23 March 2022

Supplementary forecast information release

Non-residential SDLT elasticities update

1.1   The OBR is releasing the information below following the publication by HMRC on 23 November 2021 of an update to the transaction and price elasticities used in its stamp duty land tax (SDLT) model and costings.[1] The elasticities are based on academic studies, HMRC research and judgements by the OBR's Budget Responsibility Committee.

1.2   These elasticities have been signed off by the OBR and will form the starting point for policy costings of future measures affecting commercial SDLT. As with all costings, we will always look at any additional relevant information before deciding which assumptions will give a reasonable and central estimate of the effect of any given measures.

1.3   In HMRC's latest analysis, the non-residential transaction 'semi-elasticity'[2] – the percentage change in transactions associated with a 1 percentage point change in the tax rate – has been revised up from -5.0 to -10.8 in steady state. This implies that the yield from raising the tax rate or the cost of reducing it would be smaller than previously estimated. The elasticity is also higher than estimated for residential property transactions, implying a greater responsiveness of commercial transactions to changes in the tax rate.

1.4   The updated price and transactions elasticities are shown in Table 1.1, alongside the previous elasticities published in an OBR supplementary release in August 2017.

Table 1.1: Non-residential SDLT semi-elasticities

	Year 1	Year 2	Year 3
August 2017			
Transactions semi-elasticity	-5.4	-5.2	-5.0
Price semi-elasticity	-2.0	-2.0	-2.0
Total elasticity	**-5.4**	**-5.2**	**-7.0**
November 2021			
Transactions semi-elasticity	-11.7	-11.3	-10.8
Price semi-elasticity	-2.0	-2.0	-2.0
Total elasticity	**-13.5**	**-13.5**	**-13.0**

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[1] HMRC, *Responsiveness of commercial transactions to Stamp Duty Land Tax*, November 2021.
[2] A semi-elasticity estimates the percentage change in prices or transactions from a 1 *percentage point* increase in the tax rate at a given price. For example, a transactions semi-elasticity of -0.5 implies that a 1 percentage point increase in the SDLT rate is estimated to reduce property transactions by 0.5 per cent.