



Finance and Constitution Committee
ADS round table discussion, 29 May 2019

The implementation of the Additional Dwelling Supplement (ADS) is prejudicial from the perspective of small and medium housebuilding companies, one of which I represent as a Director of Headon Developments, based in St Andrews

We typically explore opportunities on brown field sites where we can regenerate, improve and maximise available development areas.

This will result in the replacement of old and inefficient houses with modern, energy efficient homes and, where appropriate, the inclusion of affordable housing. The resultant addition of main stream and affordable housing will contribute towards the shortfall in housing numbers required in Scotland to meet growth rates while regenerating areas of towns and cities that could otherwise become neglected, inefficient or derelict.

If we were to purchase a green field site LBTT would be charged at the commercial rate and therefore be significantly lower than the equivalent residential rate plus the ADS rate for a similar site with housing to be removed. If purchasing a site with an existing house or houses which are to be demolished to make way for a new development, we receive no benefit in value for the houses being included. On the contrary, we will incur significant costs in demolishing the houses including Planning and Warrant applications, services disconnection costs, asbestos surveys, demolition and removal from site including haulage, tip charges and landfill taxes.

These costs along with the residential rate of LBTT and the ADS result in the SME company being severely disadvantaged over the alternative scenario of a green field site with no existing houses on it. This can deem a site not to be viable to develop.

Although the commercial value of LBTT would be lower than the residential value, the resultant LBTT that will be raised from the sale of the new houses developed on the site in question should also be taken into account. This is the total receipt of LBTT for the site when comparing a sale of the existing house to another householder against the alternative option of the total LBTT received through the purchase of the site on a commercial basis plus the sale of the new dwellings for which planning consent has been granted.

I demonstrate below in Fig 1 below, a scenario for a brownfield site with an existing house, a sales value of £500,000 and which has planning consent for 4 new houses with an expected sales value of £350,000 each

Fig.1

Residential LBTT	Residential LBTT plus ADS	Commercial LBTT for site plus residential LBTT for new house sales
Site Purchased by new homeowner	Site purchased for development	
LBTT	LBTT	LBTT site purchase
£23,350	£23,350	£13,500
	ADS	LBTT house sales
	£20,000	4 at £8,350
		£33,400
Total LBTT	Total LBTT	Total LBTT
£23,350	£43,350	£46,900

It can be seen that the additional cost to the developer in purchasing the site on a residential basis against a commercial basis is £29,850 (£43,350 less £13,500)

However, if the LBTT was based on the commercial rate then the total receipt to the government would be £3,550 more than the Residential basis plus ADS when new house sales are recognised (£46,900 less £43,350)

Of course it could be argued that the new house sales will still exist when the site is purchased on the residential plus ADS basis and LBTT receipt on these sales will be in addition to the £43,350 above.

However, the crucial point here is that it may not be viable to develop and improve the site when being charged residential LBTT and ADS and therefore the comparison should be between the site with existing house being transferred to a new homeowner, against being sold on a commercial basis with resulting house sales. The comparable figures are then £23,350 and £46,900 respectively and therefore an additional £23,550 receipt of LBTT.

A further example is shown in Fig.2 below for a site with three existing houses each valued at £333,333 ie a site value of £1,000,000 and which has planning consent for 10 new homes, 7 of which are main stream housing valued at £350,000 each and 3 of which are affordable with no LBTT receipt

Fig. 2

Residential LBTT	Residential LBTT plus ADS	Commercial LBTT for site plus Residential LBTT for new house sales
Site Purchased by new homeowners	Site purchased for development	
LBTT	LBTT	LBTT site purchase
	£20,049	£38,500
3 @ £6,683	ADS	LBTT house sales
£20,049	£40,000	7 at £8,350
		£58,450
		3 Affordable homes
		£ 0
Total LBTT	Total LBTT	Total LBTT
£20,049	£60,049	£96,950

For this example, the LBTT comparison for the existing houses selling to new homeowners against being purchased on a commercial basis and developed is £20,049 and £96,950 respectively and therefore an additional £76,901 LBTT receipt

ADS relief is available for transactions relating to the purchase of 6 or more dwellings, either by a single purchase or by linked transactions. Such transactions would then also fall into the commercial LBTT category. Again this is prejudicial to the small and medium sized house builder who will typically be exploring opportunities on smaller sites

Summary

I hope the aforementioned illustrates that the additional burden of residential LBTT plus ADS can place a significant disadvantage on SMEs when purchasing potential development sites that include existing houses to be demolished.

The receipt to government of LBTT is a major consideration and I have demonstrated that when assessing a sale to a new homeowner against developing the site is likely to increase total receipts.

However, there is a bigger picture to be recognised than simply LBTT receipt and that is the benefits to be gained in proper and appropriate re development of brownfield sites to create new, energy efficient homes including affordable houses. Additional penalties will, in some cases, result in sites considered appropriate for redevelopment being left as existing when they do not meet the viability tests.

I would welcome further discussion and debate on this subject with the aspiration of legislative changes to remove prejudices against SMEs which are an important sector in the home building industry

Ross D. Mathie
Director



Kinness House
35 Largo Road
St.Andrews
KY16 8NJ