



WHAT YOU NEED TO KNOW ABOUT THE LAND AND BUILDINGS TRANSACTION TAX FOR RESIDENTIAL PURCHASES

Background

The [Land and Buildings Transaction Tax \(Scotland\) Act 2013](#) received Royal Assent on 31 July 2013 putting in place the provisions for the Scottish Government to replace UK Stamp Duty Land Tax (SDLT) in Scotland with the Land and Buildings Transaction Tax (LBTT).

LBTT will apply to residential sales in Scotland from 1 April 2015.

Land and Buildings Transaction Tax Rates and Banding

[On 21 January 2015](#), John Swinney announced a change to tax rates and bands for LBTT that had previously been included in the [Draft Budget for 2015/16](#). The revised rates and bands were confirmed when the Scottish Government's Budget for 2015/16 was [passed on 4 February 2015](#). The proposed rates and bands and the newly agreed rates and bands which replaced them are outlined below:

Proposed Rates and Bands – Draft Budget 2015/16	
Band	Rate
Up to £135,000	-
£135,001 - £250,000	2.0%
No 5% Tax band in original proposal	
£250,001 - £1,000,000	10.0%
Over £1,000,000	12.0%


Final Rates and Bands – Confirmed Budget 2015/16	
Band	Rate
Up to £145,000	-
£145,001 - £250,000	2.0%
£250,001 - £350,000	5.0%
£350,001 - £750,000	10.0%
Over £750,000	12.0%

LBTT was designed to be more progressive than under the previous SDLT system whereby any property which sold just above a SDLT threshold would have the increased tax rate applied to the total sale price, resulting in a significant increase in cost to the buyer, often referred to as a “slab tax”. It is arguable that this caused distortion of the housing market and bunching of sales just below SDLT thresholds.

Under LBTT, the tax payable under each band will only apply to that proportion of the sale. For example, a home that is sold for £300,000 will have no tax applied to the first £145,000, 2% applied to the amount



between £145,001 and £250,000 and 5% applied to the amount between £250,001 and £300,000 resulting in total LBTT payable of £4,600 as outlined in the diagram below.

	Sale Price = £300,000	
	5% paid on £250,001 - £300,000 =	£2,500
	2% paid on £145,001 - £250,000 =	£2,100
	0% paid on the first £145,000 =	£0,000
Total LBTT Payable =		£4,600

During their autumn statement in 2014, the UK Government announced similar changes were to be made to SDLT across the UK from 4 December 2014, ahead of the implementation of LBTT in Scotland in April 2015. The new UK system works on similar principles to that of LBTT, with tax payable under each band only applying to that proportion of the sale. However, the banding of SDLT is different to that of LBTT reflecting higher house prices in London and the South East of England.

Reasons for Revisions of LBTT and Industry Reactions

The original LBTT rates and bands set out in the Draft Budget for 2015/16 received criticism for placing too much of a tax burden on higher cost properties. It was argued that this would have a negative impact on sales at the top end of the market. Analysis of Scottish Government figures showed that buyers purchasing any property over £325,000 would pay more under LBTT. Critics claimed that this would penalise families and have a dampening affect upon the market.

The revised version of LBTT includes an additional band of 5% for middle range homes and also increases the 0% tax threshold to £145,000 – both measures promising to benefit first time buyers and those looking to move within the middle section of the market. During his announcement of the [Budget for 2015/16](#), John Swinney stated that the revised LBTT system would mean half of all home buyers in Scotland would not be subject to any tax at all and over 90% would be better off than under the current system.

To compensate for reduced taxes at the lower end of the market, the upper threshold of 12% will now apply to any purchase over £750,000 rather than just to those over £1,000,000 as originally proposed. This compromise has sparked similar comments regarding undue tax burdens on high earners.

CIH Scotland broadly supports the aims of the new system and the move away from the “slab tax” model which has been long overdue for review. While the revised banding will clearly benefit buyers at the lower end of the market, it is not yet clear what the impact will be on overall affordability, especially while housing supply remains inadequate to meet growing need. We believe that this is only the first step in addressing affordability issues and that wider reform of land and buildings tax should not be ruled out.