STATES OF JERSEY

INCREASE STAMP DUTY FOR PROPERTIES THAT ARE NOT PRINCIPAL RESIDENCES TO 5%

Lodged au Greffe on 24th February 2025
by Deputy M.B. Andrews of St Helier North
Earliest date for debate: 18th March 2025

STATES GREFFE

PROPOSITION

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

that Stamp Duty, Land Transaction Tax and Enveloped Property Transaction Tax for a property that is not the purchasers' principal residence should be increased to 5% and to request that the Minister for Treasury and Resources bring forward for approval the necessary legislation to give effect to this decision no later than 1st January 2026.

DEPUTY M.B. ANDREWS OF ST. HELIER NORTH

REPORT

Background

The 3 percent stamp duty surcharge was introduced to curb excess demand in Jersey's housing market. The surcharge has proven to be successful during a period when credit has been more expensive. Acting as a demand-side constraint, the stamp duty surcharge provides more opportunities for first-time buyers because it discourages investment in second homes.

Upward housing pressures and Marginal Efficiency of Capital

Jersey's housing market has experienced upward pressures due to low interest rates. With investors accessing cheap credit, some investors were able to generate a return on investment over the rate of borrowing. It meant some investors were achieving a Marginal Efficiency of Capital which made investment in housing worthwhile. As investors were expecting a return on investment that exceeded the rate that one could borrow, this inevitably fuelled demand further.

Downward payments, tax, income and wealth accumulation

Regrettably, spiralling property prices has led to many working-class households remaining as perpetual renters, due to them not meeting credit lenders criteria. Meanwhile, investors, can afford a 25 percent downward payment to obtain a buy-to-let mortgage, because they have accumulated enough wealth to afford a Buy-to-Let downward payment.

This matter has not been helped by Jersey levying lower personal income tax rates on higher income earners compared to the UK. An increased net income provides investors with more income savings, which then gives them greater wealth accumulation. It means individuals can accumulate wealth sooner to invest in housing compared to higher tax jurisdictions. Also, some individuals have accumulated sufficient wealth to make an investment without the need to sell assets or rely upon income to afford properties.

Some households have an implicit rent which means they own their home outright. The income that the household derives is not spent on rent which means the household can increase its income savings to afford another property which fuels demand further.

Positive and negative net wealth position

For many working-class households who take on a mortgage, they find themselves in a negative net wealth position, where the households' debt liabilities exceed the amount of assets owned outright. What this shows is that there are many working-class households who are forced to enter a negative net wealth position to obtain a property.

As some investors can obtain properties outright without the need to obtain a Buy-to-Let mortgage. Whilst other investors who obtain a Buy-to-Let mortgage demonstrate an ability to afford a downward payment of more than 25 percent of the market price. What this shows is that many working-class households are up against it when it comes to affording property in Jersey because they are competing against those who have more wealth who can afford property more readily.

Return on investment and inflation

When investors generate a return on investment over the rate of inflation, this provides investors with a positive real return, which incentivises further investment in housing. However, when inflation remains higher than the return on investment then the investor is generating a negative real return which discourages investment in housing. It is important for investors to seek a return on investment over the rate of inflation because this means investors are better off in real terms.

Base rate and commercial lending rates

It is anticipated that the Bank of England's Monetary Policy Committee (MPC) will continue to reduce the base rate. When this happens, house prices will inevitably increase because commercial banks will lower their rates too, which will lead to more demand for borrowing. Despite the current base rate of 4.5% being considerably higher than the rates levied during the period of January 2009 to August 2022 (Bank of England rate), what the period of January 2009 to August 2022 did show is that the housing market was dealing with escalating market prices.

The UK government stance

The UK Labour government recognised the impact of investment in second homes which has led to upward pressure in the housing market. In response, the UK Chancellor, Rachel Reeves, increased the extra rate of stamp duty charged on additional homes from 3 to 5 percent (Autumn budget 2024: Key announcements and analysis).

I also believe we should increase the stamp duty surcharge to 5 percent in Jersey because Jersey's housing market is in a position of partial market failure. To address this, the government must increase the stamp duty surcharge to 5 percent to off-set the increase in demand that will occur once interest rates lower.

Addressing housing distortions

I believe that if the surcharge remains at 3 percent there is a greater risk of the housing market becoming more distorted. To avoid this outcome, the States Assembly need to increase the stamp duty surcharge to reduce the extent of investment in second homes. We must recognise that Jersey's partial housing market failure is worse than the UK's, partially due to being a low tax jurisdiction leading to higher net incomes and wealth accumulation for some of the population who invest in the housing market.

We must recognise that the UK, which is a higher tax jurisdiction, has increased the stamp duty surcharge to 5 percent. The UK has the same problems as we do, however, Jersey has not been as proactive as the UK, when it should be. It could even be argued that Jersey's stamp duty rate could be higher than 5 percent as Jersey's housing market is more distorted than the UK.

As the 2021 Census shows the greatest increase in household tenure type was in qualified private rent, with an additional 2,933 units representing a 38 percent increase. This shows that the private rent sector saw greater growth than homeownership and social housing units. I find this most disconcerting however it does not come as a surprise when we have been dealing with incessant demand in Jersey's housing market.

Table 4.9: Household tenure in 2021 and 2011, excluding vacants	Number of households			
	2011	2021	Change 2011-2021	Percentage change
Owner-occupied	22,574	23,870	+1,296	+6%
Social housing rent[27]	5,656	5,826	+170	+3%
Qualified private rent	7,806	10,739	+2,933	+38%
Staff, service or tied accommodation	1,274	1,095	-179	-14%
Registered lodging house	652	700	+48	+7%
Lodger paying rent in private household	1,070	857	-213	-20%
Other non-qualified accommodation	2,563	1,496	-1,067	-42%
All *(excluding vacants)*	**41,595**	**44,583**	**+2,988**	**+7%**

Source: Report on the 2021 Jersey Census, p. 42

Ambition to increase homeownership

As a politician, I want to see the development of new homes for working families. I also want to give working families more opportunities to access affordable housing. When I define affordable housing, I refer to the household's ability to acquire and service its debts without impacting the financial wellbeing of the household throughout the tenure of the mortgage. I am not advocating that house prices reduce because negative equity could have significant implications. However, I do believe hardworking families should be given the opportunity to own their own home over that of someone who seeks to achieve an economic rent.

I am proposing that stamp duty for properties that are not main residences increases from 3% to 5%, with the change taking effect from the 1st January 2026.

Financial and staffing implications

There will be legislative drafting requirement to the stamp duty, land transaction and enveloped property transaction laws. Having spoken to treasury officials it has been projected that there could be an additional £1.2 million generated in stamp duty revenue.

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.