

**Local variation to land transaction tax rates for second homes,
short-term holiday lets and other residential properties**
Consultation Response from Propertymark
March 2022

Background

Propertymark is the UK's leading professional body for estate and letting agents, inventory providers, commercial agents, auctioneers and valuers, comprising nearly 18,000 members. We are member-led with a Board which is made up of practicing agents and we work closely with our members to set professional standards through regulation, accredited and recognised qualifications, an industry-leading training programme and mandatory Continuing Professional Development.

Question 1: Do you agree that the Welsh Government should increase rates of LTT for second homes and short-term holiday lets in areas where there is an evidenced case to do so?

1. No, Propertymark does not agree that Land Transaction Tax (LTT) rates should be varied for purchases of second homes and short-term holiday lets. The primary function of LTT is to raise revenue, and we do not believe any causation between ownership of second homes and short-term lets and house price inflation to have been understood sufficiently to warrant sweeping changes to the LTT regime. Moreover, we consider there to be alternative tools at the Welsh Government's and local authorities' disposal to tackle any localised issues arising from a high proportion of such property.
2. Propertymark believes that the introduction of local variations to LTT is likely to complicate the buying process and have a negative impact on the property market. We do not consider the additional complexity of a varied higher rate of LTT at any local level to be a practical mechanism to manage second home ownership. We have previously outlined the variable use of council tax premiums to moderate second home ownership and the need for greater regulation and licensing to manage short-term holiday lets.¹ We have also highlighted the requirement to close the Small Business Rates Relief loophole that presently enables some short-term holiday let businesses with premises valued at up to £6,000 to pay neither council tax nor non-domestic rates. Such mechanisms have the potential to be more targeted, localised and effective ways of tackling some of the negative consequences of second home ownership and short-term let activity and we would urge the Welsh Government to refine these levers before committing to complex changes to LTT that could have a detrimental impact on property investment in Wales.
3. Propertymark has further concerns regarding the enforcement of the proposal, particularly around the policing of intended and actual use of a property. We acknowledge the Welsh Government's proposals to amend planning policy and the General Permitted Development Order (GPDO) but do not consider local authorities to be sufficiently resourced to undertake the monitoring necessary to ensure the policy is implemented effectively. Furthermore, we

¹ Propertymark, 2021: Response to the Welsh Government's consultation on local taxes for second homes and self-catering accommodation: <https://www.propertymark.co.uk/resource/consultation-welsh-government-consultation-local-taxes-second-homes-self-catering-accommodation.html>.

would caution against the alternative suggestion of increasing the higher rate of LTT for all applicable transactions as such an intervention is likely to have a disproportionately negative impact on investment in the private rented sector, which should be distinguished from other higher rate transactions.

4. Propertymark does not agree with the principle of local variation to LTT rates for certain transactions and considers the application of local variations to be complex and potentially distortionary. The temporary relief on LTT applied during the COVID-19 pandemic illustrated the sensitivity of purchasers to a reduction in LTT and we have concerns that any increase in the higher rate could change buyer behaviour to such an extent that homeowners within a local market subject to the varied, higher rate LTT could experience house price deflation and even negative equity. Any proposed increases must be subject to accurate modelling to determine the policy's impact on local markets so as to avoid localised 'crashes'.
5. Finally, we have concerns that the frequency of variation review and change could cause property markets to be disrupted and become less stable. Depending on the frequency, purchasers may delay investing based on speculation or be dissuaded from purchasing at all. Not only could this lead to market instability and exacerbate wealth inequalities, it is likely to have a significant impact on higher rate LTT revenue, which has historically accounted for approximately forty per cent of total LTT revenue and amounted to £66m in 2020-21.² It is imperative that the loss of revenue is quantified prior to the introduction of any variation in higher rates of LTT, and that the costs and benefits of the policy be analysed alongside the likely reduction in revenue and the impact this will have on Welsh Government spending and the functions and services it funds.

² Stats Wales, 2022: Land Transaction Tax 2020-21: <https://statswales.gov.wales/Catalogue/Taxes-devolved-to-Wales/Land-Transaction-Tax>.