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HOMES FOR SCOTLAND

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

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Homes for Scotland

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 (LBTT).

This response follows on from evidence we presented to the Committee at the six month review. It is based on evidence provided by our member companies, including home builders and other organisations with an interest in the operation of the housing market in Scotland. In the main it is focused on the impact of LBTT on the residential market.

Impact of the Rates and Bands

Not surprisingly, feedback from members suggests that the impact of the new rates and bands has varied in different markets.

However, at the middle to lower end of the market customers seem less aware of the implications of LBTT and it is not seen as a deciding factor on whether they should purchase a new home or not. It is unlikely that home buyers are aware of any saving in the tax compared to the old Stamp Duty Land Tax (SDLT) regime.

At the middle to higher end of the market the LBTT has created a real cash burden to customers who see the introduction of the LBTT as a penalty on aspirational movers. This is having a detrimental effect on house sales within this section of the market.

Feedback from our members continues to suggest that potential buyers of homes in higher bands are deferring the decision to move because of the additional sums payable under LBTT compared to SDLT. It is viewed as a punitive tax with homeowners opting to stay rather than move to a new home due to concerns over cost. Anecdotal evidence also suggests that homeowners are preferring to spend the money to invest on extending their home as the cost of moving is simply too high.

The level of LBTT payable is also having a disproportionate effect on housing markets, including Aberdeen, Aberdeenshire and Edinburgh, where the average family home will commonly exceed £325k. Whilst potential home buyers may be able to generate funds to cover the costs of moving, in addition to the deposit for the house purchase required, many do not have the additional funds required to pay the substantial amount of LBTT due.

To offer real examples to illustrate the level of cash burden experienced by customers, attached as an annex are details of new build homes available to buy now. The first example is a 4 bed family home by David Wilson Homes being built at

Fairmilehead in Edinburgh at the cost of £474,995 where the LBTT payable would be £20,849 (£6,600 more than what would have been due under the old SDLT arrangements in Scotland and £7,100 more than what would currently be payable under SDLT in England). The second example is a 4 bedroom family home being built by Stewart Milne at Royal Deeside, Aberdeen with a £579,995 selling price where the LBTT payable would be £31,349 (£8,150 more than what would have been due under the old SDLT arrangements in Scotland and £12,350 more than what would currently be payable under SDLT in England).

Whilst the higher cost burden of LBTT may be limited, as intended, to those who are perceived to have the "broader shoulders", it must be remembered that low activity at the middle to higher end of the market will in time have implications for other parts of the market. To ensure a healthy and well functioning housing market in Scotland, it is essential that the LBTT framework allows scope for movement up and down price levels. If aspirational movers are unable to move, more upward pressure will be put on the price of the fewer homes that do come on the market. This will distort the market with higher house prices caused by the low supply and high demand.

Furthermore if the aim is for LBTT to achieve a defined revenue stream for Scotland (previously described as revenue neutral from the former SDLT revenue achieved), it must be acknowledged that fewer transactions at higher price points will put more pressure on achieving higher revenue from the lower end of the market. To date it appears that LBTT revenue from commercial property has plugged the residential income gap but we have our doubts as to whether that will continue (please see Brexit section below).

The Need for Changes to the Rates and Bands

HFS has continued to express concern that the arrangements for LBTT place a disproportionate burden on middle to higher value purchases. Our view is this could impact on growing families and aspirational movers, resulting in them deciding not to move and blocking the potential for others 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.

As outlined above, a year into its operation this continues to be our position and we therefore again call for a review of the rates and bands above £325k in order to provide a more stepped approach.

We would suggest that the 5% band in place for purchases up to £250k should extend up the price ceiling of £925k. This will mirror this particular band under SDLT and help ensure continued attractiveness for investment in Scotland.

Whilst we do not have the capability to undertake revenue projections for the Scottish Government, we would suggest that the higher level of activity that could be generated within this section of the market would result in a higher tax take than is being achieved at present.

Impact of Brexit on LBTT revenue

The traditionally quiet summer selling months has in some ways disguised any impact of the result of the EU referendum on market confidence. We expect that purchasing decisions will be taken with more caution than in the past because of uncertainty surrounding house prices and other market conditions post Brexit. This is likely to be felt more at the middle to higher end of the market where the uncertainty added to the costs of moving will put off those who do not have to move. With LBTT devolved to Scotland, there exists an opportunity to boost the housing market and make now a great time to buy. We ask the Committee to consider this when reviewing the rates and bands.

Furthermore it is worth noting that intelligence from RICS and others suggests that investment in commercial property has already reduced post-Brexit. Feedback from our own members suggests that some land transactions have been delayed until the situation becomes more certain. We understand that LBTT from non-residential transactions was helpfully higher than anticipated within the first year of LBTT operation. This plugged the gap from the lower than anticipated receipts from residential transactions creating a positive overall position for the Scottish Government. We strongly believe that house sales could generate more income through higher sales activity if the rates and bands were apportioned more effectively. It seems to us that this will be even more important in a climate of uncertainty and already evidenced reduced non-residential activity.

Additional Homes Supplement

In February this year we raised concerns with the Committee about the impact on new build supply from the introduction of an Additional Homes Supplement.

We continue to believe that the purchase of new build properties for buy to let purposes or as second homes represents additional activity, which does not "crowd out" the purchase of homes by first time buyers. There is a distinction here compared to the position in the wider market, where we understand the Government's policy rationale.

On a specific aspect of this, our members remain of the view that investment in developments in rural areas will reduce going forward with fewer buyers looking to invest in holiday homes. These developments would typically not serve the first time buyer market, therefore the objective of the policy has had an unintended consequence and will potentially reduce much needed investment into rural economies.

In terms of the additional dwelling tax our members are finding anecdotally that this is a deterrent for some "accidental" additional home owners. For example where two families are coming together and have two properties to sell or where there is an inheritance property. Customers are often unaware of this tax and the 3% fee on their main dwelling is above what they can reasonably afford. This is further restricting the middle to higher value market where these costs are as much as an additional tax of £12,000 on a £400,000 property.

We would be keen to explore with the Committee the introduction of exemptions that would help prevent the unintended impacts of the Additional Homes Supplement.

Built to Rent Private Rented Sector

HFS supports the work of the Private Rented Sector Champion to expand the supply of purpose built developments for the private rented sector. The attractiveness of the opportunity to invest in Scotland will very much depend on the tax environment and the impact that has on potential yields. HFS therefore remains supportive of the Multiple Dwellings Relief that is in place for purchases of six or more properties. Further to the section above, we also support the exemption of the 3% Additional Dwellings Supplement for this purpose and are pleased that this was introduced from the outset. Both the MDR and the specific exemption from the Additional Dwellings Supplement must remain in place if Scotland is to attract investment into the BTR PRS sector.

Non-residential transactions

Our own interests in non-residential transactions focus on the purchase of land for home building. Not withstanding the comments raised above under Brexit, the low level of feedback from members on this aspect suggests that the existing rate that applies to most land purchases of 4.5% is acceptable. We therefore would suggest no changes at this time to the existing rates and bands to ensure that Scotland remains a competitive place to invest in land for residential development.

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