

22 August 2017

Supplementary forecast information release

Non-residential SDLT elasticities

- 1.1 The OBR is releasing the information below following a request for further detail underlying the stamp duty land tax (SDLT) forecast in our March 2016 *Economic and fiscal outlook (EFO)*. We will, as far as possible, meet ongoing requests to release supplementary forecast information where this will improve the quality of public debate on the public finances. Our full release policy is available on our website.
- 1.2 We have had a request for further detail on the behavioural elasticities used in the costing of the reforms to commercial SDLT in Budget 2016. The reforms replaced the SDLT 'slab' system (where a single tax rate is paid on the entire purchase price) with a progressive 'slice' system (where successive bands of the purchase price are taxed at increasing rates). Equivalent changes were made to SDLT paid on residential property transactions in December 2014. As a result of the measure, commercial property transactions with a value over £1.05 million would pay more tax, while transactions up to £1.05 million would pay less. The measure also increased the tax on leasing commercial property where the net present value (NPV) of rental payments is over £5 million. Overall, the net effect of these changes was estimated to raise an average of over £500 million a year from 2016-17 onwards.
- 1.3 The elasticities underpinning the policy costing were based on academic studies, HMRC research and judgements by the OBR's Budget Responsibility Committee. In Annex A of our March 2016 *EFO*, we assigned this costing a subjective 'medium-high' uncertainty rating, reflecting uncertainties around both modelling and behavioural assumptions. It is important to remember that each certified measure and its underlying assumptions represent our central estimate of the costing, regardless of the level of uncertainty. So while we deemed there to be relatively high uncertainty around the central estimates, we still judged there to be an equal chance it would raise more or less than those estimates.
- 1.4 This costing included a number of behavioural effects resulting from changes in the amount of tax due on transactions of different values. For example, an increase in the SDLT charge or any other transactions costs was expected to:
 - be capitalised into the price paid by purchasers or tenants; and
 - reduce the number of transactions.
- 1.5 The size of these behavioural responses was estimated using price and transactions elasticities respectively, which are shown in Table 1. For ease of reference we have also included the price elasticities that were used for the residential SDLT costing from Autumn Statement 2014 that were published in a supplementary release in January 2015. The transactions elasticity for commercial purchases is judged to be somewhat higher than for

residential purchases. In both cases, these elasticities represented our central view at the time. If new evidence were to become available that suggested alternative estimates would be more central, we would revise them accordingly.

Table 1.1: SDLT semi-elasticities¹

	Residential property					Commercial property	
	£60k- £250k	£250k- £500k	£500k- £1m	£1m-£2m	Above £2m	Purchase	Lease
	Year 1						
Transactions elasticity	-3.7	-2.5	-2.0	-2.8	-3.2	-5.4	-1.1
Price elasticity	-1.5	-1.0	-1.0	-1.0	-1.0	-2.0	-3.0
Total elasticity	-5.2	-3.5	-3.0	-3.8	-4.2	-5.4	-4.1
	Year 2						
Transactions elasticity	-3.6	-2.4	-2.0	-2.8	-3.2	-5.2	-1.0
Price elasticity	-2.2	-1.7	-1.7	-1.7	-1.7	-2.0	-3.0
Total elasticity	-5.8	-4.1	-3.7	-4.5	-4.9	-5.2	-4.0
	Year 3						
Transactions elasticity	-3.5	-2.4	-2.0	-2.8	-3.2	-5.0	-1.0
Price elasticity	-2.1	-1.6	-1.6	-1.6	-1.6	-2.0	-3.0
Total elasticity	-5.5	-3.9	-3.5	-4.4	-4.8	-7.0	-4.0
	Years 4 and 5						
Transactions elasticity	-3.5	-2.4	-2.0	-2.8	-3.2	-5.0	-1.0
Price elasticity	-1.9	-1.4	-1.4	-1.4	-1.4	-2.0	-3.0
Total elasticity	-5.4	-3.8	-3.4	-4.2	-4.7	-7.0	-4.0

¹ 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.