The holiday is nearly over – what next for Stamp Duty Land Tax?

By: Alpa Bhakta, CEO, Butterfield Mortgages Limited

The UK's property industry has been a rare—and welcome—example of an industry afforded new opportunities to thrive under pandemic conditions. And it is fair to say this has been capitalised upon.

The Stamp Duty Land Tax (SDLT) holiday, introduced in July last year, has had an immediate and substantive impact in stimulating a spike in activity within the property market. Naturally, a potential saving of £15,000 on a popular 'safe haven' asset class will cause a flurry of activity.

For instance, house prices have skyrocketed. According to Nationwide, UK house prices rose by 13.4% in the year to June 2021, reaching a record high of £245,432. This is the fastest annual rate of growth recorded in more than 17 years.

This was mirrored by a significant increase in the volume of transactional activity. HMRC figures suggest that in June 2021 more property changed hands than in any other month since records had begun.

However, we now find ourselves at an interesting crossroads. For one, the stamp duty holiday, which is already tapering down, comes to an end on 30 September. Further, with state borrowing at record levels to cover the costs of Covid-related financial support schemes, there is a broader question surrounding property taxation and how to rebuild the UK economy.

We must, therefore, scrutinise the efficacy of SDLT, how the UK's enforced creativity in the temporary holiday may influence its future implementation, and of course the property taxation system as a whole.

History of the stamp duty

Stamp duty feels like it has been an ever-present topic in the property industry for many, many decades. Yet it is important to note that this is not the case—in fact, in its current implementation, the tax is younger than the people who pay it.

The SDLT as we recognise it today (a simple tax on land transactions paid by the buyer), came into effect through the Finance Act 2003. In the subsequent two decades, this tax has faced constant reform.

The most significant of these changes was the system for calculating the tax. Formerly, it had been a percentage based on the total cost, changing in December 2014 to a banded system with a top threshold of 15% for all properties exchanging for more than £500,000, and a nil rate of up to £125,000.

SDLT has also been selectively trimmed and bolstered in recent years to stimulate activity in certain areas. First-time buyers, for example, can access reduced rates, including a nil rate of up to £300,000. Meanwhile, purchases of second homes and residential purchases by non-UK residents are subject to surcharges of 3% and 2% respectively.

Accordingly, the SDLT can be considered a relatively fluid tax; one that is subject to constant evolution in its bands, base rates, surcharges and eligibility. Because of this, it is fair to conclude that we are likely to soon hear speculation of further reforms.

Potential for further change

The most straightforward reform would be more adjustments to the bands and rates payable within each. As house prices shift, therefore changing the number of available residential properties within each band, where to place those bands will remain of significant importance. And it will be intriguing to see if any such shifts will be applied universally, or if we move towards an even more complex system wherein further charges and reliefs are targeted at specific demographics.

There are a range of more creative ideas for reform that are frequently thrown around. Some have called for the tax to be levied onto the selling party, rather than the buyer. Others consider alternative systems used abroad to be more favourable and equitable. For example, introducing an annual tax based on land value, which could stimulate developers and speed the pace of regeneration in the UK's under-invested provinces.

A credible case can be made for both timid and radical reform of the SDLT—indeed, so varied are the stakeholders and their interests in the property market that any change will be met with a wide range of predictably strong responses.

What is certain, however, is that there will be some change on the horizon. Set against the backdrop of the post-pandemic recovery and the need for the UK government to bring public debt under control, it will be important to monitor SDLT discussions closely in the months to come.

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