

## Three steps to reform of Stamp Duty for first-time buyers

Wednesday 9 August, 2017

In response to today's report on Stamp Duty by the London School of Economics and the VATT Institute for Economic Research, the think-tank Localis has issued the following statement, ahead of publication of its own report into 'Disrupting the housing industry' which will be released in October.

**Jack Airey, senior researcher at Localis** said: "The issue of Stamp Duty Land Tax (SDLT) as a bottleneck on the housing market has been framed as one affecting pensioners.

"In reality there is a need for greater reform of this levy in support of first-time buyers, for whom these liabilities – often unexpected and in need of payment within a month of purchase – can, alongside estate agent fees, represent a serious barrier to home ownership.

"The average purchase price of a home bought by a first-time buyer is £205,170 which brings a SDLT liability of £1603.<sup>[1]</sup> In London the equivalent figures are £402,692 and £10,134.

"We believe there is a good case for government to ease the burden on first-time buyers and assist those who need support in the buyer market in three main ways.

"Firstly, first-time buyers could be allowed to transfer liability to their point of onward sale. Assuming their home gained value, this would result in a higher amount payable in tax. They would also have to pay SDLT if purchasing another home. However, it removes the upfront burden to home-ownership.

"Secondly there is scope to waive for first-time buyer's SDLT liability on the first £250,000 of the property cost. Although the tax is a substantial revenue raiser for government, raising £11.7bn last year, the proportion paid by first time buyers is relatively low.

"Last yer nearly one third (29%) of new homeowners bought properties below the £125,000 threshold for paying tax, almost half (45%) bought homes within the £125,000 to £250,000 threshold with around a quarter (26%) taking ownership of properties in the £250,001 to £925,000 range. We estimate the cost to the Exchequer of waiving SDLT liability on the first £250,000 for first-time buyers would be £596m, or 5% of last year's total Stamp Duty take.

"Thirdly, the government could introduce a mechanism by which SDLT is paid in instalments. Spreading the cost of the tax over a longer period would greatly reduce the initial upfront costs to the first-time buyer.

"Assuming a residential property is being bought freehold as an individual (i.e. not as a company or trust), we have calculated in the table below what spreading the tax liability over five, ten and fifteen years would mean to a first-time buyer."

Cost of home	Upfront SDLT due	Annual cost if paid in equal instalments over five years	Paid over ten years	Paid over fifteen years
£100,000	£0	£0	£0	£0
£200,000	£1,500	£300	£150	£100
£300,000	£5,000	£1,000	£500	£333
£400,000	£10,000	£2,000	£1,000	£666
£500,000	£15,000	£3,000	£1,500	£1,000

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<sup>[1]</sup> Author's calculations using HMRC's SDLT calculator, using average purchase prices from [Halifax \(2017\) - Number of first-time buyers reaches 10-year high](#)

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