

Land Transaction Tax: Higher Rates for Purchases of Additional Residential Properties

ABOUT THE RESIDENTIAL LANDLORDS ASSOCIATION

The Residential Landlords Association (RLA) represents 20,000 small and medium-sized landlords in the private rented sector (PRS) who manage over 250,000 properties across the UK. It seeks to promote and maintain standards in the sector, provide training for its members, promote the implementation of local landlord accreditation schemes and drive out those landlords who bring the sector into disrepute. Members also include letting and managing agents.

Summary

The devolution of Stamp Duty powers to the Welsh Assembly is an important opportunity for the Welsh Government to tailor and shape current rules into a form that works for Wales. RLA Cymru welcome the change from Stamp Duty Land Tax to Land Transaction Tax (LTT) and the open approach the Welsh Government has taken in shaping how this tax will work for Wales.

The Private Rented Sector (PRS) in Wales has, over recent years, faced a whole host of changes from both Welsh and Westminster Governments. Financially, the sector has never come under such pressures, and in terms of new compliance, landlords in Wales are going to have to face two of the largest Acts the Welsh Assembly has ever passed.

The RLA works to understand how the sector will react to new statutory requirement and tax changes in advance of implementation. In a recent survey of our membership, 84% of landlords indicated that they are likely to consider increasing rents to cover their increased tax burden and 78% of members said that these changes have deterred them from investing further.

This is a troubling prospect for a country facing an ongoing housing crisis, especially as Wales sees some of the lowest and stable rents in the UK. With landlords under extreme financial pressure and regulatory demands, many are looking to increase rents or exit the sector. All of which has an impact on rents and standards as tenants have less choice, all of which creates the perfect climate for criminal landlords to operate.

The finances of most landlords have never been under more pressure, and they are no longer in a position where they can continue to absorb further costs. This means that although many landlords are, rightly, working to ensure they fully comply with the law and tax regime, many of the costs have to be reflected in the rents. As a result, new taxes and costly regulation are ultimately paid by the tenant.

Despite these difficulties the PRS is an important provider of housing in Wales, catering for a number of different markets from students to families. The Homes for Wales coalition states that Wales needs 12,000 homes each year just to keep up with current demand. No single sector of the housing market can fix the housing crisis, however PRS landlords do have a part to play. Landlords provide a

significant amount of investment in bringing new properties into use, bringing old and derelict properties back into supply, increasing the standard of some of Wales' oldest and most difficult to maintain pre-1914 properties, and investing in new developments by purchasing off-plan. All of this is however at risk given the changes coming from both Westminster and Welsh governments.

We strongly believe that for Wales to solve its housing crisis, it needs to encourage all housing sectors to grow and offer people more choice when it comes to housing. Stamp-duty is however, a policy designed in London, for London, and to tackle issues that are London specific. We do not believe that the additional 3% levy is best designed for Wales.

Although we are fully against the continued implementation of the 3% levy, on the grounds that the PRS in Wales is broadly on the right track but facing tough pressures, and that this was a policy designed for the London market, we would encourage the Welsh Government to look at alternatives that work best for Wales.

Our first option would be to remove the 3% levy in its entirety, however if this were not possible we would urge the Welsh Government to consider a number of exemptions, which would help tailor the policy to Welsh needs.

We believe that the higher rates (£% levy) should not apply to properties purchased with intent to let, where:

- 1) The property has genuinely been on the market for one year or more
- 2) The property has not been occupied for over 1 year (empty home)
- 3) The property is being purchased off-plan
- 4) The property is derelict or in severe disrepair

Ideally we would like to see the additional levy removed, however having a list of exemptions within the Act, which the Minister would have the power to amend later, would give Wales a flexible tax system which it could alter to accommodate its changing needs.

A Different PRS in Wales

Wales is unlike any other part of the UK when it comes to the cost and regulation of the PRS. We are currently in the midst of implementing Rent Smart Wales, which not only requires landlords to register, but also to train and obtain a licence. Furthermore, landlords will soon be using standardised contracts and a new Fit for Human Habitation standard under the Renting Homes Act. All this points to a better class of landlord which reflects in the standard of properties in the PRS and our high satisfaction rating. The National Survey for Wales finds that 90% of PRS tenants are satisfied with their accommodation (this compares to 83% of tenants in the social housing sector).

Rents in Wales are also lower and far more stable than most other parts of the UK. Since 2012, yearly change in rent levels in Wales have not exceeded 1% according to the ONS. However, the Index of Private Housing Rental Prices (IPHRP) recorded a fall in rent prices in Wales for the 12 months to June 2016. This is in stark contrast to London (for which the additional levy was designed) which has seen rental prices rocket due to a chronic lack of supply.

Further, the PRS is becoming increasingly secure, with the number of possession claims from PRS property substantially lower than the social sector. Figures from the Ministry of Justice show that in

2015, in Wales, the social sector made 4,265 claims for possession compared to just 677 from PRS landlords.

Although work remains to be done, it is fair to say that many of the misconceptions held against the PRS ought to be dismissed, as the PRS in Wales has continued to demonstrate that it is part of the solution to the housing crisis.

A Policy for London, Not Wales

We have argued that Stamp-duty is a taxation policy primarily designed to tackle issues in the London housing market. This argument is most evident when we consider exactly where stamp-duty revenue comes from.

11% of the stamp duty receipts in England and Wales are from Westminster, Kensington and Chelsea alone, where the average bill was almost £110,000. Over 2015 London contributed to 44.6% of all stamp duty receipts while only accounting for 12.3% of transactions¹. The current stamp duty policy is designed for London, not Wales, and as such has detrimental effect on the Welsh property market.

The latest House Price Index from the Office for National Statistics revealed the calming of house price growth from 9.7% in the year to June, to 8.3% in the year to July². This is because stamp duty is dampening the transaction volume across the UK, however transaction volume has already been suppressed most in Westminster, Islington and Chelsea and Kensington³ – again demonstrating that this is a policy designed for London not Wales.

Ultimately, fewer transactions results in less tax. A large proportion of the revenue from stamp duty is generated from London (44.6%), and two specific London boroughs account for 11% of total receipts. The number of transactions in these areas is already decreasing⁴, however Wales experiences the decreasing transaction effect without gaining the same financial benefits generated by Westminster, Kensington and Chelsea. As such, the additional 3% levy will decrease the number of transactions, without generating a significant amount of revenue, due to the impact on transactions.

The knock-on effects of this is an overall reduction in stamp duty returns. Provisional figures suggest that stamp duty returns could be down by 2% by the end of the year, however this figure could have been a lot lower were it not for the surge in buy-to-let at the start of the year to beat the introduction on the 3% levy⁵. Because this surge would not be repeated if Wales continues the UK policy, we can reasonably assume that the revenue from stamp duty is only set to decrease further. Wales is therefore left in a position where it is still implicated by the negative effects of stamp duty, but does not receive anywhere near the same revenue generated by the London boroughs of Westminster, Kensington & Chelsea.

¹ <https://kfcontent.blob.core.windows.net/research/78/documents/en/autumn-2016-4079.pdf>

² <http://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/housepriceindex/july2016>

³ <https://kfcontent.blob.core.windows.net/research/78/documents/en/autumn-2016-4079.pdf>

⁴ Ibid

⁵ Ibid

The Stimulus Effect of Cutting Stamp Duty

While superficially attractive in terms of possible extra revenue for the Welsh Government, the reality may well be the opposite effect, namely, less revenue overall.

Research finds that a 1% cut in Stamp Duty results in a 20% increase in market activity. Indeed, this figure was reflected and exceeded in the month before the additional 3% SDLT was introduced UK wide⁶. Before the additional 3% SDLT levy was introduced in April 2016, the market saw what many commentators have called a 'boom' in buy-to-let mortgages. Data from the Council of Mortgage Lenders shows that the number of buy-to-let mortgages was up in March 2016 by 142% annually, which reflected in lending was a 163% increase.

This was a substantial increase in the amount of activity in the buy-to-let market, which will have had an impact on the number of homes available to renters. However, more activity in the buy-to-let sector isn't just good news for tenants, who benefit from lower rents and increased choice, plus more competition between landlords, but it has significant economic advantages for many in the 'local economy'.

Purchasing a house is associated with substantial household spending on repairs, renovations, durable goods (domestic appliances, consumer electronics, furnishing, etc.), and commissions to agents and lawyers. Using UK consumption survey data, Best and Kleven estimate conservatively that a house transaction triggers extra spending of about 5% of the house price⁷. When combined with the estimated increase in transaction volume (20%) this begins to represent a very real form of economic stimulus.

*"The large effect is due to the strong responsiveness of house purchases to transaction taxes along with the complementarities between moving house and consumer spending. More generally, reducing transactions costs in the housing market (using tax cuts or subsidies) may be a powerful form of stimulus"*⁸

Landlords typically invest heavily after purchasing a property, because the property needs to meet high standards to attract potential tenants, but must also comply with a litany of legislation impacting solely on PRS landlords and not owner-occupiers. Therefore, a much greater economic stimulus would be expected.

The reverse will be the case if the 3% levy is maintained. The levy on the purchase of a buy to let property will mean that less money is available at the outset for spending on the property. It will also result in lower initial investment into the property due to less expenditure on repairs and improvements.

Market Dynamics, Landlord and First Time Buyers

Landlords, as buyers, help lubricate the housing market. They form a very important part of the house buying mechanics, and encouraging investment from landlords is important for all types of

⁶ https://web.stanford.edu/~mbest/best-kleven_landnotches_feb2016.pdf

⁷ https://web.stanford.edu/~mbest/best-kleven_landnotches_feb2016.pdf

⁸ Ibid

tenures. Often, when moving home, buyers and sellers can become linked together in a chain, which eventually needs to be broken in order for completion to happen. Because landlords are acting as buyers and not sellers, they can bookend chains.

A survey of 2,000 home movers by Which? found that around three in ten (28%) people have experienced a property purchase falling through, due mostly to reasons relating to the difficulties with Chains. 21% have had to pull out of a Chain because their own sale fell through, and 13% said the seller had pulled out because the process was taking too long⁹.

Landlords can often be a solution to these long chains, giving more liquidity into the market and dramatically shortening the time taken for completion for all types of buyers, including first time buyers.

Much has been said about PRS landlords and first time buyers competing for the same properties, however this is a narrative that has no basis in fact. Whilst the Chancellor (then George Osborne) has argued that the Stamp Duty levy is about freeing up more properties for purchase instead of being bought for buy to let, there is very little evidence to support the assertion that landlords and home owners are competing for the same properties. A recent report by the London School of Economics has noted: *"The (very limited) research into direct competition between investors and private owner-occupiers has found that nationwide only a minority of sales to landlords involved bids from both types of buyer*¹⁰.

Closing Comments

Wales has worked hard to shape the PRS into a sector that contributes positively towards the overall housing situation in Wales. Landlords are registering and undergoing training, with greater satisfaction rates among tenants in the PRS and consistently low rents. However, this is at threat through a number of taxation changes and policies designed in Westminster. As stamp-duty is devolved to Wales, the Welsh Government has the opportunity to shape the policy in a way that works for Wales. At present, the stamp-duty policy is designed to tackle issues in London, generating detrimental effects on the housing market of other parts of the UK, notably Wales. This is evidenced that London accounts for 44.6% of stamp-duty revenue despite only accounting for just over 12% of transactions. Given the positive PRS here in Wales and the need for every housing sector to grow, in order to tackle the housing crisis in Wales, we see no reason why Wales needs to adopt the London centric policy of adding an additional 3% levy on stamp-duty to the cost of homes available to rent.

⁹ <https://press.which.co.uk/whichpressreleases/three-in-10-property-purchases-fall-through/>

¹⁰ London School of Economics, "Taking Stock - Understanding the effects of recent policy measures on the private rented sector and Buy-to-Let", 11th May 2016, Page 5 - <http://londonhousing.org/wp-content/uploads/2016/05/GRP12392-LSE-report-design-WEB.pdf>.