WQ.223/2018

WRITTEN QUESTION TO THE MINISTER FOR TREASURY AND RESOURCES BY DEPUTY C.S. ALVES OF ST. HELIER ANSWER TO BE TABLED ON TUESDAY 23rd OCTOBER 2018

Question

What revenue has been collected, and is expected, per annum from the point at which the phasing out of mortgage relief allowance commenced, to the point at which phasing out is anticipated to be complete?

How much less income will be generated in 2019 by raising the cap on stamp duty for first-time buyers as stated in the Draft Budget Statement 2019?

Answer

Part 1: mortgage interest tax relief

The proposal to phase-out mortgage interest tax relief ("MITR") was adopted by the States Assembly in the Budget 2016 and was a key element of the Treasury's focus on ensuring sustainable public finances (note: at a time of historically low interest rates it was estimated that the cost of MITR was £11m per annum).

The economic advice received concluded that there were no strong arguments for the existence of MITR and there are many grounds for concerns over the distortions it adds to the housing market and its wider economic and distributional consequences, including: 1) There seems to be little evidence for justification that are put forward in its favour; 2) It increases housing demand and with no compensating increase in housing supply is likely to be capitalised (at least partly) in higher house prices; 3) It encourages higher mortgage debt; 4) tends to be regressive in nature (although the distributional consequences are complex), may be disadvantageous to first time buyers and acts as a transfer from taxpayers to homeowners; 5) International evidence points to no clear impact on home ownership rates ; and 6) it distorts investment and consumption choices, working against economic efficiency.

Accordingly in the Budget 2016 the States Assembly agreed to reduce the existing MITR interest cap of £15,000 incrementally over a period of ten years, commencing with the year of assessment ("YOA") 2017, so that by the YOA 2026 MITR would be reduced to Nil.

For the YOA 2017 the MITR interest cap was reduced to £13,500. The Taxes Office has not yet issued all the personal tax assessment for the YOA 2017 and accordingly there is incomplete information available to determine the impact on tax revenues of the reduction in the MITR interest cap of £13,500 for YOA 2017 at this time.

However when the Draft Budget Statement 2016 was lodged it was estimated (based on the data available for YOA 2013) that the phasing-out of MITR would raise approximately £100k in respect of the YOA 2017 and £200k in respect of the YOA 2018.

The table below estimates the additional tax raised by the reduction in the MITR interest cap for each year of the phase-out period (based on data available at the time of the Budget 2016). It is also assumed that the number of claimants will neither increase or decrease and that the amount of interest and the level of borrowings by these taxpayers remains constant.

Year of assessment	MITR interest cap	**Total** estimated tax raised by MITR interest cap	Additional estimated tax raised by the incremental reduction of the MITR interest cap
2017	£13,500	£100k	£100k
2018	£12,000	£300k	£200k
2019	£10,500	£600k	£300k
2020	£9,000	£1.0m	£400k
2021	£7,500	£1.7m	£700k
2022	£6,000	£2.7m	£1.0m
2023	£4,500	£4.0m	£1.3m
2024	£3,000	£5.8m	£1.8m
2025	£1,500	£8.2m	£2.4m
2026	£0	£11.0m	£2.8m

Part 2: stamp duty – Budget 2019

The proposal in the Draft Budget Statement 2019 to extend the Stamp Duty/ Land Transaction Tax bands which apply to First Time Buyers ("FTBs") is part of a package of measures which would broadly have a neutral impact on States revenues.

Stamp duties are a transactional tax and are accordingly difficult to forecast with accuracy. However based on transactions which have occurred in the last 3 years it is estimated that the proposed extension to the Stamp Duty/Land Transaction Tax bands for FTBs will reduce the States revenues by approximately £268k per annum from 2019[1].

Furthermore a FTB may also benefit from the proposal in Budget 2019 to reduce the amount of Stamp Duty/Land Transaction Tax they are required to pay on the registration of a mortgage when buying their property.

This proposal, which is not limited to FTBs, reduces the amount of Stamp Duty/Land Transaction Tax on a mortgage used to purchase a property of £600k or less to Nil. Where the property exceed £600k but does not exceed £700k the proposal is to charge Stamp Duty/Land Transaction Tax on the mortgage used to purchase the property at a tapered rate. The cost of this proposal is estimated to be £989k per annum from 2019[2], however it is not possible to provide an estimate of the amount of the cost which would apply solely to FTBs.

[1] Draft Budget Statement 2019 page 45 - Figure 16 – Estimated financial implications of 2019 compared to September 2018 IFG forecast
https://statesassembly.gov.je/assemblypropositions/2018/p.114-2018.pdf

[2] Draft Budget Statement 2019 page 45 - Figure 16 – Estimated financial implications of 2019 compared to September 2018 IFG forecast
https://statesassembly.gov.je/assemblypropositions/2018/p.114-2018.pdf