STATES OF JERSEY

PROPOSED GOVERNMENT PLAN 2023-2026 (P.97/2022): THIRD AMDENDMENT

STAMP DUTY

Lodged au Greffe on 21st November 2022
by Deputy R.S. Kovacs of St. Saviour
Earliest date for debate: 12th December 2022

STATES GREFFE

PROPOSED GOVERNMENT PLAN 2023-2026 (P.97/2022): THIRD AMENDMENT

PAGE 2, PARAGRAPH (i) –

After the words “set out in Appendix 3 to the Report” insert the words –

“, except that, on Page 33 after the words “the higher rate is set at”, the number “3” should be replaced with the number “10””

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 2023–2026 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 2023 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;

(b) to approve the proposed Changes to Approval for financing/borrowing for 2023, 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 approvals;

(c) to approve the transfers from one States fund to another for 2023 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 each major project that is to be started or continued in 2023 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;

(e) to approve the proposed amount to be appropriated from the Consolidated Fund for 2023, 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;

(f) to approve the estimated income, being estimated gross income less expenditure, that each States trading operation will pay into its trading fund in 2023 in line with Article 9(2)(h) of the Law and set out in Appendix 2 – Summary Table 6 to the Report;

(g) to approve the proposed amount to be appropriated from each States trading operation's trading fund for 2023 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;

(h) to approve the estimated income and expenditure proposals for the Climate Emergency Fund for 2023 as set out in Appendix 2 – Summary Table 8 to the Report; and

(i) to approve, in accordance with Article 9(1) of the Law, the Government Plan 2023-2026, as set out at Appendix 3 to the Report, except that, on Page 33 after the words "the higher rate is set at", the number "3" should be replaced with the number "10".

REPORT

The seeds of Jersey's housing dysfunctionality were sown many years ago. No single act created it, just as no single measure will fix it. However, we need to take incremental steps towards making the situation much better.

There has been a failure to see the real value to society of residents having affordable, and I mean really affordable, places to live in and to call home.

This amendment seeks to differentiate between those who are buying a home, be it a flat or a house, and others who are buying property for other purposes such as an investment, buy-to-let or holiday home.

Whilst raising additional revenue, this proposed measure to increase the Stamp Duty by 10% on those residential properties not permanently lived in by the owner, also has the key aim of changing purchase habits. This will alleviate the continuing demand for second properties during the housing crisis we are facing the 3% increase, as currently proposed by the Council of Ministers will not have any tangible effect on buyers who can afford to purchase a second property for leisure and/or investment purposes, especially if they are a cash buyer not reliant on a loan.

In the future, if objective evidence can be brought to the Assembly showing that there are sufficient affordable residential properties available for owner-occupier and first-time buyers, then this additional increased rate of Stamp Duty for "Buy to Let" investment properties, second homes and holiday homes could be reviewed.

The main purpose of this amendment is to increase the homes available to owner-occupier and first-time buyers and enable them to get on the property ladder, if they want to buy.

Background Information

Government Plans

This amendment was prompted by P.90/2021:Twenty-Second Amendment to the proposed Government Plan 2022-2025, lodged by the Corporate Services Scrutiny Panel (CSSP) and adopted by 35 votes to 11 in December 2021. That amendment sought to –

"… require the Minister for Treasury and Resources to introduce a higher rate of Stamp Duty for "Buy to Let" investment properties, second homes and holiday homes, no later than 31 December 2022. The Panel has outlined a potential rate of 2%, however, acknowledges that further review is needed to consider legislative elements of its introduction. It accepts that the Minister for Treasury and Resources (the Minister) may wish to alter this rate upon review."

The proposed Government Plan 2023-2026 p.33 proposes that the higher rate is set at 3 % above the normal rate of tax for residential properties from 1 January 2023.

The CSSP Report accompanying P.90/2021:Twenty-Second Amendment highlights the fact that reviewing stamp duty, land transaction tax, and the taxation of envelope property (holding real estate within a company), has been ongoing since at least 2020 -

"with seemingly limited progress made in introducing new or creative ways of implementing revenue on the sale of properties."

The Report further states that –

"The Panel would highlight that the Treasury and Exchequer has carried out similar work previously, for example the Property Tax Review, a paper for which was published in 2014."

It is to be noted that the wider review of Stamp Duty is mentioned in the proposed Government Plan 2023-2026 at p.33 as being scheduled to conclude in the Summer of 2023.

This current amendment is seeking a substantial increase now as there is an immediate need to have residential properties available on the market for people wishing to purchase a home. A 10% increase in Stamp Duty would be more likely to have a much better and more visible effect on the purchasing habits of investors, to reduce the numbers of properties being bought for investment or leisure.

Potential Effects of "Buy to Let" property purchases vs. higher stamp duty on it

Affordable Housing: Supply and Delivery **(**S.R.14/2021) report was presented by the Environment, Housing and Infrastructure Panel (November 2021) and makes reference at page 59 to "*Buy-To-Let market inflating property prices"* stating that –

"Another significant key theme from submissions received by the Panel was that increased numbers of buy-to-let sales from investors is having an adverse impact on property prices and the availability of homes. In the public hearing, the Panel questioned the Minister for Housing on whether he had plans to address any impact buy-to-let is having on market conditions."

Key Finding B9 on page 60 states -

"There is anecdotal evidence that suggests the demand for, and purchase of, buy-to-let properties by investors may be contributing to higher property prices, and also the availability of affordable properties for first time buyers. The Minister for Housing and Communities has committed to investigating the issue further with a view to addressing the issue with appropriate controls and conditions on buy-to-let purchases."

The intention behind this amendment is to deter the purchase of properties which are not intended to be the purchaser's main residence by a substantive increase in stamp duty on such properties.

There is evidence from different jurisdictions that introducing a higher Stamp Duty on certain types of property purchases has had the desired effect.

Another significant factor that has recently emerged is the considerable increase in interest rates which might deter residential property investors. They may choose to purchase elsewhere because of increasing interest rates and possible property price volatility.

Sources of funding for additional property purchases

For Members' information I have enclosed extracts from R House Price Index Q4 2021 20220217 SJ.pdf (gov.je) ("the Index Report") as it shows there is a great deal of those who are not owner-occupiers buying up residential property. It is certain that they will not be first time buyers, with many being cash buyers.

However, this "cash to buy" injection from those with significant funds and those with money ready in their accounts, is denying those who wish to get a foot on the property ladder.

That is why there should be disincentives to purchasers not buying property as their main residence to assist future owner-occupiers and first-time buyers.

According to the details contained in the Index Report mentioned above, 62% of bought property in 2021 had registered loans attached, meaning that nearly 40% of residential property was either transferred from one person to another (usually family) or purchased without a registered loan, most of them being cash buyers.

The table below (p.13 the of the House Price Index), which includes my calculations in blue, details all recorded residential property transactions over the last four years broken down into price bands, including bedsits, 3- or more bedroom flats, 1- and 5- or more bedroom houses.

The calculations below show that in 2021, for example, from a total of 1849 properties sold only 121 were purchased by first time buyers (=FTB*). Furthermore 702 properties of the total sold were purchased without a registered loan.

Price band	**2018**	**2019**	**2020**	**2021**
Less than £200,001	*82*	*72*	*50*	*25*
£200,001 - £300,000	*263*	*309*	*199*	*158*
£300,001 - £400,000	*349*	*367*	*307*	*321*
£400,001 - £500,000	*262*	*239*	*210*	*315*
£500,001 - £600,000	*263*	*226*	*205*	*205*
Subtotal 1-*FTB mean price stops at not more than £600k [figures taken from p.16 Index Report]	1219 (-FTB 81= 1138)	1213 (-FTB 93=1120)	971 (-FTB 104=867	1024 (-FTB 121=903)
£600,001 - £700,000	*169*	*132*	*181*	*205*
£700,001 - £800,000	*88*	*110*	*115*	*148*
£800,001 - £900,000	*79*	*63*	*82*	*93*
£900,001 - £1,000,000	*36*	*49*	*41*	*74*
£1,000,001 - £1,500,000	*84*	*80*	*108*	*165*
£1,500,001 - £2,000,000	*34*	*26*	*42*	*72*
Greater than £2,000,000	*28*	*22*	*39*	*68*
Subtotal 2-from £600k up	518	482	608	825
Total	1737 (-FTB 81=1656)	1695(-FTB 93=1602	1579(-FTB 104=1475)	1849(-FTB 121=1728)
**Total of which purchased without a registered loan	*=729*	*=474*	*=473*	*=702*

******The Index Report states that "Over three-fifths (62%) of eligible residential properties transacted in the Royal Court in the calendar year 2021 were purchased including a loan". As per Figure C1, in Appendix C of the same Report, a registered loan applies to about 58% of the purchased properties in 2018, 72% in 2019 and 70% in 2020. Based on this, the % of properties purchased without a registered loan from the total sold is as follows: 42% -2018; 28%-2019; 30% -2020 and 38% -2021.*

This highlights that a significant number of residential properties are being bought by wealthy people, especially as we have witnessed a long period of low interest on cash in the bank, a situation that has now changed.

Limited Data

In the response to parts of my Written Question WQ.207/2022, the Minister for Treasury and Resources advised that the Government did not hold statistics in relation to either (a) the number of residential properties that have been bought and sold in the last 10 years that were not the purchaser's main residence or (b) whether these purchases were for Buy to let, second homes or holiday homes.

It, therefore, remains unclear who is buying residential properties and whether they intend them to be their principal place of residence. The Minister did, however, add that data would be gathered in future if a differential rate was introduced.

The States approved the establishment "Digital Register" of all properties (including ownership). However, this appears to be stuck in the system and needs to be addressed without further delay.

Revenue from a Higher Stamp Duty Rate

The final part (c) of my WQ.207/2022 asked the Minister whether the purpose of increasing the percentage of Stamp Duty by 3% above the normal rate for residential property on any property purchased for any purpose other than a main residence (as proposed in the new Government plan), was to bring in extra revenue or to change purchasing habits?

The response was as follows –

"The differential rate of Stamp Duty in the Proposed Government Plan 2023-2026 satisfies Amendment 22 to P.90/2021 (draft Government Plan 2022-2025) by the Corporate Services Scrutiny Panel (CSSP).

The Corporate Services Panel's report accompanying Amendment 22 stated that "This amendment seeks to raise reasonable tax revenue from those purchasing "Buy to Let" investment properties, second homes and holiday homes by applying a higher rate of Stamp Duty and Land Transaction Tax (LTT) on this category of property purchase." The Report goes on to say that "The Panel has lodged this amendment mindful of the financial gain and wealth associated with Buy to Let property, holiday home and second home purchases, and the contribution it will make to assist with reducing property demand and re-balancing the market towards owner occupiers and first-time buyers."

In practice the Government expects that the outcome will be hybrid. As stated on Page 33 of the Proposed Government Plan, "Economic analysis has assessed the potential *impacts on revenue and owner-occupation. It is suggested that the measure could modestly increase revenue and stimulate additional purchases by owner-occupiers."*

The Treasury and Exchequer Department has advised that it is unable to estimate what additional tax revenue will be generated from the additional tax rate as "Buy to Let" investment properties, second homes and holiday homes are not separately identified when property transactions are notified and a transfer of ownership form is completed.

Summary/Conclusion

Tax advantages, wage increases, and increasing rent subsidies have failed to address the very real issues of availability, affordability and security. Money alone will not sort out our housing problems, that is why "incremental steps" are required, and this proposal is one of many that can be taken to work towards improved housing conditions.

Residential accommodation is seen by some as being an asset, instead of people's homes. Some States policies have not only encouraged but incentivised investors to buy into the market and purchase properties with guaranteed rental yields (underwritten by States' rental policy) and extraordinary capital growth, the latter linked to well-above inflation increases in property values.

A 3% increase in Stamp Duty is not sufficient for investors to not see residential properties as attractive to purchase, especially if they have funds available and we can see from the previous table that about 30 to 40% of purchasers in the last few years didn't use a registered loan when buying. With 10% increase in Stamp Duty, it is more likely that this type of purchase habit purchase will slow down enough to have the desired effect for owner-occupiers and first-time buyers.

Currently, we do not have sufficient housing for the Jersey residents wishing to purchase an affordable home, therefore, my proposed amendment needs to be applied quickly ahead of any further proposed reviews on Stamp Duties, to help these residents whilst also raising more revenue.

Financial and manpower implications

It is noted in the proposed Government Plan 2023-26, at page 34 that:

"Higher rate of stamp duty - buy-to-let, second homes and holiday homes = £1,597,000"

As this is based on a 3% increase, my proposals could increase this up to £5 million, based on a straightforward 10% increase, however, part of my objective is to change habits in the purchasing of residential property.

There are no cost or manpower implications as implementing a change in stamp duty has already been accounted for within the proposed Government Plan.