

STATES OF JERSEY



DRAFT BUDGET STATEMENT 2015 (P.129/2014): SECOND AMENDMENT (P.129/2014 Amd.(2)) – AMENDMENT

**Lodged au Greffe on 15th September 2014
by the Minister for Treasury and Resources**

STATES GREFFE

DRAFT BUDGET STATEMENT 2015 (P.129/2014): SECOND AMENDMENT
(P.129/2014 Amd.(2)) – AMENDMENT

PAGE 2, AMENDMENT –

For the sum “£277,000” substitute the sum “£115,000”, after the words “for the year 2015” delete the words “the current” and for the words “and not removing this concession on 1st January 2015” substitute the words “by introducing a relief which reduces the rates of stamp duty or land transaction tax as set out in the Appendix on properties bought by first time buyers worth between £400,000 and '£450,000.”

MINISTER FOR TREASURY AND RESOURCES

REPORT

The Jersey stamp duty system seeks to avoid, as far as possible, the “slab effect” which occurs in a number of other jurisdictions, whereby the amount of stamp duty payable jumps sharply once a property moves between stamp duty bands. For example, in the UK, the stamp duty on residential property is charged at the rate of 1% on properties costing £250,000 but at 3% on properties costing from £250,001. Therefore the additional £1 of purchase price increases the stamp duty payable by £5,000.

This “slab effect” distorts the property market, as transactions tend to cluster just below the points at which the higher rates of stamp duty apply.

Jersey’s stamp duty system seeks to avoid this sort of distortion wherever possible by applying scale rates, so that moving from one stamp duty band to another only marginally increases the amount of stamp duty payable.

One exception to this principle is First-Time Buyers’ (“FTB”) relief. FTB relief is a targeted measure to assist FTBs seeking to enter the property market. For those who qualify for the relief, it operates by applying preferential rates of stamp duty/land transaction tax up to a property value threshold. Once that threshold is exceeded, purchasers are required to pay standard rates of stamp duty/LTT, resulting in a material increase in the amount of stamp duty/LTT payable. This has always been a feature of FTB relief; a result of the targeting of relief to those who need it most.

The threshold for FTB relief is currently £450,000, having been temporarily increased from £400,000 in the 2012, 2013 and 2014 Budgets. The draft 2015 Budget proposed to allow the threshold to revert to £400,000, reflecting the fact that the average price of two bedroom houses and flats, the sort of properties often purchased by FTBs, are well below £450,000.

Deputy J.H. Young of St. Brelade’s report accompanying his amendment highlights the “slab effect” outlined above, notes its potential to be distortionary, but fails to address it; instead his amendment simply moves where this “slab effect” occurs from £400,000 to £450,000. This is highlighted in the graphs shown in the Appendix.

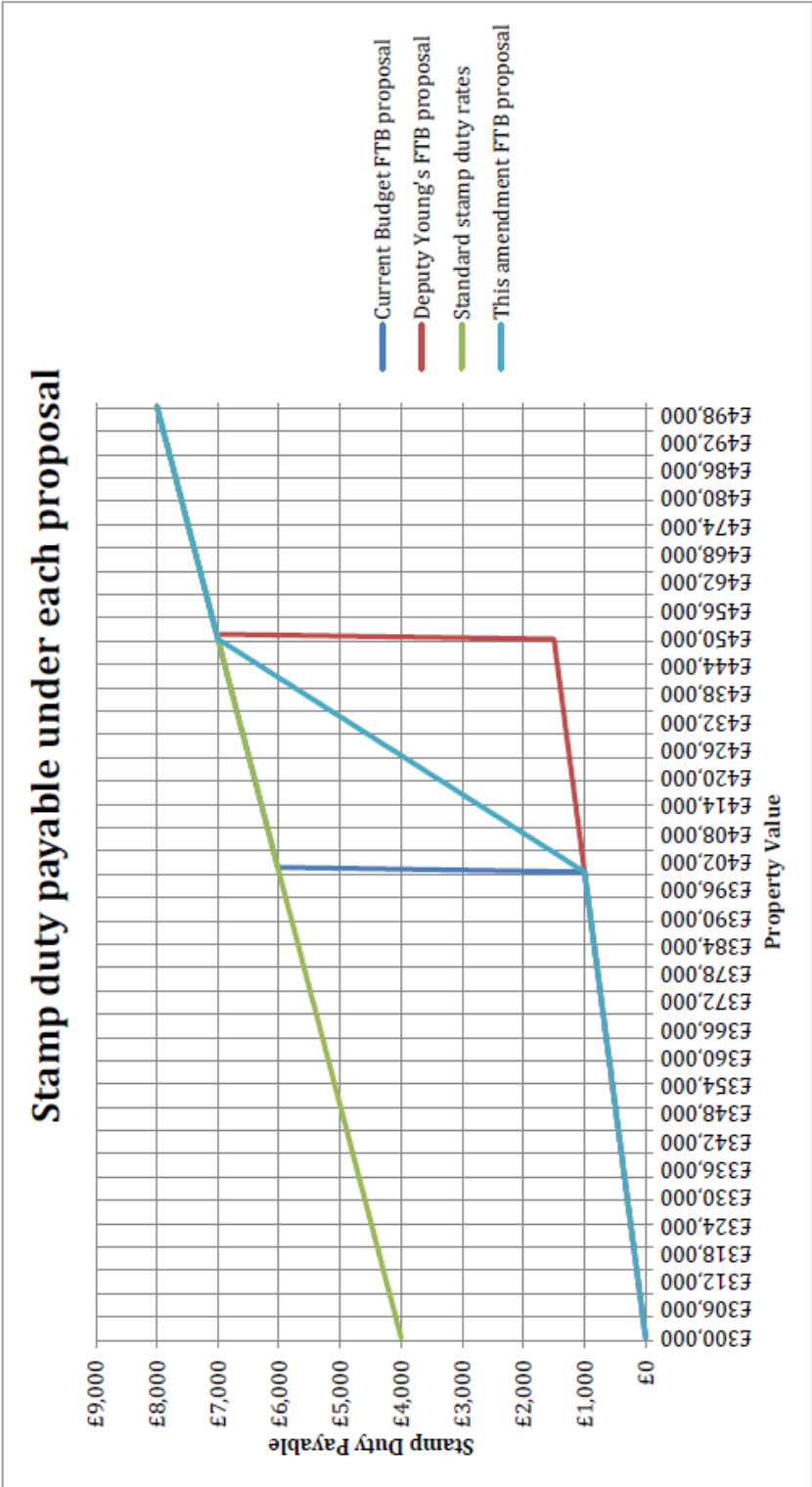
This further amendment, if adopted, will help FTBs who are buying a property between £400,000 and £450,000 by providing them with a deduction from the amount of stamp duty/LTT that they would pay on the property when applying the standard rates. This deduction will be structured such that the “slab effect” currently associated with FTB relief on property is removed. This is again highlighted in the graphs shown in the Appendix.

As highlighted in the recently released property tax review, stamp duty causes frictions at the lower end of the property market. The green paper proposes that a full review of the stamp duty regime be undertaken, with a view to rationalising and modernising the system. Therefore this amendment should be seen as an important, but broadly interim, measure to remove a potentially distortionary “slab effect” from the stamp duty system, before more fundamental changes are made as part of the property tax review.

Financial and manpower implications

Based on the transactions undertaken in the three years to 30th June 2014, it is estimated that Deputy Young's amendment, as amended by this amendment, will cost £115,000.

Graph showing impact of stamp duty payable under the various proposals.



Graph showing impact on effective rate of stamp duty payable under the various proposals.

