

12 January 2016

Convener
Finance Committee
Room T3.60
The Scottish Parliament
Edinburgh
EH99 1SP



Dear Convener,

Thank you for the opportunity to comment on the proposed LBTT Supplement on Additional Residential Homes.

Most of the questions in your Call for Evidence relate to policy aspects of the proposed new tax. The Scottish Fiscal Commission (SFC) will respond only to those questions which relate to its remit, specifically questions 3, 6 and 7.

Additional homes represent a narrow sub-section of the housing market. There are relatively little data available for such factors as length of ownership, relationship between, and relative size of, main residence transactions and additional residence transactions, and exactly who amongst the ownership cohort of second homes would be subject to the proposed tax.

The Scottish Government, in making a forecast for Draft Budget 2016-17, applied the approach taken for the main LBTT forecast and speculated about some behavioural impacts that would ensue if the proposed additional home supplement is enacted.

Their forecast of revenues by necessity drew on data and elasticities which relate to the entire residential market (either in Scotland or across the whole of the UK) and not just this narrow sub-section. In particular, the analysis of behavioural responses drew on experience in relation to the Stamp Duty holiday several years ago for the UK as a whole, although with some analysis of the impact in Scotland. It is not clear if these elasticities are appropriate for the additional homes market.

There are great uncertainties at this stage as to how good a fit these assumptions would be to the additional properties market.

We would refer the Committee, in the first instance, to section 7 of the SFC's report on Draft Budget 2016-17 ([link here](#)). These paragraphs take the reader through the current approach to this tax.

In our concluding paragraph in section 7, we note that, given the data available, the forecasts as proposed were reasonable, but we stressed the very significant uncertainties which pertain at this time.

It may be helpful to highlight some of those uncertainties:

- The size of the tax base: if second or buy-to-let homes are bought through corporations, trusts or other family members, the number of transactions that attract the extra tax will be lower than the LBTT model would suggest;
- Length of ownership of additional properties: there is some evidence that buy-to-let property owners hold their properties for longer than typical single home owners.¹ Moreover, the additional measure might be thought to reduce the level of short-term 'buy-to-sell' transactions, as the tax reduces the profits from such 'flipping'.

To the extent that the tax affects the rate of transactions in the second home/buy-to-let/sell market, this may have ambiguous effects on the rate of residential property transactions overall;

- A forestalling effect: while it is reasonable to imagine there will be a forestalling effect, the degree of that effect is highly speculative; forestalling which occurred in relation to the new LBTT bands doesn't necessarily provide a model for this different sub-section of the market;
- Price distribution: it is likely that the price distribution for this section of the market will be more concentrated than that for primary homes in the LBTT model. In a progressive tax regime, this will reduce the revenues from the additional measure below those predicted by the LBTT model;
- Overall housing demand: if some current additional home buyers are put off by the extra tax, demand for houses will fall overall, reducing prices for residential properties across the market. That will reduce revenues even if they rise where the extra tax applies.

We hope these comments are useful in your deliberations. Thank you again for the opportunity to comment.

Sincerely yours,

Handwritten signature of Susan Rice in blue ink.

Lady Susan Rice

Handwritten signature of Professor Campbell Leith in blue ink.

Professor Campbell Leith

Handwritten signature of Prof Andrew Hughes Hallett in blue ink.

Prof Andrew Hughes Hallett

¹ See Bracke, P. (2015), "How much to investors pay for houses", Bank of England Staff Working Paper No. 549.