improving living in scotland

HOMES FOR SCOTLAND

The Scottish Parliament Finance Committee
Land and Buildings Transaction Tax (Scotland) Bill
Written Evidence

Homes for Scotland
January 2013

Homes for Scotland

1. Homes for Scotland is the authoritative voice for the home building industry in Scotland. With a membership of 160 organisations together providing 95% of all new homes built for sale in Scotland each year, we are committed to improving the living in Scotland by providing this and future generations with smart and sustainable homes where people want to live.

2. Homes for Scotland responded to the Scottish Government recent consultation on 'Taking forward a Scottish Land and Buildings Transaction Tax' and much of this submission is based on that response.

The replacement of a "slab" structure with a "proportional progressive structure"

3. A move away from a "slab" structure (under which tax is charged at the highest rate on the whole purchase price, including the parts below lower thresholds) to a marginal rate system similar to income tax would provide a more equitable structure. Structured well this approach has the potential to reduce some of the disincentives to buying and selling and remove current market distortions around stamp duty thresholds.

4. It is currently very challenging for home builders to sell homes in the £125k to £135k and £250k to £270k price ranges because buyers feel they are paying too much for very little advantage which results in a skewed pricing and product structure on new housing developments. As prices start to edge near the £250k mark, home builders now design that specific product size out of their range altogether, as the market will not pay.

5. New homes are valued per square foot meaning after the location, quality of fittings, demand etc are taken account, the value of homes relate to the size of the unit, as an example £183 per square foot. Using this value as an example to illustrate the impact of the current slab tax we can show that choosing between a home at 1350 square feet (valued at £247,050) and a home at 1450 square feet (valued at £265,350) would cost the buyer an extra £23,790 for only an extra 100 square feet - £18,300 reflecting the value and £5490 to account for the increase in SDLT.

6. When buyers of a new build home already have the disadvantage of usually requiring at least 20% deposit (compared to 10% for second-hand), the target

market for homes around £260k would require savings or equity of at least £65k to fund their deposit (charged at 3% of full value), stamp duty, legal fees and moving costs which, for the majority is unrealistic. Any financial assistance from the home builder to incentivise the purchase is very limited by mortgage lenders' criteria. For those who can afford it, the unfairness of paying over £5k of additional tax for the benefit of buying a slightly larger house taking the purchase over £250k acts as a deterrent.

7. This results in an inequitable range of product availability. Depending on local house price conditions in a given area, this could result in a home builders range capping at 1350 square.feet then leap-frogging to 1650 square feet with nothing in between to suit growing families on a tighter budget. A move to a rate system should resolve this.

Tax avoidance

8. It is important that anti-avoidance rules are in-line with the rest of the UK to ensure rules are consistent and understood. We do not want Scotland to be seen as somewhere more challenging to invest in with a high price to pay for legal/accountancy advice manoeuvring from investment across the border.

Reliefs within the Bill

9. During the consultation period we urged the Scottish Government to ensure the following reliefs are protected, we note from the Bill that Section 27 allows for each of them:

- **Acquisition relief** – to allow for land being transferred between companies in the same corporate group as part of reconstruction or acquisition
  We note from the Bill that section 27 provides for relief from LBTT for the intra-group transfer of property held by companies if the relevant conditions are met. (i.e. Companies are defined as members of a group if one is the 75% subsidiary of the other or both are 75% subsidiaries of a third company)

- **Certain acquisitions by developers** – to give relief to developers using part-exchange – this is absolutely essential as without this part-exchange schemes would be widely withdrawn throughout the industry to the significant detriment of the overall housing market (as well as Government tax revenues and the wider economy)

- **Incorporation of limited liability partnerships** (LLP) – to allow land to be transferred by a partner in an LLP to an LLP in connection with its incorporation

- **Multiple dwellings relief** – to ensure that in bulk purchases the tax is charged on the average purchase price and not the combined total

- **Complying with Planning Obligations** – where a party is compelled by a Planning Authority to enter a transaction

- **Sale and Lease back relief** – where relief covers the leaseback element

10. We are however unclear from the Bill about the position with **subsale relief** (where land/property is sold on before the contract completes and therefore avoids a double charge) and whether this is considered a 'chargeable transaction'. Guidance on this would be helpful as the potential for double charging would not be welcome.

11. We suggested that the **Registered social landlord relief** definition should be broadened in recognition of the variety of organisations that are now involved with delivering affordable housing, and gaining access to public funds to do so. We suggested that the relief should be extended to include the purchase of any homes that are part-funded with public sector funding for the provision of affordable homes…i.e. 'Affordable Homes Relief'. We note from Schedule 6 of the Bill that this suggestion has not been accounted for and would suggest that the Parliamentary Committee give further consideration to this.

12. We also suggested that 'temporary' **Zero Carbon Homes relief** be amended to ensure the incentivisation of low carbon homes as a practical and achievable aim (also see comments below). This should be linked to the EPC rating. We would urge the Parliamentary Committee to give this careful thought in terms of assisting the Scottish Government with wider policy objectives.

Financial implications

13. We note that the Scottish Government aim to make SDLT in Scotland revenue neutral from the income received through Barnett. The term 'Revenue neutral' raises a few questions?

    - Will the costs of administering the scheme be taken into account before or after the revenue is calculated? i.e. assuming the collection of this tax will require new IT, admin and staff structures in Scotland…will more tax have to be raised to cover this? It is crucial that we avoid any additional tax burden on the public.

    - What year will the revenue neutrality be based on? Obviously we would like this to be on a like for like basis given how much the market has changed recently.

14. Although agreeing with a progressive form of tax to avoid distorting the market beneath the existing slab values, and favouring a reduction in SDLT rates to assist the lower end of the market, we do also need to be aware of the impact that a higher tax could have on the attractiveness of the higher end of the market to investors. Also if the tax acts as a disincentive to high end investors will this push investors into the lower end of the market thereby increasing pressure on affordability?

15. Continuing on the investment theme, we must point out our disappointment that a lower top rate for non-residential property than that for residential is being

proposed to ensure that tax does not have a significant negative impact on Scottish businesses compared to those based in the UK. Although agreeing entirely with the objective, we are dismayed that the contribution that housing delivery makes to the Scottish economy has not been acknowledged within this proposal. Why should organisations investing in the delivery of much needed new homes while creating significant employment opportunities pay more?

Other comments…linking SDLT with other policy objectives

16. An overarching objective of any change should be to keep Scotland as competitive as possible. This will mean aligning many of the key principles with the rest of the UK to ensure there are no disadvantages to investing in Scotland.

17. Having said that where Scottish Government priorities and policies are already unique in Scotland where devolution has allowed distinct targets to be set, there is a clear opportunity to use SDLT to incentivise organisations and individuals in Scotland to support Scottish Government priorities.

For example:

Housing Supply

18. The Scottish Government can structure SDLT in such a way as to promote an active, confident housing market.

19. We would support the reduction of tax chargeable to the lower end of the market from 1% to 0.5%. This would mean a low tax bill for buyers at the low end of the market but relatively high tax take because it would cover a lot of transactions. It should not be forgotten that a change to a more equitable stamp duty system should hopefully have the effect of increasing transactions overall, thereby improving tax revenue.

Climate Change Targets

20. Linking SDLT to EPCs would introduce an effective market-led incentive, creating much needed demand for energy efficient homes. This would incentivise home builders to build above and beyond building standards to capture this market, and also encourage existing home owners to retrofit their properties before marketing for sale to try to compete with new build.

Please see our response to 'Taking forward a Scottish Land and Buildings Transaction Tax' for extended comments.

7 January 2013