STATES OF JERSEY

PROPOSED BUDGET (GOVERNMENT PLAN) 2025-2028 (P.51/2024): TWENTY-FIFTH AMENDMENT

STAMP DUTY EXEMPTION

Lodged au Greffe on 12th November 2024
by Deputy P.F.C. Ozouf of St. Saviour
Earliest date for debate: 26th November 2024

STATES GREFFE

PROPOSED BUDGET (GOVERNMENT PLAN) 2025-2028 (P.51/2024): TWENTY-FIFTH AMENDMENT

1 PAGE 2, PARAGRAPH (a) –

After the words "Article 9(2)(a) of the Law" insert the words –

", except that in Summary Table 1 the income estimate for Stamp Duty in 2025 should be reduced by £12,000,000 to reflect a stamp duty holiday during 2025, the reduction of income being based upon Stamp Duty being levied at 0% on properties valued up to £700,000, at 2.5% for those valued between £700,000 and £1,000,000, and with a taper for those valued between £1,000,000 and £1,200,000, and properties over £1,200,000 remaining subject to Stamp Duty at the full rate, such reduction to exclude buy-to let properties which will incur a flat 3% stamp duty rate."

2 PAGE 4, PARAGRAPH (o) –

After the words "set out in the Appendix to the accompanying Report" insert the words –

", except that on page 30 after the words "the previously forecast", there should be inserted the words "In order to promote a positive increase in the sale of residential properties a Stamp Duty holiday has been instigated for 2025, allowing properties up to a value of £700,000 to pay no Stamp Duty, with Stamp Duty levied at 2.5% on properties valued between £700,000 and £1,000,000 and a taper for properties valued between £1,000,000 and £1,200,000. Properties over £1,200,000 will remain subject to Stamp Duty at the full rate. This Stamp duty holiday will exclude buy-to let properties which will incur a flat 3% stamp duty rate."

DEPUTY P.F.C. OZOUF OF ST. SAVIOUR

Note: After this amendment, the proposition would read as follows –

THE STATES are asked to decide whether they are of opinion –

to receive the Government Plan 2025 – 2028 (entitled "Budget 2025-2028") specified in Article 9(1) of the Public Finances (Jersey) Law 2019 ("the Law") and specifically –

(a) to approve the estimate of total States income to be paid into the Consolidated Fund in 2025 as set out in Appendix 2 – Summary Table 1 to the Report, which is inclusive of the proposed taxation and impôts duties changes outlined in the Government Plan, in line with Article 9(2)(a) of the Law, except that in Summary Table 1 the income estimate for Stamp Duty in 2025 should be reduced by £12,000,000 to reflect a stamp duty holiday during 2025, the reduction of income being based upon Stamp Duty being levied at 0% on properties valued up to £700,000, at 2.5% for those valued between £700,000 and £1,000,000, and with a taper for those valued between £1,000,000 and

£1,200,000, and properties over £1,200,000 remaining subject to Stamp Duty at the full rate, such reduction to exclude buy-to let properties which will incur a flat 3% stamp duty rate.

(b) to approve the proposed Changes to Approval for financing/borrowing for 2025, as shown in Appendix 2 – Summary Table 2 to the Report, which may be obtained by the Minister for Treasury and Resources, as and when required, in line with Article 9 (2)(c) of the Law, of up to those revised approval amounts.

(c) to approve the transfers from one States fund to another for 2025 of up to and including the amounts set in Appendix 2 – Summary Table 3 in line with Article 9(2)(b) of the Law.

(d) to approve a transfer from the Consolidated Fund to the Stabilisation Fund in 2025 of up to £25 million, subject to a decision of the Minister for Treasury and Resources based on the availability of funds in the Consolidated Fund as at 31st December 2024 in excess of the estimates provided in this plan, or from budgeted underspends identified before 31st December 2025.

(e) to approve a transfer from the Consolidated Fund to the Agricultural Loans Fund in 2025 of up to £2 million, subject to a decision of the Minister for Treasury and Resources based on availability of funds in the Consolidated Fund as at 31st December 2024 in excess of estimates provided in this plan, or from budgeted underspends identified before 31st December 2025;

(f) to approve each major project that is to be started or continued in 2025 and the total cost of each such project and any amendments to the proposed total cost of a major project under a previously approved Government Plan, in line with Article 9(2)(d), (e) and (f) of the Law and as set out in Appendix 2 – Summary Table 4 to the Report.

(g) to approve the proposed amount to be appropriated from the Consolidated Fund for 2025, for each head of expenditure, being gross expenditure less estimated income (if any), in line with Articles 9(2)(g), 10(1) and 10(2) of the Law, and set out in Appendix 2 – Summary Tables 5(i) and (ii) of the Report.

(h) to approve the estimated income, being estimated gross income less expenditure, that each States trading operation will pay into its trading fund in 2025 in line with Article 9(2)(h) of the Law and set out in Appendix 2 – Summary Table 6 to the Report.

(i) to approve the proposed amount to be appropriated from each States trading operation's trading fund for 2025 for each head of expenditure in line with Article 9(2)(i) of the Law and set out in Appendix 2 – Summary Table 7 to the Report.

(j) to approve the estimated income and expenditure proposals for the Climate Emergency Fund for 2025 as set out in Appendix 2 – Summary Table 8 to the Report.

(k) to approve an updated and consolidated policy of the Strategic Reserve Fund as follows:

"The Strategic Reserve Fund, established in accordance with the provisions of Article 4 of the Public Finances (Jersey) Law 2005, is a permanent reserve only to be used:

i. in exceptional circumstances to insulate the Island's economy from severe structural decline such as the sudden collapse of a major Island industry or from major natural disaster.

ii. if necessary, for the purposes of providing funding (up to £100 million) for the Bank Depositors Compensation Scheme established under the Banking Business (Depositors Compensation) (Jersey) Regulations 2009, including to meet the States contribution to the Scheme and/or to meet any temporary cash flow funding requirements of the Scheme.

iii. to support the development of future healthcare facilities and the borrowing costs for such work, in line with a financing strategy agreed by the Assembly;

iv. as a holding fund for any or all monies raised through external financing until required, and for any monies related to the repayment of debt raised through external financing used to offset the repayment of debt, as and when required; and

v. in accordance with Article 24 of the Public Finances (Jersey) Law 2019, where the Minister for Treasury and Resources is satisfied that there exists an immediate threat to the health or safety of any of the inhabitants of Jersey, to the stability of the economy in Jersey or to the environment, for which no other suitable funding is available."

(l) to approve the transfer to the Strategic Reserve of the amounts due as a result of the move from prior-year basis taxation after 31st December 2025, as and when these payments are received (estimated at £280 million).

(m) in relation to the new Government Headquarters (office), to approve;

i. the exercising of the option to acquire the new Government Headquarters (estimated at £91 million), by the Public of the Island, in line with the pre-agreed terms; and

ii. the acquisition of the new Government Headquarters as an investment of the Social Security (Reserve) Fund (including authorising the meeting of expenses incurred in connection with the acquisition); and

iii. the subsequent leasing of the new Government Headquarters by the Public of the Island from the Social Security (Reserve) Fund, with commercial terms to be agreed between the Minister for Infrastructure (on behalf of the Public) and Minister for Social Security and the Minister for Treasury and Resources (both on behalf of the Fund); and

(n) in relation to the new Government Headquarters, to authorise H.M. Attorney General, the Greffier of the States, the Ministers for Infrastructure, Social Security and Treasury and Resources, and the Public of the Island, to enter into such arrangements, including financing, and pass any contracts as are necessary to put into effect paragraph (m).

(o) to approve, in accordance with Article 9(1) of the Law, the Government Plan 2025-2028, as set out in the Appendix to the accompanying Report, except that on page 30 after the words "the previously forecast", there should be inserted the words "In order to promote a positive increase in the sale of residential properties a Stamp Duty holiday has been instigated for 2025, allowing properties up to a value of £700,000 to pay no Stamp Duty, with Stamp Duty levied at 2.5% on properties valued between £700,000 and £1,000,000 and a taper for properties valued between £1,000,000 and £1,200,000. Properties over £1,200,000 will remain subject to Stamp Duty at the full rate. This Stamp duty holiday will exclude buy-to let properties which will incur a flat 3% stamp duty rate."

Re-issue Note

This amendment has been re-issued to remove an unintended replication of impact on the Consolidated Fund.

REPORT

The Need for Targeted Stamp Duty Relief to Stimulate Jersey's Housing Market

Executive Summary:

This report presents the case for implementing a timely, targeted, and temporary reduction in stamp duty in Jersey.

The proposed measure is designed to stimulate housing market activity, address persistent affordability challenges, and mitigate the negative impacts of historically low transaction volumes.

By reducing transaction costs, this proposal aims to unlock market potential and support economic recovery during a critical period for Jersey's housing sector. The projected reduction of income is based upon Stamp Duty being levied at 0% up to £700,000. at 2.5% on properties valued between £700,000 and £1,000,000 and a taper for properties valued between £1,000,000 and £1,200,000. Properties over £1,200,000 will remain subject to Stamp Duty at the full rate. This Stamp duty holiday will exclude buy-to let properties which will incur a flat 3% stamp duty rate.

Background and Context:

- **Market Challenges and Historical Trends:**

  Over the past decade, Jersey's housing market has experienced a substantial increase in house prices, which has outpaced income growth and contributed to a decline in affordability. Recent data from the House Price Index indicates that transaction volumes are at historically low levels. This decline threatens market stability, limits economic growth, and exacerbates affordability challenges for residents.

- **Impact of High Transaction Costs:**

  Stamp duty represents a significant upfront cost for buyers, acting as a barrier to market entry and mobility. This is particularly problematic for first-time buyers and those looking to upsize. High transaction costs deter transactions and contribute to stagnation in the housing market.

The Economic Case for Stamp Duty Relief:

- **Stimulating Market Activity:**

  Reducing stamp duty, even on a temporary basis, can significantly enhance market liquidity by lowering transaction costs. Increased transaction volumes generate positive economic ripple effects, benefiting industries such as construction, retail, and professional services.

- **Evidence from Other Jurisdictions:**

  Experiences from other markets, such as the temporary stamp duty holiday in the UK, have demonstrated that targeted reductions can boost market activity, providing a much-needed stimulus to both the housing market and the wider economy.

- **Addressing Affordability:**

  High house prices, coupled with rising borrowing costs, have created a severe affordability crisis. Reducing stamp duty is a direct way to alleviate this burden, making it more feasible for residents to purchase homes. This targeted relief measure focuses on reducing barriers for transactions within the average property price range.

Recent Data and Market Trends:

- **Decline in Transactions:**

  The latest data indicates that property transactions have continued to decline, with current volumes significantly below historical averages. This decline is not solely attributable to external economic conditions; high transaction costs, including stamp duty, play a key role in suppressing market activity.

- **Impact on Housing Affordability:**

  With high house prices persisting, many prospective buyers remain unable to enter the market. Without intervention, transaction volumes are likely to remain suppressed, further compounding affordability issues and limiting opportunities for homeownership.

Policy Rationale for Targeted Relief:

- **Immediate and Time-Limited Intervention:**

  This proposal advocates for a temporary reduction in stamp duty, targeting properties within a defined price range. The time-limited nature of this relief ensures that the measure is fiscally manageable while providing immediate support to the market.

- **Proportional Relief to Address Key Segments:**

  The focus on average-priced properties ensures that relief is directed where it is needed most, encouraging transactions among first-time buyers and families seeking to upsize, thereby promoting market dynamism and broader economic stability.

- **Avoiding Long-Term Market Distortions:**

  The proposed structure of the relief is designed to minimize market distortions, providing a smooth transition to standard duty rates beyond the targeted range. This ensures that the measure supports market activity without creating unintended consequences.

Expected Economic and Social Benefits:

- **Boosting Housing Market Confidence:**

  By reducing transaction costs, this measure can encourage more buyers and sellers to enter the market, increasing confidence and fostering greater economic activity.

- **Supporting Related Sectors:**

  A more active housing market generates economic benefits beyond property transactions, stimulating related industries and supporting job creation.

- **Enhancing Affordability for Residents:**

  Reducing stamp duty directly reduces the cost burden on buyers, making homeownership more accessible and alleviating affordability pressures.

Call to Action:

The proposed temporary and targeted reduction in stamp duty is a necessary measure to stimulate Jersey's housing market, improve affordability, and support economic recovery.

By reducing transaction costs, this initiative offers a balanced, effective, and time-sensitive intervention to address the current challenges facing the housing sector.

The individuals and businesses who are affected by the current continuing housing crisis in Jersey will have by the time the budget debate commences will made comments as to whether this measure is necessary.

I believe islanders and the economy urgently needs decisive action to reinstate the importance of policies that will achieve the goal of a more accessible and dynamic housing market for islanders.

Further information before Budget Debate
A further report outlining feedback following the lodging of this amendment will be made in advance of the budget debate commencement.

Financial and staffing implications

There could be an impact of £12million under the projected market conditions. These are estimated based on trends and projections; therefore it is difficult to be exact with the impact of such Stamp Duty break or exemption. The intention is therefore that this reduction in income will be supported from the Consolidated fund.

Whilst this is a substantial potential impact, it is still considered necessary in order to revitalise our housing market.

The projected reduction of income is based upon Stamp Duty being levied at 0% up to £700k. 2.5% between £700k and £1m and a taper between £1m and £1.2m. Properties over £1.2million will remain subject to Stamp Duty at the full rate.

Children's Rights Impact Assessment

A Children's Rights Impact Assessment (CRIA) has been prepared in relation to this proposition and is available to read on the States Assembly website.

Appendix – Exemplars from other jurisdictions in relation to similar programmes

Based on a temporary freeze during the 2008 financial crisis [Sci-Hub | The incidence of transaction taxes: Evidence from a stamp duty holiday. Journal of Public Economics, 119, 61–70 | 10.1016/j.jpubeco.2014.07.005]
"This paper has examined the incidence of the housing transactions tax in the U.K. exploiting the fact that the government offered a temporary unanticipated tax holiday to a particular segment of the market . . . The results show consistent evidence that around 60% of the "surplus" due to tax holiday accrued to buyers. We also found evidence of boosted activity during the tax holiday window with a significant, though short-lived, increase of some 8% in transactions for houses affected by the policy intervention. However, the abnormal conditions created by a temporary tax mean that is likely to overstate the steadystate transaction elasticity of the tax and hence provides an upper bound. While the context of our study is specific, it provides a benchmark study for other cases where transactions taxes are in place. As with any tax, there is a question of how far it deters transactions. The evidence from the stamp duty holiday in the U.K. finds a sizeable behavioural response in prices and quantities."

[Lessons from stamp duty holiday - LSE London Report 2021.pdf]
"Literature: The academic literature presents a near-universal consensus that stamp duty is a bad tax. There are three main reasons: first, it reduces mobility which means that the housing stock is inefficiently used: in particular, it reduces the incentive to older households to downsize which leaves younger family households with restricted choices. Secondly, it reduces productivity as people have less incentive to move house to take on a better job. Third, fewer moves mean commensurately lower consumption related to moving, which impacts negatively on economic activity. The literature is also clear that removal of existing stamp duty would increase house prices because it would reduce the overall cost of moving.

The empirical evidence on holidays is relatively limited. Two studies of the stamp duty holiday put in place at the time of the global financial crisis found that transactions and house prices both increased, as did consumption, but that the effects were short term and activity declined after the end of the holiday. Other research suggests that extending the holiday in perpetuity might generate a net increase in government revenues because of greater economic activity and higher house prices, but the estimation range was very large and included the possibility of significant revenue reductions.

Statistics: The statistical evidence shows that the housing market had begun to pick up in May 2020, well before the stamp duty holiday was introduced--probably because of the backlog arising from the first lockdown. The impact of the holiday could be seen from September 2020. Transactions increased by about 10,000 per month as compared to 2019 until February and March 2021, when transactions were 50% and then 100% above the levels of early 2020. As a result, by March 2021, the number of transactions in the financial year 2020/2021 were comparable to those in 2019/20. Since March, transactions have been variable but are still probably positively affected by the holiday. The impact on government revenue was initially very negative, but by March 2021 stamp duty revenues were back to the levels seen the previous year. This was for two reasons: the increase in 3 transactions near the end of the initial holiday and the rapid increase in house prices. These rose by over 10% in the year to March 2021 – far more than in the previous year, which had seen increases of 3%. The rate of house-price change varied considerably across regions, with the highest rises in areas where the benefit from the stamp duty holiday was least.

Survey evidence: Evidence from the survey of Family Building Society customers indicated that stamp duty was only one element in why people had chosen to move. Most important were family reasons and wanting a larger home or a different location. Intermediaries, on the other hand, said the holiday had generated a frenzy of activity both among buyers and sellers, almost all of whom wanted to complete before the stamp duty holiday ended."

- "To what extent does moving house generate additional economic activity?

The evidence suggests that people who move do spend more, so economic activity is increased – although sometimes over a longer period. Other research suggests that people spend about 5% of the value of the property on improvements and furnishings in the first year, and that anything up to 5% of consumption expenditure might be related to house purchase/moving over the longer term. The results of our survey were in line with this: on average the (relatively affluent) Family customers said they would spend £10,000 - £15,000 on improvements in the first year.

- Has the tax holiday been worthwhile for the economy (despite possibly increasing house prices)?

The holiday has certainly contributed to house price rises but is by no means the only reason for them. Because of the price increases and additional transactions, tax receipts are now back to pre-pandemic levels. Whether the holiday has been worthwhile to the economy almost certainly depends on the extent that it has led to more expenditure on the dwellings purchased – which is thought to be significant. But it should also be noted that these increases in investment in the home arise from all the factors affecting mobility at present.

- Is there a case for maintaining the nil rate at £500,000 or other more radical reforms?

Having started, there is a case for continuing the holiday because it will have some positive effects effect on reducing distortions in the housing and labour markets. In fiscal terms the case rests on a permanent 'holiday' maintaining the increase in house prices and therefore wealth-related expenditure and government revenues. The case would be stronger if more fundamental reform that encourages transactions and mobility which would further reduce distortions were envisaged."

Stamp duty holiday continues to help hundreds of thousands of jobs after further 21.3% boost in September - GOV.UK

- "residential property transactions rose 21.3% in September following introduction of stamp duty holiday
- rise in sales supports hundreds of thousands of jobs in the sector – with new homeowners also spending extra cash on decorating, furniture and appliances
- 33% of homebuyers plan to spend their savings from the tax break on home improvement and renovations, boosting business and jobs

After a 15.6% rise in August, residential property transactions in September rose a further 21.3% as more people decided to buy a new home or move house. The increase in transactions came after the Chancellor announced a stamp duty holiday at the start of July that will last until March next year.

The move has helped to protect hundreds of thousands of jobs, benefitting businesses across the housing supply chain and beyond, with the Bank of England estimating that households who move home are much more likely to purchase a range of durable goods, such as furniture, carpets or major appliances.

It is expected that among others housebuilders, estate agents, tradespeople, DIY stores, removal and cleaning firms could all benefit from the increased activity."