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**RESPONSE TO SCOTTISH PARLIAMENT FINANCE
COMMITTEE – LAND AND BUILDINGS TRANSACTION TAX**

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ABOUT HOMES FOR SCOTLAND

Homes for Scotland is **the** voice of the home building industry.

With a membership of some 200 organisations together providing 95% of new homes built for sale in Scotland each year as well as a significant proportion of affordable housing, we are committed to improving the quality of living in Scotland by providing this and future generations with warm, sustainable homes in places people *want* to live.

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RESPONSE TO SCOTTISH PARLIAMENT FINANCE COMMITTEE – LAND AND BUILDINGS TRANSACTION TAX

Homes for Scotland (HFS) welcomes the opportunity to provide the Finance Committee with evidence regarding the impact of the introduction of Land and Buildings Transaction Tax.

This response draws on evidence provided by some of our member companies, including home builders and other organisations with an interest in the operation of the housing market in Scotland. It is focused on the impact of LBTT on the residential market.

Impact of the Rates and Bands

Feedback from members suggests that the impact of the new rates and bands has varied in different locations and markets.

On a positive note, it was suggested that the changes have given a small benefit to the majority of people purchasing a new home, although not one that is sufficiently significant to influence their decision as to whether or not to buy. It was also highlighted that the changes have allowed for a smoother pattern of prices in the market, instead of having an artificial step at the £250,000 mark as was previously the case.

Set against this early indications are that the revised rates are having an adverse effect on the sale of properties in the middle to higher end of the residential new build market, where activity has diminished. This may particularly be the case for properties with a value above £500,000.

Anecdotal evidence was reported that potential buyers of properties in higher bands are deferring the decision to move because of the additional sums payable under LBTT compared to SDLT. If homeowners opt to stay rather than move to a new home due to concerns over cost, it would have implications over time for other parts of the market. To ensure a healthy and well functioning housing market, it is essential that the LBTT framework allows scope for movement up and down price levels without any artificial barriers.

In terms of the commercial market, a concern was expressed that the changes may make Scotland less attractive than other places for those looking to invest in residential property.

Impact of Changes on the Timing of Transactions

Members reported that in the period leading up to the introduction of LBTT some customers either requested that their transactions be brought forward to before April or delayed until after introduction of LBTT, depending on the tax implications. Given

the nature of the home building process, requests to bring forward purchases could not always be accommodated.

In relation to the timing of transactions, one company noted that for their business:

- the proportion of transactions with a value of more than £333k was 12.7% in Q1 2015, compared to 4.9% in the same period in 2014.
- The average selling price in Q1 2015 was 13.4% higher than in the comparable period in 2014.
- The average selling price of homes in Q2 2015 was 9.5% lower than Q1 2015. In 2014, the drop between Q1 and Q2 was 3%.
- 16.9% of all transactions in Q1 2015 were below the £145,000 starting point for LBTT, compared to 28.4% in 2014.

The Need for Changes to the Rates and Bands

In previous responses, Homes for Scotland expressed concern that the arrangements for LBTT would place a disproportionate burden on mid to higher value purchases. Our view was this could impact on growing families and aspirational movers, resulting in them deciding not to move and leaving others unable to progress onto or up the housing ladder. Buyers at this level remain constrained by the total funds available to meet the costs of purchase, including LBTT.

It is too early to offer a definitive view as to the impact of the introduction of LBTT on the new build market. Based on evidence received, we remain concerned however about the potential impact of the arrangements on the sale of mid to higher value homes and, consequently, the functioning of the wider housing market. We would therefore call for the impact of the new arrangements to be reviewed, taking account of market impact, in order to determine the need for e.g. a more stepped approach above £325,000.

With regard to this, it was noted that whilst in Scotland the 5% band applies between £250,000 and £325,000, it applies between £250k and £925k in the rest of the UK.

Another member noted that their forecasts for the year suggested that LBTT generated from the sale of their properties above £325,000 would equate to over 91% of the expected total. In terms of the impact on the public purse, this demonstrates the importance of maintaining a buoyant sales rate at all levels of the market.

Role of Revenue Scotland

One member highlighted their understanding that the changeover from SDLT to LBTT had been quite smooth and that the online system works well.

Concern was however expressed about the approachability of Revenue Scotland, in particular with regard to the organisation's willingness to discuss its approach regarding complex or unclear LBTT issues on an informal basis. It was also suggested that the formal opinion process has been quite slow, which does not assist when an answer or e.g. informal guidance is required quickly.

Finally, it was noted that Revenue Scotland will not necessarily follow the HMRC guidance, which has been built up over a period of years, even where the statutory provisions within LBTT and SDLT are effectively identical. We understand that this can cause great uncertainty, particularly in the absence of informal routes of enquiry.

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