STATES OF JERSEY

PROPOSED BUDGET (GOVERNMENT PLAN) 2025-2028 (P.51/2024): TWENTY-FIFTH AMENDMENT (P.51/2024 AMD.(25)) – COMMENTS

Presented to the States on 22nd November 2024
by the Council of Ministers

STATES GREFFE

COMMENTS

Executive Summary

The Deputy's proposal represents an unfunded £10.5m income cut which the Deputy makes no attempt to recoup, and the Council of Ministers argue will lead to no benefit to Jersey's housing market.

If adopted this amendment would significantly increase operating deficits in 2025 by £10.5 million, and lead to an overdrawn Consolidated Fund in 2026. As no alternative funding proposals have been put forward in the amendment Council of Ministers would need to take corrective actions to close the funding gap.

Under the Public Finances Law, the Council of Ministers would not be permitted to lodge a plan in such a position – this is designed to protect the long-term sustainability of public finances. Ministers therefore cannot support an amendment that ignores this principle – reducing income without identifying compensating reductions in spend or increases in income resulting in a plan that overdraws the Consolidated Fund.

The impact of this amendment will almost certainly lead to a temporary rise in transactions, followed by a stall in 2026; a spike in house prices that will remain high, and a further widening of the affordability gap for Islanders attempting to get on the housing ladder.

The Deputy fails to address the underlying market conditions that have led to the current position; namely, unsustainable house price growth above real increases in earnings that have made property unaffordable. This, coupled with the highest interest rates in over a decade, have contributed to the market slowdown that is currently beginning to correct.

The Council of Ministers (COM) have proposed an amendment to the Deputy's other amendment (Amendment 28), relating to the 3% stamp duty surcharge levied on second home purchases. Supporting COM's amendment to Amendment 28 is considered significantly preferable over this broader Stamp Duty holiday; it is more affordable, more targeted, and less likely to lead to adverse consequences.

We therefore ask the Assembly to REJECT Amendment 25, and instead support the Council of Ministers' amendment to Amendment 28.

Background and context

The strong growth in house prices prior to the pandemic was unsustainable; it made housing less affordable, making a slowdown, or correction, inevitable. This correction is currently underway. The historic lows in transactions are consistent with a housing market that is adjusting to low levels of affordability coupled with high interest rates.

While transaction numbers remain low, the latest House Price Index shows that transactions are starting to increase. This is consistent with the Fiscal Policy Panel's forecast that transactions will remain subdued as Jersey continues to recover from the previous unsustainable growth. Stamp duty receipts are also in line with the forecast, which took account of the reduction in transactions.

Affordability

Dame Kate Barker, in her seminal 2003 review of housing supply, states that ‘stamp duty is unlikely to be a significant constraint on the housing supply’.[1] Market activity is ultimately driven by long-term affordability. With high house prices and high interest rates, affordability remains low; this is the single most important factor in reducing transactions, much more so than any of the one-off costs incurred in purchasing a property.

Although stamp duty is the responsibility of the buyer, economists agree it is paid for, at least in part, by the seller as they receive a lower house price than they otherwise would. Evidence from the UK’s stamp duty holiday suggests that the majority of the benefit went to sellers through increased prices; this is to be expected in a market that is constrained by housing supply such as in Jersey.[2]

In Jersey, the 2023 median property price was equal to 13.4 years of median net household income. It is worth noting that since 2020 real earnings have decreased (-3.3%). The FPP housing report highlighted that high interest rates are compounding affordability issues, with mortgage rates offered by Jersey lenders remaining higher than those in the UK. [3] Affordability remains such that rental households on a median income cannot afford to purchase any property type.

With affordability at historically low levels and not expected to change in the short term, it’s difficult to know whether the stamp duty holiday would actually stimulate the market or just provide a tax cut to planned transactions. The amendment may bring planned transactions forward but will not increase overall market activity in the long term.

The FPP, set up by the Deputy during his tenure as Treasury Minister, stated in the April Housing Review that ‘interventions that slow down adjustment of the housing market to changing economic conditions are not desirable’. This proposal would be a significant government intervention that would prevent the market from adjusting following decades of unsustainable house price growth and increasing unaffordability.

Looking back to 2022, transactions in Jersey dropped from Q3 to Q4 by nearly 30%. Interest rates started 2022 at 0.25% and by September were 1.75% before peaking at 5.25% in August 2023. It is this rise in interest rates (via mortgage costs) which played a significant role in the slowdown of the housing market, making mortgage costs are now considerably higher.

The Bank of England base rate is coming down; it was reduced in August this year from 5.25% to 5%, and further reduced in November from 5% to 4.75%. The FPP forecast suggests a steady reduction in interest rates to continue. This reduction will support the restoration of housing transactions in Jersey as the affordability gap exacerbated by higher mortgage costs begins to narrow. This is expected to be a steady change, supporting the longer-term stability of the housing market as opposed to the “boom-

[1] Barker, K. (2004). Review of housing supply: delivering stability – securing our future housing needs. Final report – recommendations, March, HM Treasury
[2] Blanc, F; Scanlon K & Whitehead C (2021) Lessons from the stamp duty holiday: An LSE London report for Family Building Society.
[3] Fiscal Policy Panel, (2024), Housing Market Review.

bust" effect that can be expected to arise from this proposed short-term stamp duty holiday.

Affected properties

'Average-priced properties' are difficult to quantify; however, the Deputy's amendment would concentrate the largest reduction on those purchasing properties at around £1m. While this figure should be considered in context of the House Price Index, the mix average property price in 2023 was £636,000, £364,000 below the property price that the Deputy considers to be an 'average price property'.

Similarly, distribution analysis shows that over 50% of property purchases annually in recent years were for properties below £600,000.

It is worth noting that first time buyers pay a reduced amount of stamp duty; from 2024, the maximum property price was increased to £700,000, providing a stamp duty reduction to first time buyers purchasing any one or two bed median price property and some three bed properties.

A stamp duty holiday would specifically worsen affordability for those buying lower value properties. As stated above, the majority of any stamp duty saving from the holiday would feed through to the seller through a higher purchase price. Considering the UK saw a near-10% increase in house prices during their holiday, it is likely the increase in property price would be much larger.

Modelling estimates that if the UK's 2021 stamp duty holiday were made a permanent reduction, housing wealth would increase by around 2% due to the house price increase. This demonstrates the level of impact this could have on house prices.

Market distortions

Changes to the property tax system should only be made following careful consideration of all relevant legislation and potential consequences. This proposal has been made at pace, and as such would bring about unintended consequences due to a lack of planning.

The Deputy's plan would make the stamp duty payable on a £750,000 property £1,250. With a 90% mortgage, the stamp duty charged on registering the security interest would be more than double this at £3,375.

Lack of proper consideration has therefore created a stamp duty advantage for cash buyers who don't need to register a mortgage. It's difficult to argue this is anything other than the kind of unintended consequence the Deputy states he has avoided.

It is also difficult to see how an unfunded £10.5m cut to the consolidated fund could be considered 'fiscally manageable'.

Evidence from the UK

The UK had a stamp duty holiday from July 2020 to June 2021 (the 2021 holiday), and then at a smaller rate of reduction between July and September 2021.

In July 2020, property transactions in the UK were down almost 80% from 2019 levels as a result of the Coronavirus pandemic. By September 2020, around 2 months into the holiday, transactions were back at the 2019 level. Transactions peaked in June 2021 as buyers took advantage of the holiday but fell by 63% in July once the tax advantage was reduced. Overall, transaction fell 55% in the year to June 2021-2022 compared to June 2020-2021 as a direct result of the holiday bringing forward transactions.

While transactions significantly increased from what they were at the beginning of lockdown, they were roughly stable across 2016-2023, with the market returning to the baseline of transactions after the holiday.

The planned end of the stamp duty holiday was March 2021; this was extended to June with a smaller reduction in stamp duty until September. As shown on the highlighted table, stamp duty holidays do not create new activity, they only bring forward sales from subsequent periods.

Table 1: residential property transactions in England.[4]

Month (2021)	Transactions	% change from previous month
February	106,620	
March	151,850	30%
April	98,940	-53%
May	87,040	-14%
June	191,300	55%
July	65,460	-192%
August	86,550	24%
September	146,610	41%
October	67,790	-116%

A conservative estimate is that moving house triggers additional spending of around 5% of the house price in associated household spend.[5] This is reflected in the UK's spending data on furnishings and routine maintenance; at the height of the stamp duty holiday, expenditure in these areas peaked before falling back to 2019 levels by Q4 2022.[6]

During the 2021 holiday, the Bank of England base rate was 0.1%. It is not known to what extent current high interest rates may constrain any additional expenditure associated on furnishings and routine maintenance.

Increases in transactions in the UK were not consistent. The largest increase in transactions came in the £500,000-£925,000 bracket at 47% above 2017-2019 average monthly sales. This market, along with the £925,000-£1.5m bracket transacted at around 40% above the 2019 average and received the largest stamp duty saving of £15,000. At the other end, property transactions below £125,000 fell by 29% as they did not benefit from the holiday due to low stamp duty rates.[7]

House prices in the UK rose significantly during the stamp duty holiday. From March 2020 to March 2021, house prices increased nearly 10%; the previous year, this figure was 3%. From March 2021, prices continued to increase, spiking in June 2021 and dropping when the stamp duty reduction was lessened from July. Prices spiked again in

[4] Scotland and Wales are devolved for property transaction tax purposes.
[5] Best, M & Kleven, H, (2015) Housing Market Responses to Transaction Taxes: Evidence from Notches and Stimulus in the UK.
[6] Office of National Statistics.
[7] CBRE UK, (2022) How did the stamp duty holiday affect residential property sales?

September before the final reduction was removed. After this spike, prices continued to rise steadily; there was no drop to undo the impact of the increases during the holidays.

Mortgage intermediaries stated that the resulting price increase from the 2021 stamp duty holiday in the UK made it harder for first-time buyers, as they are typically less able to increase their deposit or fund a larger mortgage.

The Deputy's proposal would concentrate the largest reduction of £17,000 at the £1m price point. This entirely replicates the position during the UK's holiday, in that the largest saving would go to those purchasing well above the median purchase price. It therefore follows that the lower end of the market, particularly first-time buyers, may see a similar reduction in transactions due to the limited benefit to them from the holiday.

Conclusion

This amendment does not present a solution to perceived challenges in Jersey's housing market. The Deputy is proposing an unnecessary intervention to stimulate an already recovering market. This would actively worsen affordability while providing a tax cut to sellers who would absorb the majority of the inevitable increase in house prices this amendment would create. We urge the Assembly to REJECT the amendment.

Financial implications

This amendment would reduce the income into the Consolidated Fund by £10.5m, increase the deficit and result in an overdrawn Consolidated Fund in 2026.

Accordingly, the Assembly would be required to agree compensating measures in Budget 2026 to either increase income or reduce spend further.

Current stamp duty receipts are in line with the forecast for 2024; there is therefore no evidence to suspect that the full cost of this proposal would not be realised were the amendment approved.

The Council of Ministers strongly urge members to reject this amendment to avoid reducing affordability and artificially inflating house prices.

Appendix – example of price increase
The mean price for a 2-bed flat in Q3 2024 was £507,000. Assuming a 5% deposit of £25,350, the mortgage would be £481,650 with monthly repayments of £3,327.[8] Stamp duty at the standard rate would be £8,140.

Assuming 75% of the saving feeds into the price, the remaining 25% feeds into an increased deposit. For the above property, the purchase price would now be £513,105, requiring a deposit of £27,385. The mortgage would increase to £485,720 and monthly repayments would increase slightly to £3,355.

[8] 5-year fix, no fee, 25-year mortgage.