LAND AND BUILDINGS TRANSACTION TAX (LBTT)

As you will be aware, the Scottish Government committed to undertaking a review of the operation of LBTT rates and bands once we had a full year of outturn data. The Committee’s inquiry into this topic will no doubt provide very useful evidence which I will consider as part of that review. I will announce my intentions with regards to residential and non-residential LBTT rates and bands as part of the forthcoming Scottish Budget.

We had always intended to publish an assessment of 2015-16 devolved tax revenues against forecast alongside the 2017-18 Draft Scottish Budget, as set out in the written agreement on the budget process with the Finance Committee in the previous session. We still plan to do so but I thought it might be helpful to provide an earlier assessment to support your Committee’s inquiry.

The annex to this letter provides the Scottish Government’s assessment of four of the issues raised in your call for evidence: the impact of LBTT rates and bands on the property market; achievement of our policy objectives to prioritise support for first time buyers and the lower end of the market; tax revenues recorded in 2015-16; and the impact of forestalling.

I wish the Committee every success with the inquiry. I would be happy to provide any further evidence which the Committee would consider useful and I will follow the progress of the inquiry with great interest.

Yours sincerely

DEREK MACKAY
i. The impact on both the residential and commercial property market of the various rates and bands

1. The Scottish Parliament legislated for a progressive rate structure for LBTT in 2013. This means that LBTT rates are marginal rates, payable on the portion of the total value which falls within each band. This contrasts with the slab structure of Stamp Duty Land Tax (SDLT) which existed at the time, under which the higher tax rate becomes payable on the whole purchase price when a threshold is crossed. The move to a progressive rate structure was widely welcomed during the passage of the LBTT legislation.

2. The progressive structure was designed to remove pre-existing price distortions in the market by smoothing the marginal rate of tax payable when prices cross a threshold between bands. The slab structure also led to the ‘clustering’ of property prices just below the previous UK SDLT price thresholds and very few sales just above these thresholds. It may also have encouraged some tax-avoiding behaviours.

3. The UK Government subsequently introduced a marginal progressive rate structure for SDLT to replace the previous slab structure – marginal SDLT rates on residential transactions came into effect in December 2014 and on non-residential transactions in March 2016.

Residential market

4. Over 2015-16 as a whole, the residential market in Scotland exhibited strong growth in activity levels, while house price increases remained moderate, supporting housing affordability. According to HMRC data on transactions with a value of £40,000 or above, the number of residential transactions in Scotland grew by 10.6% in 2015-16, compared with 10.5% for the UK. Council of Mortgage Lenders (CML) data show that first-time buyers benefitted equally from this increase, with mortgages extended to first-time buyers for home purchase in Scotland up by 10.9% in 2015-16. The UK House Price Index recorded a 2.1% increase in prices in Scotland, compared to 6.3% for the UK. This maintained the greater affordability of housing in Scotland, with CML data showing that in Q1 2016, interest payments on new mortgages for house purchase consumed on average 7.8% of borrower income in Scotland, compared with 8.3% for the UK.

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5. Taxpayers in Scotland currently do not pay any LBTT until the value of the property they purchase is above £145,000 as opposed to £125,000 for UK SDLT. From Revenue Scotland data for 2015-16, Scottish Government has calculated that nearly 9,700 house-buyers (about 1 in 10 transactions) were taken out of tax altogether by this measure alone. The data also show that a further 41,700 house-buyers in Scotland (about 4 in 10 transactions) paid less tax on their house purchases between £145,000 and £330,000 than they would have under SDLT. A further 4 in 10 transactions paid no tax at all as they were below the £125,000 threshold for both SDLT and LBTT. Thus, broadly 9 out of 10 transactions in 2015-16 paid either less tax than UK SDLT or no tax at all. The remaining part of the market above the £330,000 price mark accounted for about 7 per cent of transactions in 2015-16. It should also be noted that the LBTT charge due on residential property purchases at or below c. £380,000 continues to be lower than the SDLT charge which applied prior to December 2014.

6. Measuring the impact of the tax on the residential property market is not straightforward, since the amount of tax that is charged when residential properties are purchased is just one of a number of factors that can influence house prices and the number of transactions. Other factors which can be equally or often more important include economic trends affecting employment and household income, financial trends affecting the availability and terms of mortgage finance, demographic trends affecting the demand for housing, as well as wider developments. Subject to this qualification, examining aggregate trends in prices and volumes of residential transactions, and in particular the performance of different segments of the market, will help to indicate whether the change from SDLT to LBTT may have had a significant impact.

7. Figure 1 illustrates trends since Q1 2014 in the number of transactions broken down into price bandings which correspond to the current LBTT thresholds. Registers of Scotland data is used so as to provide a consistent time series for the period before and after the introduction of LBTT. The quarterly data is affected by the strong seasonality of the housing market (with peaks in summer and troughs in the winter months following Christmas) as well as forestalling behaviour in the months surrounding 1 April 2015 (the introduction of LBTT) and 1 April 2016 (the introduction of the Additional Dwelling Supplement). Forestalling is discussed further under section (iv). Despite this volatility, it can be seen that all segments of the market have been resilient over this period with the strongest growth in the £250,000 to £325,000 band.

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4 Note that Registers of Scotland data will not exactly match Revenue Scotland data for 2015-16, due to different coverage (e.g. Revenue Scotland data excludes transactions not required to make an LBTT return), and the different date on which a transaction is recorded.
Figure 1: Trends in the number of residential transactions by LBTT price band, Q1 2014 = 100

Source: Registers of Scotland

8. The transaction data underlying Figure 1 is set out in Table 1. When assessing quarterly data, it is important that comparisons are undertaken with the corresponding quarter of previous years, so that the comparison is not affected by the seasonality of the housing market. The last row of Table 1 therefore shows the percentage by which transactions increased over the two-year period from Q2 2014, prior to the introduction of LBTT, to the most recent quarter, Q2 2016.

Table 1: Number of residential transactions recorded by Registers of Scotland, broken down by price bands corresponding to LBTT thresholds

<table>
<thead>
<tr>
<th></th>
<th>£1 - 145k</th>
<th>Over £145K - £250K</th>
<th>Over £250K - £325K</th>
<th>Over £325K - £750K</th>
<th>Over £750K</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1 2014</td>
<td>10,670</td>
<td>5,100</td>
<td>940</td>
<td>1,120</td>
<td>90</td>
<td>17,910</td>
</tr>
<tr>
<td>Q2 2014</td>
<td>13,500</td>
<td>7,590</td>
<td>1,550</td>
<td>1,790</td>
<td>100</td>
<td>24,530</td>
</tr>
<tr>
<td>Q3 2014</td>
<td>13,710</td>
<td>8,660</td>
<td>1,910</td>
<td>2,150</td>
<td>140</td>
<td>26,570</td>
</tr>
<tr>
<td>Q4 2014</td>
<td>13,570</td>
<td>8,070</td>
<td>1,740</td>
<td>1,900</td>
<td>140</td>
<td>25,420</td>
</tr>
<tr>
<td>Q1 2015</td>
<td>9,120</td>
<td>4,790</td>
<td>1,250</td>
<td>1,750</td>
<td>160</td>
<td>17,070</td>
</tr>
<tr>
<td>Q2 2015</td>
<td>13,030</td>
<td>7,680</td>
<td>2,080</td>
<td>1,850</td>
<td>170</td>
<td>24,810</td>
</tr>
<tr>
<td>Q3 2015</td>
<td>14,090</td>
<td>8,890</td>
<td>2,430</td>
<td>2,110</td>
<td>100</td>
<td>27,610</td>
</tr>
<tr>
<td>Q4 2015</td>
<td>14,960</td>
<td>9,170</td>
<td>2,480</td>
<td>2,180</td>
<td>110</td>
<td>28,900</td>
</tr>
<tr>
<td>Q1 2016</td>
<td>11,080</td>
<td>5,810</td>
<td>1,560</td>
<td>1,350</td>
<td>90</td>
<td>19,900</td>
</tr>
<tr>
<td>Q2 2016</td>
<td>13,770</td>
<td>8,120</td>
<td>2,070</td>
<td>1,820</td>
<td>130</td>
<td>25,910</td>
</tr>
</tbody>
</table>

% change, Q2 2016 on Q2 2014

<table>
<thead>
<tr>
<th></th>
<th>2%</th>
<th>7%</th>
<th>34%</th>
<th>1%</th>
<th>33%</th>
<th>6%</th>
</tr>
</thead>
</table>

Source: Registers of Scotland; numbers rounded to the nearest 10; percentages are calculated on unrounded data.

9. As can be seen from Table 1, transactions in all the price bands corresponding to the LBTT thresholds have shown increases in the two years to Q2 2016. This includes the two bands in which the amount of LBTT payable exceeds the amount which would have been payable under SDLT: the £325,000 - £750,000
band,\(^5\) where the number of transactions rose by 1% over this period, and the over-
£750,000 band, which rose by 33%. Due to the volatility in the quarterly data, data
for any one quarter should be treated with caution, but this latest data does not
provide any evidence of a significant fall in transactions at the higher end of the
market due to the introduction of LBTT. This conclusion is further supported when
the data in Table 1 is analysed in terms of the share of each price band of the overall
market – see section (iv) below.

**Non-residential market**

10. The non-residential sector is highly diverse, covering essentially all land and
property that is not classified as residential, including the retail, wholesale,
commercial and agricultural sectors. Given the variety of sectors which fall within its
scope, the range of factors other than the level of LBTT which can affect its
performance is even wider than for the residential property market.

11. Assessing the performance of the non-residential sector before and after the
introduction of LBTT is further complicated by the fact that available data may not be
fully comparable – SDLT data for the period prior to 1 April 2015 is published by
HMRC, while LBTT data for the period 2015-16 is published by Revenue Scotland.
Unlike in the case of residential property, Registers of Scotland do not produce
comprehensive time-series statistics on the non-residential sector. However, HMRC
data show that there were 9,800 non-residential transactions in 2014-15, while
Revenue Scotland data show that 11,500 tax returns were received in 2015-16; thus,
even if the data is not fully comparable, this suggests that it is likely that there was
an increase in non-residential transactions in Scotland in 2015-16.

**ii. The extent to which the rates and bands are consistent with the principles of**
**“fairness, equity and the ability to pay”**

**Residential LBTT**

12. The LBTT rates and bands currently in operation are underpinned by the
principles of fairness, equity and ability to pay. We set residential LBTT rates and
bands to redistribute the tax burden from lower to higher value transactions in
accordance with the principle that Scottish taxes should be proportionate to the
taxpayer’s ability to pay. Our rates were set to support the majority of first time-
buyers, improving the affordability of new starter homes, and this is borne out by the
data from the first year of operation of the tax.

13. The policy of setting the nil-rate LBTT threshold £20,000 above the level of
UK SDLT directly benefited around 9,700 prospective owner-occupiers in 2015-16
who were buying properties in the lower half of the market by removing the tax
charge altogether. These households will be among those least able to pay tax on
the purchase as well as meeting the other expenses involved in house-buying,
including being able to provide a significant deposit to access mortgage finance. The

\(^5\) The exact point at which more LBTT is payable than SDLT is £333,000, but this is close to the lower
end of the £325,000-£750,000 band.
Scottish Government set residential LBTT rates and bands to prioritise support for this group of buyers, which will include a significant number of first-time buyers.

14. Households purchasing properties between £145,000 and £330,000 paid up to £400 less under LBTT than they would have paid in terms of UK SDLT. In 2015-16, this difference meant that nearly 41,700 purchasers who bought a residential property in this price range paid less tax compared to UK SDLT. Moreover, these benefits were spread across the whole of Scotland as people buying the average priced house in each of Scotland’s 32 local authority areas will have paid up to £400 less tax under LBTT than under UK SDLT or paid no tax at all. In total, 93% of all residential property purchases in Scotland in 2015-16 (i.e. all sales up to £330,000) paid less tax than UK SDLT or no tax at all.

15. In addition, the introduction of the Additional Dwelling Supplement (ADS) in April 2016 provided further evidence of Scottish Government’s commitment to set tax rates that promote fairness, equity and ability to pay. The tax charge maintains parity with the rest of the UK and avoids a situation where buyers of additional homes in the buy-to-let sector, for example, could earn a tax advantage by purchasing additional properties in Scotland that would not be available on a similar purchase in England. This measure will also help maintain the availability for purchase of housing stock in Scotland for those who need access to it most. The supplement applies to all properties purchased for £40,000 and above, targeting the lower end of the market where demand for properties for investment purposes or second homes could push up prices and absorb supply, making it difficult for new entrants to the market to purchase a main residence.

Non-residential LBTT

16. As the commercial rates of LBTT are also progressive, the tax burden is redistributed in favour of lower value properties. These non-residential bands were set to ensure that Scotland remains a competitive and attractive location for business investment. In common with UK SDLT, a zero rate applies to purchase up to a value of £150,000, which takes the purchase of the lowest priced properties out of tax.

17. At the time that non-residential LBTT rates came into force, the LBTT payable on almost all transactions under £2 million was lower than it would have been under SDLT. This ensured that in the region of 95% of non-residential taxpayers would be no worse off than under SDLT. The UK Government subsequently introduced marginal progressive non-residential rates of SDLT with effect from 17 March 2016. The top marginal rate of non-residential SDLT exceeds the equivalent LBTT rate – with 5% SDLT due on the proportion of the price above £250,000 compared to 4.5% LBTT due on the proportion of the price above £350,000.

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6 The estimated 95 per cent of non-residential taxpayers that were thought to be no worse off as a result of LBTT was a Scottish Government estimate based on the information available before the introduction of LBTT in April 2015.
iii. The level of receipts for residential and non-residential transactions in relation to the forecasts

18. The Scottish Government published its original devolved tax revenue forecasts for 2015-16 in the Scottish Draft Budget of October 2014, with the residential LBTT forecast updated in January 2015 following a revision to rates proposed in light of changes made to SDLT by the UK Government in December 2014. These forecasts were endorsed as reasonable by the independent Scottish Fiscal Commission. For 2016-17, we produced five-year forecasts for the devolved taxes as part of the Draft Budget for the first time to provide transparency over public finances. The Commission will prepare official forecasts for devolved tax revenues from the 2018-19 Scottish Draft Budget onwards. Details of our forecasting approach can be found in the methodology papers published alongside the Draft Budgets for 2015-16\(^7\) and 2016-17.\(^8\)

19. Total LBTT revenues in 2015-16 exceeded our original forecast by around £44 million, driven in the main by higher than expected non-residential revenues as shown in Table 2. Combined with an excess of £30 million in Scottish Landfill Tax revenues above forecast, this enabled Scottish Ministers to place £74 million in the cash reserve at the end of 2015-16.

Table 2: Comparison of LBTT outturns and Scottish Government forecasts for 2015-16

<table>
<thead>
<tr>
<th></th>
<th>Forecast</th>
<th>Outturn</th>
<th>Variance against forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£m</td>
<td>£m</td>
<td>£m</td>
</tr>
<tr>
<td>Residential</td>
<td>235</td>
<td>208</td>
<td>(27)</td>
</tr>
<tr>
<td>Non-residential</td>
<td>146</td>
<td>217</td>
<td>71</td>
</tr>
<tr>
<td>Total</td>
<td>381</td>
<td>425</td>
<td>44</td>
</tr>
</tbody>
</table>

Source: Forecasts - Scottish Government, Outturns (accruals basis) – Revenue Scotland (pre-audit basis)

Residential revenues

20. The 2015-16 forecast for residential LBTT revenue was revised to £235 million in January 2015 to take account of rate proposals announced at Stage 1 of the Budget Bill for that year. This was a gross forecast, which excluded an estimate of forestalling losses, i.e. the expected impact on revenues due to the timing of transactions being altered in response to the different tax rates under LBTT and SDLT, which were at the time the subject of a funding negotiation with the UK Government.

21. The Scottish Government estimated that this forestalling impact would result in a loss of revenue in the range £12 million to £37 million, anticipating that a significant volume of high value purchases would be brought forward into the 2014-15 financial year so that they would be liable for tax under the SDLT rather than the LBTT regime. The introduction of the Additional Dwelling Supplement was also expected to generate forestalling behaviour that would increase revenues in 2015-16.

\(^7\) [http://www.gov.scot/Publications/2014/10/7664](http://www.gov.scot/Publications/2014/10/7664)
\(^8\) [http://www.gov.scot/Publications/2015/12/7589](http://www.gov.scot/Publications/2015/12/7589)
in the range of £5 - £7 million, as purchases were brought forward into the 2015-16 financial year so that no ADS would be payable. Table 3 summarises these various factors and shows that the adjusted Scottish Government forecast for residential revenues in 2015-16 was that they would lie in a range from £203 - £230 million.

Table 3: Comparison of overall 2015-16 residential LBTT revenue outturn with forecasts

<table>
<thead>
<tr>
<th>Description</th>
<th>£ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Original residential LBTT revenue forecast for 2015-16</td>
<td>235</td>
</tr>
<tr>
<td>Forecast loss in revenue from forestalling due to transition from SDLT to LBTT on 1 April 2015</td>
<td>(12 – 37)</td>
</tr>
<tr>
<td>Forecast increase in revenue from forestalling due to introduction of Additional Dwelling Supplement on 1 April 2016</td>
<td>5 - 7</td>
</tr>
<tr>
<td>Revised range for residential LBTT forecast</td>
<td>203 - 230</td>
</tr>
<tr>
<td>Actual revenue outturn</td>
<td>208</td>
</tr>
</tbody>
</table>

Sources: Forecasts – Scottish Government, Outturn – Revenue Scotland (pre-audit basis)

22. The outturn for 2015-16, of £208 million, fell within the forecast range, when taking into account the estimated ranges of forestalling impacts. While the strong growth in the number of transactions was in line with forecasts, the main reason why the outturn was towards the lower end of the forecast range was that average residential property prices in Scotland were relatively flat over 2015-16, in contrast to a forecast assumption of around 5% growth. This lower-than-forecast price growth applied to the market as a whole rather than specific segments, as illustrated by Figure 1 and discussed further in section (iv) below.

Non-residential revenues

23. As Table 2 shows, the non-residential LBTT revenue outturn of £217 million was £71 million above forecast.

24. Non-residential property taxes tend to have a volatile tax base, with large swings in both the number and average value of transactions being common. Tax receipts can be significantly affected by a relatively small number of high-value transactions – in 2015-16, conveyances with a taxable consideration in excess of £1 million accounted for 80% of the revenue, but less than 10% of all non-residential transactions (including leases). Figure 2 illustrates the variability in the mean value of transactions over £1 million across 2015-16, with little variation in the median value. This demonstrates that a few high-value transactions can have a significant impact on revenues, e.g. shopping centres, large blocks of student or office accommodation, factories/processing plants etc. While this volatility impacts on the ability to forecast revenues from this tax with precision, the Scottish Government continues to develop its forecasting approach to non-residential revenues; for example, in the 2016-17 forecasting round, there was a change in the methodology for calculating the revenue base.
Comparison with Office for Budget Responsibility (OBR) Devolved Tax forecasts

25. The OBR produces devolved tax forecasts at each UK fiscal event. By way of illustration, Table 4 summarises movements in the OBR forecasts for residential and non-residential LBTT between the UK Budgets of March 2015 and March 2016.

Table 4: Office for Budget Responsibility (OBR) 2015-16 LBTT revenue forecasts versus outturn

<table>
<thead>
<tr>
<th>Date</th>
<th>Residential Forecast (£m)</th>
<th>% variance from outturn</th>
<th>Non-Residential Forecast (£m)</th>
<th>% variance from outturn</th>
<th>Total Forecast (£m)</th>
<th>% variance from outturn</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mar-15</td>
<td>226</td>
<td>9%</td>
<td>205</td>
<td>6%</td>
<td>431</td>
<td>1%</td>
</tr>
<tr>
<td>Jul-15</td>
<td>264</td>
<td>27%</td>
<td>275</td>
<td>27%</td>
<td>540</td>
<td>27%</td>
</tr>
<tr>
<td>Nov-15</td>
<td>178</td>
<td>-14%</td>
<td>220</td>
<td>1%</td>
<td>397</td>
<td>-7%</td>
</tr>
<tr>
<td>Mar-16</td>
<td>206</td>
<td>-1%</td>
<td>195</td>
<td>-10%</td>
<td>401</td>
<td>-6%</td>
</tr>
<tr>
<td>Outturn</td>
<td>208</td>
<td>-</td>
<td>217</td>
<td>-</td>
<td>425</td>
<td>-</td>
</tr>
</tbody>
</table>

Source: OBR Economic and Fiscal Outlook, Devolved Taxes Forecast, Revenue Scotland (pre-audit basis)

iv. The impact of forestalling and whether it is likely to have a short-term impact only or lead to longer-term changes in the market

26. Forestalling behaviour in the context of a transaction tax such as SDLT or LBTT refers to buyers and sellers choosing to undertake a transaction at a date when it is subject to a lower rate of tax. LBTT revenues in 2015-16 are likely to be affected by two periods of forestalling. As explained in paragraph 21, he first relates
to the transition from SDLT to LBTT as at 1 April 2015. The second period relates to the introduction of the Additional Dwelling Supplement (ADS) on 1 April 2016.

27. For the first period of forestalling, as described earlier, the tax payable under LBTT is lower than under SDLT for prices between £125,000 up to £333,000, while it is higher for prices above £333,000. Therefore, in the months around 1 April 2015, there was an incentive both to delay transactions under £330,000 and to bring forward transactions over £330,000.

28. In Table 5 and Figure 3 below, the Registers of Scotland data set out in Table 1 is used to calculate the percentage share of price bands corresponding to the LBTT thresholds, both before and after the introduction of LBTT. The data suggest a clear impact from forestalling behaviour around the transition from SDLT to LBTT, with the share of transactions between £325,000 and £750,000 and over £750,000 rising noticeably in Q1 2015 before falling back in Q2 2015. There is also some evidence of lower-valued transactions being delayed, with the share of transactions in the £145,000-£250,000 band falling in Q1 2015 and then rising in Q2 2015. There was a smaller increase in the share of transactions between £250,000 and £325,000 in Q2 2015, but a reduction in the share of transactions under £145,000 – a reminder that given the variety of factors which affect the housing market, care should be exercised when attributing changes to LBTT rates.

Table 5: Share of residential transactions by price band corresponding to LBTT thresholds

<table>
<thead>
<tr>
<th></th>
<th>£1 - 145k</th>
<th>Over £145K - £250K</th>
<th>Over £250K - £325K</th>
<th>Over £325K - £750K</th>
<th>Over £750K</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1 2014</td>
<td>59.6%</td>
<td>28.5%</td>
<td>5.2%</td>
<td>6.3%</td>
<td>0.5%</td>
</tr>
<tr>
<td>Q2 2014</td>
<td>55.0%</td>
<td>30.9%</td>
<td>6.3%</td>
<td>7.3%</td>
<td>0.4%</td>
</tr>
<tr>
<td>Q3 2014</td>
<td>51.6%</td>
<td>32.6%</td>
<td>7.2%</td>
<td>8.1%</td>
<td>0.5%</td>
</tr>
<tr>
<td>Q4 2014</td>
<td>53.4%</td>
<td>31.7%</td>
<td>6.8%</td>
<td>7.5%</td>
<td>0.5%</td>
</tr>
<tr>
<td>Q1 2015</td>
<td>53.5%</td>
<td>28.0%</td>
<td>7.3%</td>
<td>10.3%</td>
<td>0.9%</td>
</tr>
<tr>
<td>Q2 2015</td>
<td>52.5%</td>
<td>31.0%</td>
<td>8.4%</td>
<td>7.4%</td>
<td>0.7%</td>
</tr>
<tr>
<td>Q3 2015</td>
<td>51.0%</td>
<td>32.2%</td>
<td>8.8%</td>
<td>7.6%</td>
<td>0.4%</td>
</tr>
<tr>
<td>Q4 2015</td>
<td>51.8%</td>
<td>31.7%</td>
<td>8.6%</td>
<td>7.5%</td>
<td>0.4%</td>
</tr>
<tr>
<td>Q1 2016</td>
<td>55.7%</td>
<td>29.2%</td>
<td>7.9%</td>
<td>6.8%</td>
<td>0.5%</td>
</tr>
<tr>
<td>Q2 2016</td>
<td>53.1%</td>
<td>31.4%</td>
<td>8.0%</td>
<td>7.0%</td>
<td>0.5%</td>
</tr>
</tbody>
</table>

Source: Registers of Scotland
Figure 3: Share of residential transactions by price band corresponding to LBTT thresholds

![Bar chart showing the share of transactions by price band over time.]

Source: Registers of Scotland

29. With respect to the second potential period of forestalling, the ADS applies to homes which are not for owner occupation, i.e. homes to be rented out or used as second homes. It is likely that such homes will, on average, be cheaper than the average home for home occupation. Furthermore, the ADS applies to all qualifying sales where the purchase price is over £40,000. This means that while forestalling behaviour is likely to have increased overall volumes relative to what otherwise would have been the case, it is likely to have increased volumes at the lower price ranges by more than volumes at higher price ranges. Consistent with this, 5 shows an increase in the share of transactions priced below £145,000 in Q1 2016, before it drops back again in Q2 2016.

30. The patterns described above suggest that there is a short-term response in the timing of transactions to different property tax rates, whereby transactions that would take place anyway are moved in time to benefit from a lower tax rate. However, there is no evidence of a permanent suppression of housing transactions at the upper end of the Scottish housing market. Apart from a spike due to forestalling behaviour around the transition to LBTT on 1 April 2015, transactions in the £325,000-£750,000 band and the over-£750,000 band have maintained a similar share of the market over the past two-and-a-half years.

Scottish Government
August 2016