NAEA National Association of Estate Agents

# 1808 CAMPAIGN TO REFORM STAMP DUTY LAND TAX

The 1808 coalition is a new campaign to reform Stamp Duty Land Tax. Named after the year Stamp Duty was first extended to property sales in Great Britain, we argue that how the tax currently operates is anachronistic and that the government should fundamentally reform Stamp Duty. The 1808 coalition calls for decisive action on stamp duty, which effectively acts as a tax on aspiration. In our view the Government should abolish the measure outright, or implement one of the alternatives:

- Suspending Stamp Duty for the duration of the housing downturn, with a commitment to review the existing system
- Reforming the system moving from the distorting 'slab' system to a more progressive 'slice' system or progressive system which, like other taxes, is index-linked to inflation
- Raising the starting threshold for this tax well above the current £175,000 limit to ensure that as much is done as possible to assist first time buyers into the market.

Britain needs a more radical and imaginative approaches that will enable first-time buyers back into the market and increase transactions vital to the housing market and associated professions.

## The current system

As part of a package of measures to boost the flagging housing market, in September 2008 HM Treasury announced that for 12 month period no stamp duty would be paid on properties purchased for £175,000 or less. At the 2009 Budget it was announced that the Stamp Duty holiday would be extended until December of 2009 and after this date the Stamp Duty threshold will fall back to its original level £125,000. The National Association of Estate Agents has long campaigned for the reform of the current system of Stamp Duty. In this year's Budget submission the NAEA called on the Government to reform the duty and support home ownership.

Stamp duty was first levied in the UK in 1694 as a temporary tax to pay for the war with France, but was never repealed. At first the tax covered "vellum, parchment and paper", but this was extended during the 18th and 19th centuries to cover a range of goods, including property sales in 1808 following the Stamp Duty Act of 1807. Prior to 1997, a flat rate of 1% was charged on properties above £60,000, and nothing was paid on property sales below this threshold. The incoming Labour government then introduced additional bands so that properties above £250,000 and £500,000 paid a higher percentage in stamp duty. The thresholds and percentages of duty paid have been reviewed on a number of occasions since 1997, although they have not been indexed to inflation or house prices.

In 1992 during the last downturn, the Conservative government introduced a holiday from stamp duty for eight months. The move saw the minimum threshold increase from £30,000 to £250,000, exempting the majority of house purchases. By the middle of the year, property transactions had nearly doubled. Although activity eventually reduced, experts believe that the policy helped put a floor under the market, preventing an even worse slump. To exempt a similar proportion of properties from stamp duty now, the threshold would have to be raised to approximately £1 million. As such, the Stamp Duty holiday, where the threshold has been raised to £175,000, has not had the same impact on the market as the 1992 holiday. In June 2009, the Government estimated that there have been 90,000 property transactions between £125,000 and £175,000 since the holiday started. This represents approximately 15% of sales for that period, compared with an estimated 23% for the same period last year and 24% the year before.

ARLA Association of Residential Letting Agents

## ARGUMENTS FOR REFORM

### Stamp duty thresholds are inflexible

By not raising the stamp duty threshold in line with property prices, the tax yield from residential stamp duty has grown ten-fold since 1996/97. Between 1997 and 2008 receipts from Stamp Duty grew from £675 million per annum to £6.68 billion. While the impact of the tax may well have been offset by continually rising housing prices, in times of falling property prices it has the opposite effect. The 'fiscal drag' of the tax is therefore exacerbated in an economic downturn, whereby static or falling house prices mean that this increased burden is not offset by an expected rise in value of the property. The current system makes it difficult for government to project its own revenue streams due to the volatility of Stamp Duty returns. Stamp duty receipts fell by nearly a half in 2008-2009 from the previous financial year. While both residential and commercial property prices declined, the HM Treasury notes that the key driver of the sharp fall in SDLT is the "historically low levels of transactions."

### 'Slab' structure distorts the housing market

As currently structured, the 'slab structure' of Stamp Duty distorts the UK housing market. The 'slab' structure of the tax, where rates are applied to the entire value of the property rather than the marginal value, leads to a sharp rise in the amount of duty payable as the price of a property moves from one band to the next. If a home moves beyond £250,000, for example, the rate of duty jumps from just 1% to 3%. This impacts the market for properties sold at prices just above the thresholds, rather than there being a smoother distribution of house prices as there should be in a well-functioning market.

### First time buyers remain disadvantaged

Stamp Duty places a disproportionate burden on first time buyers, which is of particular importance in the current climate where new buyers in the market are finding it difficult to gain a foothold on the housing ladder. First time buyers are more likely to be near their credit limit, particularly in the current lending environment. This means they are less able to extend their borrowing to cover the additional cost of stamp duty. Moreover, stamp duty is not index-linked to rise with inflation. This has meant that Stamp Duty has been paid by increasing numbers of first time buyers.

### Geographical inequalities

Stamp Duty acts differently in different parts of the country. Regional house price differences lead to a geographical inequality – or 'price ghettos' - in terms of who bears the burden of the duty. Stamp Duty falls more heavily on the south of England where prices are higher. This demonstrates the need to consider regional variation in the Stamp Duty thresholds.

### Stamp duty impacts investors in the private rented sector

There is also an impact on development of mixed use and private rented buildings. Currently institutional investors in private rental properties pay Stamp Duty on the bulk price when individual buy-to-let investors pay a lower rate on the individual unit price. This practice is seen as acting as a disincentive for investment in the private rented sector.

### Impacts on the wider economy

The slowdown in the housing market has had considerable implications for economic growth. Housing building, renovation and associated industries are important providers of jobs and an important source of aggregate demand in the domestic economy. As first time buyers are usually the foundation of sales chains, reforming or extending the current Stamp Duty system will be heavily outweighed by additional stamp duty and VAT revenues generated further up the chains.