

TAX BRIEFING NOTE

STAMP DUTY LAND TAX

JANUARY 2023

What is it?

Stamp duty land tax (SDLT) is a tax on the purchase of property payable by buyers. It was introduced in 2003 but replaced stamp duty, which was first introduced in England in 1694.

A single 1 per cent rate of stamp duty above a threshold existed from 1984 to 1997, when two new thresholds and rates (1.5 and 2 per cent) were added. The rate was paid on the whole transaction amount. Higher rates were raised to 3 and 4 per cent by 2000. In 2011, two further thresholds and rates were added for residential properties (5 per cent above £1 million and 7 per cent above £2 million). In 2014, the system on residential property was switched from a 'slab' (rate payable on the whole amount) to a 'marginal' one (where the higher rates are only payable on the amount over the threshold). SDLT on commercial (or mixed) properties switched to a marginal system in 2016. The new rates are listed in the table below. Additionally, rates are 3 percentage points higher if the buyer owns another property.

First time buyers are exempt from SDLT on the first £425,000.¹ This exemption does not apply on property over £625,000.

Rate payable above threshold	2%	5%	10%	12%
Residential thresholds (£):	N/a ²	250,000	925,000	1,500,000
Commercial (or mixed) thresholds (£):	150,000	250,000	N/a	N/a

What's the problem with it?

The 'incidence' (who is economically worse off, as distinct from who is required to pay the money) of SDLT depends on whether we are thinking about who 'pays' the tax after it has already been put in place, or who 'pays' when it is introduced (or withdrawn, or the rates are altered).

Because buyers factor in their SDLT bill when deciding how much to pay for a property, the buyer 'pays' when considering transactions on their own. Buyers start off with cash worth the value of the property and the value of the SDLT and then end up with just the value of the property. A seller, by contrast, swaps a property for cash of the same value. But when SDLT is introduced or raised, property owners immediately 'pay'. Instead of increasing their overall budget, buyers allocate some of their overall budget for SDLT, leaving less left over for the purchase. This means that prices fall to account for the reduced demand from buyers, reducing the value of property. So the cost falls on both buyers and sellers and adds up to much more than the tax receipts HMRC receives.

The big problem with SDLT is that its incidence on buyers means that it reduces people's willingness to buy property, which in turn means that people fail to move homes when it suits their requirements, such as for a new job or to reduce their housing costs when adult children have left home after education. This gets in the way of the housing market reallocating homes when circumstances change. Growing companies find it harder to recruit the right employees, older home-owners stay in family homes which could be better suited to younger, growing families, and workers who do take new jobs sometimes accept longer, less pleasant commutes because SDLT means it's just not worth moving.³

¹ The first time buyer threshold are scheduled to revert back to £300,000 and the limit to £500,000 in 2025.

² The 2 per cent band on residential property was abolished in September 2022 but is now scheduled to be reinstated in 2025.

³ Hilber, C., *Written evidence to the treasury select committee*, 2 May 2016, personal.lse.ac.uk/hilber/evidence/Hilber_Evidence_HMTreasuryCommittee_2016_05.pdf, (accessed 9 November 2022).

What should be done?

1. Abolish SDLT entirely when possible.
2. In the meantime, make permanent and extend the temporary £425,000 first time buyer threshold to all, halve the 5 per cent rate, abolish the 10 and 12 per cent rates and scrap the 3 per cent additional homes surcharge.