Briefing: changes to stamp duty land tax

September 2022

Background:

- Ahead of Friday's mini-budget, HM Treasury is considering changes to stamp duty land tax (SDLT) as part of their growth plan.[1]
- The TaxPayers' Alliance dynamic tax model shows that SDLT has a deleterious effect on growth, investment and average weekly earnings if the current system remains in place.
- The revenue raised is forecast to be £20.8bn in 2026-27 and is expected to grow every year from 2021-22.[2]

Key findings:

- If SDLT – and Scottish equivalents – were not in place, by 2029 GDP would be £27 billion higher, investment up by £7bn and average weekly earnings £6 greater.
- The effects are most acute with investment. Compared to the baseline scenario, investment spending would be 2.29 per cent higher were SDLT not in place and GDP would be 0.85 per cent higher by 2029.
- The baseline scenario means what the economy is expected to look like if tax changes were not implemented.

Why does stamp duty land tax depress growth?

- SDLT functions like many other transaction taxes in that it impedes the effective allocation of capital, which in turn affects investment decisions. Stamp duty is paid on both residential and commercial properties.
- For residential transactions, SDLT significantly adds to the already expensive cost of moving home. The costs therefore may outweigh the benefits to potential homebuyers, meaning they stay put.
- That leads to an inefficient allocation of resources. For instance, older homeowners may be put off from downsizing, meaning that they occupy much more space than needed. Consequently, growing families may be in properties that are too small.
- SDLT can also impact employment opportunities. High costs may put off prospective employees from applying, and moving, for a job that matches their skill set.
- Former chancellor Rt Hon Rishi Sunak MP lifted the SDLT threshold to £500,000 in the summer of 2020 – the height of the covid-19 pandemic. The nil rate band of £125,000 for residential properties was then re-introduced in October 2021.[3]
- TPA analysis found that lifting the threshold to £1 million in the previous year would have unlocked up to 245,000 additional housing transactions.[4]
- For commercial transactions, high rates of SDLT are likely to impact the decision of a business to move to a new property, with knock-on impacts such as investing in new machinery.

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[1] Swinford, S. & Zeffman, H., Liz Truss to cut stamp duty in push for prosperity, *The Times,* 21 September 2022.

[2] Office for Budget Responsibility, *Public finances databank – August 2022*, 14 September 2022, https://obr.uk/download/public-finances-databank-august-2022/, (accessed 21 September 2022).

[3] HM Revenue & Customs, *Guidance: Stamp Duty Land Tax: temporary reduced rates*, 8 June 2021, www.gov.uk/guidance/stamp-duty-land-tax-temporary-reduced-rates, (accessed 21 September 2022).

[4] TaxPayers' Alliance, *TaxPayers' Alliance calculates stamp duty cut could unlock 216,000 house moves*, 8 July 2020, www.taxpayersalliance.com/taxpayers_alliance_calculates_stamp_duty_cut_could_unlock_216_000_house_moves, (accessed 21 September 2022).

Methodology:

- The effects of the tax changes are derived from a dynamic tax model that was constructed in collaboration with Europe Economics. It is a modified Ramsay-Kass-Coopmans model.