

# **A tax too far? Monitoring the impact of SDLT**

Report for Family Building Society  
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## Foreword

(Other than BREXIT.....) there are four issues that any and every politician would have at the top of their agenda:

- # money
- # productivity
- # housing
- # transport

Politicians need money to get things done; they need our economic productivity to increase, so that tax receipts go up; people need suitable, affordable homes in appropriate locations; and, for both business and pleasure, we need to be able to get about efficiently and effectively.

SDLT has been the golden goose – with revenues rising year on year. In financial year 2017/18 it brought in some £9.3billion from residential transactions, more than double the take in 2011/12.

However the revenue figures released on 31 July were 13% below the same quarter last year continuing a downward trend that became obvious earlier in the year. The last thing the government needs.

The amount raised is obviously dependent on SDLT rates, the price of homes and the number of transactions. It is the number of transactions that is key to this – and the numbers of transactions among existing owners remain at near historic lows. SDLT is the easiest tax to avoid. You just don't move.

The trouble is that people not moving affects the balance of the housing market and the best use of the housing stock. Old people may not downsize to avoid SDLT, so they live in a family house when the family has long since moved out; people end up commuting longer distances for a new job rather than moving to avoid SDLT; and families with new babies may end up crammed in to avoid SDLT.

The housing market is further distorted by the help for first time buyers. The Help to Buy scheme, and the SDLT exemption for most first time buyers, put added pressure on this end of the market, whilst the rest of the market is clogged up by SDLT.

With SDLT receipts starting to fall (and likely to continue to do so year on year) and the existing market silted up, it is time for government to review and revise its approach to SDLT. This will help the housing market overall, so that it does not continue to be a drag on economic growth, social mobility and the transport network. People moving also has direct economic benefits.

Time to think about something really important other than BREXIT!

**Mark Bogard CEO**  
**Family Building Society**

## Executive summary

In the first quarter of 2018 SDLT receipts from residential transactions fell sharply compared to the previous year, and figures for the second quarter—released on 31 July—show only a small recovery. Receipts in the second quarter of 2018 were 13% lower than the £2.3 bn seen in the same quarter last year.

Some of this is a result of deliberate policy change, notably the introduction of First Time Buyer relief in December last year. But it is far more the outcome of lower transaction rates and a stagnant housing market.

The lack of activity in the existing housing market means there are fewer options for those trying to buy – putting pressure on prices and reducing mobility for both housing and employment reasons.

It also makes it less worthwhile to develop housing more suitable for older households.

Over the period 2008/09 to 2017/18, residential SDLT revenues more than tripled, to £9.3 bn. This massive growth has been a result of two factors: increasing house prices (transactions have in fact been falling since 2015) and the introduction of a supplementary tax on ‘additional homes’ – mainly Buy to Let properties. These now account for not far short of half of all the revenues from residential SDLT.

The implication is that existing owners, who own over 60% of the dwelling stock, are simply refusing to move –in part because writing a cheque to HMRC to buy their next home hurts too much.

Over the last few years there have been some positive adjustments to the SDLT regime, but government’s main goal has been revenue raising. It now seems clear that revenues are set to fall for some time—so it is a good opportunity to step back and look at the costs the tax imposes on the economy and housing market more widely.

We cannot afford to have so many people living in homes that do not meet either their housing needs and their financial circumstances, at the same time as younger households are forced live in unaffordable overcrowded accommodation. Restructuring property taxation to increase the incentive to move must be a priority.

# 1 How changes in SDLT have been playing out

Over the last few years, SDLT has been a bonanza for government. Increases in both house prices and to a much lesser extent the number of transactions meant the money continued to flow in. In the financial year 2017/18, SDLT brought in some £9.3 billion from residential sales, more than double the take in 2011/12 and three times as much as 2008/09. However the tax take started to decline this year, according to figures from the first two quarters of 2018.

Some two-thirds of all residential transactions are subject to SDLT, even though a large proportion of first-time buyers are now exempt. And the additional dwelling supplement, which adds 3% to the tax paid by buyers of second and rented homes, has had a very significant impact--46% of the take now comes from dwellings subject to this additional levy.

At the same time, the proportion of revenue from existing owner-occupiers who are moving has been falling – as has the absolute number of such buyers. According to the latest statistics (Lloyds, 2018), the number of first-time buyers purchasing with a mortgage has overtaken the number of existing owners moving. SDLT is by no means the only reason for this, but it goes some way to explaining why people who want and need to move are deciding not to. The resultant ‘silting up’ of the market worsens the match between households and their homes. Many older households in particular stay in homes that are unsuitable for them, while younger households who cannot get on to the housing ladder live in overcrowded privately rented accommodation.

The dearth of existing dwellings on the market, plus the availability of Help to Buy equity loans, are strong incentives for first-time buyers to purchase new housing. This demand for new property stimulates new supply but also reduces turnover in the overall market and restricts the chains of movement on which a well operating market depends.

High rates of SDLT reduce labour mobility, particularly because the tax reduces the incentive to take a new job if that would also require moving house. This in turn adversely affects productivity. Inability to move home to be closer to a new job also clogs up the transport system as commuters travel longer and further, putting more pressure on networks already struggling to cope.

Importantly, over 50 per cent of SDLT receipts come from London and the South East, where the costs of immobility are likely to be greatest and where affordability is at its worst.

## 2 What the latest data show

Figures for the first quarter of 2018, which were released in May, showed that revenues from residential SDLT fell by 9% compared to the same quarter the year before.

The latest data on SDLT, published on 31 July 2018, allow us to look at quarter-by-quarter changes, which reflect seasonal variations as well as underlying trends. Typically revenues from residential SDLT rise strongly from the first quarter to the second of the calendar year (by an average of 12% over the period since 2009), but the new figures show this year they went up only 6%<sup>1</sup> and were 13% lower than in the same quarter last year.

Here we look behind the current figures at three issues: first, why SDLT was such a bonanza for the government after the financial crisis; second, why the SDLT money tree appears to be drying up; and finally, the implications of the tax for home owners and the housing market overall.

## 3 Why the growth in SDLT revenues over the last eight years?

Three main factors have affected the evolution of SDLT revenues:

- increases in house prices (which have been fairly continuous in much of the country since 2010) which push up SDLT revenues, especially when homes move into higher tax bands;
- the various changes in SDLT tax rates and coverage which have had both positive and negative effects; and
- housing transactions which rose in the first years of the decade but have tended to decline since 2014/15.

### *House prices*

Over the period from 2010 to 2018, house prices in England have risen by around 38% on average across the country as a whole. However in London, where over 40% of the SDLT revenue is raised, house prices have risen by almost 70%. The average house price in London is now around £480,000 and its purchase currently attracts a tax of £14,000.

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<sup>1</sup> Since April 2018 the SDLT data no longer include figures for Wales. As the previous quarterly data do include Wales, our comparisons take into account imputed figures for Wales, based on published statistics for April and May (Welsh Revenue Authority 2018).

## *Changes in SDLT tax rates and coverage*

The government made three main changes to SDLT in the last eight years (see Seely and Keep 2018 for more details):

- The first and structurally most important was the change from a slab tax (where the tax rate applied to the whole of the property's value) to a slice system (where the charge is calculated on a progressive sliding scale by reference to the tax rate for each band).

The new system was introduced in December 2014 and was universally welcomed as reducing major distortions in the system. The new rates were set in such a way that properties purchased at or below £925,000 (some 98% of all residential transactions at that time) would pay either the same or a lower tax bill than under the slab system. However for those sold at prices above £1.1m, tax bills were set to increase rapidly (Seely and Keep, 2018).

HMRC was expected to lose revenue of £395m in 2014/2015 and £760m in the following year. In fact, however, this period saw both increasing transactions and house prices, so revenues rose in 2014/15 by over £1bn and fell by only 2% in 2015/16. Thereafter revenues rose rapidly--in part because of continuing house price increases and in part because of further changes in rates and coverage.

- The second major change was the introduction of a 3% 'additional dwelling' supplement covering second homes and, much more importantly, buy to let properties purchased by existing homeowners. The stated objective was to help owner-occupiers compete more effectively against landlords, but arguably its most important impact has been on SDLT revenues.

The supplement was announced in the December 2015 Autumn Statement and introduced in April 2016. It was projected to raise £675m in 2016/17, increasing to £750m in 2017/18. In the event revenues rose significantly in both years -- by £1.2bn in 2016/17 and a further £700m in 2017/18, even though the number of transactions fell. Moreover, some 46% of SDLT revenue from residential properties in 2017/18 came from purchases of additional properties. The average receipt per transaction for these properties was £16,000--not far short of twice the overall average.

- The third change, which took effect 22 November 2017, was to exempt first-time buyers of homes costing under £300,000 from paying SDLT (HM Treasury, 2017). FTBs buying homes worth £300,000 to £500,000 pay 5% on

the amount over £300,000; those buying more expensive homes get no relief. This clearly will reduce the tax take; the estimate is by £560m in the first full year.

### *Transactions*

What is particularly surprising – and worrying - is the trend in transactions. Since the low point in 2008 transactions have risen, but remain far below the levels seen in the early 2000s (except for a blip in early 2016, when the announcement of the 3% SDLT supplement brought forward large numbers of Buy to Let transactions). A study of the impact on SDLT in 2016 perhaps looked at the high point (ONS, 2016). Transactions levels actually fell by 8% between 2014/15 and 2017/18 despite high housing-market confidence, which is usually correlated with greater activity (HMRC, 2018b).

On the other hand, the number of transactions liable for tax increased, as house-price increases meant fewer homes sold for under £125,000 (the threshold for SDLT on primary homes). Taken together, these factors meant that until early 2018 the tax take continued to rise despite slowing market activity.

## **4 Why have SDLT receipts fallen?**

While financial-year receipts were at a ten-year high, and receipts per liable transaction increased by an average of nearly £1,000 in the first quarter of 2018 as compared to the preceding quarter, overall residential receipts were down by 25% between quarter 4 2017 and quarter 1, 2018, and rose by just 6%<sup>2</sup> from quarter 1 to quarter 2 2018. This is much less than the average second-quarter uplift of 12% in the period since 2009.

The first and most obvious reason for the recent turndown in receipts is the introduction of first-time buyer relief. In the first seven months that the scheme has run, it has cost the Exchequer £284m to assist 121,500 first-time buyer households – accounting for some 19% of all transactions during that period. All of this is roughly in line with projections.

But the loss of tax receipts from first-time buyers accounts for only about a quarter of the decline in receipts during the first quarter of 2018. The remainder reflects the continuing fall in transactions across all price ranges. In the first quarter of 2018, residential transactions rates were 20% down on the previous quarter, and over 2% lower than in the same quarter the year before—even though FTB relief might have been expected to stimulate an *increase* in transactions. There was some reversal in the latest quarter, with transactions up 9.5%<sup>3</sup> over quarter 1, 2018. But transactions, like receipts, usually rise

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<sup>2</sup> including imputed figures for Wales for April-June 2018

<sup>3</sup> Including imputed figures for Wales for April-June 2018

strongly from the first to the second quarter--by an average of 16% in the period since 2009 (excluding 2016, anomalous because of the pending introduction of supplementary SDLT). Receipts are falling because transactions are weak, not just because of policy change.

The mix of purchaser type has also changed. Receipts from purchases of primary homes declined by 37%, but receipts from additional homes only went down 22% in quarter 1, 2018. As a result additional dwellings accounted for 46% of total receipts. In quarter 2, although transactions in primary homes increased slightly receipts were 20% below the comparable quarter in 2017. Again this partly reflects the impact of relief for first time buyers but also importantly reflects continued near stagnation in the existing owner element of the market.

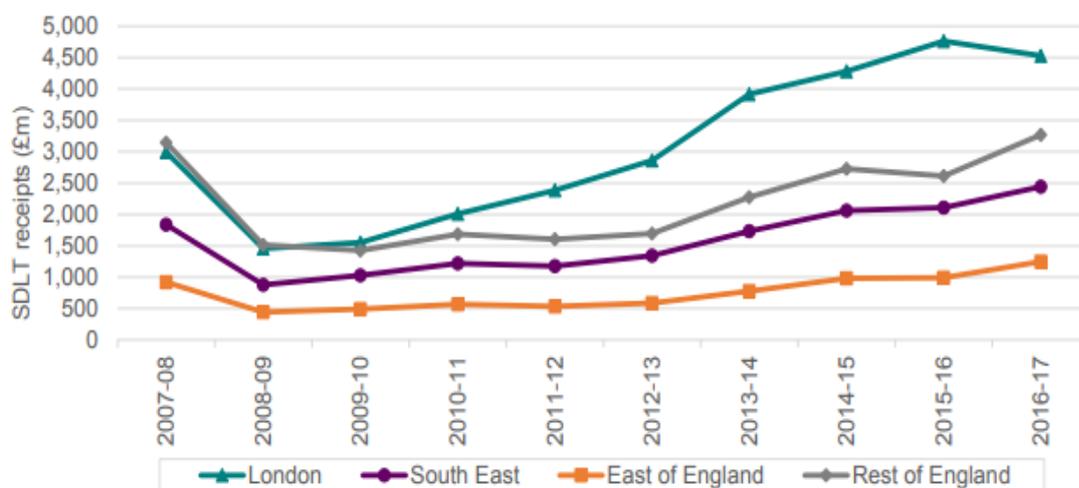
## 5 Looking to the future

### *Transactions and values: the London experience*

From the point of view of government revenues, the greatest concern is that the London market, which accounts for almost 40% of total receipts, is slowing. Up-to-date regional breakdowns will not be available until September, but the fall in receipts from London to 2016/17 (Figure 1) will likely have continued because of lower levels of activity and falling house prices. London usually leads the country, and there is already evidence of slowdown across many other parts of England, so receipts are likely to be under pressure for some time.

**Figure 1**

**Chart 3A: SDLT receipts from London, South East, East of England & the rest of England, 2007-08 to 2016-17**

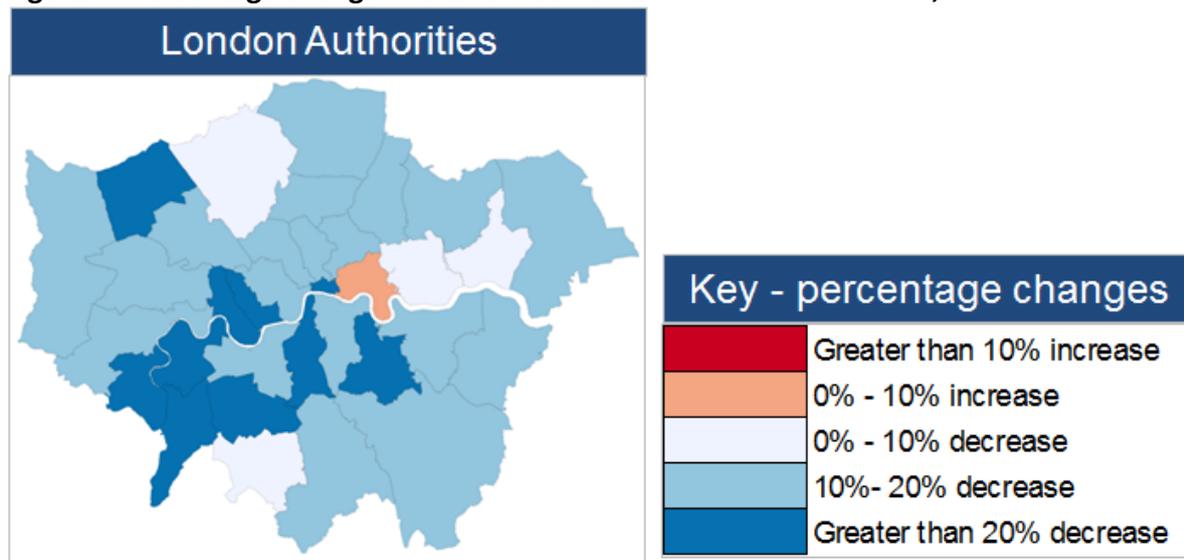


(Chart 3A and Table 3A 'Rest of England' includes the North East, North West, Yorkshire and the Humber, East Midlands, West Midlands and South West.)

Source: HM Revenue and Customs, Annual Stamp Tax Statistics, 2016-17

The slowdown in London started in 2015/16, as Figure 1 shows. Year-on-year, in 2016/17 the numbers of transactions fell by 10% or more in the vast majority of London boroughs (Figure 2). This translated into static or declining receipts across much of West London. It is reasonable to expect wider declines in the year 2017/18, and the trend could well continue for some time to come.

**Figure 2: Percentage change in the number of residential transactions, 2016-17**

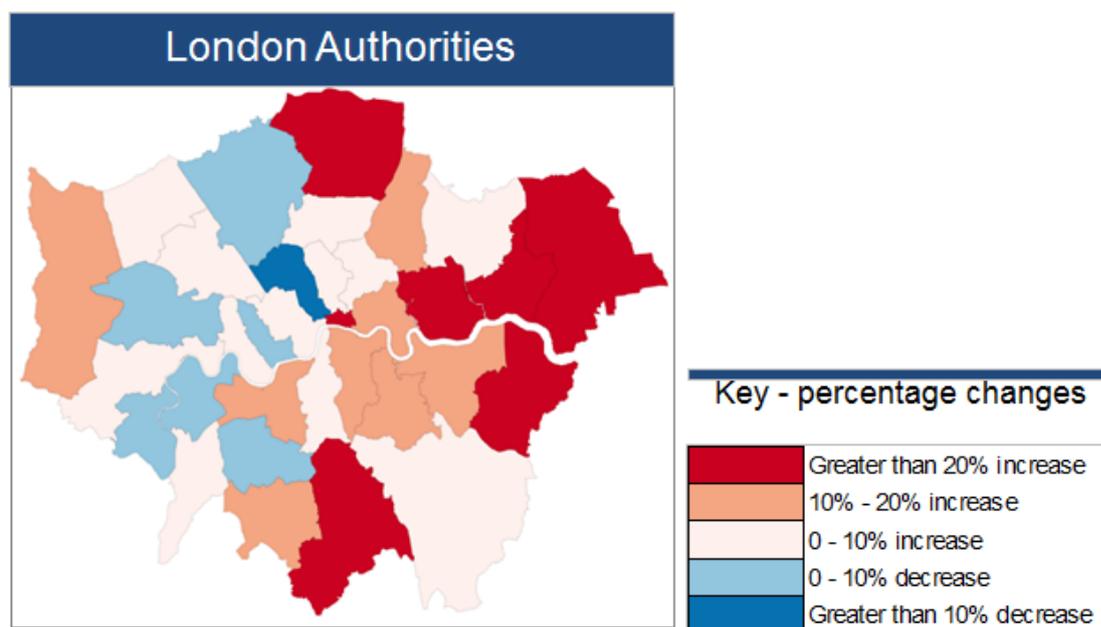


Source: HM Revenue and Customs, Annual Stamp Tax Statistics, 2016-17

Looking at the spatial pattern of receipts, on the other hand, shows a very different picture: receipts were up by at least 10% in about half of London boroughs, and by more than 20% in several (Figure 3). This is consistent with the wider pattern until early 2018—transactions down but receipts up.

However this pattern is now changing – transactions are continuing to decline but house prices are also down, both for new build and existing units. The result has almost certainly been a disproportionate decline in revenues – although regional data will not be available until September.

**Figure 3: Percentage change in residential SDLT receipts, 2016 – 17**



Source: HM Revenue and Customs, Annual Stamp Tax Statistics, 2016-17

### *Dependence on the buy to let market*

The latest figures show receipts have been held up by purchases of additional homes. But there are very good reasons to expect a slowdown in the buy-to-let market as the changes in other taxes increasingly bite. There is evidence that some landlords are less likely to buy additional stock, and/or are reducing their portfolios, because of these changes (which include limits on mortgage tax relief and the use of gross rather than net income for tax purposes). In the short run we are likely to see increased sales to owner-occupiers or to more sanguine/less affected landlords, and this is reflected in a slight upturn in new instructions (RICS, 2018). But in the medium term the withdrawal of landlords is more likely to reduce overall transactions. This will have a knock-on effect on revenues, given that not far short of half of current receipts come from this sector and that this proportion is rising. Thus the government’s own policies towards the private rented sector, exemplified by the range of taxation changes, could well be a major cause of reduced SDLT receipts into the future.

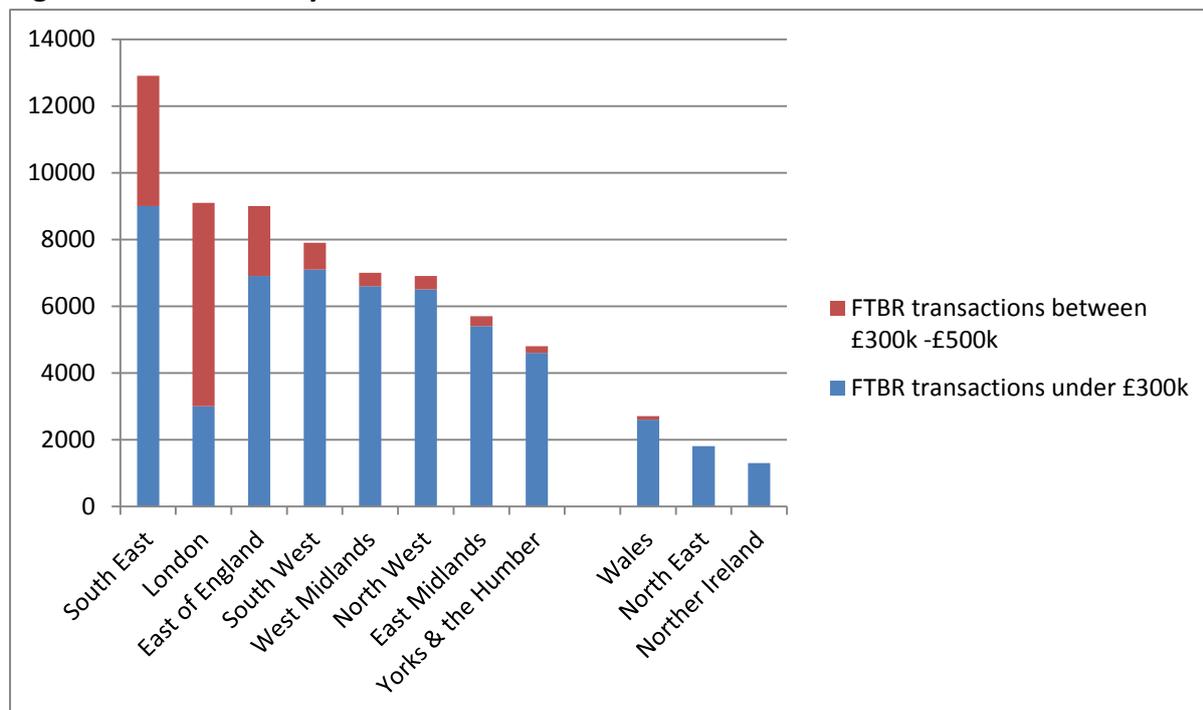
### *Relief for first time buyers*

SDLT relief for first-time buyers reduced receipts by £284m from its inception to June 2018, but the government has made a long-term commitment to this policy and is very unlikely to rescind it.

Half of the benefits of first-time buyer relief went to purchasers in London and the South East. On average the relief in London was £4,300, while in the South East it was £3,100 (still well below the vaunted headline maximum figure of £5,000); nationwide, the average is

only £2,300. London and the South East accounted for almost one third of FTB transactions but two-thirds of those over £300,000 (Figure 4)—and only in London are there significant numbers of FTB purchases at over £500,000 that obtain no relief. Outside the South very few FTB sales have been at values over £300,000 and so will not be liable to pay any SDLT.

**Figure 4: First Time Buyer Relief - 22 November 2017 - 31 March 2018**

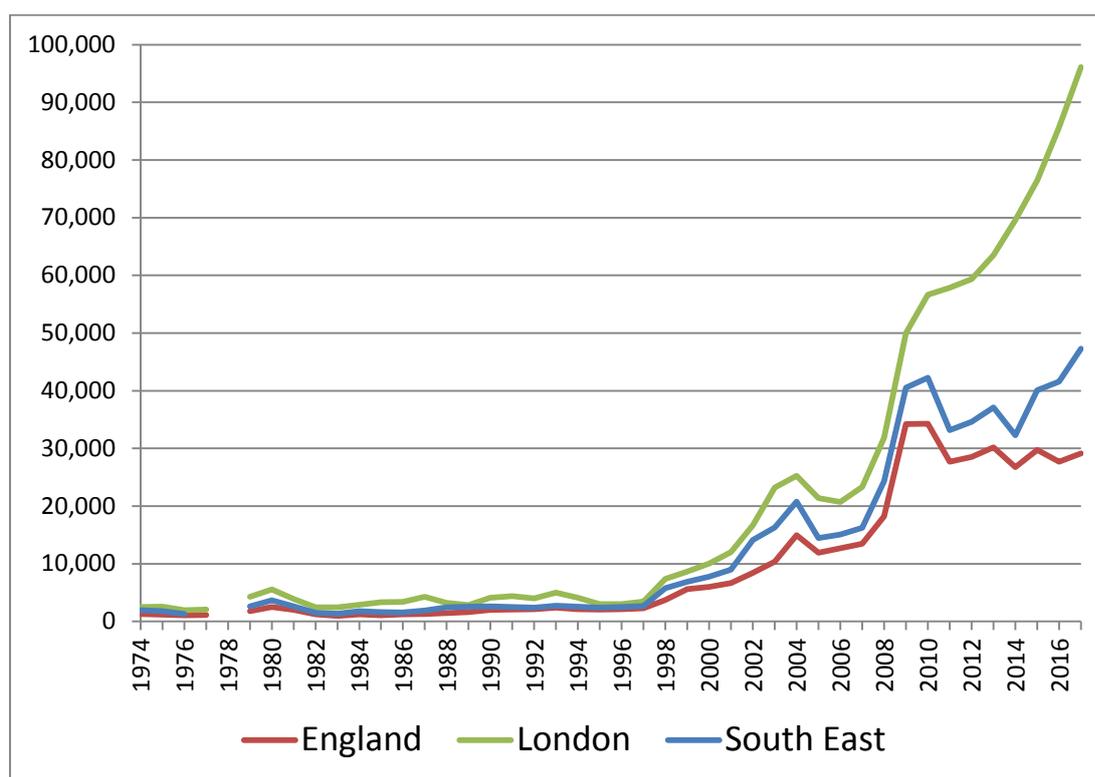


Source: HMRC Quarterly Stamp Duty Statistics, March 2018

How much does the relief really help? Paying SDLT adds to FTBs’ required deposit. The median deposit across England is just over £29,000, so the average relief figure of £2,300 could make a significant difference to some households. But in London the average deposit is now nearly £100,000 (Figure 5), so SDLT relief reduces the up-front cash requirement by little more than 4% - and only marginally more in the South East.

It is too early to say whether the first time buyer relief has significantly increased the numbers actually purchasing. The impact is greatest for individuals outside the South of England where in any case payments were relatively low. In the South East and particularly London some will not benefit at all, while for others it’s a welcome but small gain. What must be concerning, if there is a significant impact, is the effect on house prices – which are anyway still rising in the Midlands and the North-- and on existing owners’ incentive to move. Unless existing owners can see a stronger reason for putting their properties on the market, FTB relief may simply make the market for existing homes somewhat tighter.

**Figure 5: Median deposits for first-time buyers, 1974-2017**



Source: UK Finance (2018)

### *Receipts from homeowners moving house*

Where then can the government look if it wants to prop up SDLT receipts? The only other possibility is from existing home owners and this means changing people's incentive to move. Over 60% of the existing housing stock belongs to owner-occupiers, the vast majority of whom are liable for SDLT if they move to another home. Most will pay a marginal SDLT rate of 5% wherever they are in the country, and in London and the South East many will face a marginal rate of 10%. Writing a large cheque to HMRC hardly gives households an incentive to move, especially as the amount of the tax may mean they cannot afford to buy the home they want.

Just before the last budget, Family Building Society published a report by LSE London (Scanlon et al 2017) on the effects of SDLT. A survey of FBS members showed that SDLT was now the second most important influence on existing owners' preparedness to move, and in particular to downsize. That influence was very clearly negative. The tax contributes to silting up the market for those trying to find suitable family homes; reducing demand for new investment in homes suitable for older people; and limiting the economic activity associated with moving. For both efficiency and revenue reasons government urgently needs to address this issue.

## 6 SDLT: an overall assessment

Major commentators say SDLT is a poor tax because it reduces transactions and thus interferes with the workings of both the housing market and the labour market (eg Mirrlees 2010). The evidence on the low rates of movement among existing owners is clear. Moreover, SDLT is fundamentally a tax on London and to a lesser degree the South East and East of England. This makes it politically more acceptable – no-one outside the capital minds London being taxed – but it does mean these inefficiencies are particularly important to the health of the overall economy.

The efficient allocation of housing affects not just the housing market but also labour productivity and the costs of the social welfare system (Whitehead, 2018). Because of the lack of turnover in the market, under-occupation is increasing; the prices of those properties that do go on the market are higher; and labour mobility and economic growth are impeded. Looking particularly at the how older households use their wealth in retirement, Paul Johnson of the Institute for Fiscal Studies noted last month that ‘Something like 80 per cent of the over-50s are homeowners. For most, the majority of their non-pension wealth is locked up in their house. There is wealth there that could be used to help to fund retirement, but it very rarely is. More than half of homeowners do not move at all after the age of 50. Given that most will live another 30 years or more, that’s a remarkable degree of immobility’ (see Crawford, 2018).

Importantly, low housing turnover also reduces move-related expenditure, notably on white goods but also on home improvements and even maintenance. One recent study found that ‘In 2015, over a third of homeowners surveyed spend £10,000 – £40,000 upgrading their recently purchased home, with 13% reporting that they spend over £40,000’ (House Builders Federation 2017). Lower mobility is associated with poorer-quality housing, lower consumption and reduced economic growth.

The government has made some positive and pro-active changes to SDLT over the last few years, and clearly the state needs revenue. But it is becoming clear that SDLT heavily distorts the use of the existing stock, and over time these distortions are likely to lead to lower revenues. We need to shift away from a tax on transactions to one that relates to how housing is owned and used. It is time for another strategic change which can help to re-invigorate the stagnant existing housing market.

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