

Extend Land Transaction Tax Holiday and Increase the Threshold

Y Pwyllgor Deisebau | 15 Rhagfyr 2020
Petitions Committee | 15 December 2020

Reference: RS20/14687-3

Petition Number: P-05-1064

Petition title: Extend Land Transaction Tax a further 6 months past 31st March and increase the threshold to £300k

Text of petition: House sales are a proven method of securing stability within the financial markets and an increase of 6 months on the current guidelines would secure long term stability. In addition in line with Help to buy Schemes the value should be increased from the current £250k threshold to £300k threshold.



1. Background

In April 2018, Stamp Duty Land Tax (SDLT) was devolved to Wales. The Welsh Government replaced SDLT with Land Transaction Tax (LTT) and it is responsible for any changes to LTT in Wales.

LTT applies to property purchases in Wales and has different tax rates and bands to SDLT which is paid in England and Northern Ireland.

The Welsh Government published its LTT rates and bands for 2020-21 in its most recent budget. In February 2020, pre-COVID, it was forecast that the residential element of LTT would raise £179 million in 2020-21, which has been revised down to £128 million due to lower transactions and the LTT holiday. The budget set out the rates and bands for purchasing residential properties as shown below.

Table 1. Residential LTT rates and bands for 2020-21

Threshold	LTT rate
£0 - £180,000	0%
£180,001 - £250,000	3.5%
£250,001 - £400,000	5%
£400,001 - £750,000	7.5%
£750,001 - £1.5m	10%
Over £1.5m	12%

UK SDLT changes

On 8 July 2020, the UK Chancellor Rishi Sunak announced in his Summer Statement that residential property transactions up to £500,000 would be exempt from UK SDLT in England and Northern Ireland until 31 March 2021. Previously this exemption only applied to property transactions up to £125,000 and would save buyers as much as £15,000, if they were buying a property of £500,000 or more.

Landlords and second home buyers are also eligible for the tax cut but will still have to pay the extra 3% of stamp duty they were charged under the previous rules.

2. Welsh Government action

In response to these changes, the Welsh Government's Minister for Finance and Trefnydd, Rebecca Evans MS, announced that the Welsh Government would raise the LTT tax exemption threshold from £180,000 to £250,000 for residential property transactions in Wales until 31 March 2021.

The table shows the new temporary tax rates as a result of the changes made by the Welsh Government.

Table 2. Changes to residential LTT rates and bands for 2020-21

Threshold	LTT rate
£0 - £250,000	0%
£250,001 - £400,000	5%
£40,001 - £750,000	7.5%
£750,001 - £1.5m	10%
Over £1.5m	12%

The Minister commented that the change “will take effect on 27 July to coincide with the full reopening of the housing Market in Wales”.

The medium-term outlook for the housing market is highly uncertain, both in terms of house prices and volume of sales. Much will depend on the performance of the wider economy, which will in turn be determined by how the pandemic and restrictions on activity evolve.

Before the announcement of the change to LTT rates, house prices had started to fall and had been expected to fall further, however the reduction in LTT will save £2,450 for a person purchasing a house valued at £250,000, which will somewhat counteract possible falls in prices and increase demand.

The Minister stated “the new threshold will mean that no tax will be paid on around 80% of transactions in Wales where the main residential rates apply”.

Higher rate purchases

Unlike SDLT, the change to the LTT tax exemption threshold in Wales **will not apply to the purchase of additional properties** such as buy-to-lets and second

homes which have to pay an **additional 3% in tax** on top of the existing rate for their value shown in Table 1.

Impact of LTT changes

In her letter to the Chair of the Petitions Committee, the Minister noted that “the overall intended effect of the temporary changes to LTT is to provide an economic stimulus to support the housing market and broader economy in Wales during the remainder of this financial year”.

The Minister further reported:

This is a targeted tax reduction aimed at those who may need additional support to buy their homes during these unprecedented times and the approach we have adopted ensures that we retain a progressive regime that expects those with the broadest shoulders to contribute a larger share in tax.

In terms of the £250,000 threshold, the Minister commented that this has been set to reflect the property market in Wales. She highlighted that “the most recent UK House Price Index indicates that the average price of a home in Wales is £173,000 with first time buyers paying on average £149,000. A home costing £300,000 is approaching the top 10% of homes by value in Wales”.

The Minister **also noted** that by not replicating the UK Government changes to SDLT, for which the Welsh Government received additional funding as a result of the block grant adjustment, they have been able to invest funding to support the social housing sector,:

By setting these rates for Wales I am also able to confirm the £30 million to the Social Housing Programme that ‘will provide additional support to a range of activities that will boost construction within the social housing sector.

The Minister also reported that properties purchased through the next phase of the Help to Buy Scheme, to commence in April 2021, will see a reduction in the scheme price cap from £300,000 to £250,000.

3. Welsh Parliament action

To change LTT rates and thresholds, the **Land Transaction Tax (Temporary Variation of Rates and Bands for Residential Property Transactions) (Wales)**

Regulations 2020 were made by Welsh Government on 22 July 2020 and laid before the Senedd on 24 July 2020. The **Senedd approved** the Regulations on 29 September 2020.

Every effort is made to ensure that the information contained in this briefing is correct at the time of publication. Readers should be aware that these briefings are not necessarily updated or otherwise amended to reflect subsequent changes.