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The price of property: charting the evolution of stamp duty

FEATURES

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By Charlotte Brackley
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In the run up to his appointment as Prime Minister, Boris Johnson suggested that he might cut Stamp Duty Land Tax (SDLT) to stimulate the housing market.

While we wait and see whether there is an emergency budget in the Autumn - and whether a cut in SDLT forms part of that – we're going to take the opportunity to look back and assess the impact of other changes to the stamp duty regime which has seen its top rate increase from 2% to 12% since the top rate was introduced in 1997.

Stamp duty came in during the 1600s and was payable on various different assets, including property. But it wasn't until the 1950s when it began to noticeably impact house buyers.

From the mid-1980s to the early 1990s, buyers paid either no stamp duty (as it was then known – it only became 'Stamp Duty Land Tax' in 2003) or 1% if the price exceeded £30,000.

Between December 1991 and August 1992, in the midst of the recession, and against a back-drop of high-interest rates, falling house prices and an inflated pound (the UK fell out of the Exchange Rate Mechanism (ERM) on September 16 1992 – the infamous Black Wednesday), Conservative Chancellor Nigel Lawson increased the threshold to £250,000 to stimulate demand in the housing market.

Following our exit from the ERM, Britain's longest period of continuous economic growth began and in March 1993, the stamp duty threshold doubled from £30,000 to £60,000, reflecting the increase in house prices and prosperity returning.

New Labour swept to power in May 1997 and in July that year the 'slab' system was brought in under which different rates applied to house prices within bands.

This included a top rate targeting the highest value properties. Overnight, those purchasing properties of £500,000 or more would pay 2% rather than 1%.

This policy shift would prove so lucrative that no government since then has looked back and the slab system would remain unchanged until December 2014.

Between July 1997 and November 2014, the 0% threshold – the point at which tax becomes payable - has increased from £60,000 in 2000, to £120,000 in 2005, and then to £125,000 in 2006 where it has remained bar two exceptions.

Successive governments have used the 0% threshold as a tool – both to stimulate the lower end of the market and for political capital.

As part of its package of responses to the 2007/2008 global Credit Crunch and the recession into which the UK had fallen as a result, Gordon Brown's government announced a stamp duty holiday for purchasers of properties up to a value of £175,000 to stimulate demand at the bottom of the market.

This came to an end in December 2009 as the UK began to come out of recession and the basic threshold returned to £125,000.

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Between March 2010 to January 2012, New Labour also introduced a 0% threshold of £250,000 for first time buyers. This tax break for first time buyers wasn't enough to save New Labour and the Conservative-Lib Dem coalition came into power in May 2010, bringing its own more fundamental changes to the system.

Stamp duty rates for those with homes in the £125,000 – £250,000 bracket have remained unchanged since 1997 at 1%, until the Coalition's new 'slice' system was introduced in December 2014 at which point the rate doubled to – and remains at - 2%.

By contrast, there has been a steady upward shift in stamp duty since 1997 for those in the £250,000 – £500,000 bracket – within which many average house prices fall.

Rates increased under New Labour from 1.5% in 1997, to 2% in 1998, to 2.5% in 1999 and settled at 3% in 2000 where it remained until 2014.

In line with this policy of targeting higher value properties, those properties with a value in excess of £500,000 faced increasing rates under New Labour beginning at 2% in 1997, increasing to 3% in 1998, 3.5% in 1999 and then levelling out at 4% from 2000 until 2010 at which point a new 5% rate was increased for homes worth in excess of £1,000,000 (presumably to help offset any fall in revenues from the effect of increasing the first-time buyer threshold to £250,000 which had just been introduced a month earlier in March 2010).

However, this 5% rate would only apply to properties with a price of £2,000,000 or more until March 2012, when a 7% top rate on homes in this bracket was introduced.

The effect of the slab system meant that some properties valued close to the top or bottom end of a bracket were being priced artificially. To overcome this (and presumably to raise revenue), the slab system was overhauled by the coalition government in December 2014.

It was replaced with a 'slice' system, the effect of which was to reduce the stamp duty bills for many buyers provided their purchase price did not exceed £925,000. But for those buying in excess of that value, they now face rates of 10% up to £1,500,000 and 12% above that.

Not satisfied with the reach of the new 'slice' system and with pressure mounting politically regarding the availability and affordability of homes and absentee foreign second-home owners, in April 2016 the coalition government introduced an additional 3% rate that applies irrespective of the property price.

It affects those buying buy-to-let properties and those buying second homes, effectively targeting foreign buyers and those buying at the top end in London. It is highly lucrative for the Treasury too.

The rules relating to the additional 3% are complex, it bites in circumstances that aren't always obvious (e.g. where parents are buying properties with their grown-up children) and can trip up those who aren't properly advised. This is important because it's a self-assessment tax. HMRC currently generally allows buyers to reclaim the additional 3% where they sell their other home within three years of their purchase. But the tax has to be paid up front, which is usually less than ideal when you've just bought a new home.

If Boris scraps SDLT on properties under £500,000 and reduces the top rate of 12% on properties over £1,500,000 to 7% as has been suggested, this will be a major departure from the direction of travel since 1997.

No doubt some buyers may want to roll the dice and wait and see if there is an emergency budget. However, it may be just another promise worthy of pasting to the side of a bus.

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