

10 October 2017

Supplementary forecast information release

Residential SDLT elasticities

- 1.1 The OBR is releasing the information below alongside our *2017 Forecast evaluation report (FER)*. We have previously published detail about the price and transactions elasticities that underpinned our stamp duty land tax (SDLT) forecasts, and specifically the effect of changes in the SDLT regimes for residential and commercial property transactions. The information in this release provides updated estimates of those elasticities.
- 1.2 As set out in the *FER*, we will incorporate a behavioural response in our SDLT forecast that uses the 'steady state' elasticities presented in Table 1 to model the effect of fiscal drag – the rise in the effective tax rate that results from house prices rising relative to SDLT thresholds – on property transactions at different points in the house price distribution. The effect of this will be to temper the extent of fiscal drag over the forecast period.
- 1.3 The transactions elasticities here have been updated in light of new evidence. Specifically, they reflect the OBR's Budget Responsibility Committee updated view informed by initial HMRC analysis of the effect of the 'slab-slice' change to residential SDLT announced in December 2014. HMRC's analysis regressed the change in transactions against the change in effective tax rate in comparable 28-day periods before and after the policy change. It attempted to control for price effects by looking at the effect within specific price bands, including a quadratic price term in the regression equation and removing outlier price bands that were distorted by the thresholds in the previous 'slab' system. The analysis suggests that the behavioural response to changes in effective tax rates was around twice as large as assumed in the costing of the slab-slice reform. The analysis excluded transactions in Scotland, which were also affected by the introduction of the new land and buildings transaction tax in April 2015.
- 1.4 These updated elasticities represent our new central estimates, but it is important to recognise that there remains a significant degree of uncertainty around them.
- 1.5 For ease of reference we have included the elasticities that underpinned the costing of the commercial SDLT 'slab-slice' reform in March 2016 and the previous residential SDLT elasticities in Table 2. If more new evidence were to become available that suggested alternative estimates would be more central we would revise them accordingly.

Table 1: Updated SDLT semi-elasticities¹

	Residential property			Commercial property	
	Under £250k	Between £250k and £1m	Above £1m	Purchase	Lease
	Year 1				
Transactions elasticity	-7.0	-5.0	-6.0	-5.4	-1.1
Price elasticity	-1.5	-1.0	-1.0	-2.0	-3.0
Total elasticity	-8.5	-6.0	-7.0	-7.4	-4.1
	Year 2				
Transactions elasticity	-6.5	-4.75	-6.0	-5.2	-1.0
Price elasticity	-2.25	-1.75	-1.75	-2.0	-3.0
Total elasticity	-8.75	-6.5	-7.75	-7.2	-4.0
	Steady state				
Transactions elasticity	-6.0	-4.5	-6.0	-5.0	-1.0
Price elasticity	-2.0	-1.5	-1.5	-2.0	-3.0
Total elasticity	-8.0	-6.0	-7.5	-7.0	-4.0

Table 2: Previous 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	-7.4	-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	-7.2	-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.