Land transaction tax increases for second homes in Wales?

General Features Personal tax

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The CIOT and the Stamp Taxes Practitioners Group have responded to the recent consultation by the Welsh government on using land transaction tax to help to address the impact of second homes and short-term holiday lets on permanent housing in Wales.

The Welsh government wishes to address the impact of second homes and short-term holiday lets on the affordability and availability of permanent housing in areas in Wales where second homes and short term lets predominate. It is proposed to use land transaction tax (LTT) (in tandem with other policy levers including increasing council tax and imposing planning conditions) to influence behaviour. The proposal is to impose additional local LTT rates over and above the current 4% higher residential rates of LTT that already apply where an individual purchases a dwelling and already owns another dwelling or a company purchases a dwelling. The additional rates would apply to the acquisition of a dwelling intended to be used as a second home or as a short-term holiday let.

We suggest it is likely to be harder and less satisfactory to use a transaction tax for this purpose compared with a recurrent tax, such as council tax, on the type of occupation that it is wished to discourage. A transaction tax is levied by reference to acquisition and is therefore dependent on an inherently unsatisfactory intention test as regards the nature of the future occupation. Furthermore, there are widely recognised economic arguments that such transaction taxes disincentivise transactions (with a loop back effect on public revenues, among wider economic costs) and, while levied on the purchase, impose much of the real economic burden on the seller who wishes to move.

There are challenges in designing an additional rates charge, in particular:

- the identification and definition of a ‘second home’ and a ‘short-term holiday let’;
- the ongoing management of records to ensure additional rates are consistently applied; and
- adding complexity in terms of the need for further stages in the conveyancing process (investigating the nature of intended occupation) and the administration and enforcement (through a clawback charge on change of use).

There is also the question of identifying the areas where a local additional rates charge might apply. Applying additional rates based on wards could create boundary issues and local anomalies in a similar way to those which arose under the disadvantaged area relief for stamp duty land tax. On the other hand, rates based on local authority areas would not allow for specific targeting of areas.

A further alternative – though with advantages and disadvantages of its own – is to impose additional rates of LTT nationally in the same way as the existing higher rates surcharge of 4%, but to introduce reliefs (from the additional rates only) for purchases of second properties that are outside the policy intent, such as buy to lets intended to provide a permanent home. One advantage of national rates is that they would automatically adjust to the areas where demand for second homes is highest.

Given that the aim is to help people purchase permanent homes, the proposals, if successful in these terms, may reduce the availability of short-term holiday lets, thereby impacting the local tourism economy. The interaction with any tourism levy will need to be considered.

The full response is at: www.tax.org.uk/ref906

Kate Willis *kwillis@ciot.org.uk*