---|---|
| +25.2% | -£5.125 billion | Nil | +£0.569 billion | +£1.25 billion | -£3.306 billion |

### Approximate fiscal impact of our changes if we abolish/reduce SDLT on primary residences and oversee higher transaction levels back to long term pre-2008 average

| | Transaction increase | Static analysis[56] | Revenue gain from more transactions | Lower grant to build homes[57] | Planning Gain | Dynamic analysis cost |
|---|---|---|---|---|---|---|
| Reduction in SDLT | +22.3% | -3.7 billion | +0.950 billion | +0.816 billion | +1.05 billion | -£0.2 billion |
| Abolition of SDLT | +25.2% | -£5.125 billion | Nil | +£0.921 billion | +£2 billion | -£2.2 billion |

## Could/should you make up the revenue with raising other SDLT levels?

Many of those who have proposed reforms to SDLT in the past have argued that any revenue loss should be made up within the system – i.e. that the way to pay for easing or abolishing it for primary residences is to ratchet up the stamp duty rates on other kinds of transaction. The problem here is that other versions of SDLT are very high and already probably beyond the socially and potentially even revenue maximising points.  Therefore we argue that only one area – taxing overseas buyers, is a sensible area to make up any lost revenue.

52 See Appendix for how these figures were calculated.

53 These figures are calculated by assuming a ratio of 8.5 for every new build, the resulting figure is our estimated number of additional new builds resulting from our changes. We multiply this by £24,280, which is the average cost of funding for each affordable housing unit.

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55 These figures are calculated by assuming a ratio of 8.5 transactions for every new build, the resulting figure is our estimated number of additional new builds resulting from our changes. We multiply this by £24,280, which is the average cost of funding for each affordable housing unit.

56 See Appendix for how these figures were calculated.

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**Additional property surcharge**

Second homes and buy-to-let properties are currently subject to a 3% SDLT surcharge. This was aimed at tipping the balance in favour of owner-occupiers whilst making extra revenue, and has worked well so far. But adding more to this risks damaging housing supply, and repeating the mistake made with primary residence SDLT – since the rates are now at fairly high levels. As the table below shows, the rate is now very high.

| SDLT threshold | BTL/second home rate |
|---|---|
| UP TO £125,000 | 3% |
| £125,001 - £250,000 | 5% |
| £250,001 - £925,000 | 8% |
| £925,001 - £1.5 million | 13% |
| Over £1.5m | 15% |

As with SDLT on primary residences, increasing the surcharge serves to depress transactions and reduce the potential planning gain from new properties. It would certainly be counterproductive to cut the main rate of SDLT only to see its benefits eroded by a tax grab on another section of the market.

The surcharge is already serving to depress transactions, with 69% of landlords reporting that the levy discouraged them from purchasing further rental properties.[58] This means that the Exchequer is forgoing both standard stamp duty revenue, plus surcharge revenue. Raising the surcharge further to plug the revenue hole may result in revenue actually falling.

Given that the data shows that the last few increases in SDLT have not really raised much revenue, it is hard to argue for further increases for SDLT on the basis of increasing receipts. The arguments made above about higher SDLT impacting on revenue, cutting housing supply, and reducing planning gain all apply to properties bought by landlords or as second residences.

Of course, unlike SDLT on primary residences, which taxes something the government wants to encourage (home ownership) the higher rate of SDLT is an attempt to discourage more landlords entering the market, and an attempt to push more investment toward business and innovation rather than speculating in the housing market.

Our proposals are therefore that we should keep the existing fairly high rates on additional dwellings for landlords or second homes, which would create a bias in favour of homeowners and away from housing speculation, without further increases on these additional dwellings, as a higher rate on these risks hitting revenue, cutting housing supply and reducing planning gain.

## Commercial properties

While we have focused on SDLT for residential properties, non-residential properties also pay SDLT, which varies depending on whether the property is leasehold or freehold.

As with SDLT on homes, commercial SDLT has moved from a slab structure to a marginal structure following the Budget in 2016. The thresholds are much lower than residential property, with the top band at just £250,000, but with the same top rate of 5%.

| Freehold property or lease premium or transfer value | SDLT rate |
|---|---|
| Up to £150,000 | 0% |
| The next £100,000 (the portion from £150,001 to £250,000) | 2% |
| The remaining amount (the portion above £250,000) | 5% |

58 Tom Simcock, *The Impact of Taxation Reform on Private Landlords*. Link.

The consequences of increasing commercial SDLT would have a similar effect to residential properties in terms of reducing property transactions and slowing the growth in new commercial developments. As outlined earlier, in making it more expensive for properties to change hands you forego the potential revenue that could have been raised from extra sales. Given we argue that the top rate of tax should be 5% for primary residences, it seems odd to increase it above this for commercial property – especially since we want to encourage businesses to move to premises that are better suited to their needs.

Indeed, at a time of uncertainty for British businesses, it would be downright perverse to risk jobs by shifting the burden to commercial property instead. Not least because changing the thresholds or rates would hit particular types of businesses harder than others. For example, moving to a rate of 8% on properties over £1 million would disproportionately hit companies that require city-centre office space or large-scale warehousing. Therefore we also think this is an area best left alone.

## Empty homes

Another common option touted for raising revenue is a tax on long-term empty homes, of which there were just over 215,000 in 2018.[59] Given the state of the UK property market and the trouble many people face affording a suitably sized property, having a couple of hundred thousand properties standing empty is clearly a problem. However, even if every single one of these properties was to no longer be empty, this would represent only 0.89% of the total dwelling stock.

Furthermore, this is a problem which has been getting better not worse over the last decade, with the number of long-term empty homes in England down by 34% between 2008 and 2016, from 326,954 to 216,186.[60]

Taxing all homes left empty for more than six months at 1% would raise about £470 million. However the costs of implementing such a policy would be high, and it would likely prove to be a very unpopular tax because where errors were made, they would come at a high political price.

This is because one of the main reasons that properties remain vacant for an extended period of time is when the previous owner dies and the family need to sort out what happens to it next.[61] This is not a short process; it takes on average between three and six months for a grant of probate to be issued, which allows for the property of a deceased owner to be sold. Without the grant of probate, the property cannot be sold. Once a grant of probate has been issued, a suitable buyer needs to be found, which again adds time to the process over which the selling family has little control. Conveyancing (the legal transfer of property from one owner to another) then needs to occur. This usually take two to three months, but can take longer, with around a third of house sales falling through before completion.[62] It is clear then that an inherited property could easily stand empty for six or more months, and many do.

59 Ministry of Housing, Communities and Local Government, *Live tables on dwelling stock (including vacants): Table 615: vacant dwellings by local authority district: England, from 2004*. Link.

60 Ibid.

61 Empty Homes, *Empty Homes in England*. Link.

62 Cooperative Legal Services, *Tips for Selling a Property during Probate*. Link; Property Wire, *Number of home sales falling through in England and Wales up steeply at end of 2018*. Link.

Taxing empty homes would therefore risk hitting grieving families with a death tax, simply because they have not been quick enough to sell the property or have been unable to because of the burdensome probate process. Given that one in ten properties that come onto the market are probate properties, this is a significant section of the housing market.

Making such cases exempt would add a further layer of complexity and bureaucracy that neither the Government nor the recently bereaved needs – and even here, there will likely be mistakes and errors.

While no tax system should be entirely based around a few hard cases, the revenue raised through trying to clamp down on long-term empty homes while hitting several thousand grieving families is not worth it. And it is also easy to imagine other scenarios in which other homes might be mistakenly classed as 'empty' – if their owners are posted abroad for work, for example, or a family is living in two adjoining properties but diverting bills and post to a single address.

## Non-resident overseas buyers

There is one area, however, where it could certainly make sense to raise revenue: non-resident overseas buyers. These are those who are buying a home often not as somewhere to live in the UK, but as an asset to hold value.

Charging non-resident overseas buyers more to purchase property in the UK has been the subject of a recent government consultation, proposing a 1% SDLT surcharge.[63] This is based on evidence that foreign investors are not only pushing up prices of expensive homes, but also that these prices rises are trickling down to the cheaper end of the market.[64] This is felt most acutely in areas where supply is already constrained, especially London and the South East.

Exact numbers of properties under non-resident overseas ownership are hard to be certain, as official data on this is not published. But there are a range of estimates of the impact of foreign buyers in these high demand areas. Savills puts those buying an investment property from overseas at 7% of all residential transactions in Greater London in 2013/14.[65] In the higher end 'prime London' market, 32% of buyers are international, with 11% buying a second home or investment property. A 2013 report by Knight Frank also found 7% of residential sales in Greater London were to overseas buyers, with a figure for inner London of 20%. It also found that while almost half (49%) of prime London sales worth more than £1 million were to foreign nationals, only 28% were to buyers resident outside of the UK.[66]

It is important to stress here that we are not suggesting a tax on foreign ownership. One of Britain's great strengths is that entrepreneurs, investors and wealth-creators from around the world can base themselves here, and buy assets in the knowledge that they will be treated on the same basis as those already living here. This tax would apply solely to those who buy but do not inhabit their home – overseas speculators.

63 HM Treasury and HMRC, *Stamp Duty Land Tax: non-UK resident surcharge consultation.* Link.

64 Filipa Sá, *The Effect of Foreign Investors on Local Housing Markets: Evidence from the UK.* Link.

65 Wendy Wilson and Cassie Barton, *Foreign Investment in UK Residential Property.* Link.

66 Ibid.

So how much would this raise? Our analysis suggests that if a 3% surcharge was applied, the revenue would be just over £500 million. This is based on the policy being applied across the UK, and catching 20% of London new build sales and 5% of new build sales in England outside London, and a further 2.5% of transactions on older properties.

It is important to stress, however, that this surcharge would be levied on top of the cuts outlined already – so overall, if a first-time buyer, the overseas buyer would in fact be better off along with everyone else. Assuming we go with reduction rather than abolition, for example, then this would take the SDLT rate *down* to 8% for the most expensive properties being bought by overseas purchasers compared to 12% now.

Of course, if they were someone who already owned multiple properties, then this surcharge would be on top of the charge for additional dwellings.

# Conclusion

## This paper has shown that the current levels of stamp duty on people's homes are so high that major cuts can be delivered at a very limited cost to government.

The final estimate - based on the fact that higher transactions boost revenue, increase housebuilding and increase planning levies - is that major cuts to stamp duty, which would be an unambiguous sign that the Government supports home ownership, would cost just £1.6 billion a year.

This is aside from the major social gains that would arise from allowing people to move to homes that better suit their needs – which would much more heavily weigh in favour of stamp duty reductions.

The current system is untenable. A rate of 12% for the top of the system is not a realistic one – and the fact that average homes in London and the South East are now paying many thousands and in London over £10,000 in stamp duty is a real barrier to aspiration.

By removing the nine-in-ten homes below £500,000 from stamp duty and reducing it on other properties to a rate of 4% or 5% on anything above this cuts would return stamp duty on homes to what it was some time ago – a more reasonable transaction tax that is only levied at a lower rate on the most valuable properties.

This should not be done by raising other rates of stamp duty, as to do so would be to unblock part of the housing market only to gum up others. If any revenue is to be found, it should be through a levy on those who are purchasing but who are not resident here in the UK, set at a reasonable rate.

Of course, there will be those who argue that at present, there is simply not the financial headroom to cut stamp duty. But this ignores the fact that stamp duty is one of the taxes where cuts could have the most significant dynamic effects. If there is not the space for even sensible cuts to stamp duty now, then we risk ending up in a situation where all taxes can only go one way – up – and the Government may be seen as having given up on tax cuts for the foreseeable future.