Office for **Budget Responsibility**

Richard Hughes
Chair

102 Petty France
London SW1H 9AJ

obr.uk

John McDonnell MP
House of Commons

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Dear Mr McDonnell,

Query re Capital Gains Tax Relief for Property

Thank you for your query of March 7 asking for clarification on the methodology used for the CGT changes announced at Budget and for an explanation of the different numbers presented in OBR's *economic and fiscal outlook* and the Treasury's Red Book. I attach a response to both questions.

Please let me know if you have further questions.

Sincerely,

Richard Hughes
Chair
Office for Budget Responsibility

Firstly, I would be grateful if you could publish the modelling that underpins the OBR's analysis that the announced changes to CGT "increases property transactions by around 2 per cent in the near term" (p.22).

The table below, taken from our [online supplementary scorecard,] shows the full 5-year breakdown underpinning this costing. The costing of the measure includes three main components: a 'static' costing which estimates the yield if there are no behavioural responses to the measures and then two 'behavioural' responses that alter the yield:

The static costing applied the change in the tax rate to the existing tax base for capital gains tax (CGT). This reduces the CGT receipts by around £350 million in 2028-29.

The first main channel for behavioural responses to the measure relate to timing effects:

- We expect that lowering the rate will 'unlock,' and so bring forward, some qualifying property disposals. This is based on the view that there are likely to be some property owners that have been considering selling but were deterred by the current 28 per cent CGT rate. It is an uncertain judgement since the rate cut is permanent and timing effects are usually associated with temporary windows, plus property transactions can take time to materialise. Nevertheless, we think it is central to assume that some owners will choose to sell more quickly and that, despite being a permanent rate cut, some may wish to guard against a possible future reversal of the measure.
- The costing also allows for a small amount of 'stalling', delaying an existing transaction to benefit from the lower rate, though the window for this is only a month, as the measure is in effect from 6 April.

The second main channel relates to the impact of the tax cuts on the level of transactions in the medium term. We expect it to have a small but positive impact on the level of property transactions, though this too is highly uncertain. Over the 5-year forecast period, we estimate residential property transactions are around 60,000 higher due to the measure. This is because the reduction in CGT permanently reduces the costs associated with investing in qualifying properties, and so results in higher transactions.

Extending this costing to beyond the current forecast period would, under the same assumptions, generate a small longer-term yield too. Both the medium-term and longer-term estimates are highly sensitive to the assumed elasticity, which itself is subject to a high degree of uncertainty.

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As shown in the table below, the overall impact of these behavioural effects comes through via three different tax heads:

- The static CGT cost of the measure offset by behavioural responses, though this element returns to being negative from 2027-28 onwards.
- A loss in income tax revenue from the property income that is no longer generated.
- A gain from stamp duty land tax from property buyers. It is this element that is responsible for most of the yield in the medium-term.

Secondly, I wondered if you could clarify an apparent discrepancy between the OBR's analysis and the figures in the Treasury Red Book. On p.65 of the EFO it is stated that "by 2028-29, the overall effect [of the policy] is a small net cost" to the Exchequer. However, the Treasury's policy scorecard (on p.66 of the Red Book) suggests that in 2028/29 there is a small net gain of £5 million.

The difference is due to the *EFO* numbers referring to only the tax impacts of the measure, which are very slightly negative in 2028-29, whereas the Treasury's policy scorecard includes the impact of the measure on block grants adjustments (BGA) for Scotland and Wales. Once these adjustments are included the small negative amount becomes a small positive one. As set out above, beyond the scorecard period, we estimate the measure would generate small positive yield both including and excluding the BGAs.

The BGAs are mechanical changes that are set out in the respective nations' fiscal framework agreements with the UK Government. They apply here because, while the measure relates to capital gains tax, it also has implications for income tax and stamp duty, which are partly (income tax) and fully (SDLT) devolved to Scotland and Wales. The table below also shows the BGA lines (the 'Current AME' and 'Current DEL' lines are the ones that refer to the Scottish and Welsh BGAs respectively).

Table 2.1: Breakdown of policy decisions since November 2023

				£ million						Uncertainty rating[1]
				Forecast						
		Head	Category	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	
Scorecard measures										
15	Capital Gains Tax: cut higher rate for property from 28% to 24% from 6 April 2024	Receipts	Capital gains tax	-50	130	227	21	-47	-82	Very high
		Receipts	Stamp duty	-17	181	210	114	120	124	
		Receipts	Interest and dividend receipts	0	-1	-10	-10	-3	-5	
		Receipts	Income tax	0	-12	-84	-80	-26	-38	
		Current AME	Scottish BGA (current)	-1	7	4	0	4	3	
		Current DEL	PSCE in RDEL	0	4	3	1	2	2	
		Total		-68	309	349	46	49	4	