Executive summary

The stamp duty holiday

The stamp duty holiday announced last July raised the threshold for tax payment to £500,000 until end-March 2021. It was then extended to the end of June, followed by a £250,000 threshold until end-September. The most existing homeowners could save was £15,000, reduced to £2,500 from 1 July 2021. First-time buyers gained at most £4,000 because they already had a higher threshold.

The government had two main objectives for the holiday: to stimulate the housing market and to increase expenditure on goods and services related to housing transactions. Indeed, it was Rishi Sunak's expressed aim that the policy would help create and sustain jobs.

Our objectives and methodology
The research addressed three issues:

i. To what extent does moving house generate additional economic activity?
ii. Has the holiday been worthwhile for the economy (despite possibly increasing house prices)?
iii. Is there a case for maintaining the nil rate at £500,000 or other more radical reforms?

Our methodology had three strands: a review of academic evidence on the impact of stamp duty and the empirical evidence on its effects; analysis of data on the numbers of transactions and the tax take since last July as compared to 2019; and two surveys, one of Family Building Society customers who had taken out mortgages between August 2020 and March 2021 and one of intermediaries.

Findings

Literature: The academic literature presents a near-universal consensus that stamp duty is a bad tax. There are three main reasons: first, it reduces mobility which means that the housing stock is inefficiently used: in particular, it reduces the incentive to older households to downsize which leaves younger family households with restricted choices. Secondly, it reduces productivity as people have less incentive to move house to take on a better job. Third, fewer moves mean commensurately lower consumption related to moving, which impacts negatively on economic activity. The literature is also clear that removal of existing stamp duty would increase house prices because it would reduce the overall cost of moving.

The empirical evidence on holidays is relatively limited. Two studies of the stamp duty holiday put in place at the time of the global financial crisis found that transactions and house prices both increased, as did consumption, but that the effects were short term and activity declined after the end of the holiday. Other research suggests that extending the holiday in perpetuity might generate a net increase in government revenues because of greater economic activity and higher house prices, but the estimation range was very large and included the possibility of significant revenue reductions.

Statistics: The statistical evidence shows that the housing market had begun to pick up in May 2020, well before the stamp duty holiday was introduced--probably because of the backlog arising from the first lockdown. The impact of the holiday could be seen from September 2020. Transactions increased by about 10,000 per month as compared to 2019 until February and March 2021, when transactions were 50% and then 100% above the levels of early 2020. As a result, by March 2021, the number of transactions in the financial year 2020/2021 were comparable to those in 2019/20. Since March, transactions have been variable but are still probably positively affected by the holiday.

The impact on government revenue was initially very negative, but by March 2021 stamp duty revenues were back to the levels seen the previous year. This was for two reasons: the increase in transactions near the end of the initial holiday and the rapid increase in house prices. These rose by over 10% in the year to March 2021 – far more than in the previous year, which had seen increases of 3%. The rate of house-price change varied considerably across regions, with the highest rises in areas where the benefit from the stamp duty holiday was least.

Survey evidence: Evidence from the survey of Family Building Society customers indicated that stamp duty was only one element in why people had chosen to move. Most important were family reasons and wanting a larger home or a different location. Intermediaries, on the other hand, said the holiday had generated a frenzy of activity both among buyers and sellers, almost all of whom wanted to complete before the stamp duty holiday ended.

The surveys suggested that there were three main reasons for moving:

- The easing of lockdown, which had delayed many purchases and moves,
- Changing property requirements--significantly because of the pandemic--with people wanting to move away from cities and purchase more space, including access to outside space both private and public, and
- The stamp duty holiday, which both made it easier to move and changed people's attitudes to moving. Its role as a catalyst mattered more than the amount of money people saved. Many buyers paid more in higher prices than they saved on stamp duty.

Importantly, average induced expenditure of £16,000 (moving expenses + spend on the new home) per transaction across 140,000 transactions (our rough estimate of the additional transactions generated) would generate total induced expenditure in the order of £2.2 billion—or within the range of £1.8 to £2.7 billion, given the very large uncertainties around these figures. There would also be a multiplier effect on general expenditure by those who receive the payments.

Conclusions

Our research with Family customers and intermediaries makes clear that many people find stamp duty an unacceptable form of taxation and that it distorts decisions, particularly about moving.

Economists consistently argue that stamp duty is a poor tax that reduces residential and job mobility and contributes to inefficient use of the housing stock. It has negative impacts on employment and productivity because it makes people unable or unwilling to adjust their housing.

There is a strong case for a more fundamental assessment of property taxes to reduce economic distortions arising from the impact of disincentives to move on the housing market, productivity and economic growth.

There is also a case for extending the holiday in its initial form, as some of the impact on house prices has already occurred, so future more fundamental reform would be less costly.

Answering the 3 questions:

- Yes, economic activity increased;
- Yes, the holiday has helped the economy but also increased house prices; and
- Yes, having started there is a case for continuing the holiday, as it would help reduce distortions in the housing and labour markets. The case would be stronger if more fundamental tax reform were envisaged.