

Stamp duty impact on the housing market

Stamp duty discourages house moving locally, jamming the housing market. Replacing it with an annual local tax on the value of land or property could increase housing mobility and provide incentives to local authorities to build more housing.

About the research

Stamp duty on transactions of land and property is today more significant than ever. UK revenue from the stamp duty land tax (SDLT), as a consequence of rising house prices, has almost tripled over the last eight years: from £2.9 billion in 2008/09 to £8.6 billion in 2016/17.

The stamp duty has long been criticised by economists as being inefficient. The central case against its use is that it hampers household mobility, preventing people from moving house due to its cost. To date there has been little evidence about how much the stamp duty impacts on housing and labour markets.

Researchers at the ESRC Centre for Economic Performance have explored the impact of stamp duty on different types of mobility, by comparing mobility rates of otherwise similar homeowners with self-assessed house values below and above the threshold of £250,000, which triggers a tax jump from 1% to 3% of house value. The researchers focused on a sharp jump in the tax liability because significant variation in this liability for very similar dwellings allowed them to identify ways that stamp duty affects housing mobility.

Data from the British Household Panel Survey (BHPS) were used to analyse how the increase from 1% to 3% affected the mobility of homeowners. The data were collected before the 2014 reform that introduced a more gradual 'slice' progression in tax.

Policy implications

- Abolishing stamp duty could increase the mobility of homeowners substantially and put existing housing stock into more efficient use – for instance by increasing a match between elderly households willing to downsize and young families seeking larger dwellings.
- A similar amount of revenue could be collected with little or no societal welfare losses through an annual tax on the value of property, or on the value of land. In contrast to stamp duty, these taxes do not discourage mutually beneficial transactions.
- If designed as annual local taxes, a property or land value tax would provide fiscal incentives to local authorities to release more land for residential development.
- An annual local tax on property or land value would also provide greater incentives to owners to use property or land more efficiently.

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Key findings

- Transfer taxes on property can have a negative impact on the economy in at least two ways:
 - Increased moving costs may deter the unemployed from taking up jobs far from their residence or workers from switching to more productive jobs;
 - The transfer tax can make households tolerate less than optimal dwellings for longer before moving. As a result, the match between dwellings and households is on average worse than in the absence of the tax.
- The findings strongly suggest that stamp duty slows down the housing market by preventing households from moving to more suitable homes. There is a visible reduction in the rate of mobility when house values exceed £250,000 and trigger the increase in tax rate from 1% to 3%. Estimates suggest that the increase of two percentage points in stamp duty reduces household mobility by almost 40%.
- Households discouraged from moving to more suitable housing due to the stamp duty imposes a significant welfare loss on society as a whole. The welfare loss associated with the tax rate hike from 1% to 3% is massive – possibly above 80% of the revenue increase.
- House moves split by distance (shorter than 10 kilometres versus longer than 10 kilometres) show that the tax has a clear effect on short moves, but no effect on long-distance relocation. The benefits of moving to a more suitable house locally are often only marginally bigger than the costs, and even a small increase in the tax wedge can prevent a large fraction of moves.
- Dividing house movers into three groups based on main reasons for moving (housing and area-related; employment; and major life events) shows that stamp duty affects housing

and area-related moves, but has little effect on moves related to employment or major life events.

BRIEF DESCRIPTION

Christian Hilber and Teemu Lyytikäinen from the ESRC Centre for Economic Performance estimated the effect of the UK Stamp Duty Land Tax on different types of household mobility using micro data. They compared homeowners with self-assessed house values on either sides of a cut-off value where the tax rate jumps from 1% to 3%.

Stamp duty, mobility and the UK housing crisis (CEP CentrePiece)
 Web: cep.lse.ac.uk/pubs/download/cp516.pdf

FURTHER INFORMATION

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The ESRC Centre for Economic Performance (CEP), based at the London School of Economics and Political Science, explores factors that influence economic performance – focusing on the links between globalisation, technology and institutions, and their impact on productivity, inequality, employment, stability and wellbeing.
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