STATES OF JERSEY

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

REMOVAL OF STAMP DUTY SURCHARGE ON SECOND HOMES

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-EIGHTH 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 £2,000,000 to reflect the removal of the current higher rate surcharge on the sale of second homes for one year".

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 the additional higher rate of Stamp Duty in relation to the sale and purchase of second homes has been removed for one year.".

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 £2,000,000 to reflect the removal of the current higher rate surcharge on the sale of second homes for one year.

(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 the additional higher rate of Stamp Duty in relation to the sale and purchase of second homes has been removed for one year.".

REPORT

The Case for Abolishing the 3% Stamp Duty Surcharge on Additional Properties in Jersey

Executive Summary:

The introduction of the 3% stamp duty surcharge on additional properties in Jersey aimed to curb speculative investment and support first-time buyers.

However, the policy has had significant negative consequences on the private rental sector, reducing rental property availability, driving up rents, and further straining affordability in an already challenging housing market.

This report examines the unintended impacts of the surcharge, presents evidence from other jurisdictions, and emphasises the need for a balanced approach to housing policy.

1. Background and Policy Context:

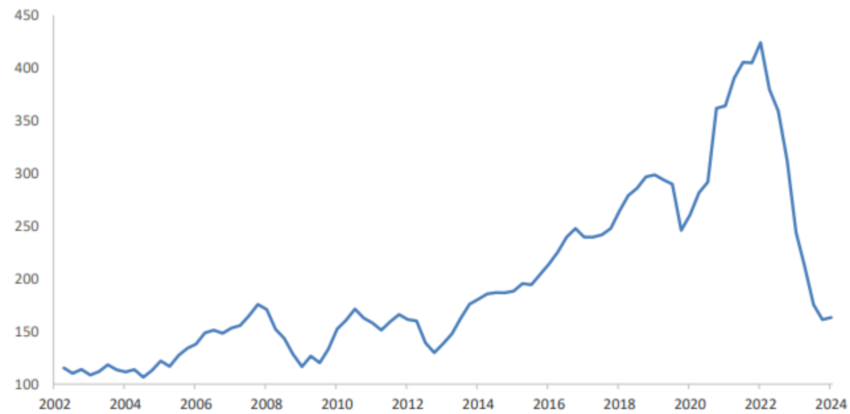
- **Objective of the Surcharge:**

  Introduced in 2023, the 3% stamp duty surcharge on buy-to-let and second home properties aimed to discourage speculative investment and provide a competitive advantage to first-time buyers. The policy also sought to reduce pressure on house prices and encourage homeownership.

- **Current Housing Market Conditions:**

  Data from Jersey's House Price Index shows that transaction volumes have reached historically low levels. The reduction in market activity reflects affordability challenges, exacerbated by high transaction costs such as the stamp duty surcharge. This decline is detrimental not only to prospective buyers but also to the broader economy.

Figure 14: The HMAI continues to fall from the peak of early 2023; now similar to 2014
Jersey Housing Market Activity Index[3]
(2002 = 100; including share transfer properties and on a rolling four-quarter basis)



[1]

[1] House Price Index Third Quarter 2024.pdf

2. The Impact on the Private Rental Sector:

- **Reduction in Rental Property Supply:**

  Evidence from Jersey and other jurisdictions indicates that additional taxes on landlords deter investment in rental properties, leading to a decrease in available rental housing. Recent oral questions to the Housing Minister revealed that the number of private sector rental properties has stagnated, with concerns about diminishing rental stock being voiced by market participants

- **Ministerial Policy on Private Rental Sector:**

  During a recent States Assembly session, the Housing Minister, Deputy Mézec, expressed a preference for increasing the size of the social rental sector relative to the private rental market. While supporting social housing is essential, a strategy that seeks to crowd out private rental investment risks exacerbating housing shortages and driving up rents

- **Economic and Social Impacts:**

  The shortage of rental properties contributes to increased rental prices, further limiting affordability for Islanders. Private landlords play a critical role in providing diverse housing options, and policies that disincentivize their participation have a direct impact on rental availability and cost.

3. Evidence from Other Jurisdictions:

- **UK Experience with Stamp Duty Surcharge:**

  The UK introduced a similar 3% surcharge in 2016, resulting in a significant decline in buy-to-let property purchases. By 2019, new buy-to-let acquisitions in London had fallen by 58% compared to 2015. The warnings that such policies could lead to a substantial loss of rental stock, worsening the supply-demand imbalance and driving up rents have not been heard and the consequences of short termism is clear, and Jersey should not follow the United Kingdom’s approach which is being advanced possibly due to overspends which should never be the case in Jersey.

4. Policy Misalignment and Market Realities:

- **Restricting Private Sector Investment:**

  Policies that discourage private sector investment in rental properties, such as the 3% surcharge, fail to recognize the critical role that private landlords play in housing supply. While social housing expansion is necessary, a balanced approach that supports both private and social rental markets is essential for meeting Islanders' diverse needs.

- **Affordability and Transaction Costs:**

  High transaction costs, including the surcharge, create significant barriers to market entry for prospective buyers and investors. This exacerbates affordability issues and limits mobility within the market. Temporary, targeted measures to reduce such costs can stimulate market activity, as evidenced by other successful interventions in comparable jurisdictions.

5. The Case for Abolishing the Surcharge:

- **Stimulating Market Activity:**

  Removing the 3% surcharge would reduce transaction costs, encouraging more property purchases and boosting overall market liquidity. Increased transactions benefit not only the housing market but also ancillary sectors, such as construction and retail.

- **Supporting Rental Market Stability:**

  Abolishing the surcharge would signal support for private landlords, encouraging investment in rental properties and enhancing housing availability. This, in turn, would help to stabilize rental prices and improve affordability for tenants.

- **Long-Term Socio-Economic Benefits:**

  Addressing housing market challenges requires a comprehensive, balanced approach. Policies that disproportionately target private landlords risk undermining housing availability and affordability. By removing the surcharge, Jersey can create a more dynamic, accessible housing market that benefits all Islanders.

6. Fiscal and Economic Considerations:

- **Cost Implications:**

  The estimated cost of abolishing the surcharge is approximately £2 million. However, this short-term cost must be weighed against the long-term benefits of increased market activity, improved rental availability, and broader economic growth.

- **Balanced Policy Approaches:**

  The surcharge's removal should be paired with other measures to support social housing development and improve overall market conditions, ensuring a holistic approach to housing policy.

Conclusion:

The 3% stamp duty surcharge on additional properties, while well-intentioned, has had significant unintended consequences on Jersey's housing market.

By reducing rental property availability, driving up rents, and disincentivizing market participation, the surcharge has exacerbated existing housing challenges.

A balanced approach that supports both private and social rental sectors, coupled with targeted market interventions, is essential for creating a more dynamic, affordable, and equitable housing market for all Islanders.

Financial and staffing implications

There could be an impact of £2 million under the projected market conditions. This is estimated based on trends and projections; therefore it is difficult to be exact with the impact of such removal of higher rate for the year. Whilst this is a substantial potential impact, it is still considered necessary in order to revitalise our housing market.

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.