

Call to abolish stamp duty for first-time buyers up to £150,000

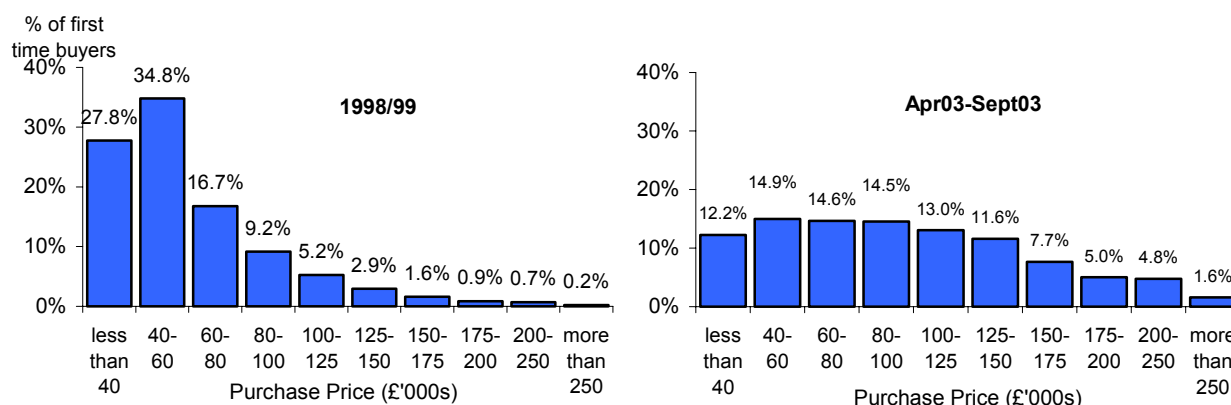
- Nearly 75% of first-time buyers now pay stamp duty compared with 40% 4 years ago
- First-time buyers typically pay £1,040 in stamp duty – equal to 5.6% of average annual take-home pay
- Revenue take from residential stamp duty has more than trebled over last 4 years to £3.6bn in 2002/03
- In 2002/03 we estimate mortgaged first-time buyers paid c£700m in stamp duty – 19% of total revenue
- Allowing first-time buyers to be excluded on purchases up to £150,000 would cost £280m

Alex Bannister, Nationwide's Group Economist, said:

“The economics of house purchase are compelling. Mortgage payments have tended to be broadly equivalent to rental payments and so the possibility of making a capital gain when house prices rise means owning your own home makes financial sense for most people. There are other distinct advantages to home ownership such as having the discretion to make improvements and to decorate according to personal taste. It is hardly surprising that most people aspire to home ownership by the time they settle down or start a family. Of course this is later in life than in the past, first-time buyers are now typically 31 years of age compared with 27 at the end of the eighties, but it is usually when people face the greatest financial pressures. These include having children, paying off student debts and starting to make provision to protect themselves from the erosion of the welfare state – in particular starting to save for a pension. Stamp duty comes as a significant extra hurdle for first-time buyers already faced with raising a sizeable deposit and rising house prices.

As the charts below show, 4 years ago (1998/99) just 40% of first-time buyers paid stamp duty and of those who did nearly all paid the lowest 1% levy (see Table 2 below for the bands and rates). Now only around 25% of first-time buyers purchase properties below the £60,000 threshold (strikingly in London and the South East the figure is only 2%).

Chart 1 - Distribution of first-time buyer property purchases ¹



¹Mortgaged properties only. Source: Nationwide / Survey of Mortgage Lenders.

The typical amount of duty paid by first-time buyers is £1,040 equating to 5.6% of annual average take-home pay. It would take a year to save this amount if £85 was saved per month. The £1,040 typical duty also represents 8.6% of the typical deposit raised by a first-time buyer (see Table 1 below).

Table 1 Stamp Duty Paid by Typical First-Time Buyer

Typical first-time buyer property price (Q3 2003)	£104,000
Typical Deposit (12%)	£12,000
Mortgage advance	£91,900
Stamp Duty (1%)	£1,040
Stamp Duty as percentage of Deposit	8.6%

Source: Nationwide

Table 2 Stamp Duty Rates

Purchase Price	Rate
0-£60k	0%
>£60k-£250k	1%
>£250k-£500k	3%
>£500k	4%

Source: Inland Revenue

It would not be surprising to see a downward trend in deposits in the future given the difficulty in funding stamp duty. This would be a worrying development as borrowers would be reducing their equity buffer in the unlikely event that house prices fall in their area. In extreme circumstances, some borrowers may be enticed to put down no deposit at all (proportion of first-time buyers paying no deposit has increased from 1.5% to 3% in the last 4 years).

To scrap the tax for first-time buyers (up to a limit of £150,000) there would obviously need to be effective steps taken to ensure that loopholes were closed – rules regarding main residence etc need to be thought through and clear definitions are needed of who exactly qualifies for first-time buyer relief. There would be a cost to the Government and they will need to raise this revenue elsewhere. In 2002/03 there were around 495,000 first-time buyers purchasing a property with a mortgage. We estimate that these paid a total of £700m in stamp duty – 19% of the total £3.6bn revenue raised by stamp duty and 3.4 times as much as we estimate first-time buyers paid in 1998/99 - even though there were more first-time buyers in the market back then. If first-time buyers were exempted from paying stamp duty land tax up to £150,000 (had the £60,000 threshold been raised in line with house price inflation since its inception in 1993 the threshold would now be £150,000) the cost to the Inland Revenue would be around £280m or 8% of total residential stamp duty in 2002/03.

Table 3 Estimated Stamp Duty Revenue by Buyer Type

Financial Year	Cash buyer	First-time buyer	Existing Homeowner	Total
1998/1999	£220m (21%)	£205m (19%)	£640m (60%)	£1,065m
2002/2003	£650m (19%)	£700m (19%)	£2,240m (62%)	£3,590m

Source: Nationwide

While a cut in the duty may increase demand for property from first-time buyers and push prices up, it is clear that given a near doubling of first-time buyer property prices in the last five years, it is the overall shortage of supply that has had most effect on prices and the impact of more first-time buyers in the market place is likely to be muted. It should be noted that the number of first-time buyers will be the lowest since mortgage lending was deregulated (in the early eighties) - a clear indication that affordability is stretched to the limit.

Our urgent call is to help first-time buyers – five years ago they had assistance in the form of mortgage interest tax relief (MITR), they had less student debt and the prospects for pension liabilities were better. One obvious group of prospective first-time buyers is an important stakeholder for the Government – they are its key workers such as nurses, teachers and the police. Our belief is that now is the time to try and ease their step onto the housing ladder by scrapping stamp duty for first-time buyers up to a sensible and fair limit of £150,000. This would mean that over 80% of first-time buyers would be exempted from paying the tax and at a cost of just 8% of total residential stamp duty revenue.

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