STATES OF JERSEY

INCREASE STAMP DUTY FOR PROPERTIES THAT ARE NOT PRINCIPAL RESIDENCES TO 5% (P.16/2025): COMMENTS

Presented to the States on 27th March 2025
by the Council of Ministers

STATES GREFFE

COMMENTS

Summary

The Proposition seeks to increase the rate of Stamp Duty, Land Transaction Tax and Enveloped Property Transaction Tax for residential properties that are not the owner's principal residence from 3 percentage-points to 5 percentage-points above the standard rate of duty. The Proposition requests the Minister for Treasury and Resources to bring forward the necessary legislation giving effect to the increase in stamp duty no later than 1st January 2026.

The Council of Ministers asks States Members to reject the Proposition on the basis that it would be an unnecessary intervention into the housing market. The Proposition, if adopted, risks weakening market conditions at a time when a market correction is underway, and the Jersey House Price Index shows signs of stabilisation in house prices and advertised private sector rents.

The Council believes that the current higher rate of stamp duty for buy-to-let properties, second homes and holiday homes strikes a fair and appropriate balance between supporting islanders to access home ownership whilst still enabling confidence and investment in the private rented sector.

The current policy position, together with the delivery of new social rented and assisted purchase housing, provides a sustainable long-term means to secure affordable homes for islanders.

Impact on the housing market

The Government Plan 2023-2026 included the measure to introduce a higher rate of Stamp Duty for properties that are not the owner's principal residence at 3 percentage-points above the standard rate of duty for residential property.[1] The higher rate of stamp duty was also applied to relevant transactions subject to Land Transaction Tax and Enveloped Property Transaction Tax.

The policy intent of the higher rate of stamp duty was to reduce the demand for second homes, buy-to-let properties and holiday homes, and to rebalance the market towards owner-occupiers and first-time buyer households.

This policy rationale reflected concern about housing market conditions at the time.

When the higher rate of stamp duty was introduced in January 2023, the Jersey House Price Index shows that average property prices were at their highest recorded level seen to date; three-bedroom houses sold during the fourth quarter of 2022, for example, recorded an average price of £883,000.[2] Advertised private sector rental prices had also risen significantly by 10% on an annual basis.

This position was driven by a period of very low interest rates, and very low mortgage rates, which overstimulated the housing market and led to rapidly rising property prices.

[1] Government Plan 2023 to 2026
[2] House Price Index Q4 2022

It was further exacerbated by properties being brought as investments and not simply as homes.

Today, housing market conditions are fundamentally different.

In the fourth quarter of 2024, for example, the Jersey House Price Index was 8% lower than in 2022, and 10% lower than the peak in property prices seen in 2022.[3] The turnover of properties was also 16% lower compared with 2023. By the end of 2024, the recorded average price of a three-bedroom house has fallen to £752,000 and advertised private sector rents have begun to stabilise.

The strong growth in property prices up to 2022 was unsustainable, making renting or buying a home unaffordable for many islanders. Today, with a market correction underway, the housing market is adjusting to lower levels of affordability and a higher interest rate environment.

The question to be asked is whether the expected fall in the Bank of England base rate will lead to lower mortgage costs, and whether this will over-stimulate the housing market as happened in the late-2010s/early 2020s.

Economic advice suggests this is unlikely, for a number of reasons.

1. Interest rates, whilst expected to fall further, are not expected to fall as low as they did after the 2008/9 Global Financial Crisis. Markets expect the Bank of England base rate to be at/above 3% (compared with a low of 0.1% in 2020/21 and never exceeding 0.75% during the period March 2009 to April 2022). Not only does this mean that mortgage rates will not fall to the very low rates seen in the 2010s, but it also means that financial products will be offering decent, risk-free returns.

2. Property prices are now much higher than they were in the late-2010/early 2020s. This makes housing a less attractive investment option. Property prices relative to incomes have also increased making housing less affordable for those wanting to buy a home.

3. 1 and 2 together mean there is no reason to expect demand to increase back to the levels associated with rapidly rising property prices.

Whilst it is difficult to disentangle the impact of the 3% higher rate of stamp duty relative to the large increase in interest rates in 2023, it is clear that there has been a cooling in the market for second homes, buy-to-let properties and holiday homes as a result of market conditions, and that the present stamp duty position has been effective in achieving its policy intent.

Despite the positive signs of a correction in the housing market, the Council of Ministers notes the Fiscal Policy Panel's forecast that property prices and transactions are likely to remain subdued as Jersey continues to recover from the previous period of unsustainable growth.[4]

[3] House Price Index Q4 2024
[4] Fiscal Policy Panel Annual Report September 2024

It remains important, too, that Jersey maintains a strong private rented sector, and there is a balance to be struck between assisting islanders to purchase their home and encouraging a competitive market for private rented accommodation.

Ministers believe that increasing the higher rate of stamp duty for residential properties that are not the owner's principal residence from 3 percentage-points to 5 percentage-points above the standard rate of duty, in the absence of evidence supporting an increase, is, therefore, unnecessary. It would not help with confidence in the housing market, or economic confidence generally, and, arguably, could dent it further. Policy stability in this environment would be best.

Financial implications

The proposed increase in the rate of stamp duty could generate an additional £1.2 million in revenue. However, this amount may not be realised due to uncertainty about the behavioural response and effect on people's willingness to purchase buy-to-let properties, second homes and holiday homes.

Conclusion

Increasing the higher rate of stamp duty for buy-to-let properties, second homes and holiday homes from 3 percentage-points to 5 percentage-points would lead to no benefit in Jersey's housing market and puts at risk the recovery in the market after a previous period of unsustainable growth.

Overall, there is a balance between supporting islanders to access home ownership whilst still encouraging confidence and investment in the private rented sector. Ministers believe that the current rate of stamp duty, at 3 percentage-points above the higher rate, achieves this policy intent.

The Council of Ministers is focused on stimulating access to affordable homes, which will enable more Islanders to get on the property ladder. This is being achieved by supporting:

- the delivery of the First Step assisted home ownership scheme;
- Andium Homes' development of new affordable homes for social rent and assisted purchase;
- the progression of re-zoned housing sites;
- developers of large schemes to deliver a minimum of 15% of their developments with assisted home ownership products.

Together, these measures are making homeownership a far more realistic prospect for islanders.

The Council of Ministers asks States Members to reject this Proposition.