



links to articles
in this issue:

The Budget: action needed
on stamp duty and ISMI

Fuzzy households,
fuzzy tenures

Government sets
new housing standards

Lenders support
anti-fraud measures

useful links

Media centre:

Recent press releases

Press office contacts

Politics

Statistics:

Key statistics

Policy:

Issues

Responses

Events:

Events programme

CML website:

www.cml.org.uk

The Budget: action needed on stamp duty and ISMI

- Next week's Budget represents an excellent opportunity for the government to reinforce confidence in the housing market. We urge it to seize the chance for reform of both stamp duty and state support for home-owners in difficulty.
- Action on residential stamp duty is long overdue. Government revenue from it has increased 10-fold since 1997. Reform is necessary to address the growing conflict in government policy between encouraging the expansion of home-ownership and imposing a tax on home-buying that affects the majority of first-time buyers.
- Higher rates of stamp duty introduced by the government now capture an increasing number of buyers. In the last two years, the proportion of first-time buyers paying higher rates has doubled, from 5% to 10%. Among movers, the proportion has grown from a quarter to one-third.
- Buyers are more likely to absorb high transaction costs if they expect the value of their new home to grow quickly. Changing market conditions mean that the effect of stamp duty is likely to become more apparent. As that happens, stamp duty may become an ongoing source of friction in the housing market.
- The government benefits from a healthy housing market, and lifting the starting threshold of stamp duty would send a clear signal that it does not want taxation to be an obstacle for first-time buyers. We estimate that this would cost no more than £1.2 billion in a full year – perhaps less depending on the number of transactions – and would redress the government's failure to index stamp duty in line with house price inflation since 1997.
- The government also needs to extend state help for home-buyers in difficulty, which is currently woefully inadequate. We urge it to consider making enhanced state help a second charge on the property. That would allow the government to provide more – and better targeted – support at the time of need, but re-coup the costs at a later date.

BSAC

The BSA Annual Conference
Financial Services Exhibition

To register, log on to:
www.bsaconference.org

Manchester Central, 7th & 8th May 2008





links to articles
in this issue:

Fuzzy households,
fuzzy tenures

Government sets
new housing standards

Lenders support
anti-fraud measures



The Budget: action needed on stamp duty and ISMI

Our two-pronged Budget submission

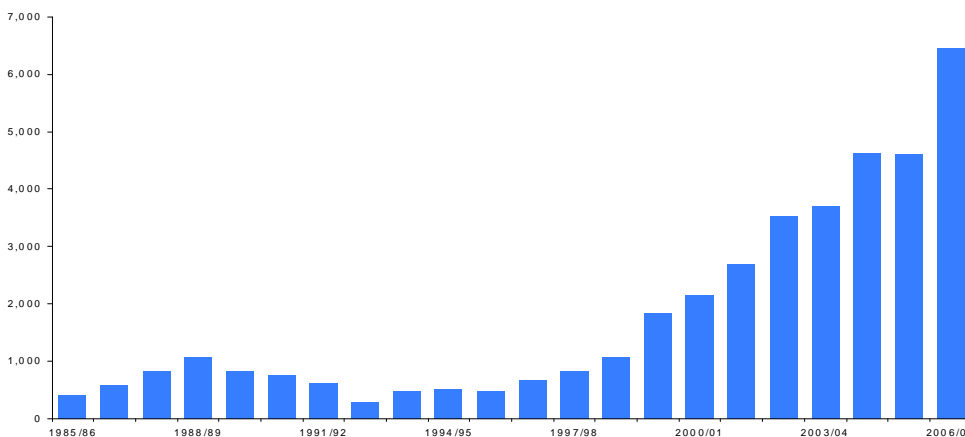
The forthcoming Budget represents an excellent opportunity for the government to underpin consumer confidence in the housing market. We believe that it could achieve this by implementing just two specific proposals.

Embarking on the process of long-overdue reform of stamp duty would address concerns about the way the way this tax inflates transaction costs and could be a source of friction in a slowing housing market. Our second proposal is that the government should use the Budget to provide better support for home-owners in difficulty. We believe that the government could provide more comprehensive – and much better targeted – support for home-owners in difficulty by making income support for mortgage interest (ISMI) a second charge on the property. That would give the government the chance to re-coup at a later date the cost of more generous state help at the time of need.

Taxation and home-ownership

The government's failure to index the threshold for residential stamp duty means that it now yields 10 times more for the Treasury than it did in 1997 (see chart one). In its first Budget, the current government embarked on a policy of introducing higher rates of duty for more expensive properties, an approach it reinforced over the next three years by increasing the rates of duty on higher-priced properties. Over that period, it transformed stamp duty from a uniform levy of 1% of the price paid on all properties bought for more than £60,000. By 2000, duty was levied at 3% on properties bought for more than £250,000 and 4% on those costing more than £500,000.

Chart One: Yield from stamp duty on residential dwellings, £m



Source: HM Revenue & Customs

Much of the revenue produced by stamp duty is now derived from purchases liable for higher rates of tax. We estimate that the yield from stamp duty in 2006/07 would have been £2.9 billion if the 1% rate had applied to all purchases above the starting threshold. Levying it at higher rates on higher priced properties produced an extra £3.6 billion for the government.

Fiscal drag – the process by which the yield from tax grows because the government fails to increase tax thresholds in line with prices – has transformed stamp duty into an increasingly important source of revenue for the current government. But as tax revenue has increased, the conflicts between the government's desire to raise revenue and its aim of encouraging home-ownership have become more pronounced. One of the government's long-term aspirations is to extend owner-occupation to three-quarters of the population.

“Increasing the stamp duty threshold by £5,000 in 2006 was tinkering. A £5,000 increase now would cost the government £15 million – less than £1 per home-owning family in the UK”



However, stamp duty clearly increases the up-front costs associated with house purchase, and disadvantages first-time buyers specifically.

Market distortion

Unlike most other taxes, stamp duty is levied at the highest marginal rate on the whole price of the property. This approach magnifies the way stamp duty distorts the housing market. Buying a house for slightly more than £250,000, for example, will cost the purchaser at least £5,000 more in duty than securing it for a price of just under £250,000. There is clear evidence that this produces a bulge in transactions at prices just below the thresholds at which higher rates apply, and a vacuum of transactions above that.

The government has not raised the threshold for these higher rates of duty since they were introduced 11 years ago. Fiscal drag means that, in the last two years, the proportion of first-time buyers paying higher rates of duty has doubled, from 5% to 10%. Over the same period, the proportion of movers paying higher rates has risen from around a quarter (24%) to one-third (33%). The effects of fiscal drag are shown clearly in table one, which shows that the proportion of residential stamp duty paid on homes bought for more than £250,000 and £500,000 thresholds has been rising.

Table One: Residential stamp duty payments in different price bands

Year	Lower band		£250,001 - £500,000		£500,001 upward	
	Amount (£bn)	%	Amount (£bn)	%	Amount (£bn)	%
2001/02	1,040	39	945	35	700	26
2002/03	1,345	38	1,320	37	860	24
2003/04	1,305	35	1,365	37	1,035	28
2004/05	1,400	30	1,770	38	1,450	31
2005/06	1,185	26	1,870	41	1,545	34
2006/07	1,380	21	2,515	39	2,555	40

Source: HM Revenue & Customs

Research we published in 2003 highlighted the impact of stamp duty on affordability for first-time buyers and the way the tax distorts the housing market. Distortion of the market has got worse as the amount of revenue it raises at higher rates had increased.

Our 2003 research also provided evidence about other damaging effects of tax that have since become even more pronounced, including the way stamp duty: discourages household mobility, which helps sustain an efficient, dynamic and responsive economy; increases the volatility of house prices and property transactions; and introduces geographical inequality.

The government's response

There has been little response to the merits of our arguments from government. There have been modest uplifts in the threshold for the lowest rate of stamp duty, most notably in 2005, when – shortly before a general election – the government doubled the threshold from £60,000 to £120,000. (The government also modestly raised the threshold again – to £125,000 – the following year.) But the structure of stamp duty, along with the government's failure to adjust the threshold in line with house price inflation over a much longer period, meant that the effects of these measures had little impact on the overall tax burden. However, raising the threshold for stamp duty from £60,000 to £125,000 magnified regional inequality still further.

Increasing the threshold by £5,000 in 2006 was little more than tinkering – as the government's own analysis shows. It has calculated that should there be a £5,000 uplift in the starting threshold now, the government would forego £15 million in revenue in 2008/09 – the equivalent of only around 0.2% of the £6.5 billion stamp duty on residential property produced for the government in 2006/07, or less than £1 per home-owning family in the UK.



“The chancellor should consider an immediate increase in the threshold followed by fundamental reform addressing the way stamp duty is levied at the highest marginal rate on the whole price of the property”



links to articles
in this issue:

Fuzzy households,
fuzzy tenures

Government sets
new housing standards

Lenders support
anti-fraud measures



Although we have seen a robust housing market over the last decade, its strength has not been based on a large number of transactions. For the last 15 years or so, annual turnover of residential property in England and Wales has ranged between 6% to 8% of the housing stock, compared to annual rates of between 10% and 12% for much of the 1980s. Anecdotal evidence suggests that over the same period there has been a significant increase in the numbers of people choosing to stay put and extend and improve their existing homes. Part of the reason for doing this is to avoid transaction costs – the main one of which, in many cases, is stamp duty.

Despite the impact of stamp duty on transaction costs, its effect has been masked to some extent by the strength of house price growth and economic stability over the last decade. Buyers are more likely to absorb stamp duty costs if they believe that the home they are buying will quickly grow in value. However, most commentators, including the Bank of England and us, believe that the first half of this year will be difficult for the housing market and the wider economy. And the medium-term outlook is that the levelling-off in house prices that began in the second half of last year will continue.

Market conditions

That represents a significant change from the market conditions that have prevailed since the government began levying stamp duty at higher rates. In the new market environment, the cumulative impact of stamp duty – and the failure to index it in line with previous increases in house prices – is likely to be more apparent. As that occurs, stamp duty may become an ongoing source of friction in the housing market. The timing of the forthcoming Budget represents an excellent opportunity for the chancellor not only to begin the process of longer term reform of stamp duty but to address the issue of its impact in changing market conditions. This is even more important given that short-term inflationary pressures are now restricting the potential for further easing of monetary policy.

Of course, there are constraints on public borrowing, limiting the potential for fiscal action. But the Budget represents an opportunity for selective action to underpin household confidence. We believe that the chancellor should consider an immediate increase in the threshold for stamp duty as a precursor to more fundamental reform of the tax, which should include a change to the way the tax is currently levied at the highest marginal rate on the whole price paid for a property.

We believe that raising the threshold for stamp duty to £250,000 in the forthcoming Budget would send a clear signal that it is not the government's intention that taxation should be a barrier to first-time buyers. While such a move might be more than is strictly necessary to index the threshold in line with house prices since 1997, it would help sustain consumer confidence and reinforce the government's support for a healthy housing market. The simplicity of our proposals would make stamp duty easier to administer than reforms seeking to exempt first-time buyers from paying the tax. We estimate that this would cost no more than £1.2 billion in a full year, perhaps less depending on the number of transactions. Our arguments on stamp duty are outlined more fully in a CML research article [Stamp duty licked](#) published today.

Help for home-owners in difficulty

The last Conservative government sharply scaled back ISMI in 1995. Since then, home-owners have not been entitled to any state help with housing costs for the first nine months of any claim. Payments have also been capped so that they cover interest payments on mortgages no larger than £100,000. And ISMI payments are calculated at a standard rate of interest that is less likely to reflect real mortgage costs since the impact of the credit crunch last summer.

We have long campaigned for more generous support for home-owners in difficulty, which is now woefully inadequate. For a number of years, we successfully encouraged more households to insure their mortgages against the consequences of unemployment, illness or accident. Mortgage payment protection insurance continues to make a useful contribution but cannot provide protection for all households against all risks.

Meanwhile, the system of state help for households in difficulty is biased in favour of tenants and against home-owners. We believe that current market conditions reinforce the case for more generous support for home-owners with mortgage payment difficulties. We recognise that this could put a greater burden on the government's finances, but urge it to explore ways in which enhanced state support could be considered a second charge on the property. That would enable the government to provide more generous – and better targeted – help for home-owners in difficulty by re-couping the cost at a later date.

“State help for households in difficulty is biased against home-owners. Current market conditions reinforce the case for more generous support”



Fuzzy households, fuzzy tenures

A new research article published by the CML examines how patterns and trends in home-ownership have become less predictable than they used to be.

It concludes that the traditional progression from leaving home, buying a first property, moving up the housing ladder and perhaps trading down in later life is less common among today's home-owners. The article, [Fuzzy households, fuzzy tenures](#) shows that people are more likely to dip in and out of owner-occupation, own property that they do not live in, or live in property that they do not own. The research shows that:

- around one-fifth of first-time buyers are, in fact, 'returners,' having been owner-occupiers at some stage before;
- around 15% of people moving into private renting in 2005/06 were former home-owners;
- the number of second homes in England has grown by 30% in the last decade;
- around 10% of people own a property that is not their current home;
- around 900,000 men and 1.2 million women are couples "living apart together," with each party in a relationship maintaining their own individual property; and
- the rise of the tenant-cum-landlord, with young people who cannot afford a property where they work buying one in a cheaper area and then letting it out as a means of getting on the property ladder.

The research highlights the need for government policy to take a more holistic approach to the housing market, focusing on delivering an adequate supply of high-quality housing, helping people move within and between tenures and providing equal help for those in need, regardless of their tenure.

Government sets new housing standards

The government wants all new homes to be better suited to the needs of older people and to be built to higher environmental standards.

From May, all new homes will be rated against a code for sustainable homes, with properties exceeding environmental standards upheld in building regulations being awarded up to six stars. Homes that have not been assessed against the code will score a nil rating.

The government has also announced that, by 2013, new homes will have to meet 'age friendly' standards, requiring wider doors allowing wheelchair access, improved bathroom design, and staircases big enough to take stair lifts.

- Estate agents have reported a positive start to the year, with an increase in the number of buyers, agreed sales and properties for sale. The National Association of Estate Agents said that lower interest rates and property prices in some areas were encouraging first-time buyers.
- The Land Registry has published two new guides to help protect people against fraud. [How to safeguard against property fraud](#) explains how to take some simple preventative checks, and [Identity checks](#) offer guidance on when evidence of identity is needed in support of an application for registration.
- House prices in England and Wales rose by 0.9% in January, according to the Land Registry. During the month, the annual rate of house price growth declined from 6.7% to 6.4%.





links to articles
in this issue:

The Budget: action needed
on stamp duty and ISMI

Fuzzy households,
fuzzy tenures

Government sets
new housing standards

news & views contacts

News & Views is the
fortnightly newsletter of the
Council of Mortgage Lenders

Bush House
North West Wing
Aldywch
London WC2B 4PJ
Switchboard: 0845 373 6771

Editor

Bernard Clarke

Direct line: 020 7438 8923
bernard.clarke@cml.org.uk

A full list of staff and further
information about the CML
can be found at:

www.cml.org.uk

Lenders support anti-fraud measures

Lenders working with the Financial Services Authority (FSA) as it pursues its statutory objective of fighting financial crime have provided the regulator with details of more than 200 cases of suspected mortgage fraud over the last 18 months.

Lenders take the issue of mortgage fraud seriously, and have put considerable resources into detecting and combating it over many years. Bearing in mind the potential sums involved, any successful fraud may be costly for an individual lender. That, in itself, is a strong incentive for lenders to maintain a high level of vigilance against fraud. But it is important to keep the overall scale of the problem in perspective. Two hundred cases of suspected fraud over 18 months compares with more than three million new mortgages issued over that period.

The range of anti-fraud initiatives supported by lenders includes:

- The FSA's whistle-blowing scheme targeting suspected intermediary fraud, which has produced the 200 suspected cases referred to the regulator. More than 30 firms have so far reported cases. Bearing in mind that many firms, particularly smaller ones, may not have encountered suspected fraud involving intermediaries – and some do not use intermediaries as a source of business – the figures show a considerable degree of support for the regulator's initiative.
- The work we have done to ensure that valuation of new-build property is robust and reliable. In some instances, the failure to report the true price paid for a property – by failing to declare discounts offered by developers, for example – may be fraudulent. In other cases, there may be no criminal intent, but where a discount or other incentive is not reported the lender could be offering a mortgage based on an inflated valuation of the property. That creates risks for both borrowers and lenders. Later this year, we will be amending our [Lenders' Handbook](#) to reinforce the need for a more rigorous approach to valuing newly-built property. We have worked closely on this with the Royal Institution of Chartered Surveyors (RICS), which is planning to reinforce 'best practice' requirements among its own members. Responsible developers also understand – and support – the need for greater transparency over the value of newly-built property.
- Measures aimed at tackling identity fraud targeted at mortgage customers. We contribute to the multi-disciplinary working group set up under the Treasury's public-private forum on identity management.

Lenders also support a vigilant approach to mortgage fraud by police. A co-ordinated approach is welcome because some instances of fraud are complex and cases may extend across different police force areas. Lenders also do not want to see any weakening of criminal sanctions against fraudulent mortgage applications.

At a seminar on mortgage fraud we hosted last month, the director of the FSA's financial crime and intelligence division, Philip Robinson, supported our work to share among members information about fraud.

"Sharing intelligence more widely is clearly the way forward," he said. "The CML is talking to other bodies – notably the Solicitors' Regulatory Authority and the RICS – to get (this) off the ground. All of us are discussing how best to share that greater pool of intelligence, and so to collaborate more effectively in taking the criminals out of the market."

