FINANCE COMMITTEE
DRAFT BUDGET 2015-16
SUBMISSION FROM KPMG LLP

Introduction
KPMG LLP (“KPMG”) is a global network of professional firms providing audit, tax and advisory services. KPMG’s Scottish offices are located in Aberdeen, Edinburgh and Glasgow.

We welcome the opportunity to participate in the Finance Committee’s call for evidence in relation to the proposed tax bands and rates for the Land and Buildings Transaction Tax.

Please note that the comments below relate to the proposed bands and rates as announced on 9 October 2014, rather than the illustrative rates as set out in the call for evidence document issued September 2014.

Call for evidence

The Committee is seeking views on the following:

The threshold for the purchase price of the nil rate band for both residential and non-residential property;

We understand that the nil rate band has been set at £135,000 in order to best meet the policy objectives of the Scottish Government.

Given that it is similar to the nil rate band for SDLT (£125,000) it is unclear how many additional property purchases will be brought outside of the charge. If this is not significant, it may be more beneficial to maintain the nil rate band at £125,000 to allow for cross border consistency.

The rate for other tax bands;

The increase in rates from 2% between £135,000-£250,000 to 10% for properties with a price of £250,000-£1,000,000, is steep and will result in an increased cost for all those purchasing residential properties in excess of £325,000.

While the slice system should prevent the market distortion created by the slab approach of SDLT, there is a risk that this cross-over point could have a similar impact in the short-term, as purchasers try to ensure that their anticipated tax costs do not increase post 1 April.

The top rate of 12% is higher than anticipated, and higher than any rate suggested in the illustrative scenarios provided. This is likely to result in a significant unanticipated increase in costs to those purchasing higher value residential properties.

Whether there should be more or fewer bands and, if so, the rate for any additional tax bands;

Given the sharp rise in rates at £250,000, the Scottish Government may wish to introduce an additional band between £250,000 and £1,000,000, so that those purchasing residential properties with a price in excess of £325,000 do not feel
excessively penalised, when compared to the SDLT that would have been paid had it still applied. This is particularly relevant for those areas where residential property prices are on average significantly higher than in the rest of the country.

We appreciate that in order to ensure that the tax take remains revenue neutral, the introduction of a further lower rate band between £250,000 and £1,000,000, would necessitate an increased rate elsewhere.

*Whether the rates and bands should be set so that the impact of replacing stamp duty land tax with LBTT is broadly financially neutral;*

We note that the bands and rates proposed are intended to be revenue neutral, such that the same level of revenues will be generated had the UK rates and bands remained in place. The amount of revenue that the Scottish Government wishes to raise from LBTT is a policy matter, having regard to the wider objectives of government.

The Scottish Government’s proposal to include a lower top rate for non-residential property than for residential property;

We agree that the proposal to introduce a top rate of LBTT for non-residential property that is comparable with the current SDLT rate should ease the transition from SDLT to LBTT for businesses. The comparable rate should also mean that this tax is not a deciding factor in where businesses choose to acquire property (i.e. in Scotland or the rest of the UK).

We would welcome confirmation that the HMRC guidance in issue as to when a property is residential and when it is non-residential will continue to be adhered to by Revenue Scotland.

We would also welcome further guidance as to at what stage in the construction process a building would be considered to be a dwelling and so subject to the higher residential rates.

The likely impact on the property market and wider economy.

Prior to April 2015 the introduction of higher rates for residential property is likely to accelerate the purchases of properties with a price in excess of £325,000. Post April 2015, activity in this sector of the residential market is likely to slow down with both buyers and sellers impacted by the higher upfront costs of purchasing these residential properties.

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