


Please cite the Published Version

Matikonis, Karl  and Kayas, Oliver G (2021) Regressive stamp duty land tax relief. British Tax Review, 2. pp. 127-130. ISSN 0007-1870

Publisher: Sweet and Maxwell

Version: Accepted Version

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Additional Information: This is a pre-copyedited, author-produced version of an article accepted for publication in British Tax Review following peer review. The definitive published version, Matikonis, Karl and Kayas, Oliver G (2021) Regressive stamp duty land tax relief. British Tax Review, 2. pp. 127-130, is available online on Westlaw UK.

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Regressive Stamp Duty Land Tax Relief

Budget 2021¹ did not extend the Stamp Duty Land Tax (SDLT) (Temporary Relief) Act 2020, which had modified the Finance Act 2003 Pt 4 Section 55(1B) by increasing the nil-rate threshold from £125,000 to £500,000 for residential property transactions in England and Northern Ireland between 8 July 2020 and 31 March 2021. This note discusses the justification and uncovers primary beneficiaries of this relief.

Justification for the Relief

In response to the Covid-19 pandemic, tax receipts lowered and expenditure increased, resulting in the net debt reaching 99.5 per cent in November 2020². This is its highest level since 1961-62 and it is forecasted to rise³. Tax receipts were lower partly because of the unprecedented support to businesses through tax cuts and deferrals amongst other instruments. During the Summer Economic Update on 8 July 2020, the Chancellor of the Exchequer announced the ‘Plan for Jobs’⁴ initiative that offered funding worth up to £30bn to support, protect and create jobs⁵. One of the instruments in this initiative was the SDLT relief, which aimed to create jobs by ensuring medium-term confidence in the property market⁶. HM Treasury estimated that this support would relief nearly nine out of ten buyers from STDL and would cost £3.8bn⁷. The Office for Budget Responsibility recently revised its estimate from £2.5 to £3.3bn⁸, making it a costly instrument.

HM Treasury claimed that to have an impact on job creation, the SDLT relief would have to increase the number of transactions which already had “growing momentum since the easing of lockdown”⁹. The initial effects of the relief were relatively marginal, as illustrated in Figure 1. Trends in the total number of transactions between January and October 2020 indicate that the number of transactions decreased substantially during the first lockdown¹⁰, but they were already recovering before the announcement of the relief. Although the growth in a number of transactions was sustained, there was no substantial peak when the relief was introduced (vertical grey line in Figure 1), suggesting that similar trends could have been sustained without the relief.

¹ HM Treasury, Budget 2021 (2021), available at:

² Office for Budget Responsibility, Commentary on the Public Sector Finances: November 2020 (2020), available at: <https://obr.uk/download/commentary-on-the-public-sector-finances-november-2020/> [Accessed 17 January 2020].

³ Office for Budget Responsibility, above fn.2, 1.

⁴ HM Treasury, Plan for Jobs (2020), available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/898422/A_Plan_for_Jobs__Print_.pdf [Accessed 17 January 2020].

⁵ HM Treasury, above fn.4, 7.

⁶ HM Treasury, above fn.4, 12.

⁷ HM Treasury, above fn.4, 7.

⁸ Office for Budget Responsibility, Economic and fiscal outlook November 2020 (2020), 179, available at: http://cdn.obr.uk/CCS1020397650-001_OBR-November2020-EFO-v2-Web-accessible.pdf [Accessed 17 January 2020].

⁹ HM Treasury, above fn.4, 11.

¹⁰ The first lockdown in England was between 23 March 2020 and 4 July 2020.

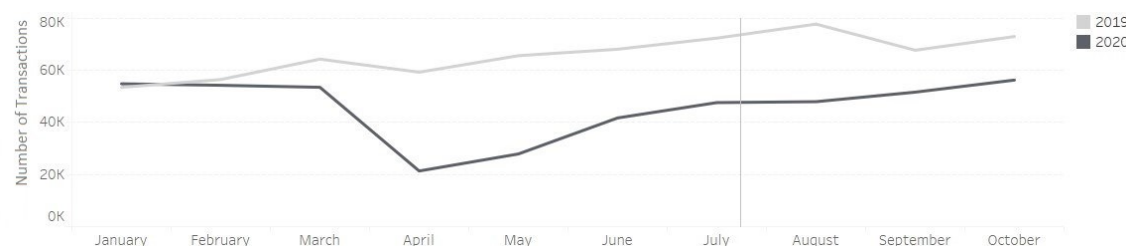


Figure 1: Total number of transactions between January and October 2020 in England compared to 2019 data to adjust for seasonality¹¹.

Even if the relief increased the number of transactions, it would affect only a small number of jobs that do not justify its high cost. HR Treasury's justification was based on overstated figures. It claimed that in England and Wales "an estimated 240,000 people are directly employed by housebuilders and their contractors, and between 500,000 and 700,000 employees are indirectly supported in the supply chain."¹² The source, which was cited by HR Treasury, estimated that in total, directly and indirectly, between 532,970 and 697,690 jobs were affected¹³. Even if the higher threshold of these estimates was considered, it would account for only 2 per cent¹⁴ of UK employment, suggesting marginal benefits to the overall population.

Furthermore, although this instrument had already been somewhat successfully adopted as a fiscal stimulus during the Great Recession, the current SDLT relief lost its cost-efficiency by deviating too much from its predecessor. The Stamp Duty Land Tax (Variation of Part 4 of the Finance Act 2003) Regulations 2008 replaced 1% SDLT with the nil-rate for residential property transactions between £125,000 and £175,000 with an effective date between 3 September 2008 and 3 September 2009. In April 2009 it was extended until the end of 2009. The instrument lasted longer and was targeted at lower value transactions, making it more cost-efficient relief with an estimated value of only £220m¹⁵, especially when compared with the current relief of £3.3bn¹⁶-£3.8bn¹⁷. The 2008/9 relief was found to increase transaction activity during the effective period with the removal of 1 per cent in STDL estimated to cause an increase of 8 per cent, but this reversed back once the policy was withdrawn¹⁸. Other estimates suggested the 20 per cent initial increase and 8 per cent reduction in the subsequent year after withdrawal¹⁹. This relationship is unlikely to hold to this extent for the recent SDLT relief, as

¹¹ Note that the data is limited only to England and only to single residential properties, excluding transfers under a power of sale/repossession, buy-to-lets (where they can be identified by a Mortgage) and transfers to non-private individuals. Data source: HM Land Registry Price Paid Data (published 24 July 2014, last updated 29 January 2021), available at: <https://www.gov.uk/government/statistical-data-sets/price-paid-data-downloads> [Accessed 29 January 2020].

¹² HM Treasury, above fn.4, 12.

¹³ House Builders Federation, *The Economic Footprint of House Building in England and Wales* (2018), 13, available at: https://www.hbf.co.uk/documents/7876/The_Economic_Footprint_of_UK_House_Building_July_2018LR.pdf [Accessed 17 January 2020]

¹⁴ The figure is based on Office for National Statistics, *Total Employment Estimates from April to June 2020*, available at: <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/employmentintheuk/august2020#:~:text=thereper cent20wereper cent2028.02per cent20millionper cent20employees,fewerper cent20thanper cent20theper cent20previousper cent20quarter> [Accessed 17 January 2020]

¹⁵ HM Treasury, *Budget 2009* (2009), available at: <https://www.gov.uk/government/publications/budget-2009-building-britains-future> [Accessed 29 January 2020].

¹⁶ Office for Budget Responsibility, above fn.8.

¹⁷ HM Treasury, above fn.4, 7.

¹⁸ T. Besley, N. Meads, P. Surico, "The incidence of transaction taxes: Evidence from a stamp duty holiday" (2014), *Journal of Public Economics*, 119, p. 67.

¹⁹ M. C., Best and H. J., Kleven (2018), "Housing Market Responses to Transaction Taxes: Evidence From Notches and Stimulus in the U.K.", *The Review of Economic Studies*, 85 (1), p. 159.

it is more generous but less targeted at actual property market activity, especially given the SDLT structure changes discussed in the following section.

Primary Beneficiaries

The mechanism of this relief is regressive for transactions with a value up to £500,000. Finance Act 2003 c. 14 s. 55 used the “slab” principle to estimate SDLT liability charged at a single rate depending on the full value of a transaction, but this calculation has been modified with the Stamp Duty Land Tax Act 2015. This act moved the estimation of SDLT to the “slice” system with tax being charged on each slice of the consideration for a transaction. Prior to the relief²⁰, the first £125,000 of the transaction was charged at nil rate, the next £425,000 at 5 per cent, the next at £575,000 at 10 per cent, and the remainder at 12 per cent. Stamp Duty Land Tax (Temporary Relief) Act 2020 c. 15 followed the same principle by increasing the nil-rate band from £125,000 to £500,000. As a result, the primary beneficiaries of this relief were buyers with transactions of £500,000 or over receiving £15,000 off their SDLT bill.

Take, for example, the acquisition of an average residential house in the North West of England worth £164,769²¹ by an individual who does not own an additional residential property. If the transaction was completed on 7 July 2020, the buyer would have to pay £795 in SDLT, so their costs would total £165,564. If they were to complete the transaction on 8 July 2020, the buyer would not have to pay SDLT and effectively receive a reduction of £795 or 0.5 per cent of their transaction value.

Now assume that the same individual is wealthier and wants to acquire a large detached house worth £506,368 (four times the average house value in the North East of England²²). If the transaction was completed on 7 July 2020, the buyer would have to pay £15,318 in SDLT, so their costs would total £521,686. However, if they were to complete a day later, the buyer would only have to pay £318 in SDLT. Thus, the buyer would effectively receive a reduction of £15,000 or 2.9 per cent of their transaction value.

As a result of the regressive nature of the relief, it has primarily benefitted higher value transactions (see Figure 2). Once the Land Registry data in Figure 1 is limited to transactions with a value of over £500,000, the wide gap in Figure 1 closes in September. Still, only 2 per cent²³ of total transactions were over £500,000, making this relief instrument costly and inefficient at creating jobs.

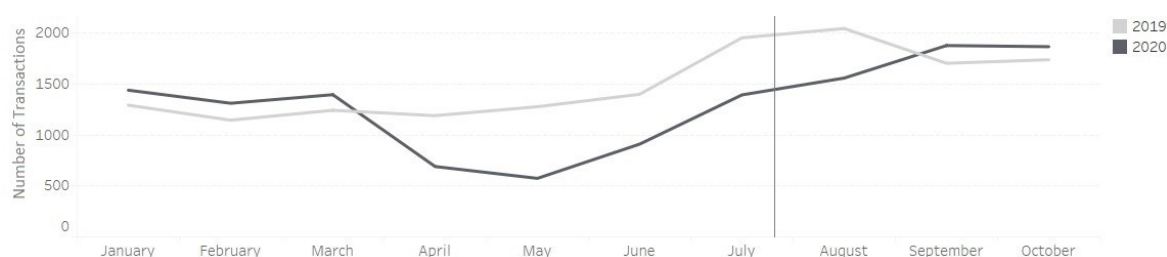


Figure 2: Number of residential property transactions over £500,000 between January and October 2020 in England compared to 2019 data to adjust for seasonality²⁴

²⁰ Prior to 8 July 2020 and after 31 March 2021 the same rules will apply.

²¹ The figure is based on HM Land Registry, UK House Price Index for January 2020, available at: <https://www.gov.uk/government/news/uk-house-price-index-for-january-2020> [Accessed 17 January 2020]

²² The figure is based on HM Land Registry, UK House Price Index for January 2020, available at: <https://www.gov.uk/government/news/uk-house-price-index-for-january-2020> [Accessed 17 January 2020]

²³ Writer’s estimation based on HM Land Registry Price Paid Data 2019-2020 (published 24 July 2014, last updated 29 January 2021), available at: <https://www.gov.uk/government/statistical-data-sets/price-paid-data-downloads> [Accessed 29 January 2020].

²⁴ Note that the data is limited only to England and only to single residential properties, excluding transfers under a power of sale/repossession, buy-to-lets (where they can be identified by a Mortgage) and transfers to non-private individuals. Data source: HM Land Registry Price Paid Data 2019-2020 (published 24 July 2014,

Conclusions

This note welcomes the Chancellor's decision not to include the extension of SDLT relief in Budget 2021, even after substantial pressure from various stakeholders²⁵. This relief is unlikely to achieve its objective and enable job creation, owing to the marginal population of affected employment and mistargeting of the relief. Primary beneficiaries were higher-value buyers in wealthier parts of the country that accounted for a minuscule proportion of transactions. To achieve greater efficiency, similar to the other tax reliefs²⁶, the Government should better align its objectives to instruments and focus on targeting, particularly on key drivers of both market transaction activity and job creation. New relief instruments should also account for the ability to pay, so that higher-income buyers would not benefit more than lower-income buyers.

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last updated 29 January 2021), available at: <https://www.gov.uk/government/statistical-data-sets/price-paid-data-downloads> [Accessed 29 January 2020].

²⁵ At the time of writing (1 February 2021 13:51), petition to extend the SDLT received 139,490 signatures. Source: UK Government and Parliament, Petition to Extend the Stamp Duty Holiday for an additional 6 months after 31st March 2021 (2021) available at: <https://petition.parliament.uk/petitions/550545> [Accessed 1 February 2021].

²⁶ For instance, for business rates relief see B.T.R. 2020, 2, 143-150 or M. Gobey and K. Matikonis, "Small business property tax reductions and job growth" (2021) *Small Business Economics*, 56(1), 277-292.

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