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Property Transfer Tax reform – a game changer for energy efficiency retrofits?

eccee Summer Study 2017

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Presqu'île de Giens, June 2017

The Regulatory Assistance Project (RAP)[®]

Chancellors

chancellors.co.uk

01865 724446

OPEN

FREE
The United States
PROPERTY









Local authority, environmental and other search fees	265.72
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Inland Revenue stamp duty	11,100.00
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Land Registry fee	135.00
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Bower & Bailey legal fees & disbursements per VAT invoice annexed	967.00
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⚠ This property has been removed by the agent.
It may be sold or temporarily removed from the market

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3 bedroom end of terrace house for sale

Rustington, West Sussex

Sold STC
£320,000



This property is marketed by:



Graham Butt Estate Agents, Rustington
88 Woodlands Avenue, Rustington, BN16 3EY

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OTHER BENEFITS

The property also benefits from:

- Gas Central Heating
- Redcot Intruder Alarm
- Original single glazed sash windows unless stated

Options for using property transfer taxes (PTT) as an incentive for energy efficiency



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Design options of a PTT-based incentive

Option 1: PTT readjusted so that more efficient properties pay a lower PTT and less efficient properties attract a higher PTT

Option 2: rebate for those properties where energy efficiency improvements are being made after purchase of the property (say within 6 months)



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Fictitious illustration of energy performance-based PTT differentiation

Value of the property	€300,000		
Energy performance (Energy Performance Certificate rating and kWh/m ²)	A (40 kWh/m ²)	D (100 kWh/m ²)	G (200 kWh/m ²)
Current PTT of 4%	€12,000	€12,000	€12,000
Change in PTT	-60%	0%	+60%
PTT after adjustment	€4,800	€12,000	€19,200



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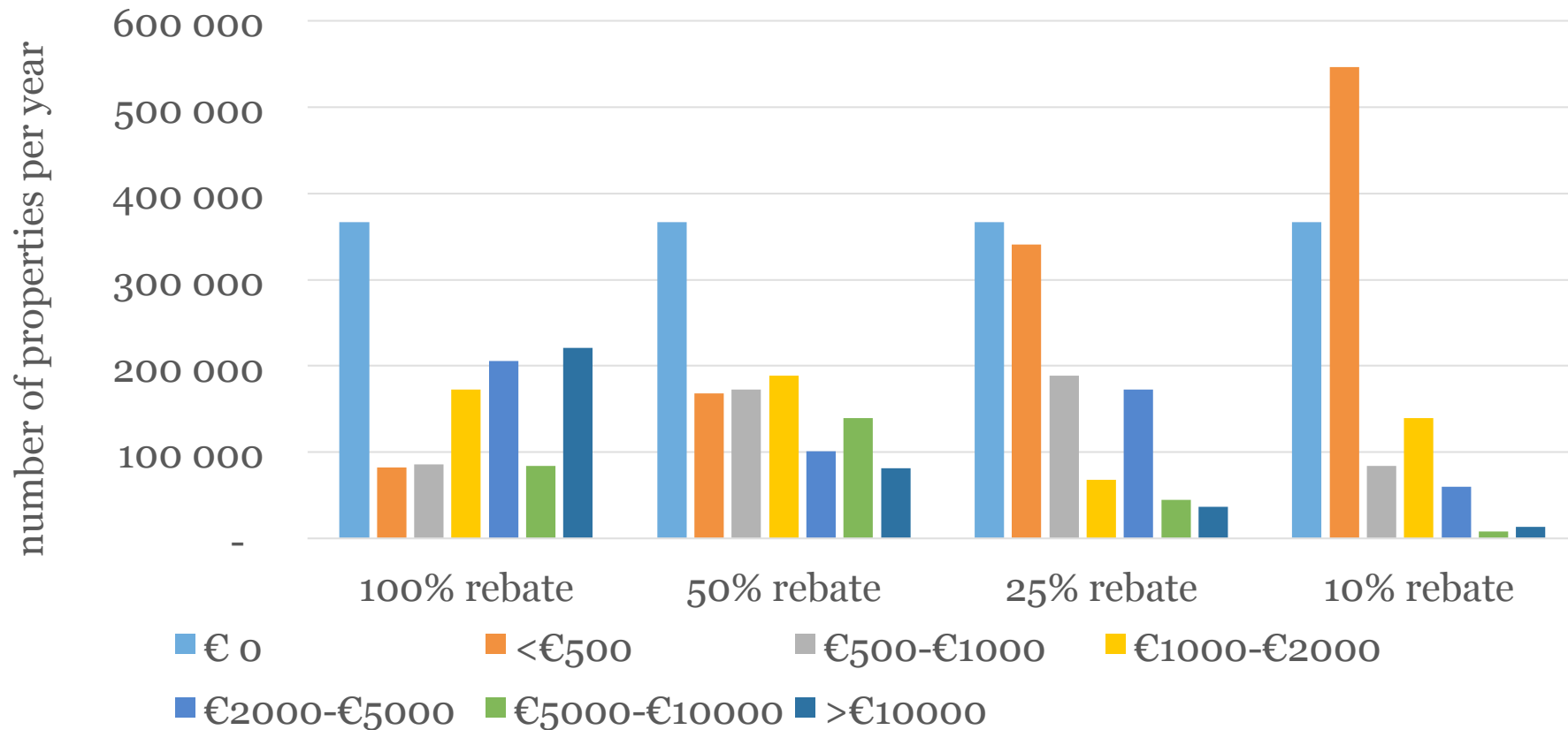
Potential reach using UK example



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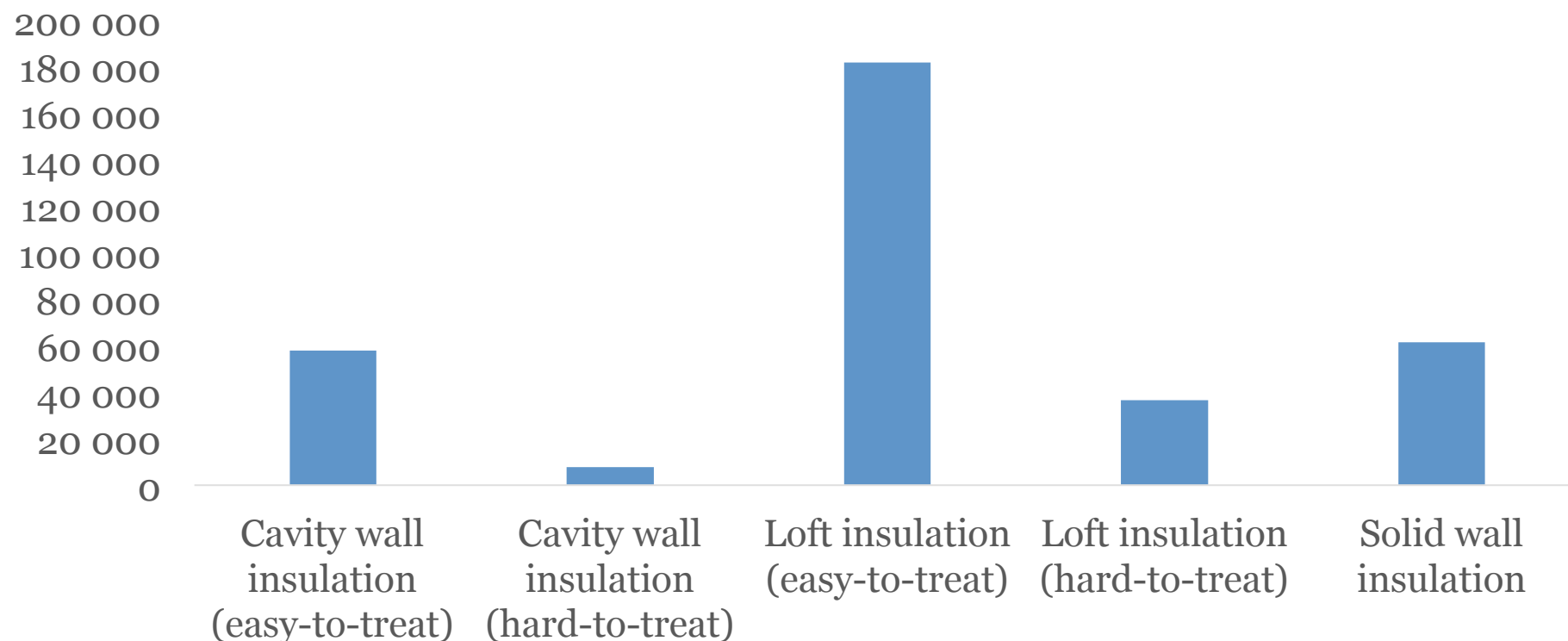
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Number and size of PTT reduction/ rebates under different scenarios



Source: authors' calculations based on HMRC (2015a, 2015b)

Distribution of potential energy efficiency improvements for a 25% PTT incentive (only measures fully fundable)



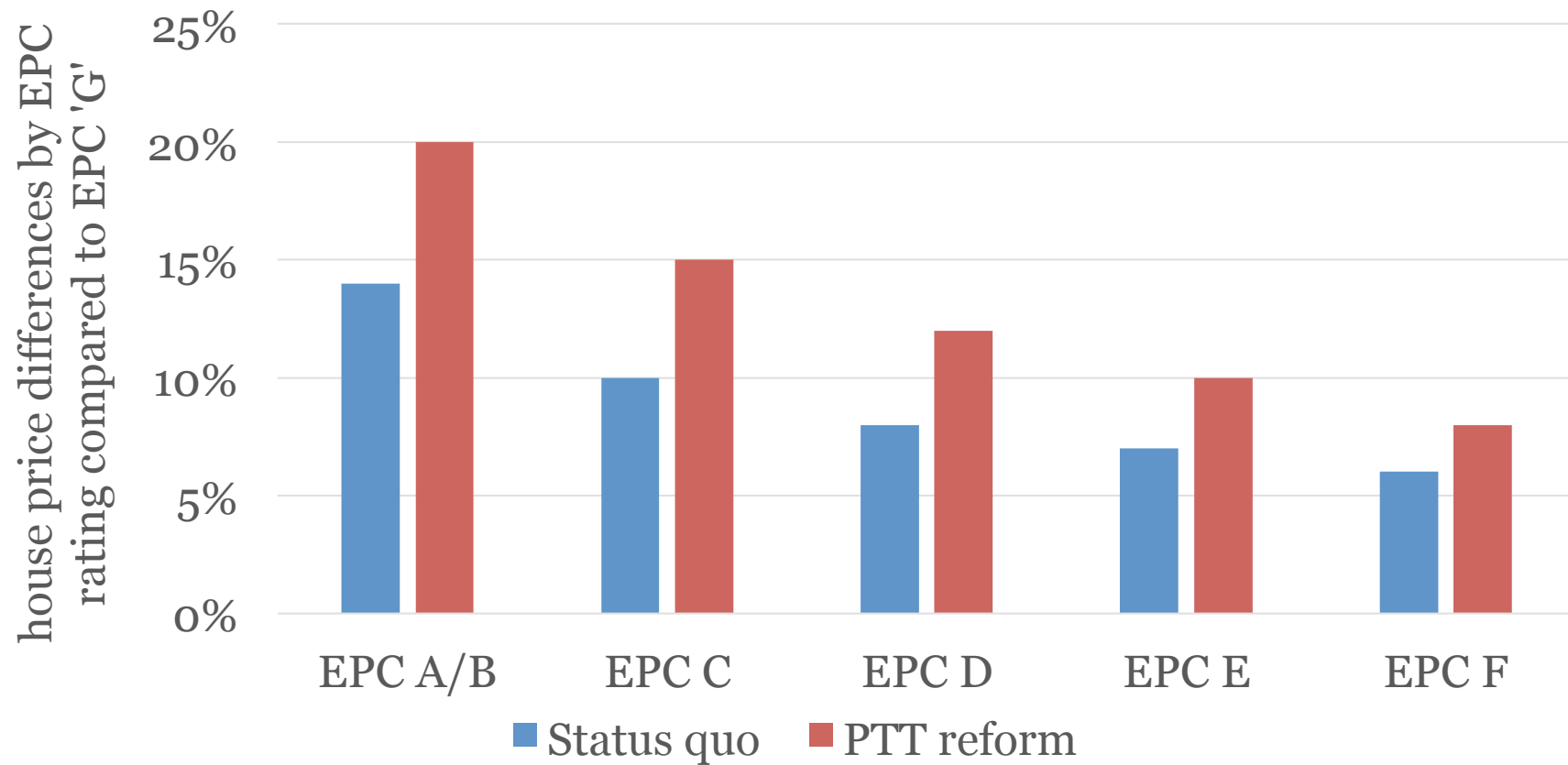
Source: based on DECC (2016a, 2016b), Element Energy and Energy Saving Trust (2013) and HMRC (2015a, 2015b)



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Potential impact on house prices in the UK



Source: based on Fuerst et al. (2013)



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Implementation issues



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Implementation issues

- relatively small number of property transactions compared to the housing stock (~4.5% in the UK and 2% in Germany)
- limited potential to fund high-cost measures
- reliability of energy performance benchmarks poor
- social equity issues if not carefully considered
- legal barriers
- fiscal barriers
- potential for fraud



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Conclusions



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Conclusions

- 1) Potentially instrument with transformative impact on how energy efficiency is considered by homeowners
- 2) Reach is limited by number of transactions, tax volume and uptake rate
- 3) Rebate option easier but less transformative
- 4) Multiple implementation issues to consider



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4 bedroom end of terrace house for sale

Iffley Fields, Oxford

Guide price

£1,500,000



Benefits

- * 65% less stamp duty to pay**
- * Super insulated for warm winters and cool summers**
- * No drafts or cold surfaces**
- * Improved air quality**
- * Outperforms UK building regulations**
- * Low energy LED lighting**
- * Minimal heating requirements due to super-efficient building envelope and insulation.**

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About RAP

The Regulatory Assistance Project (RAP) is a global, non-profit team of experts that focuses on the long-term economic and environmental sustainability of the power sector. RAP has deep expertise in regulatory and market policies that:

- Promote economic efficiency
- Protect the environment
- Ensure system reliability
- Allocate system benefits fairly among all consumers

Learn more about RAP at www.raponline.org

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