

**SUBMITTING EVIDENCE TO A SCOTTISH PARLIAMENT COMMITTEE
DATA PROTECTION FORM**

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Date:	11/01/19
Organisation: (if required)	Homes for Scotland
Topic of submission:	The Land and Buildings Transaction Tax (Tax Rates and Tax Bands Etc.) (Scotland) Amendment Order 2018

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FINANCE AND CONSTITUTION COMMITTEE**THE LAND AND BUILDINGS TRANSACTION TAX (TAX RATES AND TAX BANDS ETC.) (SCOTLAND) AMENDMENT ORDER 2018****SUBMISSION FROM****1. Introduction**

- 1.1 Homes for Scotland is the voice of the home building industry in Scotland, with a membership of some 200 organisations together providing 95% of all new homes built for sale across the country as well as a significant proportion of affordable housing.
- 1.2 Homes for Scotland makes submissions on national and local government policy issues affecting the industry. Its views are informed by members, including through various committees and advisory groups established to utilise the skills and expertise of key representatives from our member companies

2. Changes to non-residential LBTT rates and upper rate threshold

- 2.1 The interest of the home building industry in LBTT rates for non-residential transactions relates to the purchase of land for residential development. To ensure the supply of much needed new homes, Homes for Scotland is supportive of maintaining the original 4.5% higher rate. Given that the value of land for residential use typically exceeds the previous £350,000 upper threshold, a reduced threshold and increased rate raises the LBTT chargeable on land purchases quite significantly.
- 2.2 For example, purchase of a site valued at £5m charged under the proposed 0.5% increase in LBTT non-residential rates would incur a tax bill £238,500. This represents an increase of £23,250 (nearly 10%) from the previous 4.5% rate, at a time when Scottish Government is trying to encourage more housing development of all tenures to help alleviate the housing crisis. This increased cost may act as a further barrier to development.
- 2.3 It is also worth noting that the 0.5% increase will remove the slight advantage LBTT held for higher rate non-residential purchases compared to other UK tax regimes such as the SDLT operating in England and Northern Ireland. HFS has existing concerns about the ability of Scotland to compete for housing investment with England, given the challenges home builders already face north of the border through higher costs to build; access to skilled labour; and availability of suitable sites. We would much prefer to see the Scottish Government use its devolved powers to encourage investment through a competitively positioned tax regime, supporting the industry to deliver much needed new homes, and harness the benefits that would bring to wider society and the economy.

3. Increase Additional Dwelling Supplement (ADS) rate from 3% to 4% (on purchases of second residential dwellings over £40,000).

3.1 HFS has previously raised concerns regarding the impact of new build supply from the impact of the Additional Homes Supplement. We believe that increasing the supply of new homes, across all tenures, boosts economic growth, supports greater choice, creates and supports jobs and helps build sustainable communities. Further we believe that the purchase of new build properties for buy to let purposes or as second homes represents additional activity, improving opportunities to increase supply, and as such would not prevent or constrain the purchase of homes by first time buyers. Other Scottish Government policies such as Help to Buy (Scotland), LBTT relief for first-time buyers and increasing mortgage availability play a much more pivotal role in widening access to the market.

3.2 As such, at a time when the industry is facing uncertainty posed by Brexit, we are concerned that the increase to ADS will make Scotland appear less competitive, having a potential impact on future investment in new build, reducing confidence in the market and consequentially overall levels of supply. Whilst we obviously share the Scottish Government's objective of ensuring that first time buyers have the greatest possible opportunity to enter the housing market, we do not believe that these proposals will assist in meeting this aim in terms of new build.

4. Impact of LBTT rate increase on SME Home Builders

4.1 We would also like to raise awareness of a collaborative project launched in June 2018 between HFS and the Scottish Government which was set up to address the specific constraints experienced by small scale builders and develop solutions. Small scale home builders already face continued constraints through limited access to finance on fair and equitable terms and a complex planning process negatively affecting development viability. Specifically, some of the main concerns of the project group have focused on the associated costs of LBTT rates being applied; how they are applied between non-residential and residential properties and different scale within the market.

4.2 With many small scale home builders tending to seek development opportunities in rural areas, where the market is less confident and more susceptible to economic slowdown, the associated increase in costs through LBTT will add to the extensive range of front-loaded costs incurred through the planning and consents process which already makes some of these sites marginal in terms of viability. While larger home builders are adequately resourced and well equipped to navigate these delays and costs, for smaller builders these factors can impact site viability and in turn prevent housing output in Scotland.

4.3 A recent example from a member company illustrated the negative impact LBTT rates can have on the viability of sites that already have residential property on the land. In this instance, a builder purchasing a small site was charged Additional Dwelling Supplement alongside the Non-Residential LBTT rates; this on a property that was scheduled for demolition and as such, given the impact on cashflow, the project became

unviable.

- 4.4** With the government looking to support SME businesses through this work, this policy may unintentionally disincentivise those looking to invest in growing their businesses and worse, discourage Scotland's future home builders and new entrants joining the market.

5. Summary of Key Points

- 5.1 Homes for Scotland is supportive of maintaining the original 4.5% higher rate on non-residential LBTT as the increased 5% rate may act as yet another barrier to development, at a time when the Scottish Government is trying to encourage housing development of all tenures to alleviate the housing crisis.
- 5.2 The increase in Additional Dwelling Supplement from 3% to 4% has the potential to make Scotland appear less competitive, reducing future investment in the new build market and consequentially overall levels of housing supply. We would encourage the Scottish Government to maintain the 3% rate of ADS.
- 5.3 Small scale home builders could be further acutely affected LBTT rates increase, causing sites to become unviable and further discourage future home builders entering the market.
- 5.4 HFS would encourage the Scottish Government to use its devolved powers to boost investment through a competitive tax regime to support the industry in delivering much needed new homes and harness the benefits that would bring to wider society and the economy.

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