

Higher Rates of Stamp Duty Land Tax

Impact on the Self-Catering Sector

1. Background

The Government is proposing that all second residential properties, regardless of whether they are purchased personally or through a company, be subject to an additional 3% Stamp Duty Land Tax. This additional SDLT is distinct from the existing SDLT by being payable on the entire cost of the property. As such, the SDLT payable on the on the average UK property (£185,000) if it is used to provide self-catering accommodation will increase by over 460% from £1,200 to £6,750.

The Government's stated purpose in introducing this additional SDLT is the curb the Buy-To-Let Market which is deemed to be inflating the price of residential properties and preventing first time buyers entering the housing market. However, the introduction of this additional SDLT will also adversely impact on the self-catering sector of the UK tourism industry.

2. The Self-Catering Sector

The self-catering sector is a very important component of the UK domestic tourism industry, accounting for 21% of the 114m million trips taken each year and responsible for 23% (£5.2bn) of the £23bn per annum that domestic tourism provides to the UK economy.

This revenue directly provides 96,000 FTE jobs.

In recognition of the importance of the sector to regional economies in terms of both generating revenue and providing employment, HMRC classifies self-catering businesses as "trading businesses" (the same classification as hotels) rather than "property investment businesses" (the classification for Buy-To-Let businesses). This classification is reliant upon businesses complying with the Furnished Holiday Letting Rules which relate to the minimum number of weeks each year that the property is advertised as available for customers and the minimum number of weeks each year it is actually let to customers.

The Government's determination of self-catering operators as trading accommodation businesses akin to hotels is reflected in a wide range of other legislation including VAT registration, income, corporation and capital gains taxes and business rates.

While the self-catering industry is important to regional economies the number of properties that the sector comprises is dwarfed by the Buy-To-Let industry. It is estimated that the BTL sector comprises around 1.5m residential properties, around 18% of all properties in the UK. When second homes and holiday homes are taken into account, the number of properties is approaches 3m. As you will see below, the self-catering sector comprises just 100,000 properties – 3% of this total.

3. The Impact of the Proposed Additional Stamp Duty

Not all components of the self-catering sector will be impacted by the introduction of the additional SDLT. Caravans (static and mobile) and canal boats will be exempt. However, according to VisitEngland's Great Britain Tourism Survey figures, it is estimated that the additional SDLT will impact on businesses that represent 9.0m trips (38% of the total) where people use self-catering properties and £3.3bn of expenditure (63% of total expenditure) related to self-catering. These properties provide employment for over 60,000 people, predominantly in rural and seaside locations, areas where there is often little other employment opportunity.

Analysis undertaken by the Tourism Alliance for the Treasury in 2009 indicated that there were in the order of 42,000 self-catering businesses in this segment of the industry. On the basis that there has been significant growth in the self-catering sector over the last six years and that many operators own multiple units, it is estimated that there are now approximately 100,000 self-catering properties.

Using these figures it can be seen that every self-catering property contributes around £33,000 per annum and two thirds of a fulltime job to its local community.

The cost of the additional SDLT to the sector can be calculated by using two factors – that rate of growth in the sector and the level of churn in the sector (i.e., the rate that self-catering operators enter and leave the industry).

Over the last five years, revenue from domestic tourism has grown by an average of 5% per annum, meaning that approximately 5,000 new self-catering properties are being established each year. Also, the average length of time that a self-catering business operates is seven years, meaning that around 14,300 self-catering properties are being bought and sold each year. This means that 19,300 properties per annum will be subject to this additional SDLT. If we assume that self-catering properties sell for the average house price of £185,000, this means that the additional SDLT will cost the sector £107m per annum. This is a conservative estimate as the average price of a self-catering property is, in the vast majority of cases, considerably more – for example, whilst the average price of a terraced property in Devon and Cornwall is near the national average, the average price of a detached property in Devon is £343,000 and in Cornwall is £321,000.

More importantly, the £5,500 of additional SDLT accounts for over 40% of the £12,750 in revenue that a 2014 London School of Economic study determined to be the average revenue that a self-catering property can expect to achieve in the first year of operation. This additional SDLT therefore makes a considerable impact on the viability of establishing a new self-catering business.

If just 10% of potential operators are deterred by this additional start-up cost, it would lower the revenue generated by the self-catering sector by £330m per annum and cause the loss of over 6,000 jobs. This is three times the revenue that the Government would receive from self-catering businesses as a result of the new SDLT.

4. Solution

As self-catering properties provide significant employment and revenue for regional economies and are a very small component of the number of BLT properties and second homes, it would make sense to provide an exemption.

The Government proposes to provide a mechanism whereby homeowners who buy a property to move into as their main residence before they sell their existing home pay

the additional SDLT but claw this back if they sell their original house within 18 months.

We propose that a similar mechanism is introduced for the self-catering sector. This would mean that an operator would pay the additional SDLT when the property is purchased but can then claw this back when they submit their accounts showing that they have operated the property in accordance with the Furnished Holiday Letting Rules.

This would support the tourism industry by encouraging investment in self-catering properties that provide income and employment, while preventing the creation of a loophole whereby people could purchase properties with the intention of operating a self-catering business and then fail to do so.

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Appendix 1 Tourism Alliance Members

ABTA - The Travel Association
Airport Operators Association
ALMR
ALVA
ANTOR
Association for Tourism in Higher Education
BACTA
BALPPA
Bed & Breakfast Association
British Beer & Pub Association
British Destinations
British Educational Travel Association
British Holiday & Home Parks Association
British Hospitality Association
British Marine Federation
Business Visits & Events Partnership
Camping & Caravanning Club
Churches Visitor and Tourism Association
Confederation of Passenger Transport
Country Land and Business Association
Cumbria Tourism
EASCO
English UK
European Holiday Home Association
European Tour Operators Association
Experience Nottinghamshire
Family Holiday Association
Farm Stay UK
Group Travel Business Forum
Heritage Railway Association
Historic Houses Association
Historic Royal Palaces
Institute of Tourist Guiding
Liverpool City Region LEP
Marketing Manchester
National Caravan Council
National Trust
New Forest Destination Partnership
Outdoor Industries Association
Premier Cottages
Resort Development Organisation
South West Tourism Alliance
The Caravan Club
The Tourism Alliance Brighton and Hove
The Tourism Society
Tourism For All
Tourism South East
UKInbound
Visit Cornwall
Visit Kent
Visit Wiltshire
Welcome to Yorkshire
Wyndham Worldwide

Observers

Local Government Association
VisitBritain
VisitEngland