Savills is a global real estate services provider listed on the London Stock Exchange. We have an international network of more than 600 offices and associates throughout the Americas, the UK, continental Europe, Asia Pacific, Africa and the Middle East, offering a broad range of specialist advisory, management and transactional services to clients all over the world.

Savills welcomes the progressive nature of the new Land and Buildings Transaction Tax (LBTT) on residential property, which will ensure that the majority of Scottish homeowners will be better off. However, a healthy housing market is dependent on it fully operating at both ends of the spectrum. We believe that the new rates will undoubtedly have a negative impact on sales activity in the mid-market upwards, and a resulting detrimental effect on the Scottish economy as a whole. We are particularly concerned that these rates would be introduced at a time when the Scottish economy is still fragile and the housing market is only in the early stages of recovery.

The LBTT is not a tax on the very rich. For the hard working families, who need to live in the hubs of Edinburgh, Aberdeen and Glasgow and their suburbs, where average house prices are considerably higher than the rest of Scotland, the proposed increases are so punitive they may discourage many buyers from moving. A number of younger buyers from these hubs are already telling us that they are putting their search on hold. For example, buyers of properties of £363,000 (the average price of a family house in Edinburgh) will be paying 25% more in tax than they would have paid in Stamp Duty at £13,600 under the new system.

Buyers from all over the UK and overseas continue to be attracted to Scotland and these high earners will be important contributors to the Scottish economy. A number have already intimated that they are pulling out of deals since the announcement of the proposed rates. House prices in Scotland are already 17% higher than our neighbours in the North East of England and the additional tax to the mid-market will result in Scotland becoming uncompetitive.

The hardest hit level of the housing market, under the proposed LBTT rates, is £325,000 and above. Although this represents only 9% of the market in terms of sales, it would have accounted for 73% of the LBTT generated across Scotland during the twelve month period until end of August 2014. Savills Research estimates that there is likely to be a fall in sales activity at this level of the market as a result of the introduction of LBTT, perhaps to 2011 levels. The impact of such a fall could result in a shortfall of approximately £6 million in the level of tax receipts. This equates to the price of a building a new primary school in Scotland. The Scottish Government should not rely on this small proportion of the market for the vast majority of overall LBTT income.

Residential land
There is a great deal of confusion in the property industry on the tax applicable to Residential Development Land under the new LBTT structure. Under the SDLT structure, the purchase of land with a view to developing residential property is currently considered a commercial transaction and hence incurs a tax rate of 4% above a purchase price of £500,000. This equates to a tax charge of £200,000 for the purchase of a piece of development land at £5 million.

However, the Scottish Government website ‘LBTT Residential Purchases Tax Calculator’ states ‘Residential Land’ as a ‘Residential Purchase’ which would incur an LBTT Residential Property tax charge.

The £5 million land would incur an LBTT charge of £557,300 which is a staggering 179% more than the SDLT charge.

Such charges are likely to make certain residential development projects financially unviable. This is against a backdrop of a sharp reduction in house building in the private sector, mainly due to a lack of funding. The number of private housing completions during 2013 at 10,378 is 53% lower than the peak of 21,876 during 2004.

Development should therefore be classed as a commercial activity and should incur LBTT under the Non-residential purchase structure, regardless of the type of development that is built. The £5 million purchase price would therefore incur a charge of £215,250 which could enable projects to proceed.

We would be happy to expand on the points above and to provide oral evidence in due course during the period 12-19 November 2014.

Yours faithfully

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