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STAMP DUTY LAND TAX RELIEF FOR NEW ZERO-CARBON HOMES

PURPOSE AND INTENDED EFFECT OF THE MEASURE

Policy Objective

9.1 The objective of introducing a stamp duty land tax relief is to help kick start the market for zero-carbon homes, encourage microgeneration technologies, and raise public awareness of the benefits of living in zero-carbon homes. It will also help to incentivise major changes in house building and will complement the ambition announced by the Department for Communities and Local Government (DCLG) in December 2006 that all new homes be built to a zero-carbon standard by 2016. It is, in short, a signal that the Government would like to see more of these types of houses built in the future, and is a fiscal incentive to get the market to move in this direction.

9.2 It is expected that by 2050 about one third of the housing stock will have been built since 2006. So new homes have a vital role to play in helping to meet the United Kingdom's target of 60% reduction in carbon emissions by 2050. According to the partial Regulatory Impact Assessment (RIA) published by DCLG alongside their consultation on "Building A Greener Future: Towards Zero Carbon Development" (December 2006)¹, it is estimated that having all new development built according to a zero-carbon standard is expected to save between 6.5 MtC (million tonnes of carbon) and 7 MtC per annum in England and Wales by 2050 compared to the do nothing option. This measure will have an additional effect on carbon savings in years to come.

9.3 The relief will apply to the whole of the United Kingdom and will be time-limited to five years. Before that point, the Treasury will conduct a review of the scheme to determine to what extent it has achieved its objectives. The relief will apply only to residential transactions (individuals) and not to commercial transactions (business).

9.4 The relief will provide exemption from tax liability when house costs less than £500,000, and will provide a £15,000 reduction in tax liability to all homes worth more than £500,000. The risk of not setting an upper limit would be that the relief would exceed the additional construction costs associated with building a home to a zero-carbon standard. The relief will only be available at the first point of sale. Allowing the relief to apply to second and subsequent sales would result in no new environmental benefits to either homebuyers or to society, and would, therefore, not provide good use of public money.

9.5 Introduction of the relief will not significantly affect the administrative burden on solicitors who usually complete and submit the stamp duty land tax return to HMRC on behalf of homebuyers. The tax relief is within the self-assessment system and we expect it to be largely self-policing. The stamp duty land tax return will remain unchanged. There will be very small administrative burden on developers in obtaining the certificate acknowledging the property they have developed is built to a zero-carbon standard. As it is the aim to use the existing Energy Performance Certificate (EPC) system, this has helped to keep the additional administrative burden on both solicitors and developers to a minimum.

¹ http://www.communities.gov.uk/pub/173/BuildingaGreenerFutureTowardsZeroCarbonDevelopment_id1505173.pdf

9.6 The stamp duty land tax relief is consistent with the Treasury's objective to protect and improve the environment by using instruments that will deliver efficient and sustainable outcomes through evidence-based policies. It is also consistent with the United Kingdom's objective of reducing carbon emissions by 60% by 2050.

Background

9.7 2.7 Stamp duty land tax is a transaction tax payable on the purchase of land and property, or any consideration for the acquisition of an interest in land or property. It is payable by the buyer at a rate which depends on the purchase price of the property, and is administered and collected by HMRC. As part of a major modernisation in Finance Act 2003, stamp duty (on documents) was replaced by stamp duty land tax (on the transaction itself) with effect from 1 December 2003. Stamp duty is also charged on grants of new leases of land and buildings both on the premium (capital sum paid by the purchaser) and on the rental element.

9.8 2.8 The current (with effect from 22 March 2006) residential rates and thresholds for stamp duty land tax is set out in the table below:

Rate (%)	Threshold (£)
0	0 -125,000 *
1	125,001 - 250,000
3	250,001 - 500,000
4	500,001+

* Starting residential threshold in 2000 disadvantaged areas² is £150,000.

9.9 The Pre-Budget Report (PBR) 2006 announced that a stamp duty land tax exemption for the vast majority of new zero-carbon homes would be introduced in 2007. Further details of the exemption, as promised, were set out in Budget 2007; this included a five-year time limit, a cap on the relief of £15,000, and a definition of a new zero-carbon home.

9.10 A zero-carbon home is one that does not consume fossil fuels for heat and power. It is highly insulated and uses renewable energy to power its needs over a year through microgeneration. Heat and power technologies include ground source heat pumps, photovoltaic cells, solar water heaters and wind turbines. It will draw from the grid when the microgeneration is insufficient but could sell excess generation back to the grid. The Government wants to stimulate a significant shift in technology in this area. The definition proposed would not include carbon emitted during construction nor that "embodied" in the manufacture of these materials. Similarly, it would not include recycled material quotas nor will it allow the home to offset carbon by such as planting trees. But these issues could be addressed in the future.

9.11 DCLG is the Government department responsible for building regulations. They published a consultation (Building A Greener Future: Towards Zero-carbon Development)³ (December 2006)³ setting out the Government's plans to set a timetable for moving towards zero-carbon development as a contribution to meeting the United

² Disadvantaged areas are designated as 'enterprise areas' in the 2002 PBR. They are the 2000 areas which are most deprived on the basis of the indices of deprivation published by the administrations of England, Wales, Scotland and Northern Ireland.

³ http://www.communities.gov.uk/pub/173/BuildingaGreenerFutureTowardsZeroCarbonDevelopment_id1505173.pdf

Kingdom target to reduce carbon emissions by 60% by 2050. In short, it is an ambition that by 2016 all new homes should be built according to a zero-carbon standard.

Rationale For Government Intervention

9.12 The Stern Review⁴ reported that the scientific evidence was overwhelming in suggesting that climate change is a serious global threat and demands urgent action. The overall costs and risks of climate change resulting from failure to act now will be equivalent to losing at least 5% of global Gross Domestic Product (GDP) each year. If a wide range of risks and impacts are taken into consideration, this could rise to as much as 20% of GDP or more. According to Stern, taking action now to avoid the worst impacts of climate change could limit the cost of mitigation to 1% of GDP. In short, the conclusion of the Stern Review is that the benefits of strong and early action far outweigh the economic costs of inaction.

9.13 More than a quarter of the carbon dioxide emissions in the United Kingdom arise from energy used to heat and light homes. It is also clear that providing enough new homes to meet demand is an important issue. Increases in longevity and the tendency for people to form more, but smaller, households means that we need additional housing provision. Recent projections show that number of households will grow by 200,000 each year until 2026. In 2005-06, over 180,000 new homes were built, the highest level for over 15 years but still short of the 200,000 needed. It is expected that by 2050 about one third of the housing stock will have been built since 2006. So new homes have a vital role to play in helping to meet the United Kingdom's target of 60% reduction in carbon emissions by 2050.

9.14 It is therefore important we take immediate steps. The main driver on standards in new homes has been building regulations and the planning system which prescribes the way we design, build and locate development. These will continue to be very important as evident by DCLG's consultation to drive higher environmental performance in new homes. The move to zero-carbon development through these measures will take time, as it will require a revolution in construction techniques, training and employment of technology to deliver this. We, therefore, believe that there is a role for fiscal policy, in the form of a stamp duty land tax relief, to help kick start the market in the short term. It should be highlighted that there are limits to what a stamp duty land tax relief can achieve. This is because energy consumption is ultimately a function of lifestyle, and stamp duty land tax has limited influence on the lifestyles of individuals. Stamp duty land tax, however, is well suited to incentivising the construction of homes which incorporate specific energy efficiency standards in the fabric of the building and incorporation of microgeneration technology at the design stage. Reducing energy consumption in the home is also a Government objective, and there are other measures and instruments Government is introducing that are better designed and able to address this.

9.15 According the partial Regulatory Impact Assessment (RIA) published by DCLG, if all new homes reached zero-carbon standard it would have a significant effect on carbon emissions; it is estimated that this could save between 6.5 MtC (million tonnes of carbon) and 7 MtC per annum in England and Wales by 2050. This measure aims to increase the speed at which zero-carbon homes come onto the market in the years up

⁴ Stern Review on the Economics of Climate Change (30 October 2006) - http://www.hm-treasury.gov.uk/independent_reviews/stern_review_economics_climate_change/sternreview_index.cfm

to 2016. By doing that, the measure will have an additional effect on carbon savings in years to come

9.16 Zero-carbon homes will offer homebuyers significant reductions in energy bills, potentially to nil. The average combined annual household gas and electricity bill is estimated at about £7805. However, the financial benefits of this would need to be offset by the annual maintenance costs of some of the equipment associated with running a zero-carbon home, and there are not yet estimates of this cost available.

9.17 The stamp duty land tax relief will only be available for a newly built zero-carbon home at the first point of sale. The relief will not apply to the second or subsequent points of sale. This is because a key objective of this measure is to provide an incentive to developers to build these homes through stimulating consumer demand. Once homes are built to highly insulated standards with other energy saving technology, we expect the benefit in terms of energy savings (and reductions in CO₂ emissions) to remain in the home for many years. Allowing the relief to apply to second and subsequent sales would result in no new environmental benefits to either the homebuyer or society, and would, therefore, not provide good use of public money.

9.18 The relief will provide exemption from tax liability when a house costs less than £500,000, and will provide a £15,000 reduction in tax liability to all homes worth more than £500,000. The risk of not setting an upper limit on the tax reduction available would be that the relief could exceed the additional construction costs associated with building a home to a zero-carbon standard and would not deliver good use of public money.

CONSULTATION

9.19 No formal public consultation has taken place to date. However, informal discussions have taken place across Government principally with HM Revenue and Customs (HMRC); Department for Communities and Local Government (DCLG); and, the Department for Environment, Food and Rural Affairs (DEFRA). Other Government stakeholders involved in discussions are: Department for Trade and Industry (DTI); Welsh Assembly; Scotland Office; Scottish Executive; Scottish Building Standards Agency (SBSA); Northern Ireland Office; Northern Ireland Executive; and, the Greater London Authority (GLA). Overall response received was generally positive and welcomed the introduction of such a tax relief.

9.20 Informal discussions took place with a number of interested parties in the field of zero-carbon development since the initial announcement at PBR 2006. Informal consultations will take place after Budget 2007 on the (technical) definition of a new zero-carbon home and on administration matters. The definition of a zero-carbon home will be set out in a draft Treasury Order (Statutory Instrument) which will be made and come into force only after Royal Assent is granted to Finance Bill 2007.

OPTIONS

9.21 There are essentially two options under consideration in which stamp duty land tax can be used as an effective fiscal instrument to contribute to reducing carbon

⁵ Based on *Quarterly Energy Prices*, DTI, December 2006

emission emanating from homes and at the same time helping to kick start the market for zero-carbon homes with a view to having all new homes developed to a zero-carbon standard by 2016.

9.22 The two options are as follows:

Option 1: Do nothing

9.23 Developers who decide to build zero-carbon homes will incur additional construction costs compared to building a conventional home. These additional costs are likely to fall as more zero-carbon homes are built and the benefits of economies of scale are realised as the number of zero-carbon developers increase. The stamp duty land tax relief will help reduce potential cost barriers to building such homes. Developers may also experience marketing difficulty in selling them to the public. As a result, the market for zero-carbon homes will not grow as fast as the Government would like it to between now and 2016 – at which point it becomes mandatory for all new homes to be built to a zero-carbon standard. This would result in less energy efficient homes being built and utilised, and more carbon emissions being let out into the atmosphere than otherwise would. This could jeopardise the United Kingdom's ambition to reduce carbon emissions by 60% by 2050.

Option 2: Stamp duty land tax relief for new zero-carbon homes

9.24 The relief will help kick start the market for zero-carbon homes, encourage microgeneration technologies and raise public awareness of the benefits of living in a zero-carbon home. It will complement the ambition announced by the DCLG in December 2006 that all new homes be built to a zero-carbon standard by 2016.

9.25 25% of UK carbon emissions derive from consumption of energy in the home and by 2050 approximately one third of the housing stock will have been built since 2006. So new homes have a vital role to play in helping to meet the United Kingdom's target of 60% reduction in carbon emissions by 2050.

9.26 The relief is designed to incentivise demand for zero-carbon homes among homebuyers, recognising that in order to raise energy efficiency standards significantly beyond where they are now the industry will have to modernise production methods and innovate through employment of new materials and technologies. The relief will also provide developers with a powerful marketing tool – they will be able to advertise these homes as free of stamp duty land tax which many potential buyers would find very attractive.

9.27 The table below shows the financial benefits of the two options in terms of stamp duty land tax liability.

Cost of House	Stamp Duty Land Tax liability under		Value of savings resulting to homebuyer under option 2 compared to option 1
	Option 1	Option 2	
(£)	(£)	(£)	(£)
100,000	0	0	0

150,000*	1,500	0	1,500
200,000	2,000	0	2,000
250,000	2,500	0	2,500
300,000	9,000	0	9,000
400,000	12,000	0	12,000
500,000	15,000	0	15,000
600,000	24,000	9,000	15,000
700,000	28,000	13,000	15,000
800,000	32,000	17,000	15,000
900,000	36,000	21,000	15,000
1,000,000	40,000	25,000	15,000

* Assuming this property does not fall within a disadvantage area; otherwise it would attract the disadvantage areas relief and would be exempted from tax as it is below the starting threshold of £150,000 for disadvantage areas.

COSTS AND BENEFITS

Benefits

Option 1: Do nothing

- No administrative impact on developers from obtaining a certificate verifying that a home is built to a zero-carbon standard, and on solicitors who usually complete and submit the stamp duty land tax return to HMRC on behalf of home buyers.
- No administrative impact on public sector bodies responsible for administering the certification process, and, on HMRC who is responsible for administering and collecting stamp duty land tax.

Option 2: Stamp duty land tax relief to new zero-carbon homes

- Reduction in carbon emissions.
- Helps kick-start the market for zero-carbon homes and raises public awareness of the benefits of living in these homes.
- Provides developers with a powerful marketing tool to sell zero-carbon homes.
- Reduces potential cost barriers for developers given such homes cost more to build than conventional homes.

Costs

Option 1: Do nothing

- Market for zero-carbon homes does not develop as fast as the Government would like in the run up to 2016.
- Developers experience marketing difficulty in selling these homes to potential homebuyers.
- Developers continue to face potential cost barriers to building these homes given they cost more than building a conventional home.

Option 2: Stamp duty land tax relief to new zero-carbon homes

- A small administrative impact on developers from obtaining a certificate verifying that a home is built to a zero-carbon standard, and on solicitors who usually complete and submit the stamp duty land tax return to HMRC on behalf of home buyers.
- A small administrative impact on public sector bodies responsible for administering the certification process, and, on HMRC who is responsible for administering and collecting stamp duty land tax.

Sectors Affected

9.28 The following groups and sectors are likely to be affected by this measure: house builders; homebuyers; society; energy sector; manufacturers of sustainable technologies; solicitors engaged in property work; and, the public sector.

House Builders

9.29 The house building industry will be affected as they would have to make commercial decisions, albeit voluntarily, about whether to build homes to a zero-carbon standard. The building industry has to do this in any case to meet new demands from customers and to match changes in industry standards. We expect many developers to use the stamp duty land tax relief as a powerful marketing tool to sell these homes to the public.

9.30 It is likely that a significant proportion of the tax incidence will fall upon developers - this means developers will be able to sell these homes at a higher price than they would have otherwise were it not for the tax relief. It would, therefore, reduce potential cost barriers in building these homes.

Homebuyers

9.31 Homebuyers will benefit from the improvements, both in financial and non-financial terms, from living in homes built to a zero-carbon standard. They will benefit from savings on a stamp duty land tax liability ranging from £1,250 to £15,000 - depending on the value of the property. But this financial benefit is likely to be partially offset as developers of zero-carbon homes are likely to sell these homes at higher price to cover the additional costs associated with building a home to a zero-carbon

standard. Even allowing for this, we still expect zero-carbon homebuyers to remain overall financially better off compared to the do nothing option.

9.32 Homebuyers will benefit from lower energy bills throughout the time spent in the home compared to living in a conventional house. The average annual gas and electricity bills combined together is estimated at about £780. But this will be offset by the annual maintenance costs of some of the equipment associated with running a zero-carbon home – there are currently no estimates of this cost.

Society

9.33 More generally, the environmental benefits of reduced carbon emissions from improving the energy performance of new build will affect wider society.

Energy Sector

9.34 The energy sector will be indirectly affected, as improvements in energy performance of zero-carbon homes will reduce the demand for energy from the domestic sector. The generation and exportation of power from homes to the grid will result in the energy sector having to produce less power compared to households living conventional houses. This will have further environmental benefits, as less carbon emissions will be let out into the atmosphere from power stations. It will also have a negative economic impact on power companies as less power overall will be imported i.e. demanded by households living in zero-carbon homes. The policy could also increase the rate of development of renewable energy power.

Manufacturers of Sustainable Technologies

9.35 Another sector that will be indirectly affected would be manufacturers of sustainable technologies as a result of the impact on demand for these technologies. The market for their products will be stimulated further, contributing to economies of scale in production as the technologies become more commonplace.

Solicitors and Conveyancers

9.36 Solicitors who are employed in property work will be affected, as it is they who usually complete and submit the stamp duty land tax return to HMRC on behalf of homebuyers. Solicitors will be provided from the buyer with a certificate qualifying the home as meeting the Treasury's zero-carbon standard. No additional administrative work will have to be carried out by solicitors other than to retain a copy of the certificate on their files for HMRC compliance purposes. The stamp duty land tax return will remain unchanged as a result of this measure but will updated in due course.

9.37 In England and Wales there are almost 9,000 solicitors firms who deal with conveyancing. In Scotland and Northern Ireland there are about 800 and 200 solicitors, respectively. Therefore, a total of about 11,000 solicitors in the United Kingdom potentially affected by this measure.

Public Sector

9.38 There will be two types of impact on the public sector. The first will be on HM Revenue and Customs who administer and collect stamp duty land tax. The tax relief is within the self-assessment system and we expect it to be largely self-policing. It is a tax relief and levels of compliance are likely to be high. There will be no change to the

stamp duty land tax return. The additional administrative impact on HMRC will be extremely small.

9.39 The second impact will be on DCLG who will be responsible for administering the Energy Performance Certificate (EPC) system in England and Wales. In Scotland the certification process will be controlled by the Scottish Executive and in Northern Ireland by the Northern Ireland Executive (Department for Social Development). The certification process will provide developers (and homebuyers) with the certificate that a house falls within the definition of zero-carbon set by the Treasury. The homebuyer will need to be given this certificate in order to claim the stamp duty land tax relief. Given the aim to use the existing Energy Performance Certificate (EPC) system, this has ensured this additional administrative burden on developers and solicitors is kept to the bare minimum.

Regional Impact

9.40 A significant proportion of the stamp duty land tax yield is derived from sale of homes in London and the South East of England. Around 50% stamp duty land tax yield on residential property in 2005-06 arose from London and the South East of England. This is largely because of a significant proportion of homes transacted fall within the threshold bands where the 3% and 4% rates apply compared to other regions. However, having a cap on the relief at £15,000 will help to minimise any regional distortions arising from this relief.

Race and Equality Impact

9.41 There will be no race or equality impact arising from this measure.

SMALL FIRMS IMPACTS TEST

9.42 6.1 The tax relief is targeted at individuals and not business (although there may also be an effect on businesses involved in the building and selling of zero-carbon homes).

9.43 6.2 Solicitors employed in property work usually complete and submit a stamp duty land tax return to HMRC on behalf of homebuyers. The administrative impact, on solicitors (irrespective of the size of their business) would be small.

9.44 6.3 There currently exists very few developers of zero-carbon homes, and the ones that do currently exist are predominantly small and medium size enterprises. Developers will financially benefit from this measure given the incidence of tax relief will fall upon developers (see paragraph 5.7 for further explanation of tax incidence).

COMPETITION ASSESSMENT

9.45 Tax relief will benefit only those transacting in the residential property market (individuals) and not those transacting in the commercial property market (business).

9.46 The aim of the relief is to generate consumer demand for new homes to be built to zero-carbon standard in advance of the change in building regulations which will make it mandatory for all new homes to be built to a zero-carbon standard. The tax relief does not compel developers to build homes to a zero-carbon standard but provides a financial and marketable incentive for them to do so.

9.47 This measure incentivises microgeneration above other forms of low carbon electricity generation, for example onshore wind farms. However the proposals leave it to the market to determine which are the most appropriate technologies.

ENFORCEMENT, SANCTIONS AND MONITORING

9.48 Sanctions will be in place if an individual attempts to claim the tax relief that they are not entitled to. HMRC will have the power to impose penalties on such individuals as well as being able to recover the tax relief. If a false certificate has been issued by the developer without the knowledge of the homebuyer then not only will HMRC have the power to recover the tax relief but have the power to impose a penalty on the developer.

9.49 The stamp duty land tax relief for new zero-carbon homes will be time limited to five years. A review, including of the standards for zero-carbon home, will take place by 2012. By that point we will also review the costs and benefits of the scheme including the regulatory, compliance and administrative costs. In the interim, monitoring of stamp duty land tax relief scheme including take up of the relief and compliance related issues will be carried out using HMRC's existing procedures.

IMPLEMENTATION AND DELIVERY PLAN

9.50 Finance Bill 2007 will legislate for the provision of a stamp duty land tax relief for new homes built to a zero-carbon standard. The legislation will provide for the relief to expire after five years; cap the relief at £15,000; and, provide the Treasury with the power to define a new zero-carbon home through secondary legislation.

9.51 In order to claim the stamp duty land tax relief, the homebuyer will need to claim it as a relief on the stamp duty land tax (transaction) return which is submitted, via the solicitor, to HMRC. Any certificate provided verifying that the home qualifies will need to be retained by the homebuyer (and solicitor) as evidence in use of enquiry.

9.52 The certification process will be part of the Energy Performance Certificate (EPC) process. EPC was initiated by the European Union (EU) in January 2003 and will be compulsory. The EPC will be introduced in Scotland from May of this year and in England and Wales from June also of this year. As for Northern Ireland, it will be introduced from January 2009. The EPC will be part of the Home Information Packs, and will detail average costs for heating, hot water and lighting in the home. It will also quantify how energy efficient the home is and how to cut costs with energy efficiency measures. It is mandatory that an EPC be issued when a new building (including a new home) is constructed.

POST IMPLEMENTATION REVIEW

9.53 The stamp duty land tax relief will be time limited to five years. – will expire in 2012. The scheme, including the standards for zero-carbon home, will be evaluated by 2012.

SUMMARY AND RECOMMENDATION

9.54 We recommend option 2 – providing a stamp duty land tax relief for a new zero-carbon home.

9.55 Relief will incentivise demand for zero-carbon homes among homebuyers and will complement the ambition announced by the Department for Communities and Local Government that all new homes be zero-carbon by 2016. In short, it will help kick start the market for zero-carbon homes, encourage microgeneration technologies and raise public awareness.

9.56 The additional administrative and regulatory burden associated with this measure would be small. Solicitors, who usually complete and submit the stamp duty land tax return on behalf of their clients (homebuyers) to HMRC will not experience or notice any substantive change to their administrative burden or costs. The EPC process has enabled to keep the additional administrative burden on developers and solicitors to the very bare minimum.

9.57 The stamp duty land tax relief is consistent with the Treasury's objective to protect and improve the environment by using instruments that will deliver efficient and sustainable outcomes through evidence-based policies. It would also help contribute towards the United Kingdom's objective to reduce carbon emissions by 60% by 2050, given a quarter of all emissions arise from consumption of energy in the homes and that by 2050 about one third of homes would have been built since 2006.

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REGULATORY IMPACT ASSESSMENT

Stamp duty land tax relief for new zero-carbon homes

Statement of Ministerial Approval

I have read the Regulatory Impact Assessment and I am satisfied that the benefits justify the costs.

Signed by the responsible Minister:

JOHN HEALEY MP
FINANCIAL SECRETARY TO THE TREASURY

Dated: 19 March 2007