

Stamp Duty on housing sales – who pays the £8bn annual bill?

Zoopla Research

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Introduction

- Stamp Duty Land Tax (SDLT or ‘stamp duty’) revenues from property transactions in England has trebled over the last decade to £8.3bn in 2018/19 - this is a result of higher sales but also new stamp duty rates and a higher rate for households with additional dwellings.
- Stamp duty on property transactions was devolved to the Scottish (2015) and Welsh (2018) Governments where the tax has been renamed and different rates apply, and tax receipts are combined with other taxes in standard reporting.
- This analysis focuses on stamp duty in England which historically has accounted for 95% of UK-wide receipts – we examine
 - The trend in stamp duty revenues nationally
 - Changes in sales and tax receipts by region
 - The effective stamp duty tax rate for homebuyers in 2019 at a local authority level
 - How many homes have been drifted into the higher rate stamp duty bands over the last 4 years
 - How many sales are exempt from stamp duty, falling under the £125,000 price threshold

Key-takeaways

A Southern tax

- Stamp duty reforms in 2015 made the tax cheaper for all home-owners buying homes under £937,000 (>95% of households). The cost increased for investors, second home-owners and buyers of high value homes.
- Tax receipts have grown 3-fold in the last decade on higher prices, more sales and the new 3% additional rate.
- Stamp duty is a tax that falls on home-buyers in south eastern England - 61% of stamp duty receipts are raised from London and the South East.

Additional impact

- The Government has sought to minimize the impact on first time buyers - introducing relief on properties below £500,000 in 2017. This policy helped c.214,000 buyers in 2018/19.
- Keeping the tax bands unchanged and not increasing in line with price inflation means 2.7m homes have moved into the 5% band since 2015.
- In addition, our analysis shows that there has been a shift in the number of homes at the upper end of the 5% tax band in London and the South. This is where the cost of stamp duty starts to have a growing impact on home buying decisions and is likely to act as a barrier to home moves and market liquidity.

Case for further reform?

- Stamp duty generates a material amount of tax receipts for HM Treasury. While many in the property industry – especially those in southern England - would like to see the tax scrapped or heavily reformed, this would most likely be accompanied by wider reforms to property taxes.
- Maintaining the liquidity of the housing market should be a key Government priority. Within the current framework there is an immediate case to consider the price bands for the 5% rate or lower the rate payable.

Key findings

In 2018/19 Stamp duty brought in £8.3 bn of revenue in England.

£5.6bn - 61% of all receipts – is paid by households in London and the South East.

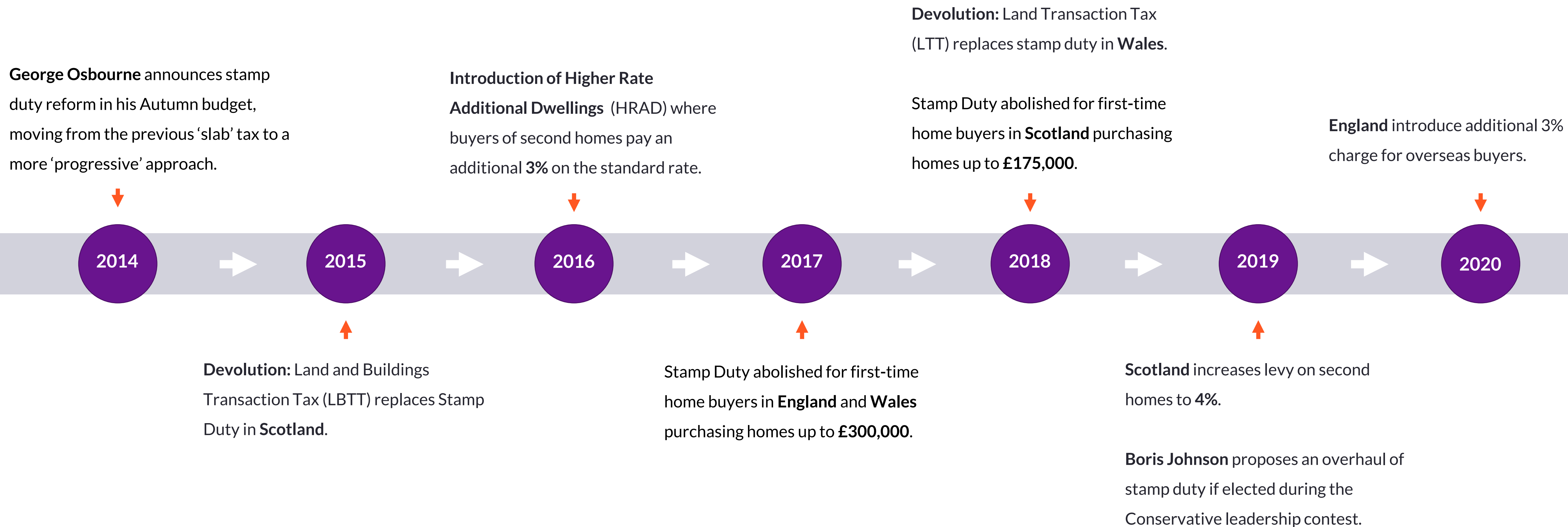
We estimate 15% of housing sales attract no stamp duty.

The North West and Yorkshire account for half of these sales.

2.7m homes have been dragged into the 5% stamp duty band over the four years to June 2019, largely located in the South.

A brief history of property sales tax...

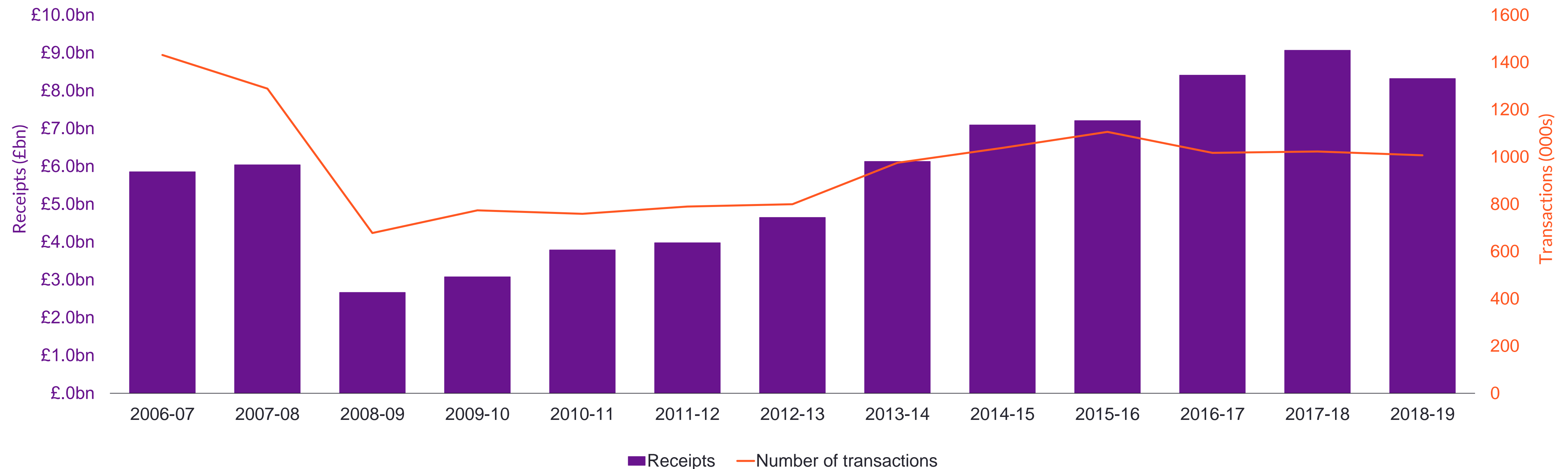
Taxation of property transactions has been around for decades. In recent years, stamp duty has been used as a lever to stimulate turnover and encourage first-time buyers to participate in the housing market at the expense of investors. Whilst this trend looks set to continue with the recent uplift of the second homes tax in Scotland and the introduction of an additional charge to overseas buyers, there have been calls for wider stamp duty reform to support housing market liquidity.



UK residential stamp duty receipts over time

- Having fallen steeply at the peak of the financial crisis, stamp duty now generates an increasing amount for the government. In the year ending March 2019, £8.3bn was raised – a threefold increase from £2.7bn a decade ago.
- In the last 3 years housing transaction numbers have flattened out and started to drift lower. The next slide highlights how sales volumes are distributed regionally.

Figure 1. Stamp duty receipts and transactions volumes for England

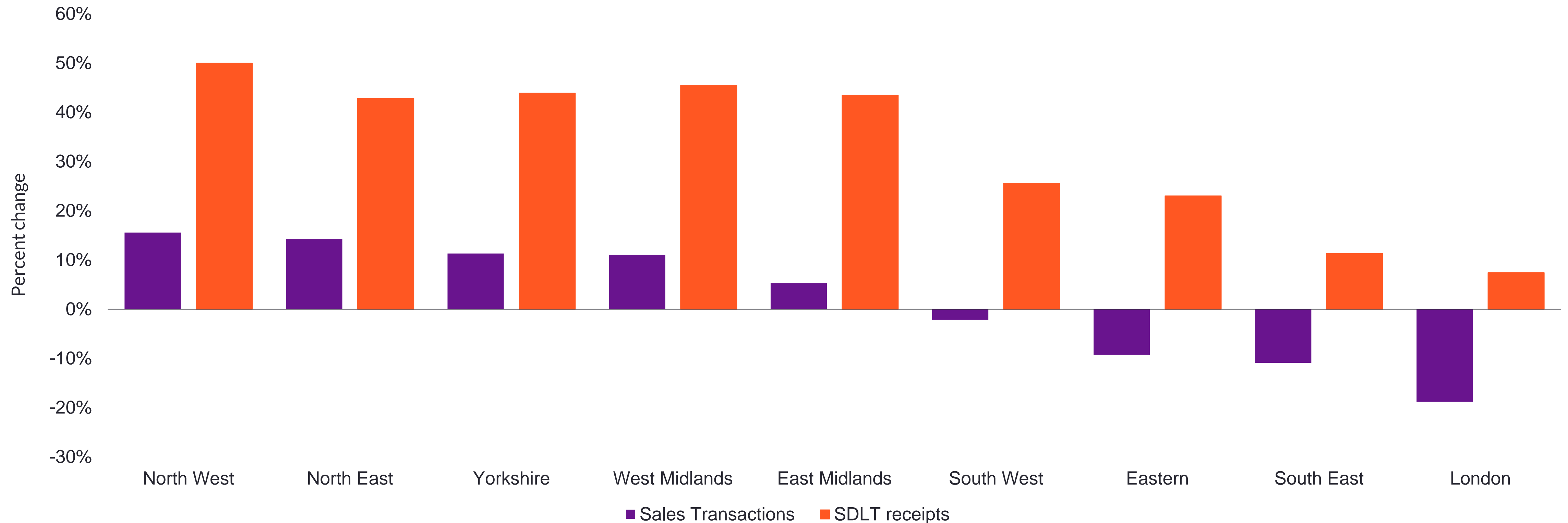


Source: HMRC Annual Stamp Taxes Statistics 2018-2019

Change in annual sales transactions and stamp duty receipts from 2014/15

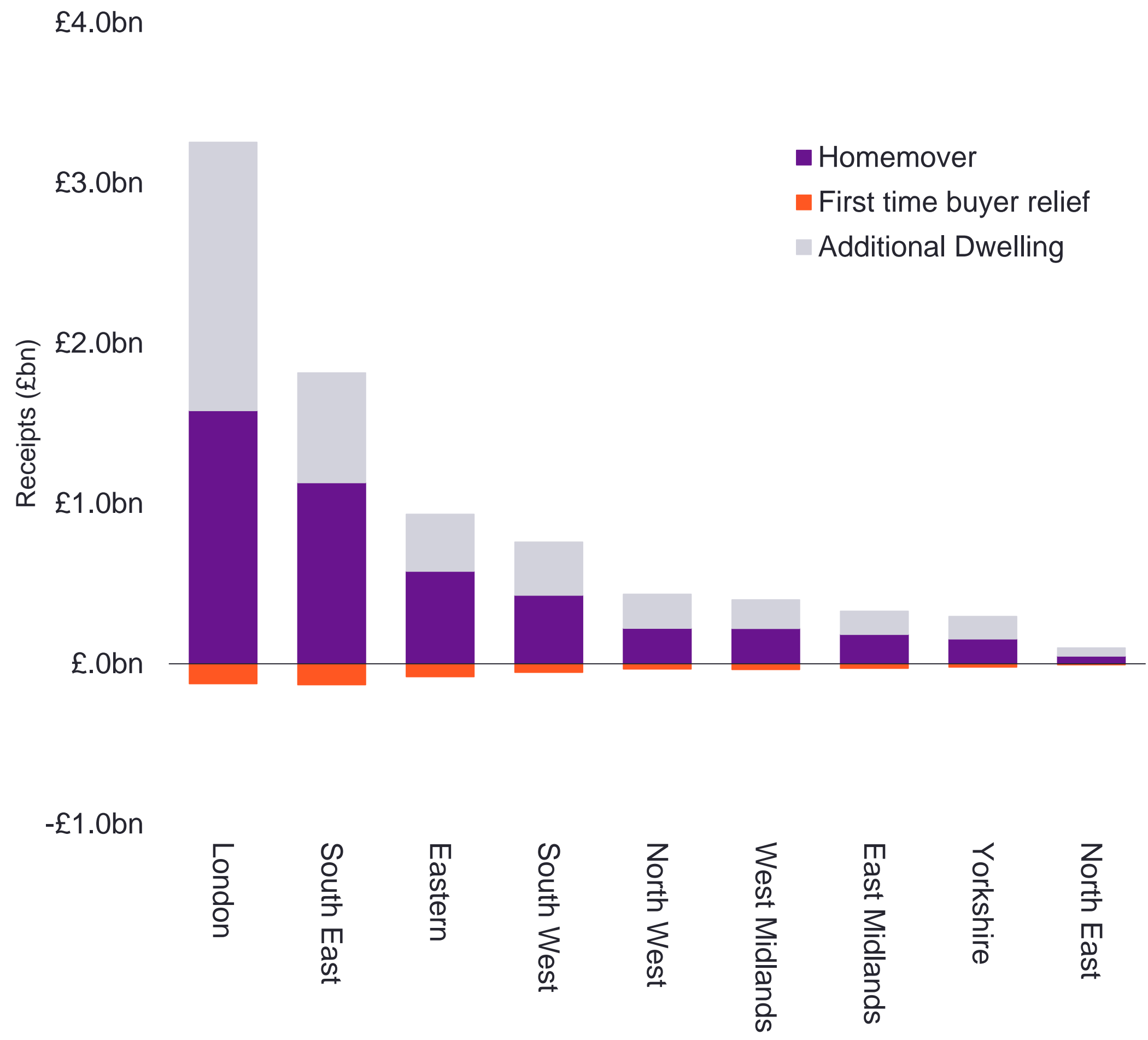
- Transactions have begun to drift below the long-run average, but the decline is not uniformly spread across the regions with London (-19%) and South East (-11%) seeing large double digit falls relative to the same period in 2014/15.
- In the North and West Midlands, transaction volumes seen double digit growth compared to 2014/15. Stamp duty receipts for the same period have increased by over 40%, although they are rising off a low base.

Figure. 3 Change in sales volumes and stamp duty received 2014/15 to 2018/19



Regional split of receipts by buyer segment

Figure 3. Stamp duty receipts by revenue source

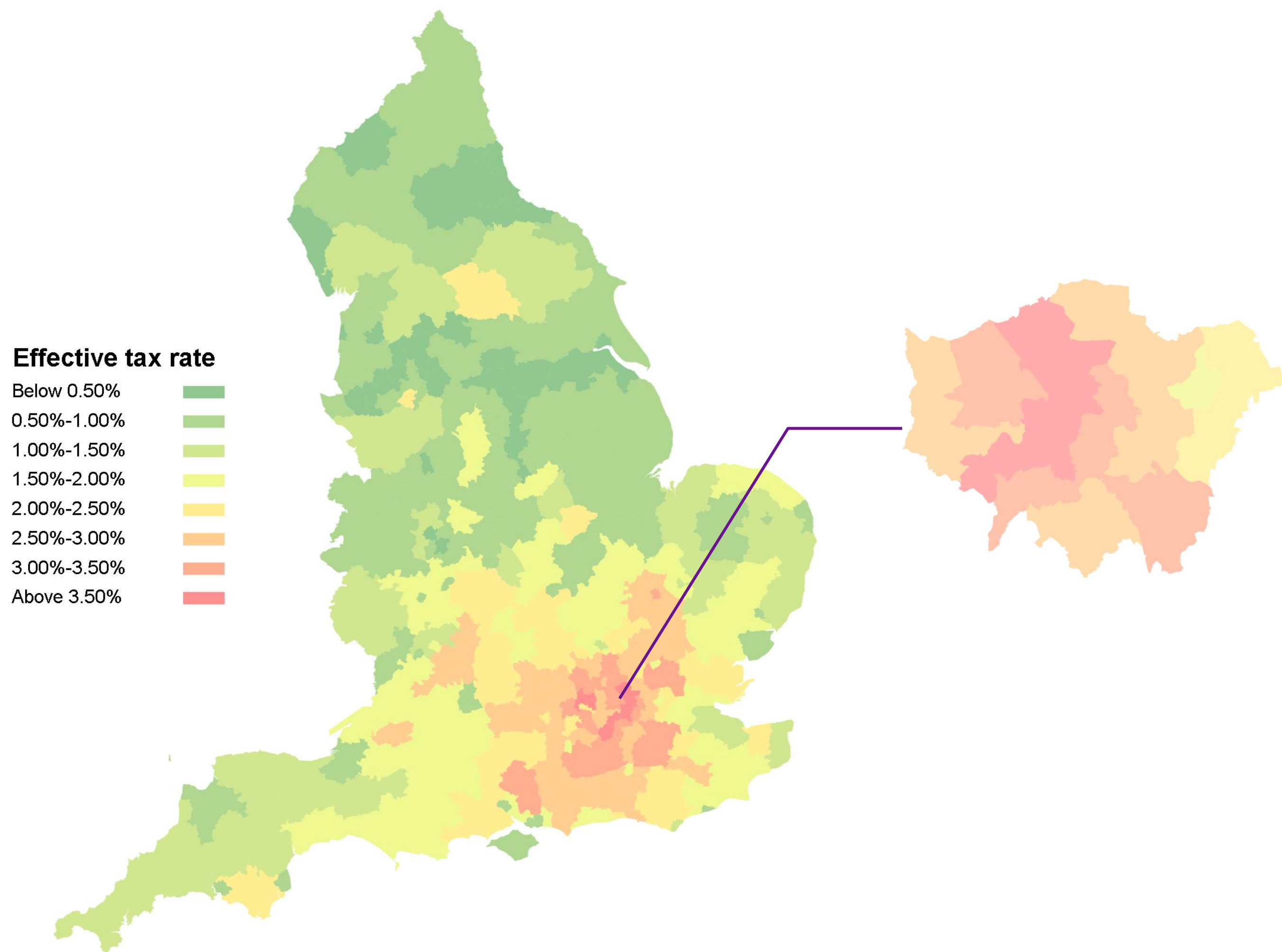


- Figure 3 shows the stamp duty revenue collected regionally in 2018/19.
- Homes in London and South East paid 61% of the total stamp duty bill for England in 2018/19. In relative terms, the contribution has remained consistent since 2015/16.
- Nationally, standard rate 'Home mover' transactions made up £4.5bn with £3.8bn from the Higher Rate Additional Dwelling (HRAD) surcharge (standard rate + 3%).
- First time buyer relief has helped 214,000 (21%) households move into ownership in 2018/19. The total amount of relief claimed was £517m, an average saving of £2,400 per buyer.

Source: HMRC Annual Stamp Taxes Statistics 2018-2019,

Estimated effective tax rate

Figure 4. Effective tax rate by local authority – home movers

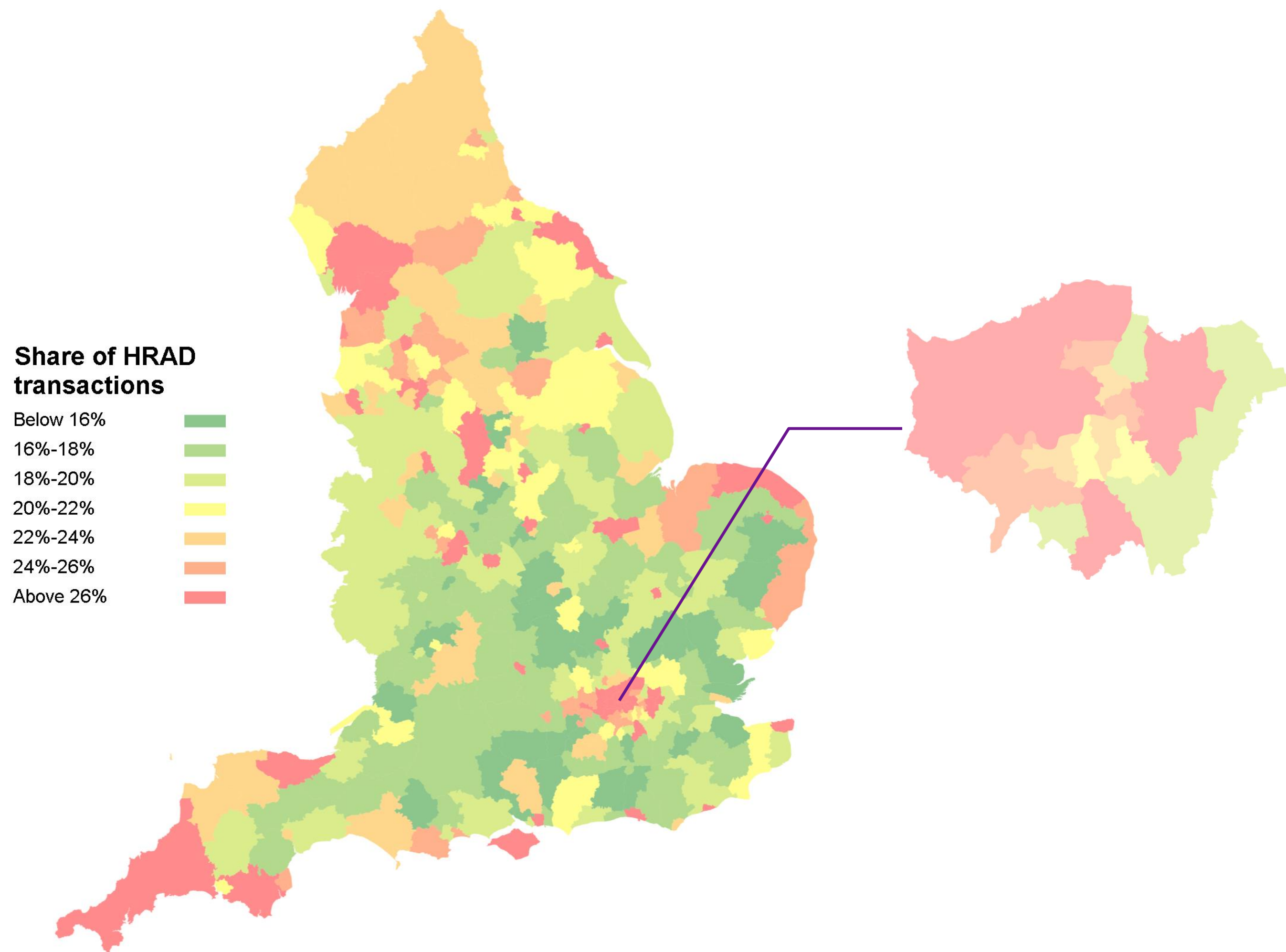


- Figure 4 shows the estimated effective tax rate for home-movers in England based on HM Land Registry prices for existing dwellings for the year ending 2019.
- Nationally, the average price for a resale property is £300,000. This generates a £5,000 stamp duty payment, with an effective tax rate of 1.7%
- Although the effective rate in London is double the national average at 3.4%, the average payment incurred is just over four times higher at £21,000. The South East and Eastern regions follow with £9,000 (ETR: 2.4%) and £6,600 (ETR: 2.0%), respectively.
- London, the South East and Eastern regions accounted for 41% of resale transactions and 72% of stamp duty receipts in 2018/2019.**
- Five districts fall below the £125,000 stamp duty threshold based on the average sold price in 2019 which means the majority of homeowner buyers pay no stamp duty (Note: some properties will have qualified for SDLT in these areas e.g. those with additional homes or high value homes):
 - Blackpool
 - Kingston upon Hull
 - Stoke-on-Trent
 - Burnley
 - Hyndburn

Source: Zoopla Research analysis of HMLR, ** HMRC Annual Stamp Taxes Statistics 2018-2019

Proportion of additional dwelling transactions

Figure 5. Share of additional dwelling transactions by local authority

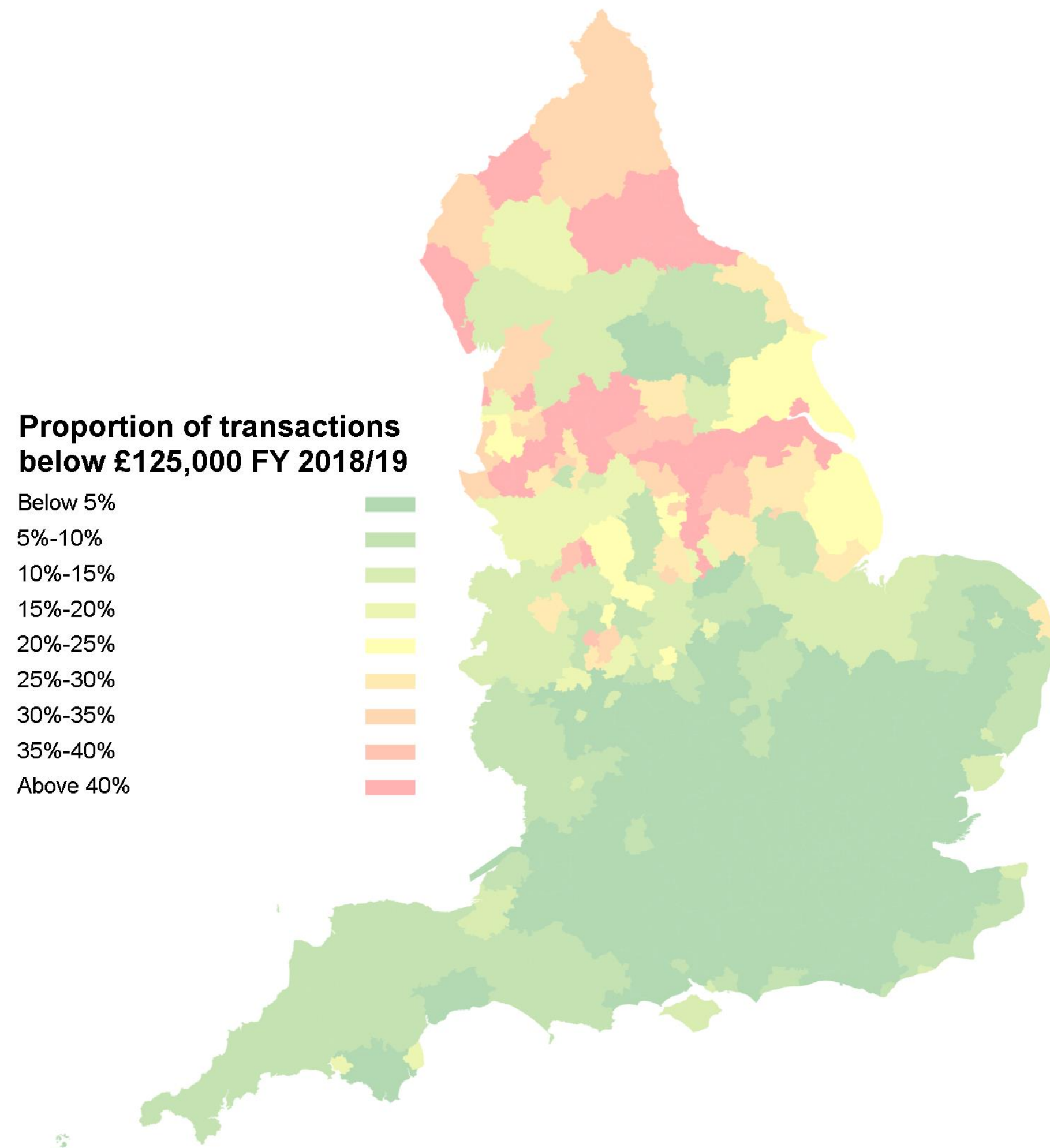


- The 3% extra levy for buyers with additional dwellings (HRAD) was introduced in April 2016.
- The higher rate applies to the purchase of property over £40,000 in England and Northern Ireland. Wales and Scotland also have similar legislation in place.
- 22% of the 1 million residential transactions that took place in England in FY 2018/19 were liable for the additional 3% HRAD levy.
- As a proportion of sales eligible for the 3% charge the highest coverage was in Kensington and Chelsea (48%), Westminster (46%) and Liverpool (40%) in 2018/19.
- The areas with the greatest share of HRAD receipts are concentrated in London, secondary cities and coastal towns.
- This is a mix of where investors buy property, locations for second homes or places where commuters are moving from London and holding onto property to rent out or use as a second property, attracting the 3% rate.

Source: HMRC Annual Stamp Taxes Statistics 2018-2019

What share of buyers pay no stamp duty?

Figure 6. Proportion of sales below SDLT threshold by local authority



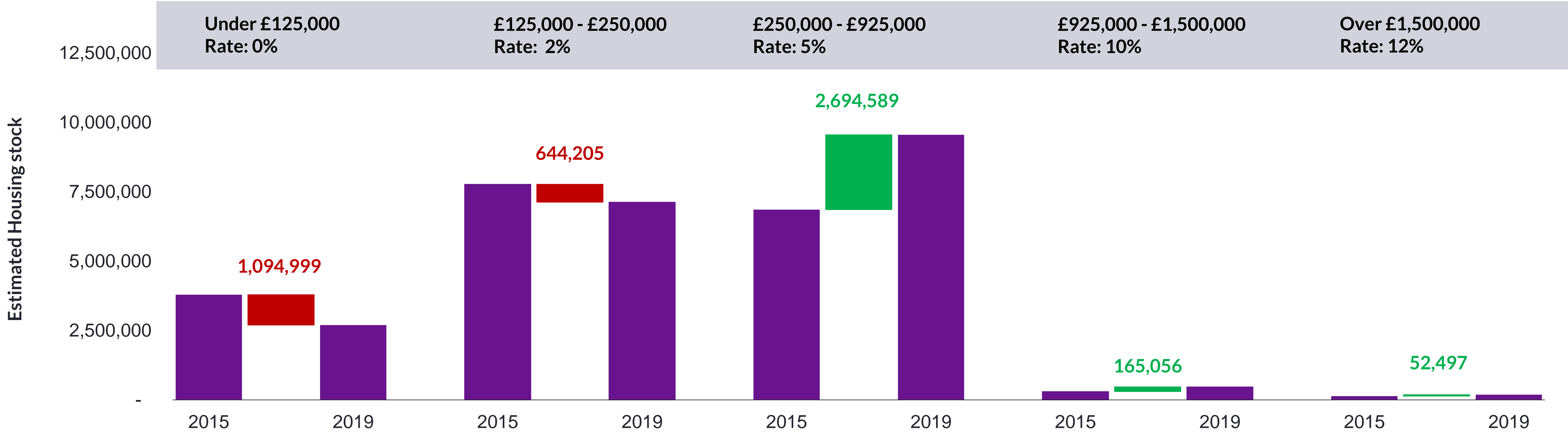
Source: Zoopla Research analysis of HMLR

- Figure 6 highlights the proportion of Land Registry transactions that fell below the £125,000 in 2018/19.
- It should be noted that this is an estimate and may include second properties or first-time buyer transactions.
- The North/South divide is particularly stark - just 806 transactions fell under the £125,000 threshold in London compared to 72% of the 1,879 of the transactions recorded in Burnley.
- The M62 corridor, stretching from Hull to Liverpool, is another hotspot for transactions under £125,000 with an average of just over 41%.

Movement of homes between stamp duty bands 2015-2019

- Stamp duty bands have remained unchanged in monetary terms since 2015 but house prices are 20% higher. Using Zoopla’s data on the value of all homes over time the chart shows the number of homes that have move into and out of the various bands since 2015. This includes new supply.
- Over this time 1.1m properties have become liable for stamp duty, increasing over the £125,000 threshold. Rising price shave also seen a reduction in homes in the lower tax bands up to £250,000.
- The greatest impact of rising prices has been to push 2.7m homes into the £250k-£925k price band where buyers pay 5% on the value over £250,000 – this has fallen most in southern England as we examine overleaf.

Figure 7. Stocks and flows of property by stamp duty band



Source: Zoopla, powered by Hometrack

The split of homes in the 5% stamp duty band

- London has seen a fall of 184,000 of homes in the £250,000 and £350,000 price band. These properties are likely to have moved further up the price distribution
- The North and Midlands have seen the bulk of new additions enter at the bottom of the distribution. Although there is an additional cost, it shouldn't be prohibitive to people moving.

Figure 8. stocks and flows within the 5% stamp duty band by price range

