STAMP DUTY AND RETIREMENT HOUSING - THE CASE FOR A REDUCTION IN STAMP DUTY

Executive Summary

Older households moving to downsizer and retirement housing unlock opportunities to move at all points along the housing chain. They free up family housing, broaden housing choice and reduce under-occupancy in the general needs housing stock. However many older home owners are put off moving by the high cost of buying and selling properties.

A 1% reduction in Stamp Duty for 2 years targeted at older households (aged 55 and over) moving to either specialist retirement housing or a property with fewer bedrooms than the property they were selling would **free up an extra 80,000 family homes and stimulate an extra 220,000 moves by younger households** into family housing better suited to their needs.

By limiting the reduction in Stamp Duty to older movers the loss of revenue to the Exchequer would be more than counter-balanced by Stamp Duty on additional sales to younger households, VAT on fees and tax and National Insurance revenues. These would arise from employment generated by additional household expenditure on renovation and refurbishment of properties purchased. On balance **the Exchequer would gain £600m** in additional revenues.

Retirement Housing Group (RHG) calls on the Government to give consideration to introducing a 1% reduction in Stamp Duty for older households moving into specialist retirement housing or a smaller property than the one they already own. It is suggested that the concession would apply for 2 years and would only apply to one property per household. The scheme could be administered by the Homes and Communities Agency, which already successfully operates the Help-to-Buy scheme.

Why free-up family housing

2001 Census data suggests that 5.4m households aged 65 and over are under-occupying a family property[1] and have 2 or more rooms more than they need.-is. At the same time there are 5.5m younger households who are living in overcrowded conditions.

No one should be forced to move against their will but recent research carried out by Demos suggests that one-quarter of all households aged 60 and over would consider moving to retirement housing if it was available[2] If only a fraction of these people were to move it would free up much needed family housing for younger people currently living in cramped conditions.

For many older households their existing home this will be their preferred housing choice but, for others, children moving away, bereavement and increased frailty may make their family home increasingly ill-suited to their changing circumstances.

According to the Institute of Public Care (IPC)[3], one in four older people have symptoms of depression that require treatment. It is estimated that among those aged over 65, between 5% and 16% report loneliness and 12% feel isolated[4].

Improved mental health was found to be the most consistent health outcome of '*housing interventions'*. Safe, secure, accessible accommodation enables older people to participate in social and community activities, maintaining independence, improving wellbeing and minimising the costs of treating depression as well as physical conditions.

92% of older home owners moving to specialist retirement housing report themselves very happy or mainly contented with their new accommodation[5]. More than 80% said that they generally felt happier in this home than in their previous home. The advantages of moving included

- more convenient location,
- proximity to friends and relatives,
- ease of living in accommodation,
- sociability and security and
- having a house manager present[6].

Similar information is not available on downsizer moves but it seems likely that at least the first three factors will apply.

So a move to a smaller property in a more convenient location can improve quality of life for older households and free-up family sized accommodation for younger people.

However for many older home owners the costs of moving, including Stamp Duty, may act as a major deterrent, preventing them looking for a smaller home.

The same Demos survey reported that for the 43% of over 60s who said that they would find it difficult to move the expense of moving was cited as the second most important factor (with the stress of packing the most important factor).

It is well documented[7] that many older homeowners are 'asset rich but cash poor' without access to the funds required to meet day to day needs and pay or make provision for care costs. Moving to more suitable accommodation can both release equity and provide relief from the burden of living in and attempting to heat and maintain a larger home on an unrealistically tight budget. A reduction in Stamp Duty would reassure older people that they could afford to move without the equity released being eroded by Stamp Duty payments.

The Council of Mortgage Lenders commented in 2013 "*Some Stamp Duty liabilities now look sufficiently large to discourage some people from buying and selling, regardless of whether their accommodation needs are growing or contracting (for example, in old age). As a result, the UK may suffer the effects of an increasingly inefficient use of the existing stock, with larger dwellings disproportionately in the hands of the elderly – under-occupied and perhaps not maintained as well they should be*"[8]

Savills commented in its 2014 budget submission that *It is equally beyond doubt that the Stamp Duty burden creates significant inefficiencies in the housing market, making it difficult for people to get on and move up the housing ladder in London and the South East especially and acting as a disincentive for older households still living in family housing to downsize*[9]

A Stamp Duty Reduction for Older Households

Retirement Housing Group (RHG) has therefore drawn on information from Retirement Housing Providers and published sources to cost up the effects of a 1% reduction in Stamp Duty for 2 years targeted at older households (aged 55 and over) moving to a property which was either specialist retirement housing or had fewer bedrooms than the property they were selling.

We take into account

- Revenue lost through the Stamp Duty Concession to older households
- Stamp Duty revenue from additional family properties brought to the market as a result of increased moves by older households
- Additional Tax and National Insurance revenues generated as a result of an increased number of housing transactions and consequent renovations and housing refurbishments.

Our estimates show that, taking into account all the above factors, overall revenue to the Exchequer over two years would rise by £600m. Detailed assumptions showing our calculations are set out in Appendix 1 but headline numbers are as follows:

We expect an additional 80,000 moves by older households.

This in turn should generate an additional 220,000 moves by younger households (i.e. every move by an older person household leads to 2.75 additional moves).

An estimated **£1.3bn would be foregone in Stamp Duty** from 615,000 older households who would have downsized in any case.

But this loss of income to the Government would be more than counterbalanced by a combination of Stamp Duty receipts from younger movers ,VAT ,National Insurance ,personal and corporation tax payments from individuals and companies who carry out additional work because of the additional moves by both younger and older households.

We estimate that **the additional revenue to the Exchequer would be £1.9bn** giving **a net increase in revenue of £600m over two years.**

80,000 downsizer moves create 220,000 additional moves by younger households
The cost to the Exchequer of foregone Stamp Duty is £1.3 bn
Total additional Revenue to the Exchequer is £1.9 bn made up of Additional Stamp Duty from younger movers £800m VAT on professional services from all additional movers (inc older downsizers) £750m Additional tax and NI payments £375m
Total additional revenue over two years £600m

APPENDIX 1: KEY ASSUMPTIONS

80,000 moves by older households. This figure is based on research by Best and Kleven (2013)[10] which showed that every 1% reduction in Stamp Duty would generate an additional 20% of transactions of which an estimated 12-14% would be genuinely additional sales and 6-8% would be purchases brought forward which would have taken place anyway. We apply a figure of 13% additional transactions. The English Housing Survey shows that 28% of households aged 55 and over have been resident in their present property for 10 years or less[11] which gives an annual estimate of potential movers of 3% of all older person home owners, using 2011 Census data on households by tenure. This would suggest that at present around 300-310,000 older person households move each year. 13% of this figure would generate 40,000 additional moves a year, 80,000 over the two year period of the proposed Stamp Duty reduction.

An additional 220,000 moves by younger households (i.e. every move by an older person household leads to 2.75 additional moves). We know from research by Michael Ball for McCarthy and Stone that the average purchaser of retirement housing is selling a house worth the national average price[12] This is currently estimated at £260,000 with a detached property valued at £380K and a semi/terr/flatted property at £206-230K[13] Many other providers of retirement housing sell properties which are more expensive than this, ranging in price up to £1m[14]. We have assumed that 50% of older households sell detached houses and 50% sell other properties (typically semi-detached or terraced properties).We have then assumed that every move from a detached house triggers 3 other moves and a move from another type of house triggers 2.5 other moves, giving an average of 2.75 additional moves which will be potentially eligible to pay Stamp Duty.

Stamp Duty foregone: Data from RHG members on the price of newbuild retirement housing suggests that 95% of properties are in the 1% Stamp Duty bracket, 4.5% in the 3% bracket and 0.5% in the 4% bracket. Older properties are cheaper and a very small percentage of these may be below the Stamp Duty threshold of £125,000. We do not have definitive information on this percentage so we have assumed that all retirement properties sold qualify for Stamp Duty at some level. This assumption may lead to a slight overstatement of Stamp Duty foregone.

Stamp Duty receipts from additional younger movers. The additional moves by younger households are subject to Stamp Duty which brings revenue into the Exchequer. Properties sold for less than £125,000 are exempt from Stamp Duty, but all other properties are liable for Stamp Duty on a sliding scale upto 4%. We estimate that 90% of these additional moves will pay Stamp Duty, 70% of them at the minimum (1%) rate. This brings in an additional £800m in Stamp Duty Revenues.

VAT on services: Each move has legal and professional fees. In most cases these services attract VAT. We have estimated these at 3% of purchase costs (including from our additional movers into retirement housing), generating an additional £375m in revenue to the Exchequer. Most home buyers also spend on removals, carpets, curtains and other household items on which VAT is chargeable. We have made no allowance for this additional revenue.

Tax and National Insurance: Provision of these services generates additional employment (or more fulltime instead of part time working). The additional workers also pay Tax and National Insurance and the Exchequer benefits from Corporation Tax on any additional profits generated. We use estimates from the Taxpayers Alliance[15] to show that this will generate an additional £730m to the Exchequer. The Taxpayers Alliance calculates that each move generates 0.3 additional jobs (300,000 additional moves generate 90,000 jobs in total). Based on an average wage of £26,500 pa this will generate Tax and NI payments of £8,000 per job per annum giving additional revenue over two years of £730m.

16

---

[1] 2011 Census table DC3403EW - General health by long-term health problem or disability by occupancy rating (rooms) by age

[2] "The top of the ladder" Demos 2013 p30

[3] Identifying the health gain from retirement housing, Institute of Public Care, Oxford Brookes University, June 2012 (quoting Heyword F and Turner L (2007). Better outcomes, lower costs. School for Policy Studies, University of Bristol on behalf of the Office for Disability Issues, Department for Work and Pensions.

[4] Greaves, C.J. and Farbus, L. (2006) 'Effects of creative and social activity on the health and well-being of socially isolated older people: outcomes from a multi-method observational study', The Journal of the Royal Society for the Promotion of Health, vol 126, no 3, pp 133–142 as reported in Preventing loneliness and social isolation among older people, Social Care Institute of Excellence, May 2012

[5] Housing Markets and Independence in Old Age: expanding the the opportunities" Prof Michael Ball 2011

[6] Michael Ball ibid

[7] See for instance most recently"The UK Equity Bank - Towards income security in old age" Mayhew and Smith for the International Longvity Centre 2014 p11

[8] http://www.cml.org.uk/cml/publications/newsandviews/149/581

[9] http://www.savills.co.uk/research_articles/141718/174234-0

[10] Quoted in "Stamp Duty: A CounterProductive Tax" Walbrook Economics 2013

[11] Quoted in Market Assessment of Housing Options for Older People" New Policy Institute 2102 see table 1.15

[12] Michael Ball 2011 ibid

[13] Rightmove House Price Index August 2014

[14] RHG member information supplemented by data from Rightmove Newbuild retirement housing for sale

[15] "**Stamp Duty- a counterproductive tax"** Ewen Stewart for the Taxpayers Alliance 2013 pp12-13