Dear Sir/Madam

Land and Buildings Transaction Tax (LBTT) call for evidence

Thank you very much for undertaking an inquiry and a call for evidence, which will consider the operation of LBTT in its first full year, including forecast revenues in comparison to outturn figures. The response from Savills is outlined below.

The impact on both the residential and commercial property market of the various rates and bands

LBTT has contributed to an increase in the bulk of Scottish residential transactions up to £450,000 and a fall in activity above this level.

An examination of the various LBTT rates and bands, and their actual impact on the residential market, can only be objectively measured by comparing it with a previous tax structure which operated over a comparable and 'like-for-like' period.

We have therefore compared LBTT residential transactions recorded between May 2015 to December 2015 with SDLT (Stamp Duty Land Tax) transactions between May 2014 to December 2014.

The months between December 2014 to March 2015 were not an appropriate period to consider, because of the sudden introduction of the current SDLT structure, which is in operation across the rest of the UK and also the surge in sales in Scotland ahead of the introduction of LBTT on 1 April 2015. For this reason, we have also excluded April 2015, which witnessed a dip in transactional activity as a result of forestalling ahead of the introduction of LBTT on 1 April 2015. Furthermore, we have excluded the period January 2016 to March 2016, as the market was impacted by a surge in sales ahead of the introduction of the additional rate of LBTT for additional properties, which came into force on 1 April 2016.

Looking at the current LBTT residential tax bands and our comparable time periods May 2014 to December 2014 and May 2015 to December 2015, the number of residential transactions between £145,000 and £250,000 and £250,000 to £325,000 increased by a combined 14%. The LBTT rates applicable in these price bands is 2% and 5% respectively.

The price band between £325,000 and £750,000, where the LBTT rate has been set at 10%, witnessed a slight increase of 2% in sales. However, this is a wide price band in which taxation rates begin to differentiate compared to previous tax structures. The 'tipping point' has occurred around the £450,000 level. The number of transactions in this band has reduced by 15%.
of residential transactions between £325,000 and £450,000 increased by 9%, whereas the number from £450,000 to £750,000 fell by 9%.

The number of transactions above £750,000, where a 12% LBTT rate has been applied, fell sharply by 27%.

**The level of receipts for residential and non-residential transactions in relation to the forecasts**

The residential LBTT revenue generated in the first full year of LBTT was £202 million, which fell £33 million short of the £235 million target set by the Scottish Government. The £202 million generated was boosted by a surge of sales in the beginning of 2016, ahead of the introduction of the additional rate of LBTT for additional properties. Without this boost, the overall revenue would have been approximately £43 million lower, according to our estimates.

What is more concerning is that despite an increase in sales across the bulk of the Scottish market, the first full year of LBTT generated £14 million less revenue than the SDLT structure during the tax year 2013/2014, despite fewer sales taking place in that period.

The reduced residential tax receipts are due to the very low rates of tax applicable to the market up to £325,000. LBTT revenue generated between £145,000 and £325,000 between May 2015 and December 2015 was 45% lower compared to May 2014 to December 2014, despite a 14% increase in sales.

The high levels of LBTT payable above £450,000 generated 29% more in tax revenue between May 2015 and December 2015 compared to May 2014 to December 2014, despite a 12% drop in sales.

According to our research, around 44% of the LBTT revenue between May 2015 and December 2015 was generated from sales above £450,000, despite making up just 3% of the overall residential market over this period.

The non-residential LBTT revenue generated in the first full year of LBTT was £214 million, which exceeded the target of £146 million set by the Scottish Government. We call for the Scottish Government to explain their relatively low target of £146 million, given that the revenue generated in the previous two tax years was £175 million (2013/2014) and £205 million (2014/2015).

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

The principles of “fairness, equity and the ability to pay” are entirely subjective and are impossible to measure on a case by case basis.

However, for some family buyers, LBTT has reduced the amount they are able to borrow, with more of their saving going towards tax, particularly in the hubs of Edinburgh, Glasgow and Aberdeen, where suitable housing can cost more than £325,000. As a consequence, their ability to move is becoming more dictated by finances and their scope to save. Families are struggling to save large sums, with childcare and living costs consuming much of their income. Sellers, already concerned about potential negative equity, are being forced to further reduce prices in order to match what buyers can afford, creating a slowing market particularly above £450,000. This is currently presenting problems for buyers and sellers alike and has lead to reduced market activity, which could potentially further reduce the level of tax revenue generated, given the over reliance of LBTT on the market above £450,000.
While the principles of a progressive tax allow a more realistic price curve and are reducing the tax bill for those at the lower end of the market, the system needs to be fair for everyone.

Our analysis indicates that the current LBTT rates have not been sufficiently researched and do not take into consideration the composition of the Scottish housing market. For example, 29% of LBTT revenue between May 2015 and December 2015 was generated from just one of Scotland’s 32 Local Authority areas: The City of Edinburgh.

A further source of concern is the reduction in the competitiveness of Scotland compared to the rest of the UK. LBTT is making some investors view Scotland as a more expensive choice and with reduced potential returns due to the higher levels of tax compared to the rest of the UK. This has impacted on sales at the top end of the market to non-Scottish buyers. In addition to the large sums of LBTT, buyers from outside Scotland purchasing their principle residence at the top end of the market, make a significant contribution to the local economy in terms of income tax. This market typically makes up a third of residential sales at £1 million and above in Scotland. However, this proportion fell to 19% in 2015, as a result of political and taxation challenges.

Looking to the future, Scotland needs to be doing the most it can to be an attractive place in which to invest, live and work and property taxation is a key component in this mix. This is likely to be a particular concern for Scotland’s entrepreneurs and business leaders, given the high tax rates at the top end of the market.

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

Forestalling ahead of the introduction of LBTT in April 2015 and the additional rate in April 2016 resulted in a surge in sales during February and March followed by a dip in residential activity during April and May in 2015 and 2016, above £450,000 across Scotland. Leaving aside these affected time periods, the residential market in Scotland above £450,000 has struggled to recover, with fewer sales taking place compared to 2014 when political and taxation challenges were not impacting the market.

Whether there should be any changes to the rates and bands in the draft budget for 2017-18

We welcome the Scottish Government’s review of forecasting models of the housing market, to inform projections of residential Land and Buildings Transaction Tax. The current LBTT structure is affecting overall revenue and impacting the family market in Scotland’s core hubs.

The Scottish Government should design a property tax structure that generates appropriate levels of revenue, whilst fairly treating all sectors of the market. Any future tax structure should also maintain Scotland’s status as a location that offers excellent value for money, attracting buyers from the rest of the UK and beyond.

We therefore, recommend immediate changes to the rates and bands in the draft budget for 2017-18. In particular, the Scottish Government should review the 10% tax band which has heavily impacted the market between £325,000 and £750,000.

Yours faithfully

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