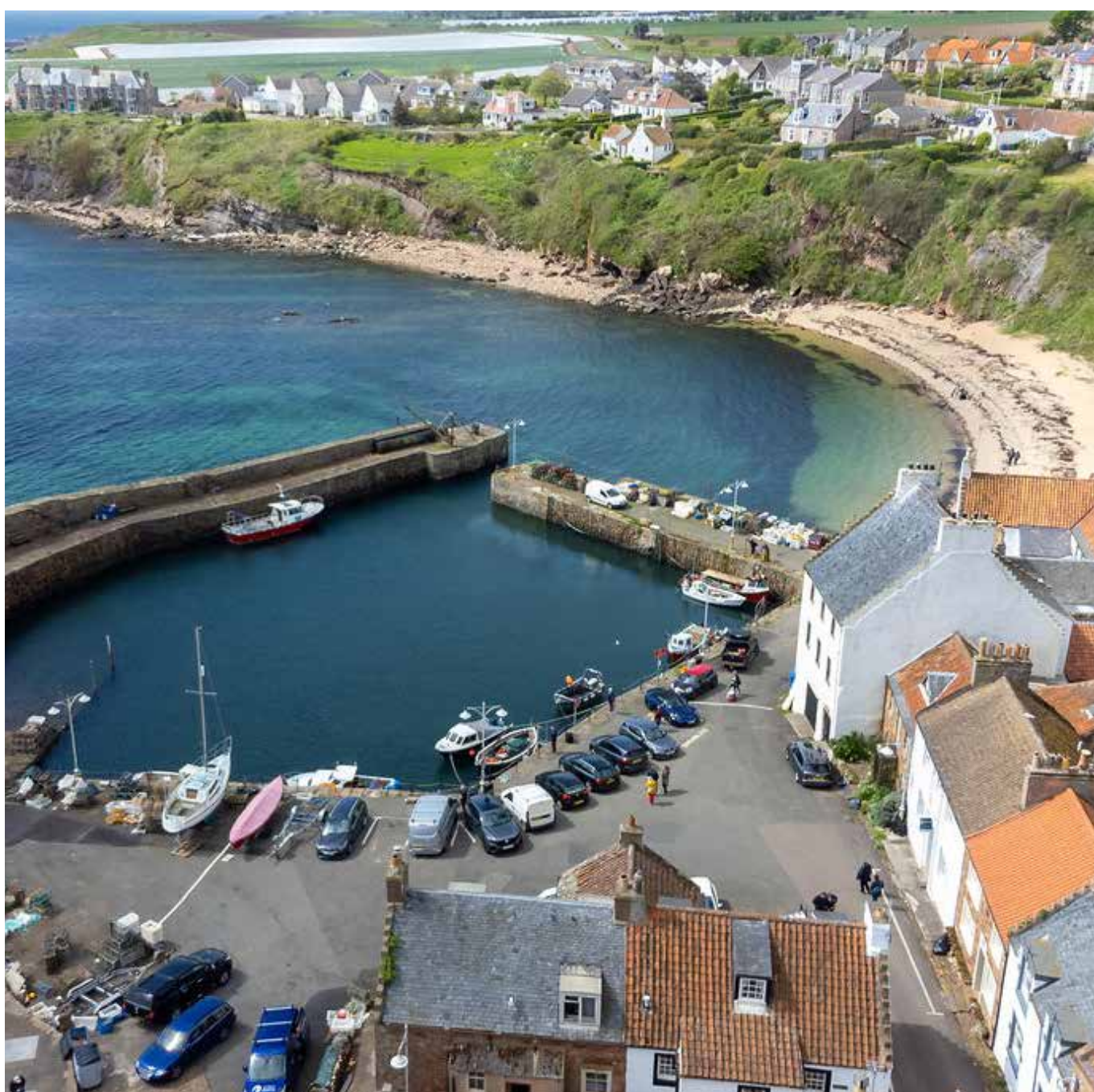


MAY 2023

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# A tale of fiscal drag



# INTRODUCTION

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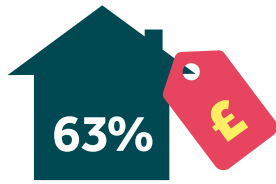
As we've recently reached the close of the financial year, it's a perfect time to take another look at how returns and receipts from **Land & Buildings Transaction Tax (LBTT)** have performed in light of both the housing market situation and the recent shift in the mortgage market.

In 2022/23, LBTT revenue reached **a record high** in Scotland, driven by a relatively strong sales market and rising prices. **Around 63% of sales** are now over the £145,000 threshold, meaning almost two-thirds of Scottish sellers can expect a bill.



*In 2022/23, LBTT revenue reached a record high in Scotland.*

# KEY FINDINGS



## 1. A new chapter

With **63%** of Scottish house sales now over the minimum £145,000 threshold on which LBTT has to be paid, this represents the **highest proportion** of transactions since the introduction of the tax in 2015/16.



## 2. Looking ahead

Revenue Scotland forecast LBTT receipts to **contract by 16%** in 2023/24, while forecasting that Additional Dwelling Supplement (**ADS**) revenue will **increase**, despite the recent rise to a 6% tax rate.



## 3. LBTT & New Builds

LBTT revenue generated by new build sales is now over **£100 million per annum**. With an estimated 5-10% of sales including LBTT payment as incentive, the house building sector potentially **pays up to £10 million a year directly** in LBTT payments.



## 4. Geography lessons

**Edinburgh** and prime transactions **over £750,000** remain strong engines of revenue. Edinburgh generates an estimated **27%** of LBTT revenue from 11% of Scotland's house sales, while sales over £750,000 generate over **22%** of LBTT from around 1% of transactions.



*The 2022/23 financial year saw LBTT revenue reach record levels, driven by rising prices and a relatively strong sales market.*

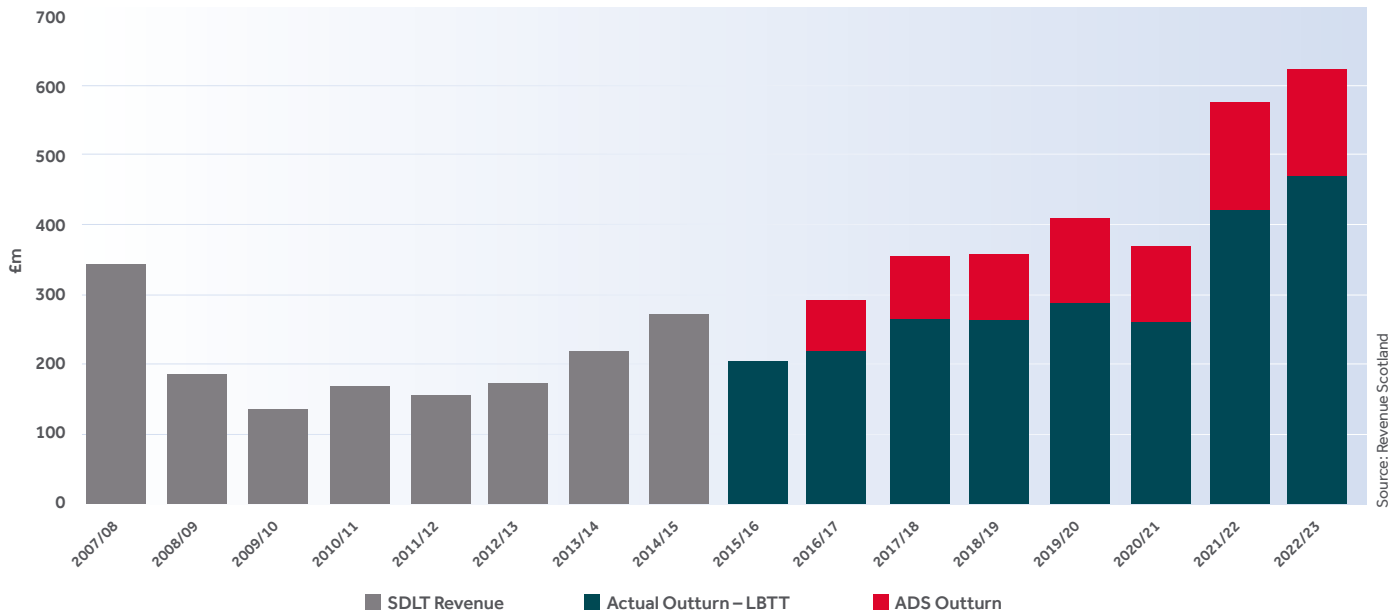
# KEY FINDINGS EXPLORED

## 1. A new chapter

The 2022/23 financial year saw LBTT revenue reach record levels, driven by rising prices and a relatively strong sales market.

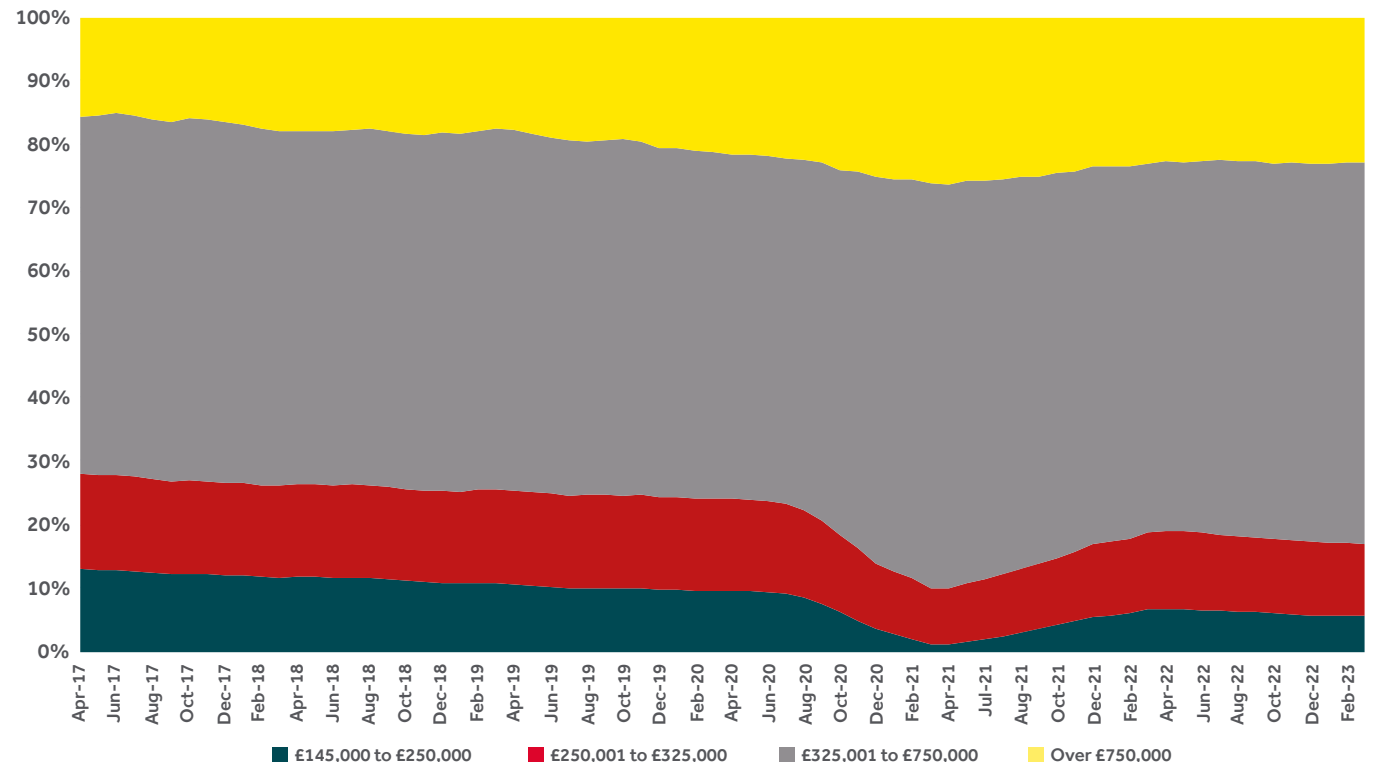
When LBTT was introduced in 2015/16, over 50% of transactions initially fell under the £145k threshold. However, as house prices have risen, now only around 37% of sales are under this threshold. So, while once the majority of Scots wouldn't pay a housing transaction tax, almost two-thirds of sellers will now be subject to LBTT.

Total Transaction Tax Revenue in Scotland, 2007/08-2022-23



In 2022/23, a third of sales were above the £250,000 band, up from 16% when the tax was first introduced. This 'fiscal drag' means that around 95% of LBTT revenue now comes from house sales over £250,000 and 22% from transactions over £750,000.

Proportion of LBTT Revenue by House Price Bracket

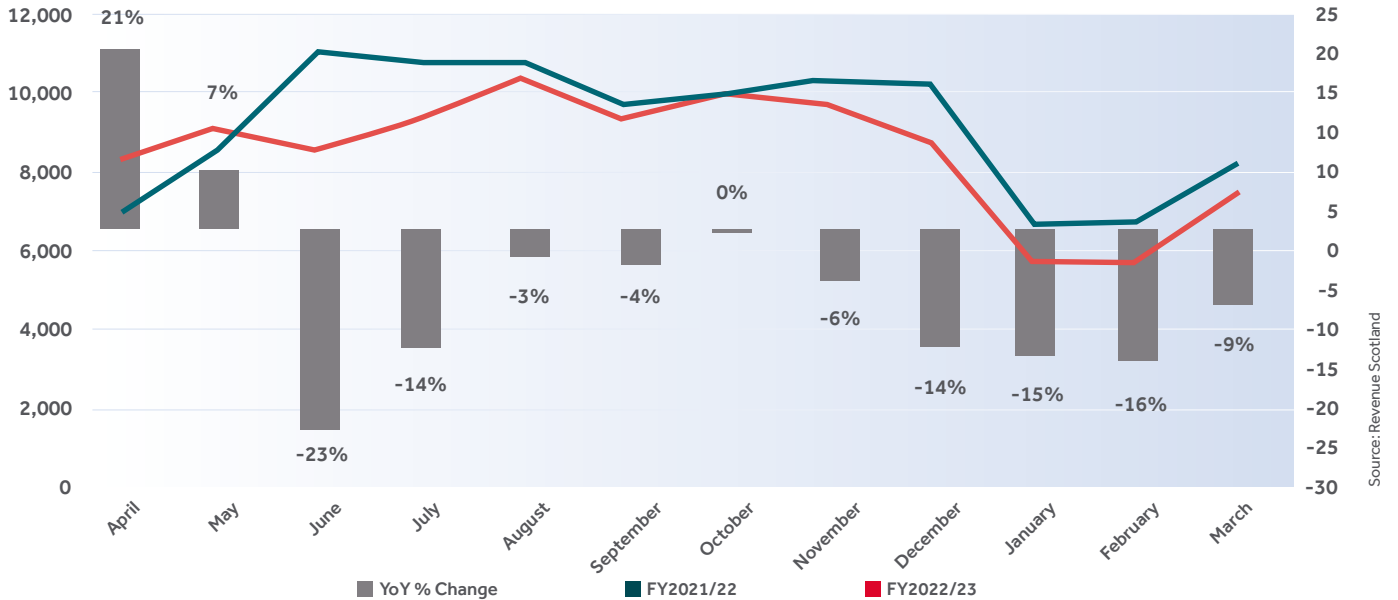


## 2. Looking ahead

While recent LBTT receipts have benefitted from an active sales market, the impact of the cost-of-living crisis, including rising mortgage costs, means that Revenue Scotland is forecasting LBTT to contract by 16% in 2023/24 as the market is expected to cool off.

Indeed, looking at count of receipts by month, there was a marked downturn from October onwards (when interest rates and mortgage costs began to rise suddenly and steeply), with revenues remaining down year-on-year through to March.

Count of LBTT Receipts by Month in Scotland and YoY Change, 2021/22-2022-23



### ADS FORECAST TO RISE

While LBTT receipts are forecast to contract this coming year, revenue from the Additional Dwelling Supplement (ADS), which is a tax on second homes and empty homes, is forecast to increase in 2023/24 by 6%.

This forecasted increase, in the face of an increased tax rate, does contrast with the experience when ADS was increased to a rate of 4% in 2019/20. Following the increase then, ADS revenue fell in the following year by 6.3% from £117.4 million to £110 million.

At the moment, this Revenue Scotland forecast does seem 'rosy'. The recent increase of ADS to a rate of 6% adds another barrier to entry for landlords hoping to invest in the housing market. Indeed, the average LBTT + ADS bill on buying the average Scottish property at £212,081, would be £14,066 to let out. That's 6.6% of the property's value. Based on the average house price in Scotland, this is a £4,000, or 40%, increase on the transaction tax bill in the last year.

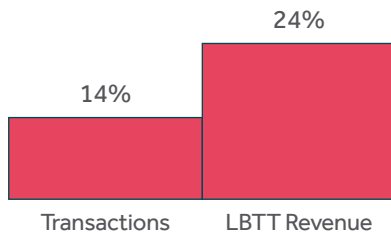
Incentives to purchase second homes may be further diminished this year. The new First Minister, Humza Yousaf, has recently announced that he will be targeting second homes with increased powers to raise Council Tax, which may further dampen investment and, in turn, ADS receipts.



### 3. LBTT & New Builds

New build properties are an important source of LBTT revenue. Despite accounting for only 14% of transactions in Scotland in 2022/23, new build property sales generated an **estimated 24% of LBTT revenue**.

New Build properties in Scotland (2022/23)



Source: estimates based on Registers of Scotland/Rettie & Co.

Among the major homebuilders, **CALA Homes** generated the most LBTT receipts, at around 4% of all LBTT revenue despite accounting for less than 1% of total sales activity in the market. The average LBTT bill for a CALA home was around £20,000. The **highest average new build LBTT bill** at any development was at **The Old Course in St Andrews**, which was over £325,000.

In total, the housebuilding sector generates **over £100 million** in LBTT receipts per annum for the government. It's also worth noting that many homebuilders are currently offering incentives involving the payment of LBTT, meaning that a significant proportion of this revenue is funded **directly** by the sector itself.



Abercromby Place/Square & Crescent

## 4. Geography lessons

Analysis of the geography of LBTT revenue highlights some interesting trends across the country. **Edinburgh** generated an estimated **27%** of LBTT revenue in 2022/23 despite only accounting for around 11% of Scottish sales.

Total LBTT revenue from the capital is estimated to be **over £128 million** in 2022/23 compared to the next highest area of **Glasgow**, which generated **c.£38 million**. The average LBTT bill in Edinburgh was £11,720, compared to £3,288 in Glasgow and £3,062 in Aberdeen.

The postcodes that generated the most revenue in 2022/23 were EH4 (including Barnton and Cramond), EH10 (including Morningside), EH12 (including Murrayfield), EH3 (including the Edinburgh New Town) and G77 (including Newton Mearns). The highest average LBTT bill by area was in East Lothian in EH31 (including Gullane) at £37,000, followed by the southside of Edinburgh (EH10) at £28,000 and North Berwick (EH39) at £27,000.

### Top 10 LBTT Revenue generating postcodes

Postcode District	Average LBTT	Average Sale Price	Est. LBTT in 2022
EH4	£16,654	£389,420	£19,934,485
EH10	£28,277	£522,616	£17,701,533
EH12	£16,993	£394,887	£15,327,396
EH3	£24,929	£485,605	£14,932,435
G77	£15,576	£395,494	£9,439,210
EH9	£25,019	£481,472	£9,282,008
G12	£12,143	£352,856	£8,985,567
AB15	£8,788	£306,342	£7,416,789
G61	£16,709	£409,854	£7,201,447

Source: LBTT Calculated on Registered Sales in 2022/23

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