Regressive stamp duty land tax relief

The Stamp Duty Land Tax (SDLT) (Temporary Relief) Act 2020 had already modified section 55(1B) of Part 4 the Finance Act 2003 (FA 2003) 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. Budget 2021[1] announced a further six-month extension of this relief. The nil-rate threshold stayed at £500,000 for three months (until 30 June 2021) but decreased to £250,000 for transactions between 1 July and 30 September 2021. This note discusses the justification for, and reveals the primary beneficiaries of, this relief.

Justification for the relief

In response to the Covid-19 pandemic, tax receipts have decreased and expenditure increased, resulting in the public sector net debt reaching 97.9 per cent of gross domestic product at the end of January 2021.[2] This net debt is forecast to rise to 100.2 per cent in 2020–21, its highest level since 1960-61.[3] Tax receipts were lower partly because of the unprecedented support given to businesses through tax cuts and deferrals, amongst other tools.[4] During the summer Economic Update on 8 July 2020, the Chancellor of the Exchequer announced the "Plan for Jobs"[5] initiative that offered funding worth up to £30 billion to support, protect and create jobs.[6] One of the tools utilised in this initiative was the SDLT relief, which aimed to create jobs by ensuring medium-term confidence in the property market.[7] HM Treasury estimated that this support would relieve nearly nine out of 10 buyers from SDLT and that it would cost £3.8 billion,[8] making it a costly tool even before the further six-month extension announced in the 2021 Budget is taken into account.

HM Treasury claimed that, to have an impact on job creation, the SDLT relief would have to increase the number of transactions which had already gained "growing momentum since the easing of lockdown".[9] The initial effects of the relief are illustrated in Figure 1. Trends in transaction activity between January and October 2020 indicate that the number of transactions decreased substantially during the first lockdown,[10] but that the property market was already recovering before the announcement of the relief (vertical grey line in Figure 1). The growth in the number of transactions was sustained up to October 2020, but it did not reach the 2019 level. This suggests that, although the

[1] HM Treasury, *Budget 2021, Protecting the Jobs and Livelihoods of the British People* (3 March 2021), HC Paper No.1226, available at *https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/966160/Budget_2021_Print.pdf* [Accessed 29 April 2021].

[2] Office for Budget Responsibility, *Commentary on the Public Sector Finances: January 2021* (19 February 2021), available at *https://obr.uk/download/commentary-on-the-public-sector-finances-january-2021/* [Accessed 16 March 2021], p.1.

[3] Office for Budget Responsibility, *Economic and Fiscal Outlook* (March 2021), CP Paper No.387, available at *https://obr.uk/download/economic-and-fiscal-outlook-march-2021/* [Accessed 29 April 2021], p.9.

[4] Office for Budget Responsibility, *Economic and Fiscal Outlook* (March 2021,) CP Paper No.387, p.97.

[5] HM Treasury, Plan for Jobs (July 2020), CP Paper No.261, available at *https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/898422/A_Plan_for_Jobs__Print_.pdf* [Accessed 16 March 2021].

[6] HM Treasury, *Plan for Jobs* (July 2020) CP Paper No.261, p.7.

[7] HM Treasury, *Plan for Jobs* (July 2020) CP Paper No.261, p.12.

[8] HM Treasury, *Plan for Jobs* (July 2020) CP Paper No.261, p.7.

[9] HM Treasury, *Plan for Jobs* (July 2020) CP Paper No.261, p.11.

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

relief played a role in sustaining the growth in property transaction activity, the upward trend is likely also to have been caused by other factors related to the easing of lockdown.

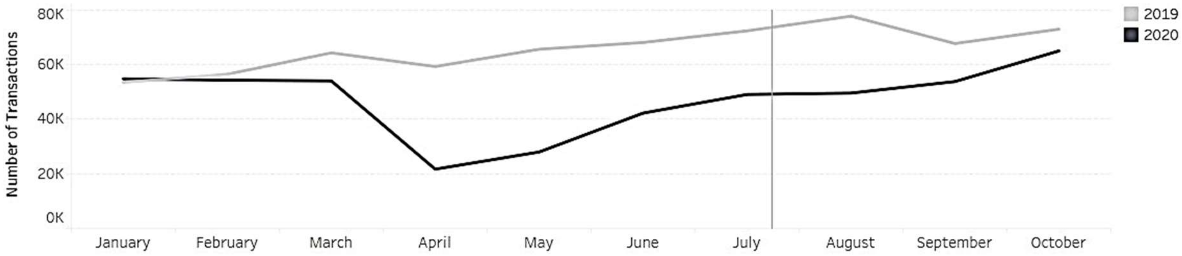

Figure 1: Total number of transactions between January and October 2020 in England compared to 2019 data to adjust for seasonality [11]

Even if the relief increased the number of transactions, it would only have affected a small number of jobs which does not justify its high cost. HM Treasury's justification for the relief 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 HM Treasury, estimated that in total, directly and indirectly, between 532,970 and 697,690 jobs were affected.[13] Even if the higher threshold of these estimates is considered to be the actual threshold, it would account for only 2 per cent[14] of UK employment, suggesting marginal benefits to the overall population.

Furthermore, although SDLT relief was used with some success as a fiscal stimulus during the Great Recession of 2007 to 2009, 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 per cent SDLT with a nil-rate for residential property transactions of between £125,000 and £175,000 with an effective date between 3 September 2008 and 3 September 2009. In April 2009, this relief was extended until the end of 2009. The relief lasted longer and was targeted at lower value transactions, making it a more cost-efficient relief with an estimated value of only £220 million,[15] especially when compared with the current relief which had an estimated value of £3.8 billion[16] even before the introduction of the six-month extension. The 2008–2009 relief was found to increase transaction activity by eight per cent during the effective period in which the 1 per cent SDLT was removed. Once the relief was withdrawn, however, the situation reverted to what it had been before the relief.[17] Other estimates suggest that there was a 20 per cent initial increase followed by an eight per

[11] Note that the data is limited only to England and only to single residential properties, excluding transfers under a power of sale/repossessions, buy-to-lets (where they can be identified by a Mortgage) and transfers to non-private individuals. HM Land Registry, *Price Paid Data* (24 July 2014, last updated 26 February 2021), available at *https://www.gov.uk/government/statistical-data-sets/price-paid-data-downloads* [Accessed 10 March 2020].
[12] HM Treasury, *Plan for Jobs* (July 2020) CP Paper No.261, p.12.
[13] Lichfields and the House Builders Federation, *The Economic Footprint of House Building in England and Wales* (July 2018), available at *https://www.hbf.co.uk/documents/7876/The_Economic_Footprint_of_UK_House_Building_July_2018LR.pdf* [Accessed 16 March 2021], p.13.
[14] Estimates for December 2020 to February 2021 show 32.43 million people aged 16 years and over in employment. The figure is based on Office for National Statistics, *Labour market overview, UK: April 2021*, available at h*ttps://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/april2021* [Accessed 10 May 2021]
[15] HM Treasury, *Budget 2009* (2009), available at *https://www.gov.uk/government/publications/budget-2009-building-britains-future* [Accessed 10 March 2020].
[16] HM Treasury, *Plan for Jobs* (July 2020), CP Paper No.261, p.7.
[17] T. Besley, N. Meads, P. Surico, "The incidence of transaction taxes: Evidence from a stamp duty holiday" (2014) 119 *Journal of Public Economics,* 67.

cent reduction in the subsequent year after withdrawal.[18] The differential in the 2008–2009 figures is unlikely to be seen in relation to the 2020–21 SDLT relief, as the former is more generous but less targeted at actual property market activity, especially given the changes in SDLT structure discussed in the following section.

Primary beneficiaries

The mechanism of the 2020–21 relief is regressive for transactions with a value up to £500,000. Section 55 FA 2003 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 by 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 introduction of the current relief,[19] the first £125,000 of the transaction was charged at a nil-rate, the next £425,000 at 5 per cent, the next £575,000 at 10 per cent, and the remainder at 12 per cent. The SDLT (Temporary Relief) Act 2020 followed the same principle by increasing the nil-rate band from £125,000 to £500,000.[20] As a result, the primary beneficiaries of the current relief are buyers with transactions with a value of £500,000 or over who receive £15,000 off their SDLT bill.

Take, for example, the acquisition of an average residential house in the North West of England worth £164,769[21] by an individual who does not own an additional residential property. If the transaction was completed on 7 July 2020, the buyer would have had to pay £795 in SDLT, so their costs would total £165,564. If, however, the buyer completed the transaction on 8 July 2020, they would not have had to pay SDLT and effectively would have received 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 England[22]). If the transaction was completed on 7 July 2020, the buyer would have had to pay £15,318 in SDLT, so their costs would total £521,686. However, if they completed a day later, the buyer would only have had to pay £318 in SDLT. Thus, the buyer would have effectively received 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 benefited higher value transactions. Once the Land Registry data in fig.1 is limited to transactions with a value of £500,000 or over, the gap between 2019 and 2020 closes as illustrated in fig.2. In September 2020, transaction activity surpassed the 2019 level. Still, only 2 per cent[23] of total transactions were for £500,000 or over, making this relief costly and inefficient at creating jobs.

---

[18] M.C. Best and H.J. Kleven, "Housing Market Responses to Transaction Taxes: Evidence From Notches and Stimulus in the U.K." (2018) 85(1) *The Review of Economic Studies*, 159.
[19] Prior to 8 July 2020 and after 30 September 2021 the same rules will apply.
[20] SDLT (Temporary Relief) Act 2020 s.1(2).
[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 29 April 2021]
[22] The figure is based on HM Land Registry, UK House Price Index for January 2020.
[23] Writer's estimation based on HM Land Registry, *Price Paid Data* (24 July 2014, last updated 26 February 2021), available at *https://www.gov.uk/government/statistical-data-sets/price-paid-data-downloads* [Accessed 29 April 2021].

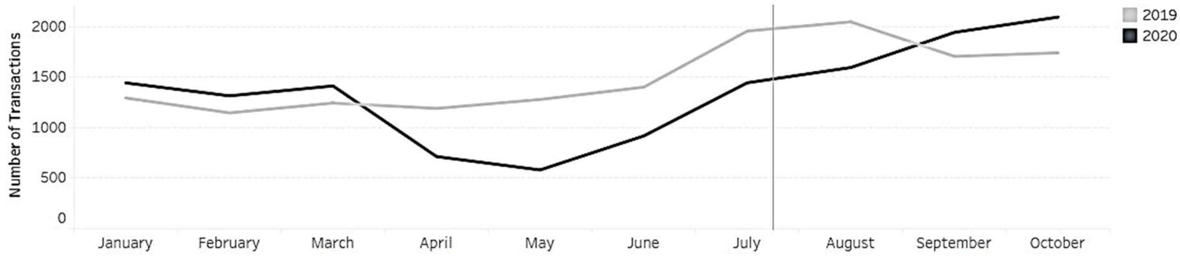

Figure 2: Number of residential property transactions over £500,000 between January and October 2020 in England compared to 2019 data to adjust for seasonality[24]

Conclusions

This note explains why the Chancellor's decision to introduce and then further extend SDLT relief is unlikely to deliver value for money to taxpayers and achieve the objective of enabling job creation, owing to the marginal population of affected employment and mistargeting of the relief. Primary beneficiaries are higher-value buyers in wealthier parts of the country but these buyers account for a minuscule proportion of transactions overall. To achieve greater efficiency, similar to the criticism of other tax reliefs,[25] the Government should better align its objectives to reliefs and focus on targeting these reliefs, in particular upon the key drivers of market transaction activity and job creation. New reliefs should also take into account the ability to pay so that higher-income buyers do not benefit more than lower-income buyers.

Karolis Matikonis[*] and Oliver G. Kayas[**]

[24] Note that the data is limited only to England and only to single residential properties, excluding transfers under a power of sale/repossessions, buy-to-lets (where they can be identified by a mortgage) and transfers to non-private individuals. HM Land Registry, *Price Paid Data* (24 July 2014, last updated 26 February 2021), available *at https://www.gov.uk/government/statistical-data-sets/price-paid-data-downloads* [Accessed 29 April 2021].

*[25] For instance, for business rates relief see K. Matikonis, "Unintended recipients of rising UK non-domestic property tax reliefs" [2020] B.T.R. 143 or M. Gobey and K. Matikonis, "Small business property tax reductions and job growth" (2021) 56(1) *Small Business Economics* 277–292.

[*] Lecturer at Queen's Management School, Queen's University Belfast.

[**] Senior Lecturer at Business School, Manchester Metropolitan University.