We welcome this opportunity to respond to the Scottish Government Finance Committee’s call for evidence in relation to the land and buildings transaction tax (LBTT) rates and bands.

Since the call for evidence was issued, the Scottish Government has published its draft Budget 2015-16 setting out the proposed LBTT rates and bands.

We support the move to a progressive tax structure. This should help to reduce the “bunching” of sale prices at the relevant thresholds which occurs under the current stamp duty land tax (SDLT) regime, particularly in the residential market. We are aware that this change has been welcomed by house-builders who are pressured under the current regime to keep prices within the £250,000 1% threshold.

We note that the proposed residential rates would mean that 90% of taxpayers would be no worse off than under the current SDLT regime. However, one area of concern is how the proposed rates will impact on the higher end of the residential market, given that the tax liabilities are markedly higher than under current SDLT regime.

Families purchasing homes in prime property areas, such as Edinburgh and Aberdeen, where average prices are consistently higher than the Scottish average, would face significantly higher liabilities. Purchasers will not necessarily have the resources to meet these additional liabilities and, if lenders continue to tighten lending criteria, the proposed rates may cause activity at this level of the market to slow down. This would adversely affect house-builders and the construction industry operating in this sector. At the top end of the market, Scotland may also be seen as a less attractive place for high earners to relocate.

We note that the Scottish Fiscal Commission has highlighted in its Report that the relatively high tax rates applicable to the upper LBTT band may induce an additional behavioural response which has not been factored into the revenue forecasts. In order to achieve revenue neutrality, it would seem important to take into consideration how the relatively high rates proposed for the upper end of the market will impact on transaction volumes.
With regard to purchases of non-residential property, we note that the proposed rates would mean that 95% of taxpayers will be no worse off than under the current SDLT regime. However, while the number of transactions at the top end of the market may be relatively small, it is very important that Scotland is not put at a disadvantage compared to the rest of the UK in attracting investment. Based on the proposed rates, the additional liabilities for such transactions are not insignificant and it is a concern that this could adversely affect transaction levels.

We welcome the Scottish Government’s proposal not to increase the LBTT rates applicable to leases of non-residential property.