



## **Response to 'Land Transaction Tax: Higher Rates for Purchases of Additional Residential Properties' in Wales from the National Association of Estate Agents (NAEA)**

**August 2016**

### **Background**

1. National Association of Estate Agents (NAEA) is the UK's leading professional body for estate agency personnel, being part of a group representing more than 16,000 members who practice across all aspects of property services both in the UK and overseas. These include residential and commercial sales and lettings, property management, business transfer, auctioneering and land. The NAEA is a sister organisation to the Association of Residential Letting Agents (ARLA).
2. NAEA is dedicated to the goal of professionalism within all aspects of property, estate agency and land. Its aim is to reassure the general public that by appointing an NAEA member to represent them they will receive in return the highest level of integrity and service for all property matters. Both NAEA and ARLA members are bound by a vigorously enforced Code of Practice and adhere to professional Rules of Conduct. Failure to do so can result in heavy financial penalties and possible expulsion from the Associations.

### **Questions**

#### **Question 1 - Do you agree the higher rates should not apply to the above types of accommodation in Wales?**

3. NAEA agrees that the higher rates should not apply to property purchases of £40,000 or less, non-residential transactions and employer provided accommodation. If people are purchasing a caravan, mobile home or houseboat to become their main residence whilst still keeping their traditional house which they intend to let, then NAEA believes that they should pay Land Transaction Tax (LTT) on the caravan, mobile home or houseboat at the higher rates.

#### **Question 2 - Do you think a period of 18 or 36 months is more appropriate for people in Wales to account for an overlap or delay between the sale and purchase of their main residence for the purposes of the higher rates?**

4. NAEA believes that an overlap period of 36 months is more appropriate to account for an overlap or delay between the sale and purchase of their main residence for the purposes of the higher rates. This is because it is likely to take longer than 18 months



for someone to save for a deposit and generate enough money to buy their next home. Furthermore, interest rates for savers are very low at the moment following the recent cut by the Bank of England.<sup>1</sup>

5. If the Welsh Government felt that an 18 month period is more appropriate then NAEA believes that there should be a refund mechanism in place for those who sell their previous main residence up to 18 months after the purchase of a new residence. Furthermore, to mitigate the cash flow impact on those who only temporarily own two residential properties the concept should be swapped round so if someone doesn't sell their first property after 18 months they will have to pay the extra LTT. We think this would give those who only temporarily own two residential properties an incentive to sell the property within 18 months and not prevent extra housing from becoming available on the market.

**Question 3 - What would be an appropriate approach to purchases of multiple additional residential properties in Wales? Should buyers be able to choose whether to claim multiple dwellings relief or to apply non-residential rates in these circumstances?**

6. NAEA believes that purchasers of more than one additional residential property in the same transaction should be able to choose whether to pay LTT at the non-residential rates or claim multiple dwellings relief. For property developers operating across both England and Wales this can provide important consistency, help streamline their business transactions and to retain clarity in the market. NAEA thinks it is also important that the Welsh Government encourage institutional investment in to the property market.

**Question 4 - Should the higher rates apply to cohabitees in the same way as they apply to married couples and civil partners?**

7. Yes in order to be consistent the NAEA believes that the higher rates should apply to cohabitees in the same way as they apply to married couples and civil partners. However, on the whole the policy in this area penalises people who have made prudent investments in property earlier in life. Consequently, NAEA believes that if

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<sup>1</sup> <http://www.bankofengland.co.uk/publications/Pages/news/2016/008.aspx>



the new property is to be their main residence then existing properties should not be taken into account.

**Question 5 - Are there any other areas where the higher rates rules would benefit from additional information or clarification?**

8. It would be helpful if the Welsh Government produced a simple flyer to be given to estate agents, purchasers, solicitors and mortgage advisors to ensure that everyone understands the changes and what tax they will be paying on a planned purchase.

**Question 6 - Are there any specific areas you have identified where the higher rates rules require amendment to ensure their effective operation within the wider SDLT/LTT regime?**

9. ARLA sees the introduction of higher rates of LTT on purchases of additional residential properties in Wales causing big problems for parents who are helping their children get on the property ladder by acting as guarantors. Generally with Guarantor Mortgages, the guarantors (parents) have to go on the mortgage and Title Deeds of the property with their children. Therefore, under current SDLT rules, the property will attract the higher rates because it will be the parent's second home when in reality, the property will be used as the main residence for the child who is being helped to purchase their first home. If the Welsh Government is committed to a balanced and proportionate approach to supporting home ownership, the NAEA thinks that they should not penalise people from trying to help their children achieve this aim.
10. We believe there would be a benefit to a significant number of purchasers if the test for whether someone owns one, or more than one, residential properties, were undertaken at the time of submitting the SDLT/LTT return, rather than at the end of the day of the transaction.
11. Furthermore, we think that the Welsh Government should keep the SDLT/LTT return at 30 days after the completion of a purchase and not reduce the number of days because this will provide people with more time to sell a property before having to file a SDLT/LTT return.

**Question 7 - Are there any wider policy impacts or issues the Welsh Government should take into account in taking forward this legislation as part of LTT?**



12. NAEA acknowledges that the Cabinet Secretary for Finance and Local Government wants to help improve the property landscape for first time buyers in Wales. However, those able to purchase housing in Wales and across the UK still require large sums of money to pay for deposits and solicitors' fees. With house prices still outstripping wages, and the average wage in Wales is significantly lower than the UK average, people need support in accessing finance to purchase property. It is also important that the Welsh Government work closely with mortgage lenders to ensure that lending criteria are appropriate and that sufficient lending is available to those looking to buy a home.
13. In relation to the private rented sector we could see rent increases as any new landlords not only look to recoup the costs of the additional tax on buy-to-let property but they will have to pay a licence and registration fee for their property under Rent Smart Wales.
14. Fundamentally, NAEA feels strongly that if the Welsh Government were to start a massive house building programme this would not only bring house prices down, but also reduce the cost of renting as supply catches up with demand. As a result people who rent will have more money to save for a deposit, allowing them to become homeowners and part of the Welsh Government's plan to support home ownership alongside the provision of good quality, affordable housing.

**Question 8 - Are there any other ways in which the Welsh Government could consider making the higher rate tax on second homes better suited to Wales?**

15. Yes. Because average wages in Wales are lower than other parts of the UK and the value of property is lower in Wales, the Welsh Government could raise the threshold before the additional tax kicks in to make purchasing a buy-to-let or additional home in Wales more affordable and attractive to more people.

**Question 9 - Do you agree the Welsh Ministers should take a power in the LTT legislation to amend the higher rates tax on second homes in Wales if deemed necessary?**

16. Yes, NAEA believes that the Welsh Government should have the ability to amend the higher rates tax on second homes in Wales if deemed necessary. For instance, to reflect the significantly lower average wage in Wales compared to other parts of the UK and the lower value of property in Wales compared to England. Changes to tax



regime that would make Wales different from England could lead to many people, who reside on the English side of the Welsh border, deciding to invest in additional property in Wales helping to boost tourism, the private rented sector and tax receipts.

**Question 10 - Do you have any other comments or views on the application of the high rates on purchases of second homes in Wales?**

17. NAEA welcomes the new powers for the Welsh Government to collect LTT receipts. We think it will have a largely positive impact on the residential housing sector in Wales. We also think that along with the application of high rates on purchases of second homes in Wales, LTT will also increase revenue for the Welsh Government which should be used to rejuvenate communities across the country.