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Call for extension of stamp duty holiday

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Last updated November 16 2011 2:14PM

Mortgage lenders are calling on the Government to extend the exemption of stamp duty for first-time buyers purchasing properties worth up to £250,000, which is due to end in March 2012, or risk a further slump in sales.

The Council of Mortgage Lenders (CML), the trade body representing home loan providers warned that following the end of the previous stamp duty concession in December 2009, the spike in sales in the run-up to this date was matched by a slump afterwards when the tax break was removed.
HM Revenue & Customs is due to publish an impact assessment of the current concession, which began in March 2010, but mortgage lenders claim that its withdrawal could distort housing transactions, which would be risky given "the fragile state of market confidence".

Over the long term, the CML believes there should be a fundamental reform of the stamp duty structure, which is often criticised for pushing down the price of properties that are just above the value of each of the different tax rate thresholds. However, the CML said this was less pressing than the need to avoid short-term negative effects by removing the first-time buyer concession.

If the temporary stamp duty concession expires next March, a first-time buyer purchasing a property worth between £125,000 and £250,000 would pay 1 per cent tax on the transaction - equivalent to £2,000 on a home worth £200,000.

The lenders' body said the concession not likely to be costing the Government very much in lost revenues, because housing market transactions are currently so low. This cost was supposed to be offset by the permanent 5 per cent rate of stamp duty on properties worth £1 million or more, which came into force in April.

The CML calculates that the majority of the money generated by stamp duty – 87 per cent – comes from sales of properties worth more than £250,000. The revenue earned from stamp duty has plunged from a peak of £6.7billion in 2007-8 to just over £4 billion in 2010-11, however the CML said this would only increase slightly if the first-time buyer stamp duty exemption were allowed to lapse.

Paul Smee, director general of the Council of Mortgage Lenders, said that while there is no clear evidence that the concession boosted first-time buyer purchases, there may have been fewer if it had not been in place.

He said: "The CML believes it would be a mistake to pull the plug on the concession - at least until the housing market returns to a firmer footing.

"First-time buyers need to get the message that the government supports them as they take their first steps into a housing market where confidence needs to be restored."

Aaron Strutt, of Trinity Financial Group, the mortgage broker, added: "Many first time buyers are having enough trouble raising a decent deposit to get on the property ladder as it is, and meeting the lender's affordability criteria can be tough.

"Many buyers – especially outside of London - really appreciate the stamp duty break and will struggle to buy their first home if it is not extended."

Many lenders have been increasing rates over recent weeks as the crisis in Europe has pushed up the cost of funding mortgages.

Woolwich, the mortgage arm of Barclays, announced it is increasing some of its fixed rate home loans by up to 0.4 per cent tomorrow, although it will also cut some other rates by a lesser amount.

Nationwide Building Society today increased some fixed rates and tracker mortgages by up to 0.2 per cent, while also cutting other product rates by up to 0.15 per cent.