Stamping on Aspiration:

the real cost of stamp duty

May 2013

A HomeOwners Alliance Report

About the HomeOwners Alliance

The HomeOwners Alliance is Britain's only group championing the interests of 17 million homeowners and 5 million aspiring homeowners.

We are a member-led organisation, representing homeowners in the media, lobbying for their interests in government, providing quality services and campaigning against bad practices in industry.

Our recent reports include *Death of a Dream: the crisis of homeownership in the UK* and *On the Edge: impact of homeowners of changes to interest-only mortgages*. At www.hoa.org.uk you can find our free independent advice guides, checklists and top tips on buying, selling, running and improving your home.

'With the launch of the HomeOwners Alliance, British property owners finally have an ally'

Sunday Times

'The HomeOwners Alliance is good news for homeowners and for homeownership'

Former Housing Minister Grant Shapps MP

'A powerful report'

Jack Dromey, shadow Housing Minister, said of Death of a Dream

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Key findings

- Since 1995, the **average amount of stamp duty paid when buying a home has risen by 7.1 times more than retail prices**, 6.5 times more than average earnings, and 4.6 times more than average house prices. It is almost certainly the UK's fastest rising tax (page 11)

- The **average amount of stamp duty paid by homebuyers is more than eleven times higher** now than it was before it started being increased in 1997. It has gone up from an average of £532 per house purchase in 1995/6 to £5957 in 2011/12 (page 10)

- The **highest stamp duty paid is in London, with an average of £17,529 paid per house purchase**. That is more than ten times the level in the lowest region, the North East, where the average stamp duty paid is £1466. The region with the **biggest rise in stamp duty is East Anglia**, where on average **homeowners are paying 30 times more now** than they were in 1995/96 (page 16)

- It is taking **far longer for homebuyers to save up to pay stamp duty**. In 1995/6, average stamp duty paid was just eight days' average earnings; it is now 11 week's average earnings (page 12)

- On average, homebuyers now pay 3.7% of their house purchase price to the government, up from under 1% before 1997. **Stamp duty is now often the single biggest cost for homeowners, having overtaken estate agent and legal fees** (page 12)

- **Stamp duty has gone from being a marginal source of revenue for the government to a central part of its finances**, and is set to overtake tax on tobacco. The government predicts that revenue from stamp duty will reach the level of the "sin" taxes on both tobacco and alcohol by 2017/18.[1] The government's stated policy of encouraging homeownership is not consistent with its approach to taxing homebuyers (page 15)

- The government has built extreme "fiscal drag" into stamp duty, with the **slab system ensuring that small rises in house prices can lead to huge increases in the amount of tax due**. What used to be a flat rate of 1% is now heavily stepped, with the top rate of stamp duty now 7 times higher than it was in 1997 (page 9)

- The **government has likely passed the point of "optimal taxation", with rates so high that they reduce house sales**, and so reduce government revenues. In other words, reducing rates would probably increase the number of house sales, and so increase government revenues (page 16)

- Despite the housing market bumping along the bottom, the **amount of tax homebuyers have to pay has increased 43% since the financial crisis struck**, up from £2.95bn in 2008/9, to £4.22bn in 2010/11 (page 15)

- **Reliance on stamp duty for Treasury revenue is having a direct impact on homeownership levels** in the UK and, in particular, is making it more difficult for first time buyers. Homeownership is on the decline – our report *Death of a Dream*, found that homeownership had fallen to 64% of total households since the 2002 peak of 69%[2] (page 20)

- More than 50% of stamp duty is now paid by properties worth over £500,000 (page 14)

- An exclusive survey for Homeowners Alliance points to **stamp duty as a potential barrier for aspiring homeowners**. 66% of aspiring homeowners expected hidden costs, such as stamp duty, to be one of the five most stressful aspects of buying a home (page 21)

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[1] Office for Budget Responsibility: Economic and fiscal outlook, March 2013 http://cdn.budgetresponsibility.independent.gov.uk/March-2013-EFO-44734674673453.pdf

[2] HomeOwners Alliance, *The Death of a Dream,* November 2012, p. 4 http://hoa.org.uk/campaigns/publications-2/the-death-of-a-dream-the-crisis-of-homeownership-in-the-uk/

Recommendations

1. The government should raise all the thresholds for stamp duty annually in line with house prices
2. The stamp duty exemption threshold should always be above the average house price, so that ordinary homebuyers don't pay stamp duty
3. Stamp duty should be decreased for those buying primary residential properties, paid for by increasing the rates for those buying second properties or buy-to-let properties
4. Buy-to-let landlords and buyers of second properties should pay a flat rate stamp duty on the whole purchase price regardless of the price of the property, with no exemptions
5. The stepped, slab pattern of stamp duty should be replaced with a rate that is only applied above the last threshold rather than the entire value of the property
6. First time buyers should be exempted from stamp duty on a permanent basis
7. The government should consider transferring stamp duty from the homebuyer to the homeseller
8. Stamp duty receipts should be invested in housing where there is the demand

See **Chapter 7** for an explanation of the recommendations

Introduction

Historically, **governments have recognised that buying a home is a basic social good that should be encouraged**, and stamp duty was a marginal tax on home buying. It was usually levied at 1% with high thresholds, ensuring the majority of homebuyers paid nothing. This complemented the UK homeownership pattern, with young people getting on to the property ladder with a small starter home and then moving after a few years, and regularly moving up until they were in a full family home.

However, since 1997, governments have turned stamp duty from a marginal tax into a major revenue stream which severely disrupts the property market. The government has repeatedly increased both the number of bands of stamp duty, as well as the rates within those bands. Before 1997, there was just one band at 1%, but now there are 5 different bands at 1%, 3%, 4%, 5% and 7%.[3] There is **no other tax where the top rate has increased seven fold in 15 years**.

In 1997, the government made just £830m from residential stamp duty, but a decade later it was eight times higher at £6.68 billion in 2007/8.[4] The motivation for the government increasing stamp duty is mainly to generate revenue, but it was also seen as a way to calm down the housing market and excessive house price rises. While this might have appeared to have made sense before the financial crisis, it makes no sense afterwards with a struggling housing market. Since most people only buy homes – and so pay stamp duty - a few times in their lives, stamp duty rises meet relatively little political opposition compared to taxes that people pay every day such as duty on petrol.

The **tax exempt threshold for stamp duty has been doubled since 1997, but that has not been enough to keep up with house prices, so now the majority of homebuyers have to pay the tax.** No attempt has been made to increase the other thresholds, meaning that as house prices rise, increasing numbers fall into the higher tax bands. The majority of houses that incur stamp duty now do it at a rate of 3% or higher.

The **quadruple whammy of rising house prices, escalating stamp duty rates, new higher stamp duty bands and frozen thresholds has meant that stamp duty has been transformed from a small irritant to a major dampener on housing activity**. As we show in this report, the **average amount of stamp duty paid per house purchase has risen 11 fold since 1997, outstripping even house price rises almost 5 fold** – and more than 7 times inflation. In 1992/93, only 37% of properties were subject to stamp duty, but by 2011/12 that had risen to 54%.[5] Stamp duty has gone from a tax that only a minority of housebuyers pay, to something the majority pay.

Stamp duty is now so much per transaction – averaging nearly £6000 across the UK, but over £17,000 in London – that it has become a deterrent to moving home. It is often said that a tax that is 1% or even 3% of house prices would not make a difference to house sales, especially in a rising

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[3] HMRC, UK Property transactions statistics, March 2013, Table 8, http://www.hmrc.gov.uk/statistics/transactions/val-40000-or-above.pdf

[4] HMRC, Tax and NIC receipts, March 2013, http://www.hmrc.gov.uk/statistics/receipts/info-analysis.pdf

[5] HMRC, Property transactions, Table 16.5, http://webarchive.nationalarchives.gov.uk/20080727105618/http://hmrc.gov.uk/stats/survey_of_prop/table16-5.pdf

market, but that is too simplistic. The house purchase price is money homebuyers normally get back when they sell the house; it is also something that you can raise a mortgage against to pay for the house in the first place. Stamp duty is money you never get back – you just give it to the government – and you can't use it as security for a mortgage.

First time buyers waiting until they save money for a deposit now have to wait even longer until they have also saved money to pay the government for stamp duty. If you get a 95% mortgage to buy a home worth £250,000, then you will need to save £12,500 for a deposit, then another £7,500 for stamp duty. That is, of the total amount of money you have to save to buy the house, nearly 40% would have to go to the government. **Stamp duty makes it far more difficult for first time buyers to save enough money to get on to the housing ladder**, and is one of the reasons the age of first time buyers is rising.

Stamp duty is so high that homeowners now often postpone moving until they absolutely have to. If they need an extra bedroom, it now often makes more financial sense to build an extension (or convert an attic or basement) rather than move – since the money you invest in expanding your house you will generally get back when you sell, but stamp duty you will not.

High stamp duties at the top of the housing market (eg 5% on homes over £1m) may generate little public sympathy, but they are part of the gumming up of the housing market, blocking upwards movement from people lower down. We are moving more to a Belgian-style housing market where house taxes are so high, people try and move house as little as possible and even stay in one house their whole lives. This is not an efficient way of allocating housing to meet people's changing needs.

It is quite likely that stamp duty is having such a dampening effect on house sales that it has become self-defeating as a way for the government to generate revenue. The Laffer Curve is well recognised in income tax, with higher rates of tax leading to lower revenues because people work less or avoid it in other ways. The same principle applies to the housing market. If the government did cut stamp duty, it would most likely lead to a recovery in house sales and boost revenues.

The rise and rise of stamp duty has become very detrimental both to homeowners and the economy. The ramping up of stamp duty immediately preceded the start of the decline of homeownership in the UK in 2002. It is one of the factors behind the historic fall in homeownership, which is hitting young people the hardest, denying them their aspiration of owning their own home.

The time has come for a radical reform of stamp duty.

Chapter 1 - The inexorable rise of stamp duty

The rise and rise of stamp duty is clear when we review rates and bands over the past 20 years.[6] There are three main ways they have been pushed up – an increase in the number of tax bands; an increase in the rates within those bands; and frozen thresholds ensuring more properties fall in the higher bands as prices rise:

- More tax bands: the government increased from one band in 1996 to five bands in 2013
- Higher rates of duty: the rates within the bands have been consistently increased
    - The top rate of tax has increased from 1% before 1997 to 7% in 2013 (chart 1)
    - The rate for Band 2 (£250k-£500k) has doubled since 1997 from 1.5% to 3%
    - The rate for Band 3 has doubled since 1997 from 2% to 4%
- Frozen thresholds: the thresholds for all the higher bands have not been increased in response to rising house prices

Table 1: Summary of stamp duty rates & bands (1993-2013)

Year:	Exempt	Band 1	Band 2	Band 3	Band 4	Band 5
1993	Up to £60K	1% (over£60K)				
1997	Up to £60K	1% £60-£250K	1.5% £250-£500K	2% Over £500K		
1998	Up to £60K	1% £60-£250K	2% £250-£500K	3% Over £500K		
1999	Up to £60K	1% £60-£250K	2.5% £250-£500K	3.5% Over £500K		
2000	Up to £60K	1% £60-£250K	3% £250-£500K	4% Over £500K		
2005	Up to £120K	1% £120-£250K	3% £250-£500K	4% Over £500K		
2006	Up to £125K	1% £120-£250K	3% £250-£500K	4% Over £500K		
2010	Up to £125K	1%* £125-£250K	3% £250-£500K	4% £500K-£1m	5% Over £1m	
2011	Up to £125K	1%* £125-£250K	3% £250-£500K	4% £500K-£1m	5% Over £1m	
2012 to present	Up to £125K	1% £125-£250K	3% £250-£500K	4% £500K-£1m	5% £1m-£2m	7% Over £2m

**First-time buyers exempt up to £250K (April 2010 – March 2012) – See Annex 1*

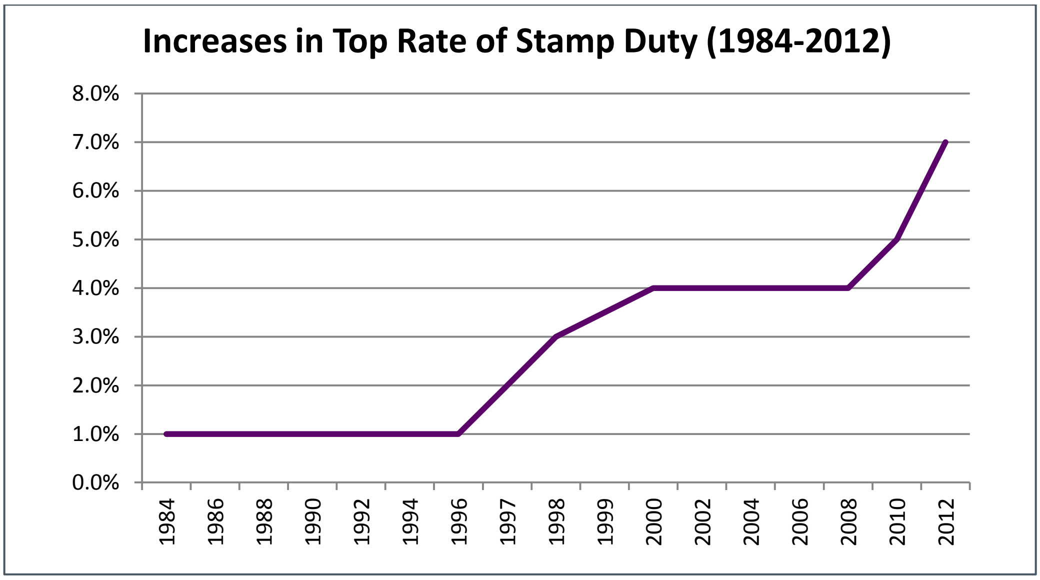
Source: HMRC Property transactions statistics, Table 8, http://www.hmrc.gov.uk/statistics/transactions/val-40000-or-above.pdf

The **increase in rates has been compounded by a failure to raise stamp duty thresholds in line with house prices.** Although the tax exempt threshold was doubled from £60,000 to £125,000 in 2005, this was far outstripped by the rise in house prices. The average house price for the UK according to the Nationwide House Price Index was £50,128 in 1993 and the tax exemption level was £60,000.

[6] See Annex 1 of this report for the full summary of stamp duty changes (1958 – 2013)

Average house prices then peaked by the middle of 2007 at £184,131 and by the end of 2012 stood at £162,924.[7]

Chart 1: Changes to the top rate of stamp duty (1984-2012)



The higher stamp duty thresholds - £250,000 and £500,000 – have been unchanged since their introduction in July 1997 despite a 140% increase in house prices over the period to January 2011. **If the higher stamp duty thresholds had been increased in line with house prices since July 1997, the £250,000 threshold would now be over £600,000 and the £500,000 threshold £1,200,000**.[8]

This leads to a very marked "fiscal drag" effect, where **rising house prices automatically push houses into higher stamp duty bands, even if the government has changed nothing**. For example, a house bought for £240,000 would incur £2,400 stamp duty, but if sold a couple of years later for £270,000 the stamp duty incurred would have more than tripled to £8,100. In this example, a 13% increase in house price leads to a 238% increase in stamp duty. The slab system (where stamp duty is paid on the whole house value) means that this fiscal drag effect is incredibly powerful, with small rises in house prices potentially leading to dramatic increases in stamp duty.

This process of houses being pushed into higher stamp duty bands has meant that the 3% band, which was originally seen as just for high value properties, has now become mainstream. According to research by Halifax, in 2000, just 5% of properties were subject to stamp duty at 3% or higher, but by 2010 more than five times as many properties were liable, at 26%.[9] That means that the majority of homebuyers who pay stamp duty pay it at the higher rate of 3% or above, and in effect the higher rates have become the normal rates. In London, the majority of all housebuyers - 58% - now pay stamp duty at 3% or more.

[7] Nationwide house price index, Average house price 2012 fourth quarter, http://www.nationwide.co.uk/hpi/datadownload/data_download.htm

[8] Halifax, Higher stamp duty thresholds would have doubled if linked to house prices, 2011, http://www.lloydsbankinggroup.com/media/pdfs/2011/STAMPDUTY.pdf

[9] ibid

Chapter 2 - The rising burden of stamp duty on homebuyers

The critical question facing homebuyers is how much stamp duty do they personally have to pay when buying a house. This is the financial calculation that each homebuyer has to make, and it drives behaviour in the housing market, such as whether to move or instead build an extension.

The increase in stamp duty rates, the static thresholds and rising house prices have all combined in a multiplier effect to push up the average amount of stamp duty paid by an astonishing amount over the past 15 years. It is rising far more rapidly than inflation, average earnings and even house prices. The "home tax" is almost certainly the fastest rising tax in the UK.

Average stamp duty paid per house purchase was just £532 in the financial year 1995/6. By 2011/12, that rose to £5957, more than 11 times as much. The ramping up of the rates meant that the average amount of stamp duty paid carried on rising even as the housing market crashed in 2007 – the number of people buying houses had halved, but those that did buy were paying more. Even in the last few years, with the housing market bumping along the bottom, average stamp duty payments have been rising. There was a noticeable dip when the government temporarily raised the stamp duty threshold to £175,000 from September 2008, exempting more properties from the tax, but that was immediately reversed when the threshold was returned to its previous level in December 2009.

Table 2: Average amount of stamp duty paid for house purchases

Year	Number of Residential transactions (England & Wales)[10]	Residential stamp duty receipts (£millions) (England & Wales)[11]	Average house price (England & Wales)[12] (£)	Average stamp duty payment per house purchase (£)	Average stamp duty as proportion of average house price
1995/96	798,343	425	66,295	532	0.8%
1996/97	1,004,145	625	60,702	622	1.0%
1997/98	1,077,111	765	65,206	710	1.1%
1998/99	1,048,002	970	69,341	926	1.3%
1999/2000	1,210,075	1,690	75,829	1,397	1.8%
2000/01	1,064,888	1,965	85,225	1,845	2.2%
2001/02	1,225,319	2,455	94,759	2,004	2.1%
2002/03	1,279,317	3,200	95,356	2,501	2.2%
2003/04	1,214,811	3,510	119,938	2,889	2.2%
2004/05	1,094,797	4,325	139,027	3,951	2.6%
2005/06	1,098,922	4,335	152,790	3,945	2.5%
2006/07	1,303,505	5,980	160,319	4,588	2.7%
2007/08	1,122,305	6,180	175,554	5,507	3.1%
2008/09	534,537	2,730	179,363	5,107	3.1%
2009/10	656,900	3,135	149,709	4,772	3.0%
2010/11	650,352	3,855	162,887	5,928	3.6%
2011/12	679,841	4,050	162,379	5957	3.7%

[10] Land Registry, search via house price index, http://www.landregistry.gov.uk/public/house-prices-and-sales/search-the-index
[11] HMRC, Stamp Duty Land Tax yields, table 15.2, http://www.hmrc.gov.uk/statistics/stamp-duty/table15-2.pdf
[12] Land Registry, search via house price index, http://www.landregistry.gov.uk/public/house-prices-and-sales/search-the-index

The increase in average stamp duty paid is particularly dramatic when compared to inflation, earnings and even house prices. As Table 3 shows, in the period from 1995/6 to 2011/12, average stamp duty paid increased 11.2 times, while retail prices increased by just 1.58, average weekly earnings by 1.73, and average house prices by 2.45.

Table 3: The rise of average stamp duty paid compared to inflation, earnings and house prices

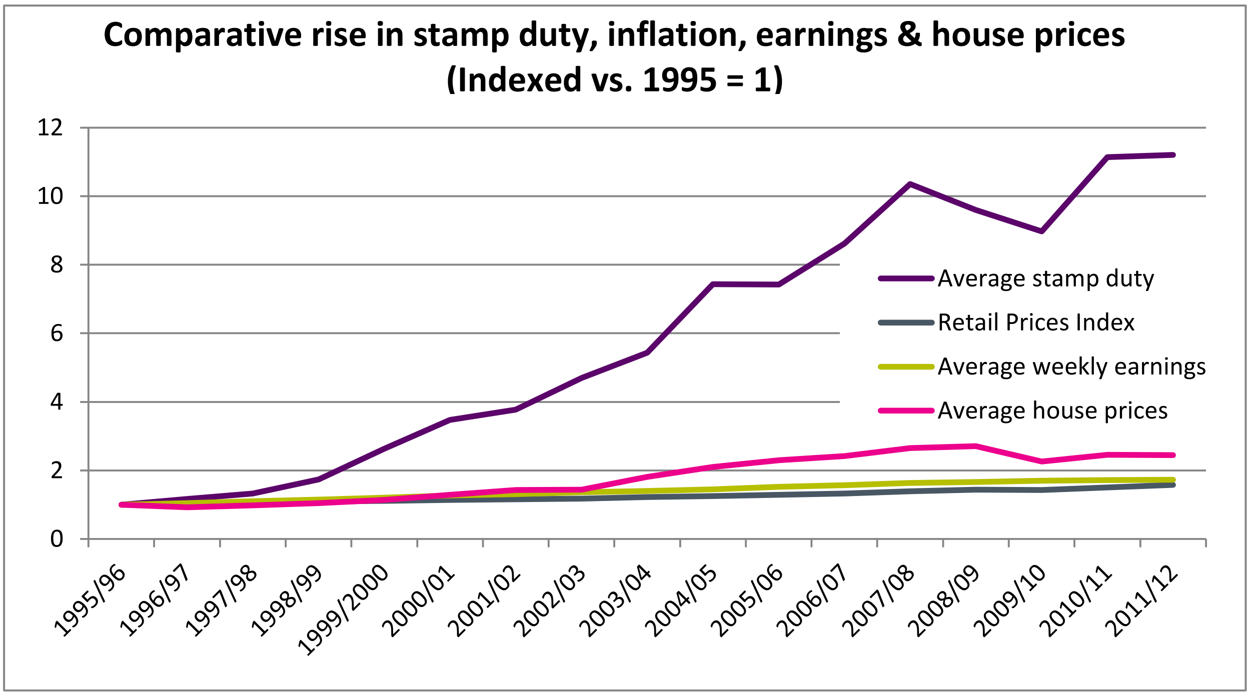
	Average stamp duty paid[13]		Retail Prices Index[14]		Average weekly earnings[15]		Average house prices[16]	
Year	**(£)**	**1995=1**	**(RPI)**	**1995=1**	**(£)**	**1995=1**	**(£)**	**1995=1**
1995/96	532	1.00	149.1	1.00	314	1.00	66,295	1.00
1996/97	622	1.17	152.7	1.02	329	1.05	60,702	0.92
1997/98	710	1.33	157.5	1.06	344	1.10	65,206	0.98
1998/99	926	1.74	162.9	1.09	362	1.15	69,341	1.05
1999/2000	1,397	2.63	165.4	1.11	378	1.20	75,829	1.14
2000/01	1,845	3.47	170.3	1.14	398	1.27	85,225	1.29
2001/02	2,004	3.77	173.3	1.16	411	1.31	94,759	1.43
2002/03	2,501	4.70	176.2	1.18	426	1.36	95,356	1.44
2003/04	2,889	5.43	181.3	1.22	439	1.40	119,938	1.81
2004/05	3,951	7.43	186.7	1.25	455	1.45	139,027	2.10
2005/06	3,945	7.42	192.0	1.29	477	1.52	152,790	2.30
2006/07	4,588	8.62	198.1	1.33	494	1.57	160,319	2.42
2007/08	5,507	10.35	206.6	1.39	512	1.63	175,554	2.65
2008/09	5,107	9.60	214.8	1.44	521	1.66	179,363	2.71
2009/10	4,772	8.97	213.7	1.43	533	1.70	149,709	2.26
2010/11	5,928	11.14	223.6	1.50	541	1.72	162,887	2.46
2011/12	5,958	11.20	235.2	1.58	543	1.73	162,379	2.45

Looking at it another way, **over the last decade and a half, stamp duty has increased by 7.1 times the rate of inflation, 6.5 times average earnings, and 4.6 times average house prices.** It is often said that house prices have been rising at an unsustainably fast rate, but they are virtually static when compared to rocketing stamp duty (as shown graphically in Chart 2.)

The comparison with earnings shows how increasingly difficult it is for homebuyers to save up enough money to pay the government for the privilege of buying a home. In 1995/6, the average stamp duty paid was equivalent to just eight days' average earnings; by 2011/12 that had risen to 11 weeks of average earnings.

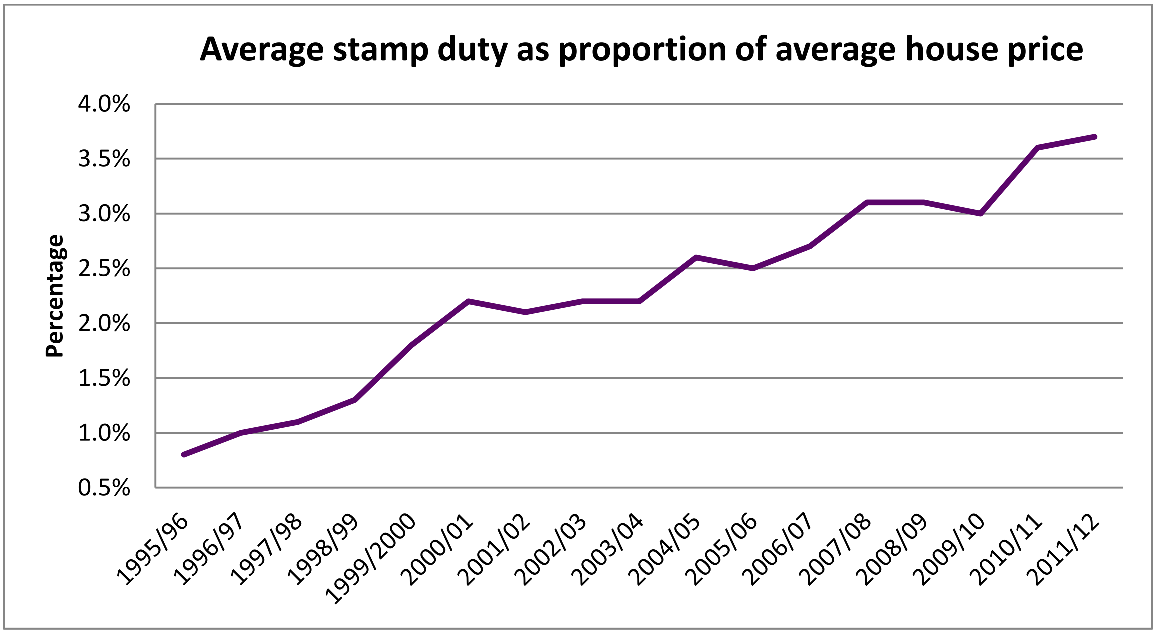
[13] HOA calculation, see Table 2
[14] Office for National Statistics, *Detailed CPI and RPI Reference Tables,* 2012, Table 20
[15] Office for National Statistics, *Labour force survey,* table EARN04
[16] Land Registry, search via house price index, http://www.landregistry.gov.uk/public/house-prices-and-sales/search-the-index

Chart 2: The rise in stamp duty compared to inflation, earnings and house prices



The figures also show how stamp duty is becoming an increasing burden on the housing market, with an increasing share of money paid by homebuyers going to the government. As Table 2 and Chart 3 shows, on average stamp duty was less than 1% of the house purchase price before 1997, but by 2011/12, average stamp duty had risen to 3.7% of the average property price. This reflects the fact that the tax is now far more often paid at the higher rates of 3%, 4%, 5% or 7% of the house price. It also means **that for many homeowners, stamp duty is now the biggest single cost, above estate agent and legal fees.** With on average of nearly 4% of each house purchase now going to the government, stamp duty will clearly have an impact on homeowners' decisions to move.

Chart 3: The rising impact of stamp duty on house purchases



Chapter 3 - The shift to higher value properties

The repeated raising of the stamp duty rates for higher bands while freezing the thresholds has meant that the overwhelming majority of the tax is now paid by higher value properties. Calculations by the HomeOwners Alliance show that the proportion of the tax paid by properties under £250,000 has dropped from 38.2% in 2002/3, to 12.9% in 2011/12. At the same time, the proportion of the tax paid by properties worth over £500,000 has risen from 24.4%, to just over 50%. This is the reason why the average stamp duty paid is now 3.7% of the average house price, even though the base rate of the tax is 1%.

The declining share of stamp duty paid by properties worth under £250,000 does NOT mean they are paying less tax in absolute terms; but rather that the total revenue paid by higher value properties is just rising even faster. Indeed, between 2008/9 and 2011/12, the amount of stamp duty paid on properties worth under £250,000 increased from £505m to £545m, but while their share of the tax revenue went down from 17.1% to 12.9%. The declining share of tax paid by properties under £250,000 would not be felt by individual property buyers at that end of the market.

Table 4: Residential stamp duty revenue by property tax band in UK

Year	Band 1 £60,001-£250,000		Band 2 £250,001-£500,000		Band 3, 4 & 5 £500,001+		Total residential stamp duty raised	
	£m	%	£m	%	£m	%	£m	%
2002/03	1,345	38.2	1,320	37.4	860	24.4	3,525	100
2003/04	1,305	35.2	1,365	36.8	1,035	27.9	3,710	100
2004/05	1,400	30.3	1,770	38.3	1,450	31.4	4,620	100
2005/06	1,175	25.6	1,910	41.7	1,500	32.7	4,585	100
2006/07	1,455	22.8	2,660	41.7	2,260	35.5	6,375	100
2007/08	1,280	19.2	2,740	41.0	2,660	39.8	6,680	100
2008/09	505	17.1	1,155	39.2	1,290	43.7	2,950	100
2009/10	450	13.7	1,365	41.5	1,470	44.7	3,290	100
2010/2011	540	13.4	1,575	39.0	1,930	47.8	4,040	100
2011/2012	545	12.9	1,560	37.0	2,115	50.1	4,220	100

Source: HMRC statistics, Stamp Duty Land Tax, table 15.3; http://www.hmrc.gov.uk/statistics/stamp-duty/table15-3.pdf; HOA calculations

Chapter 4 - The government's increasing reliance on stamp duty

Stamp duty has gone from being a marginal revenue for the government before 2000, to a central – but erratic - part of its finances. In 1997/8, when stamp duty was just 1% and most houses were not liable to it, the government raised just £830m (Chart 1). The repeated hiking of stamp duty led to what can only be described as rocketing revenues for the government, with year after year of double digit percentage increases, frequently over 20%. The result was that the total revenues went up 8 fold in less than a decade to £6.68bn in 2006.

However, the 2007 crash lead to the number of house sales roughly halving, and stamp duty receipts dropped by 55.8% in one year. But since 2008, and despite the struggling housing market**, revenues have been climbing steadily, increasing by 43% by 2011, and is nearly back to pre-peak levels**.

Table 5: UK government revenues from residential stamp duty

Year	Residential stamp duty revenues UK (£billions)	Year on year change (%)
1997/98	0.830	n/a
1998/99	1.065	28.3
1999/2000	1.825	71.4
2000/01	2.145	17.5
2001/02	2.690	25.4
2002/03	3.525	31.0
2003/04	3.710	5.2
2004/05	4.620	24.5
2005/06	4.585	-0.8
2006/07	6.375	39.0
2007/08	6.680	4.8
2008/09	2.950	-55.8
2009/10	3.290	11.5
2010/11	4.040	22.8
2011/12	4.220	4.5

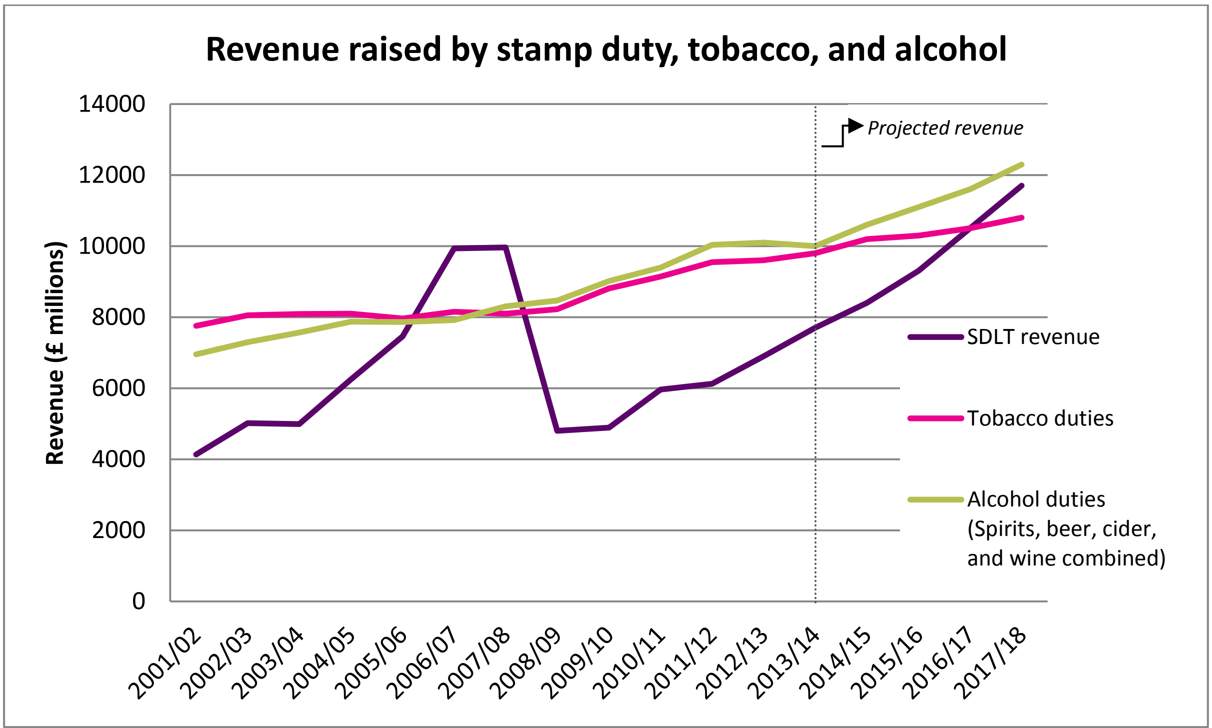
Source: http://www.hmrc.gov.uk/statistics/stamp-duty/table15-2.pdf; HOA calculations

The importance of stamp duty to the government can be seen by comparing it to alcohol and tobacco (Chart 4). In 2001, the government raised roughly half as much from stamp duty (from residential and commercial property) as it did from either duty on alcohol or tobacco. By 2006, the government was for the first time making more money from stamp duty than from the "sin taxes" of tobacco and alcohol.

Stamp duty revenues peaked the following year at £9.96 billion (for both commercial and residential property) - above tobacco, which raised £8.09 billion, and alcohol, which raised £8.28 billion. This is clearly **completely inconsistent with the government's stated aim of encouraging homeownership and discouraging smoking and drinking**.

Despite the collapse of stamp duty revenues after 2007, the government is predicting a return to past form. Although house prices are only expected to pick up slightly over the next five years, the **government is forecasting that commercial and residential stamp duty revenues will nearly double from £6.1 billion to £11.7 billion by 2017/18**[17], and will again overtake revenue from tobacco.

Chart 4: stamp duty revenue vs. tobacco & alcohol duties



Source: 2001/02-2011/12 HMRC receipts: http://www.hmrc.gov.uk/statistics/receipts/info-analysis.pdf
2012/13-2017/18 Projections from Office for Budget Responsibility p. 102
http://cdn.budgetresponsibility.independent.gov.uk/March-2013-EFO-44734674673453.pdf

The big question for government as well as homeowners is the extent to which the ramping up of stamp duty will push down the number of housing transactions, thus reducing government revenue. **Many homeowners are simply avoiding paying stamp duty by not moving, and extending their house rather buying a bigger one.** If people in general move half as often throughout their lives as a result of stamp duty, it would mean that government revenues from it would halve.

It could well be that stamp duty is past the peak of what economists call the "Laffer curve", whereby increases in taxation lead to less revenue because fewer people pay it. **By cutting stamp duty, the government might revitalise the housing market, leading to greater revenues.**

[17] Office for Budget Responsibility: Economic and fiscal outlook, March 2013, p. 102, http://cdn.budgetresponsibility.independent.gov.uk/March-2013-EFO-44734674673453.pdf

Chapter 5 – The regional variations of stamp duty

Given the UK's different regional property markets, it is no surprise that the impact of the increases in stamp duty differ from one part of the country to another. But the **design of the tax ensures that its impact is even more exaggerated than variations in property prices**. For example, the doubling of the tax exemption threshold would have led to significant reductions in stamp duty payments in parts of the country with many properties below the new threshold, but had little impact in parts of the country where most properties are above the threshold.

The average amount of stamp duty paid by homebuyers is highest in London, at £17,529 in 2011/12, roughly three times the national average (Table 6). It is more than ten times the average stamp duty paid in the North East, which was £1466 in 2011/12. The latest figures show a particularly sharp rise in London, with a 17.6% increase in the average stamp duty paid from £14,900 in 2010/11 to £17,529 in 2011/12.

In **London the average stamp duty paid is now 16 times higher now than in 1995/6**, while in the North East it is just 3 times higher. In 1995/6, the average amount of stamp duty paid in London wasn't much higher than the South East, but it is now more than twice as much.

Table 6: Change in average stamp duty paid 2012 vs 1995

	1995/6		2011/12		1995 vs 2012
Region:	Total stamp duty revenue (£millions)	Avg stamp duty paid per property sale (£)	Total stamp duty revenue (£millions)	Avg stamp duty paid per property sale (£)	Change in average stamp duty paid 1995/6
North East	15	461	40	1466	3.2
North West	35	369	165	2273	6.2
Yorkshire/ Humber	25	349	125	2198	6.3
East Midlands	20	307	125	2250	7.3
West Midlands	30	414	165	2849	6.9
East	15	160	405	4871	30.4
London	115	1098	1640	17 529	16.0
South East	130	906	940	7543	8.3
South West	40	474	380	4893	10.3
Wales	10	283	65	2123	7.5

Source: HMRC Table 15.2, http://www.hmrc.gov.uk/statistics/stamp-duty/table15-2.pdf, Land Registry, search via house price index, http://www.landregistry.gov.uk/public/house-prices-and-sales/search-the-index, HOA calculations

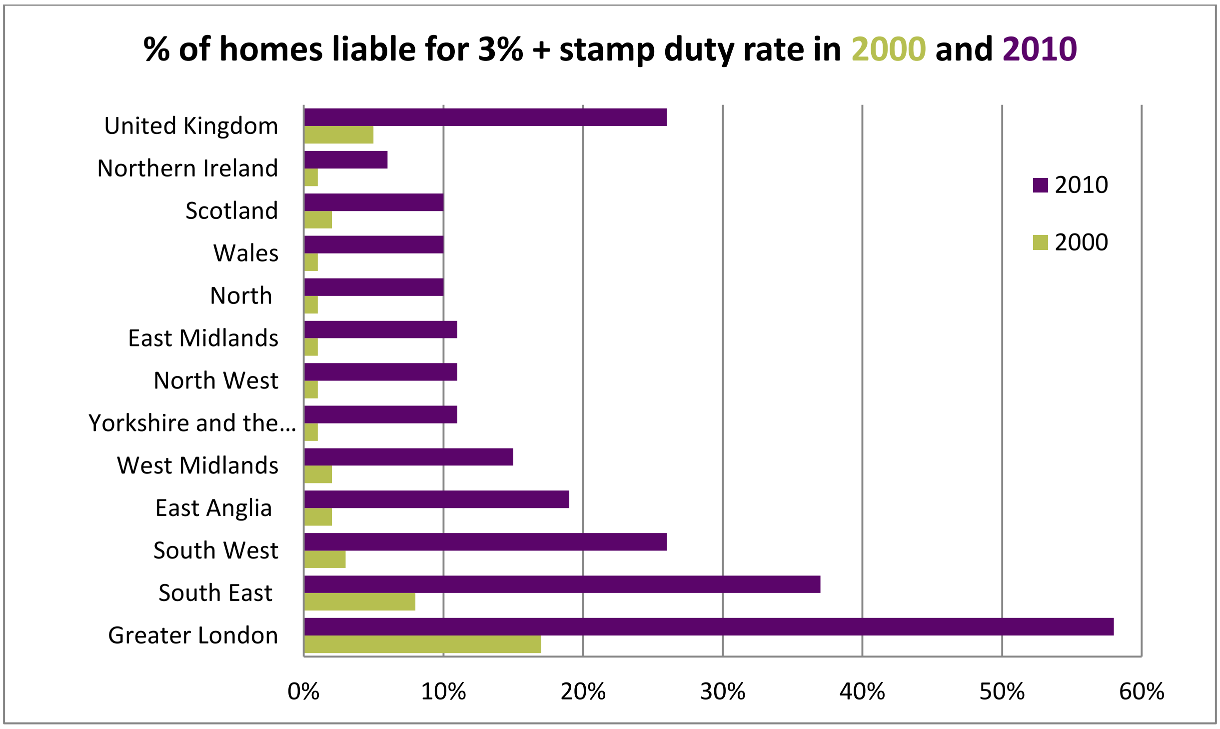
The introduction of higher rates of stamp duty for properties over £250,000 have had very different effects in different parts of the UK. High property prices have ensured that London and the South East have the highest proportion of properties liable to higher rate stamp duty of 3% or more. However, they started from a higher base, and the proportionate impact has been higher in other areas. Yorkshire and Humber, North West, East Midlands, the North and Wales all have ten times as many properties liable to pay the higher rate stamp duty in 2010 as they did in 2000.

Table 7: Percentage of homes over £250,000 higher rate stamp duty threshold by region

Region:	2000	2010	Change (%)
Greater London	17%	58%	41%
South East	8%	37%	29%
South West	3%	26%	23%
East Anglia	2%	19%	17%
West Midlands	2%	15%	13%
Yorkshire and the Humber	1%	11%	10%
North West	1%	11%	10%
East Midlands	1%	11%	10%
North	1%	10%	9%
Wales	1%	10%	9%
Scotland	2%	10%	9%
Northern Ireland	1%	6%	5%
United Kingdom	5%	26%	21%

Source: Higher stamp duty thresholds would have doubled if linked to house prices, Halifax www.lloydsbankinggroup.com/media/pdfs/2011/STAMPDUTY.pdf, p.3/4

Chart 5: Proportion of homes liable for stamp duty rates 3% or higher (2000 vs 2010)

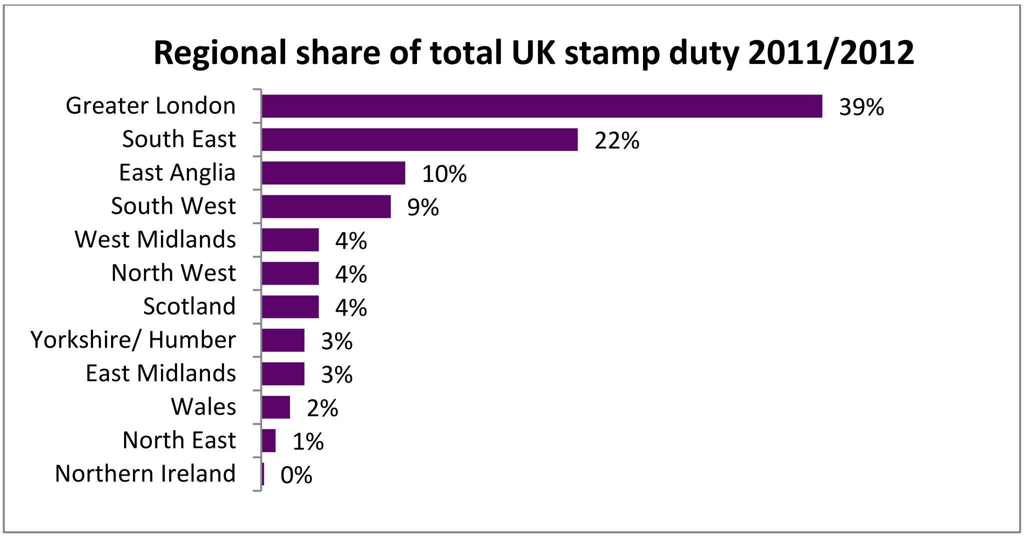


Source: Halifax, *Higher stamp duty thresholds would have doubled if linked to house prices,* http://www.lloydsbankinggroup.com/media/pdfs/2011/STAMPDUTY.pdf

Government stamp duty receipts reflect regional trends – London/South East make up largest share:

- London's share of stamp duty receipts is 39%, and rising
- Share of stamp duty receipts is roughly stable in the East, South East, South West, Wales
- Share of stamp duty receipts is declining in the North, Midlands, Scotland, Northern Ireland

Chart 6: Regional share of total UK stamp duty 2011/2012

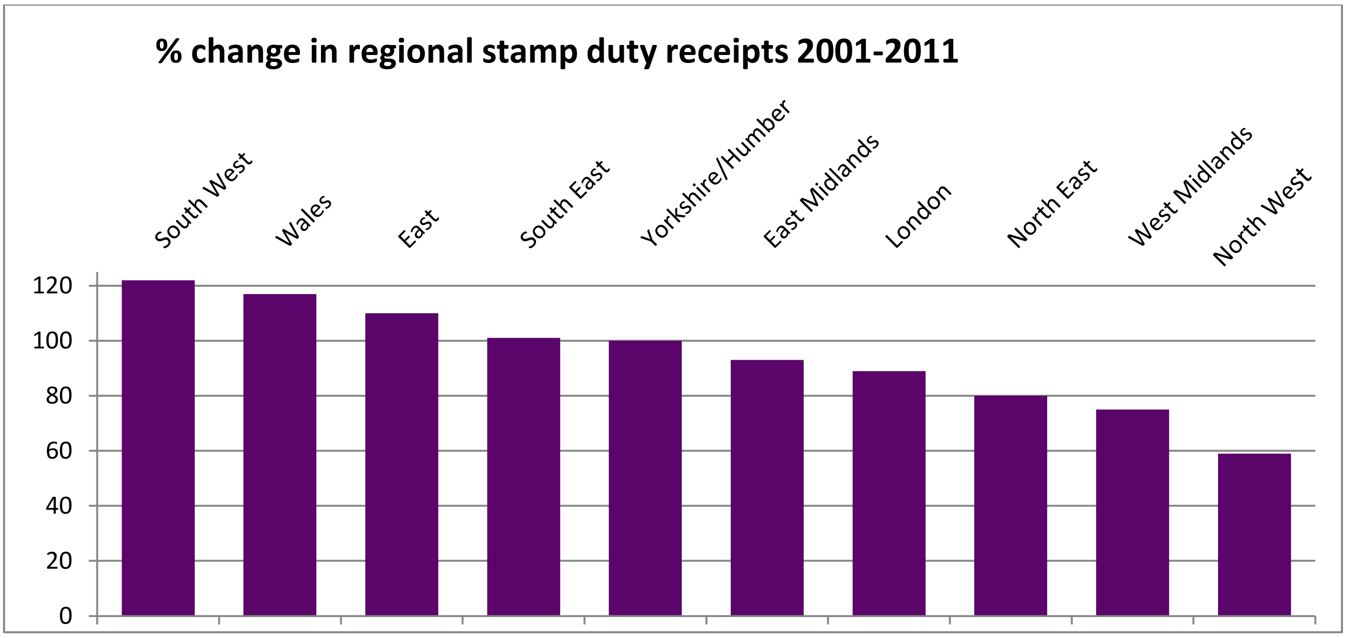


Source: HMRC statistics http://www.hmrc.gov.uk/statistics/stamp-duty/table15-2.pdf

Growth of stamp duty receipts has paralleled changes to regional property values:

- Regions with biggest growth in stamp duty receipts are: South West, Wales, East, South East, Yorkshire/Humber, East Midlands, London, North East
- The North West and West Midlands have seen increases but at lower levels.
- Northern Ireland and Scotland have seen a significant reduction in stamp duty receipts (71% drop in Northern Ireland and 27% drop in Scotland). The lower property values there have meant they have particularly benefitted from the increase in the tax exempt threshold.

Chart 7: **Regional change in stamp duty receipts 2011 -2001**[18]



Source: HMRC statistics, Table 15.2, http://www.hmrc.gov.uk/statistics/stamp-duty/table15-2.pdf.

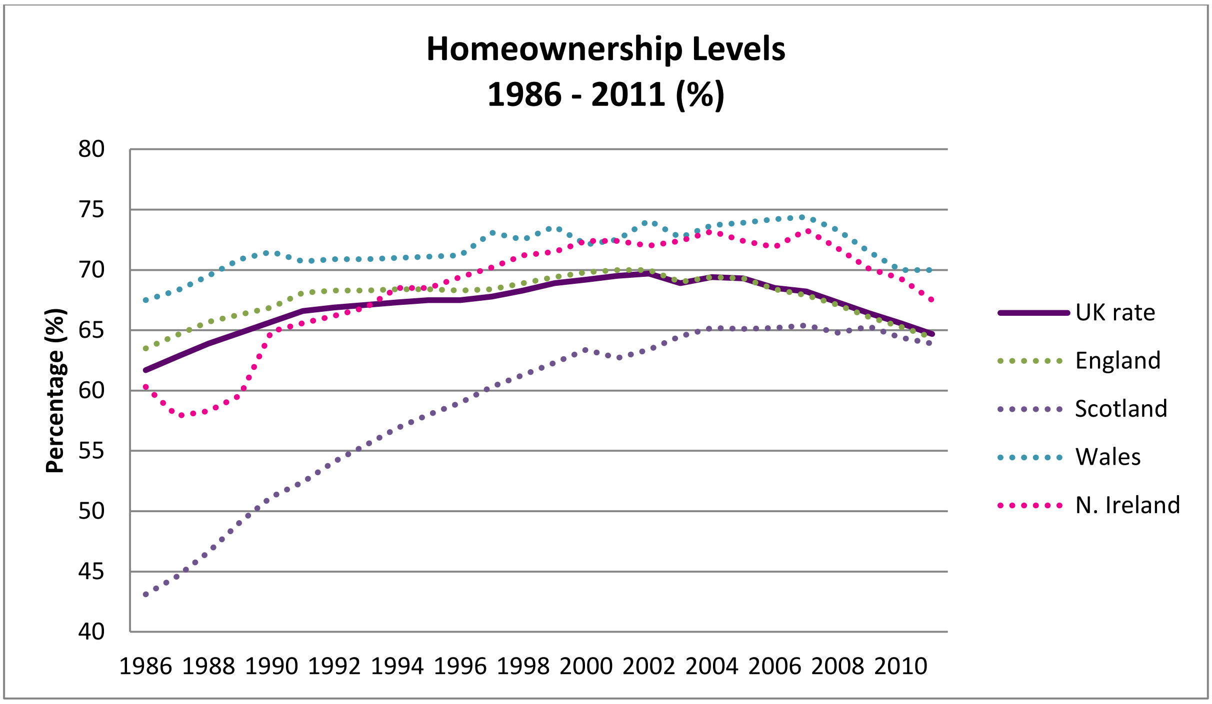
[18] Northern Ireland and Scotland have not been included because figures are only available from 2004.

Chapter 6 - The impact of stamp duty on homeownership

Home ownership increases standards of living, promotes security, and allows the flexibility most families require to do with their home as they see fit.[19] In December 2012, the Office for National Statistics declared that you were more likely to be happy as a home owner than any other tenure.[20] There are good reasons why 86% of the population want to own their own home, and the stated policy of this and previous governments is to support homeownership.[21]

However, **homeownership in the UK has been in decline since 2002, and is now at its lowest level since 1988**. There are obviously many reasons for this, but a critical question is: how has the government's repeated hiking up of stamp duty affected homeownership levels?

Chart 8: Homeownership levels in the UK (1986-2011)



Source: HomeOwners Alliance, Death of a Dream, November 2012 p. 9

There has been little academic research on the role of stamp duty in declining homeownership levels. There is a view that a tax of 1% cannot have a significant impact on the decision to buy a property which has been subjected to rapid price rises over a number of years; there has been a view that the housing market is so strong that the stamp duty extracted from it is a painless way for the government to raise revenue. But the ramping up of stamp duty from 1998 onwards was shortly followed by homeownership levels going into decline in 2002. **There is strong anecdotal evidence that homeowners are either extending their home or simply postponing moving rather than pay stamp duty.**

[19] Death of a Dream, The HomeOwners Alliance, November 2012, p.21-23
[20] Office for National Statistics, 2011/12 Subjective Well-being Annual Population Survey, p.50
[21] Death of a Dream, The HomeOwners Alliance, November 2012

There are a number of strong reasons to believe that **stamp duty has a downward impact on the housing market and on homeownership levels**:

- The average stamp duty paid of 3.7% of average house prices must have a downward impact on the demand for houses, just as all transaction taxes reduce demand. Economics suggests extracting £6bn a year from any market will reduce activity
- Stamp duty is capital that is lost to homebuyers, whereas capital spent buying a house or building an extension is reclaimed when the property is sold. Homeowners naturally want to minimise their capital losses
- Stamp duty cannot be used to secure a mortgage, but must be paid for upfront like a deposit. For someone using a 95% mortgage to buy a £250,000 property, stamp duty now represents 40% of the total money they must save in advance
- The average stamp duty paid now accounts for 11 weeks of average earnings, up from 1.5 weeks in 1995. Stamp duty has to be paid out of post-tax income
- Most stamp duty is paid on houses worth over £500,000, but a slow down at the top of the market will have negative impact on the bottom of the market, as it stops people rising up the property ladder, releasing cheaper properties on to the market as they do so

Stamp duty hits first time buyers hardest because they often have little capital to absorb the added cost of stamp duty. Some estimate that it takes 15 years and 7 months for a first time buyer saving £200 a month to raise enough for the average deposit. They would now have to save for another 2 and a half years just to pay the average stamp duty. An exclusive Homeowners Alliance survey found that 66% of aspiring homeowners thought that hidden costs, such as stamp duty, would be one of the five most stressful aspects of homebuying.[22]

Impact of stamp duty holidays

The two recent temporary stamp duty holidays (for first time buyers and increase of the tax free threshold to £175,000) has provided some chance to examine the impact of the tax on homebuying.

A review of the effectiveness of raising the threshold to £250,000 for first time buyers conducted by HMRC concluded that it did little to increase the number of first-time buyers. Although the number of buyers during the holiday was significantly higher than usual, this was found to be largely due to people bringing purchases forward. The increase in the proportion of buyers who would not have bought anyway was estimated at just two percent.[23] But even this is actually quite a significant increase for removing just a one percent tax at the bottom end of the market. Cutting the higher rate stamp duties would presumably have a far bigger impact. More significantly, given the time it takes to save for a deposit and get ready to buy a house, a temporary stamp duty holiday would always have a limited impact – there would be limited numbers of people who could respond in time (but many more who are able just to bring forwards something they were already in the process of doing).

[22] HomeOwners Alliance survey via online YouGov panel; sample size 2056 adults, of which 442 were aspiring homeowners (UK adults who don't currently own a home but would like to in the future); data weighted and representative of all UK adults (age 18+); fieldwork undertaken 18th-21st January 2013
[23] Evaluating the impact of stamp duty land tax first time buyers' relief, HMRC, p.26/7 http://www.hmrc.gov.uk/research/sdlt-ftb-workingpaper.pdf

A study by Savills[24] suggested that the first holiday led to 13,000 increased sales, and the second one to 7,000 increased sales, which it concluded was a relatively small impact. But again, it is difficult to draw conclusions from a temporary change in conditions about long term changes in behaviour.

What is needed is a permanent step change in the level of stamp duty.

[24] Source: Savills, The impact of stamp duty holidays on market turnover, 2012, http://www.savills.co.uk/research_articles/141718/142570-0

Chapter 7 – Recommendations explained

Recommendation 1: The government should raise all the thresholds for stamp duty annually in line with house prices

Justification: The powerful "fiscal drag" effect resulting from the government's freezing of thresholds means that rising property prices will push an ever increasing number of houses into being liable for higher stamp duty rates. This will guarantee that the higher rates of stamp duty will become the norm, and the lower rates the exception. There is no economic rationale for a property that incurs a 1% tax one year incurring a 3% tax a year later when it is resold. The government should aim to stabilise the stamp duty rates for individual properties by increasing the thresholds in line with rising house prices. The government already does the same for thresholds in income tax, and it should copy that for stamp duty.

Recommendation 2: The stamp duty exemption threshold should always be above the average house price, so that ordinary homebuyers don't pay stamp duty

Justification: Over the last twenty years, stamp duty has gone from a tax that ordinary homeowners don't have to pay, to one that affects most homebuyers. The average person struggling to realise their ambition of owning the roof over their head should not be hindered by having to pay tax to the government. The government can make sure that doesn't happen by ensuring the tax exempt threshold is above the price of the average property, as it has been in the past.

Recommendation 3: Stamp duty should be decreased for those buying primary residential properties, paid for by increasing the rates for those buying second properties or buy-to-let properties

Justification: People buying their main home, buy-to-let landlords, property companies and domestic or foreign buyers looking for second or third properties currently all pay the same stamp duty. This is inconsistent with the government's aim of promoting homeownership, which brings wider social and economic benefits. The balance of taxation should be tilted away from those just wanting to buy the roof over their head, and towards those for whom property is an investment or a luxury. People should pay lower rates of stamp duty if they are buying their primary residential property than any other category of buyer.

Recommendation 4: Buy-to-let landlords and buyers of second properties should pay a flat rate stamp duty on the whole purchase price regardless of the price of the property, with no exemptions

Justification: There is no social or economic reason to have lower rates of tax or total exemptions for those buying properties as investments or for those who already own a home. Those lower rates and exemptions are there to help people at the lower end of the property ladder realise their ambition of owning their own home; there is absolutely no justification for property investors or those with multiple properties to benefit from them. Buy-to-let landlords and buyers of second properties should be made liable to a flat rate stamp duty (such as 5%) on the whole purchase price regardless of the price of the property. This will generate considerable extra revenue to help pay for the reductions in stamp duty for those buying their primary residential property.

Recommendation 5: The stepped, slab pattern of stamp duty should be replaced with a rate that is only applied above the last threshold rather than the entire value of the property

Justification: The slab pattern of stamp duty (where the rate is applied to the entire value of the property) is well documented as causing major distortions to the property market, with house prices clustering below the rather arbitrary thresholds. That clustering is clearly detrimental to efficient allocation of limited housing resources. But as we have shown in this report, the slab pattern also leads to a massive multiplying of the fiscal drag of stamp duty, with a small increase in a house price potentially causing multiple increases in tax liability. Instead, stamp duty should be applied on the same basis as income tax, with the new tax band only being applied to the amount above the last threshold, rather than to the entire amount of the property. This would bring stamp duty in line with how income tax is calculated, a much fairer system. So a house costing £300,000 would be liable for 0% on the first £125,000, 1% on the next £125,000, and 3% only on the last £50,000

Recommendation 6: First time buyers should be exempted from stamp duty on a permanent basis

Justification: Homeownership is in historic decline, falling to the lowest levels since 1988, and depriving 5 million people of their aspiration to own their own home. Young people are finding it almost impossible to get a foot on the property ladder, as a result of both high house prices and the high deposits required. First time buyers are the most vulnerable in the property market, because they have not built up the equity needed, and have to save up to cover all costs. The government should not tax those who are trying to buy their first home.

Recommendation 7: The government should consider transferring stamp duty from the homebuyer to the homeseller

Justification: Stamp duty is unusual as a transaction tax in that it is paid by the buyer rather than the seller – VAT and excise duty on petrol, alcohol and tobacco are collected by the seller. House sellers are generally in a better position to afford paying stamp duty than buyers as they have generally built up more equity. Making sellers pay stamp duty rather than buyers would automatically exempt all first time buyers, and cost the government no loss of revenue. It is likely that stamp duty would to some extent be factored into house prices by the seller (just as shops factor VAT into retail prices), but buyers would find it easier to take out a mortgage to cover that extra cost than save for stamp duty, which is what they have to do at present.

Recommendation 8: Stamp duty receipts should be invested in housing where there is the demand

Justification: There is a strong consensus across the political spectrum and industry groups that the UK is in the grip of an acute housing shortage, which is making housing unaffordable. The government needs to invest the money made from stamp duty tax to build more homes.

Annex 1 - Summary of stamp duty changes (1958 – 2012)

Date	Stamp Duty
1958	Up to £3,500 – exempt £3,500 - £4,500 – 0.5% £4,500 - £5,250 – 1% £5,250 - £6,000 – 1.5% Above £6,000 – 2%
1963	Up to £4,500 – exempt £4,500 - £6,000 – 0.5% Above £6,000 – 1%
1967	Up to £5,500 – exempt £5,500 - £7,000 – 0.5% Above £7,000 – 1%
1972	Up to £10,000 – exempt £10,000 - £15,000 – 0.5% Above £15,000 – 1%
1974	Up to £15,000 – exempt £15,000 – £20,000 – 0.5% £20,000 - £25,000 – 1% £25,000 - £30,000 – 1.5% Above £30,000 – 2.0%
1980	Up to £20,000 – exempt £20,000 - £25,000 – 0.5% £25,00 - £30,000 – 1% £30,000 - £35,000 – 1.5% Above £35,000 – 2%
1982	Up to £25,000 – exempt £25,000 - £30,000 – 0.5% £30,000 - £35,000 – 1% £35,000 - £40,000 – 1.5% Above £40,000 – 2%
1984	Up to £30,000 – exempt More than £30,000 - 1%
1991 - December	Up to £250,000 – exempt More than £250,000 - 1%
1992 - August	Up to £30,000 – exempt More than £30,000 - 1%
1993	Up to £60,000 – exempt More than £60,000 – 1%
1997	Up to £60,000 – exempt £60,000 - £250,000 – 1% £250,000 - £500,000 -1.5% More than £500,000 – 2%
1998	Up to £60,000 – exempt £60,000 - £250,000 – 1% £250,000 - £500,000 - 2% More than £500,000 – 3%
1999	Up to £60,000 – exempt £60,000 - £250,000 – 1% £250,000 - £500,000 - 2.5% More than £500,000 – 3.5%

Annex 1 - Summary of stamp duty changes (continued)

2000	Up to £60,000 – exempt £60,000 - £250,000 – 1% £250,000 - £500,000 - 3% More than £500,000 – 4%
2005	Up to £120,000 – exempt £120,000 - £250,000 – 1% £250,000 - £500,000 - 3% More than £500,000 – 4%
2006	Up to £125,000 – exempt £125,000 - £250,000 – 1% £250,000 - £500,000 - 3% More than £500,000 – 4%
2008	Up to £175,000 – exempt from September 2008 – December 2009 £175,000 - £250,000 – 1% £250,000 - £500,000 - 3% More than £500,000 – 4%
2010	Up to £125,000 – exempt Up to £250,000 – exempt for first time buyers from April 2010 – March 2012 £125,000 - £250,000 – 1% £250,000 - £500,000 - 3% £500,000 - £1,000,000 – 4% More than £1,000,000 – 5%
2012	Up to £125,000 – exempt £125,000 - £250,000 – 1% £250,000 - £500,000 - 3% £500,000 - £1,000,000 – 4% £1,000,000 - £2,000,000 – 5% More than £2,000,000 – 7%

Source: HMRC, UK property transaction statistics, Table 8,
http://www.hmrc.gov.uk/statistics/transactions/val-40000-or-above.pdf

Annex 2 - Percentage of homes liable for stamp duty

	Non Liable properties (000's)	Total number of properties sold	Percentage of properties not liable for stamp duty (%)	Percentage of properties liable for stamp duty (%)
1993/94	750	1297	57.8	42.2
1994/95	745	1304	57.1	42.9
1995/96	664	1159	57.3	43.7
1996/97	738	1346	54.8	45.2
1997/98	750	1472	51.0	49.0
1998/99	652	1383	47.1	52.9
1999/2000	652	1565	41.7	58.3
2000/01	545	1430	38.1	61.9
2001/02	462	1511	30.6	69.4
2002/03	437	1635	26.7	73.3
2003/04	405	1495	27.1	72.9
2004/05	488	1691	28.9	71.1
2005/06	746	1670	44.7	55.3
2006/07	755	1859	40.6	59.4
2007/08	657	1702	38.6	61.4
2008/09	452	931	48.5	51.5
2009/10	535	991	54.0	46.0
2010/11	433	981	44.1	55.9
2011/12	466	1016	45.9	54.1

Source: HMRC statistics, Table 16.5, http://www.hmrc.gov.uk/statistics/transactions/table16-5.pdf

Annex 3 - Revenue raised by stamp duty, tobacco and alcohol

Year	SDLT revenue (£ millions)	Tobacco duties	Alcohol duties (Spirits, beer, cider, and wine combined)
2001/02	4132	7754	6955
2002/03	5011	8054	7297
2003/04	4986	8091	7565
2004/05	6251	8100	7876
2005/06	7454	7959	7861
2006/07	9935	8149	7913
2007/08	9958	8094	8302
2008/09	4796	8219	8470
2009/10	4886	8813	9012
2010/11	5961	9144	9396
2011/12	6125	9551	10037
2012/13	6900	9600	10100
2013/14	7700	9800	10000
2014/15	8400	10200	10600
2015/16	9300	10300	11100
2016/17	10500	10500	11600
2017/18	11700	10800	12300

Source: Office for Budget Responsibility, *Economic and fiscal outlook,* p.102, March 2013, http://cdn.budgetresponsibility.independent.gov.uk/March-2013-EFO-44734674673453.pdf