



Llywodraeth Cymru
Welsh Government

PUBLICATION, DOCUMENT

Land Transaction Tax (Modification of Multiple Dwellings Relief) (Wales) Regulations 2025: integrated impact assessment

Integrated impact assessment of the amendment of legislation governing land transaction tax rules governing multiple-dwellings relief.

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Introduction

This Integrated Impact Assessment (IIA) relates to the following draft statutory instrument (SI):

“The Land Transaction Tax (Modification of Multiple Dwellings Relief) (Wales) Regulations 2025”.

The Cabinet Secretary for Finance and Welsh Language will lay the draft SI in the Senedd on 14 January 2025, in advance of seeking Senedd approval to it being made at a plenary session in February 2025.

The draft statutory instrument (SI) proposes amendments to the Land Transaction Tax and Anti-avoidance of Devolved Taxes (Wales) Act 2017 (LTTA), which will mean that, in future, in transactions involving the purchase of multiple dwellings that are subject to the LTT main residential rates because the subsidiary dwellings exception (SDE) applies, claims to land transaction tax (LTT) multiple-dwellings relief (MDR) will not be allowed.

The draft SI will be laid in the Senedd along with the associated Explanatory Memorandum (EM), which includes the Regulatory Impact Assessment (RIA).

The documents will be available here:

- the draft regulations: **The Land Transaction Tax (Modification of Relief for Acquisitions Involving Multiple Dwellings) (Wales) Regulations 2025** (<https://senedd.wales/media/d44bksa1/sub-ld16911-e.pdf>)
- the **Explanatory Memorandum to The Land Transaction Tax (Modification of Relief for Acquisitions Involving Multiple Dwellings) (Wales) Regulations 2025** (<https://senedd.wales/media/ah2pakdq/sub-ld16911-em-e.pdf>)

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Consultation

The Welsh Government consulted the public on issues related to LTT reliefs between 8 April and 19 May 2024. (See also paragraphs 1.8 to 1.23)

In the summary report, the Welsh Government set out its next steps:

“ Following the consultation, the Welsh Government will continue to undertake work to assess the potential impacts, benefits and costs of options related to LTT reliefs. This may include further discussion with stakeholders. Discussions held during the consultation period supported the process of gathering further relevant material to inform the evidence base to support decisions. ”

The Cabinet Secretary for Finance, Constitution and Cabinet Office gave an undertaking to provide an update on plans regarding LTT reliefs in due course. The legislative proposal set out in this IIA is part of the response to that consultation. Because the proposal is for a relatively minor amendment to existing legislation, the Welsh Government does not intend to consult the public in addition to the consultation conducted between in April and May 2024. There is no statutory duty to consult on this matter.

Impact and the proportionate approach

In accordance with Welsh Government practice, a proportionate approach has been taken to this IIA. The IIA presents a summary of the Welsh Government view that the new tax rules are anticipated to have positive impact in general, with very little negative impact.

It is estimated the change to the tax rules proposed here will increase Welsh

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Government tax revenues by between £1 million and £2 million per year, while retaining and improving fair treatment for taxpayers engaged in multiple-dwelling transactions. It is also anticipated that a small number of taxpayers, who previously might have chosen to benefit from the application of both MDR and the SDE in the same transaction(s), may in future encounter increased LTT liability. However, taxpayers will continue to be able to benefit from either MDR or the SDE in multiple-dwelling transactions.

Section 1. What action is the Welsh Government considering and why?

1. Description of purpose and intended effect of the proposal

1.1 The Welsh Government is proposing changes to the rules governing the land transaction tax (LTT) Relief for Acquisitions Involving Multiple Dwellings, also known as Multiple-Dwellings Relief (MDR), and its interaction with the subsidiary dwellings exception (SDE). The changes will be effected through amendment to Schedule 13 of the **Land Transaction Tax and Anti-avoidance of Devolved Taxes (Wales) Act 2017** (<https://www.legislation.gov.uk/anaw/2017/1/schedule/13>) (the LTTA) .

1.2 The amendment will improve the LTTA in line with the Welsh Government's tax principles, which state that Welsh taxes should:

- i. Raise revenue to fund public services as fairly as possible
- ii. Deliver Welsh Government policy objectives
- iii. Be clear, stable and simple
- iv. Be developed through collaboration and involvement
- v. Contribute directly to the Well Being of Future Generations Act goal of

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creating a more equal Wales

1.3 The regulations will amend the LTTA to disallow, in certain transactions, the concurrent application of MDR and the SDE in the same transaction or in linked transactions (subject to transitional provisions), if subject to the LTT main residential rates.

1.4 It is anticipated the amendment will increase tax revenues to the Welsh Government, which will support funding of public services.

1.5 While the proposed rule changes may change tax outcomes in transactions involving MDR and the SDE, apart from the amendment proposed here, the pre-established rules will, largely, remain in force and unchanged for both MDR and the SDE.

Current rules

1.6 Multiple-dwellings relief (MDR) and the subsidiary dwelling exception (SDE) are both, broadly speaking, tax relieving provisions in LTT. MDR, when claimed, and the SDE, when applied, both reduce tax liability on multiple-dwelling transactions, in different ways (see paragraphs 4.6 to 4.11).

1.7 Currently, a taxpayer may benefit from both MDR and the SDE in relation to the same multiple-dwelling transaction(s), whether the transaction is subject to the main or the higher residential rates of LTT. In most multiple-dwelling transactions, LTT is charged at the higher residential rates. In some multiple-dwelling transactions, classed as 'mixed-use' (involving a mixture of both residential and commercial elements), LTT is charged at the main rates. The Welsh Government considers that, for multiple-dwelling transactions subject to the main residential rates, the dual benefit of MDR plus SDE is an inappropriate consequence of the legislation.

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MDR

1.8 MDR is a LTT partial relief. Taxpayers are under no obligation to claim MDR. If MDR is claimed, the taxpayer calculates and pays tax according to the formula set out in the LTTA (see below). Claims are made in tax self-assessments and are checked by the Welsh Revenue Authority (WRA). As an example, a purchase of 5 dwellings together costing £1 million would be liable to a LTT charge of £101,200 without MDR, or £43,500 with MDR (based on 1 December 2024 rates).

1.9 In summary, the MDR calculation formula set out in the LTTA works as follows:

- i. establish the total consideration for the dwellings
- ii. divide the total consideration by the number of dwellings to establish an average-price dwelling
- iii. establish the tax liability, at the higher residential rates, for the average price dwelling
- iv. multiply the number of dwellings by the tax liable on the average-price dwelling, to establish the full liability for the transaction, with MDR claimed.

The SDE

1.10 The SDE (**Subsidiary dwelling exception** (<https://www.legislation.gov.uk/anaw/2017/1/schedule/5/part/3/crossheading/subsidiary-dwelling-exception>) and **technical guidance** (<https://www.gov.wales/higher-rates-purchases-residential-property-technical-guidance#5219>)), applies to a particular kind of multiple-dwelling transaction, in which the dwellings purchased together include a main dwelling and one or more subsidiary dwellings. The LTTA defines what can be considered subsidiary in this respect (see paragraph 1.12).

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1.11 Where the SDE applies, the transaction is subject to the main residential rates whereas, without the SDE, the transaction would normally be subject to the higher residential rates.

1.12 The following characteristics must apply to a transaction and the dwellings included in it, in order for the SDE to apply:

- i. the dwellings purchased must include a main dwelling and one or more subsidiary dwellings
- ii. the subsidiary dwelling(s) must be within the same building or in the same grounds as the main dwelling, and
- iii. the sum paid for the subsidiary dwelling(s) must be no more than one-third of the total sum paid, based on a just and reasonable apportionment.

1.13 The SDE is intended to protect taxpayers from liability to **LTT higher residential rates** (<https://www.gov.wales/land-transaction-tax-rates-and-bands#8924>) if their transaction would be liable to the **main rates** (<https://www.gov.wales/land-transaction-tax-rates-and-bands#8917>) but for the fact that the transaction included an additional but subsidiary dwelling. (Such transactions could for example include the purchase of a home with a habitable annex.)

The proposal to amend the LTTA

1.14 The Welsh Government proposes that the LTTA should be amended so that, for multiple-dwelling transactions subject to the LTT main residential rates, if the SDE applies, MDR claims will not be allowed.

1.15 The changes made by these Regulations have the effect of, broadly, stopping taxpayers who will be main residential rates payers due to the SDE, from being able to claim MDR. For those taxpayers who remain higher residential rates payers the rules will, in the main, remain as currently, enabling claims to MDR.

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Consultation

1.16 The Welsh Government consulted the public on MDR, and LTT reliefs more generally, between 8 April and 19 May 2024. The consultation document can be found here: **Public consultation on land transaction tax reliefs** (<https://www.gov.wales/proposed-changes-to-land-transaction-tax-reliefs>). The Welsh Government published a summary report on the consultation on 17 July 2024. It can be found here: **Welsh Government consultation: summary of responses** (<https://www.gov.wales/proposed-changes-to-land-transaction-tax-reliefs-summary-of-responses-html>). In the report, the Welsh Government gave an undertaking to conduct further assessment of the options with regard to MDR, taking account of the comments received, and to provide an update on plans in due course.

1.17 On MDR, the following questions were asked:

- Question 1.1 Do you agree the proposal to abolish LTT MDR set out in this consultation aligns with the Welsh Government's tax principles?
- Question 1.2 Do you think the abolition of LTT MDR will negatively impact the private rented sector in Wales?
- Question 1.3 Do you think the abolition of LTT MDR will negatively impact any others in Wales?

1.18 Several respondents declared a direct or indirect interest in LTT MDR. Many respondents who argued for retaining MDR cited commercial reasons. Some felt that abolishing MDR would disincentivise investment in property rental sectors, which could lead to declines in housing supply and the wider Welsh economy. Some emphasised the importance to housing supply of sectors which benefitted from MDR, such as the private rented sector, the purpose-built student sector and the build to rent sector. Some argued for enhancing, developing or otherwise improving MDR rather than abolition.

1.19 Some supporting the abolition of MDR mentioned the budgetary pressure

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on the Welsh Government created by the previous UK government's (UKG) abolition of SDLT MDR. Some noted that abolishing MDR would support tax simplification. Some observed that tax reliefs are often poorly understood by taxpayers and can lead to inappropriate calculations, claims being challenged by the respective tax authorities and unsuccessful appeals to the tax tribunal. Some felt that abolishing LTT MDR would bring about symmetry across the devolved tax border (following the UKG abolition of SDLT MDR for England and Northern Ireland on 1 June 2024) and thereby aid simplification.

1.20 Some responses emphasised the importance of decision making in the wider context of the Welsh Government's commitments to the Wellbeing of Future Generations and housing policy, and the importance of an evidence base to support the introduction of changes to the LTT regime.

1.21 Following the consultation, the Welsh Government further developed MDR policy. Additional consideration was given to the option of amending MDR rules so as to remove the opportunity to claim MDR and SDE in the same transaction(s), alongside the options of retention and abolition.

1.22 The benefits and costs of the 3 options are set out in the accompanying **Explanatory Memorandum to The Land Transaction Tax (Modification of Relief for Acquisitions Involving Multiple Dwellings) (Wales) Regulations 2025** (<https://senedd.wales/media/ah2pakdq/sub-ld16911-em-e.pdf>) (see Regulatory Impact Assessment). The options analysis underlines the Welsh Government's position that the preferred option at this time is to amend MDR.

1.23 However, in the longer term, the Welsh Government will continue to monitor MDR and to evaluate its role, in particular with regard to the private rented sector and housing supply.

1.24 Since 2018, the Welsh Government has provided over £60 million in relief through MDR. This represents revenue which might otherwise have supported the public finances, and it is a potential opportunity cost. That amount may

increase significantly over time. Therefore, in particular against the background of challenging times for the public finances, the Welsh Government will want to remain satisfied that MDR continues to be a well-targeted relief. The Welsh Government will retain MDR in the longer-term only if it has confidence that it is likely to remain a useful policy lever and represents good value for money.

1.25 For further detail on the current rules and the proposed amendments, see [Explanatory Memorandum to The Land Transaction Tax \(Modification of Relief for Acquisitions Involving Multiple Dwellings\) \(Wales\) Regulations 2025](https://senedd.wales/media/ah2pakdq/sub-ld16911-em-e.pdf) (<https://senedd.wales/media/ah2pakdq/sub-ld16911-em-e.pdf>).

Section 2. Social well-being

2.0 The positive impact of this measure on social well-being will come as a result of the anticipated increase in Welsh Government tax revenue, estimated to be in the region of £1 million to £2 million per year, which will contribute to supporting policies which aim to improve social well-being.

2.1 People and communities

The measure will apply to all relevant homebuyers in all parts of Wales. The measure may increase costs for businesses or individuals who had previously benefitted from the application of both MDR and the SDE in the same transactions.

2.2 Children's rights

See also the children's rights impact assessment at Annex A below. The changes may provide some benefits to some children.

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2.3 Equality

See also the equality impact assessment at Annex B below. There are no differential impacts on equality.

2.4 Rural proofing

A rural proofing impact assessment is not required because this proposal is anticipated to have beneficial effects for the Welsh Government and relevant homebuyers across Wales, without differentially benefitting rural or urban taxpayers.

2.5 Health

A health impact assessment is not required because the proposed changes will not have differential health impacts on particular groups. The Welsh Revenue Authority (WRA) will issue guidance explaining the changes in accessible formats, to support those for whom communication is challenging because of health issues.

2.6 Privacy

A data protection impact assessment is not required because the proposal does not involve new ways of processing information.

Section 3. Cultural Well-Being and the Welsh language

3.1 Cultural well-being

The proposed change is not anticipated to impact the promotion and protection of culture and heritage, or the ability of people to participate in arts, sport and recreation.

3.2 Welsh language

The proposed change is not anticipated to impact the Welsh language. See also the Welsh language impact assessment at Annex C below.

Section 4. Economic well-being

4.1 Business, the general public and individuals

1. The proposed measure may increase costs for businesses or individuals who had previously benefitted from the application of both MDR and the SDE in the same transactions.
2. The measure is not expected to disadvantage those involved in commercial aspects of property transactions such as estate agents, conveyancers and solicitors.

4.2 Public Sector including local government and other public bodies

No differential impact is anticipated.

4.3 Third Sector

No differential impact is anticipated.

4.4 Justice impact

A minor impact is possible. Please see the justice impact assessment at Annex F below.

Section 5. Environmental well-being

5.1 No impact is anticipated on environmental well-being from the proposed new rules. See also the biodiversity impact assessment at Annex D below.

5.2 The following assessments are not required as these new rules will not impact on the matters which they consider: natural resources assessment, climate change assessment, strategic environmental assessment, habitats regulations assessment, environmental impact assessment.

Section 6. Socio-economic duty

6.1 Public consultation was conducted on issues related to LTT reliefs, between 8 April and 19 May 2024. The consultation document and the Welsh Government report on the consultation responses can be found here:

Public consultation on land transaction tax reliefs (<https://www.gov.wales/proposed-changes-to-land-transaction-tax-reliefs>)

Welsh Government consultation: summary of responses

(<https://www.gov.wales/proposed-changes-to-land-transaction-tax-reliefs-summary-of-responses-html>)

6.2 Consultation responses represented a range of views in relation to the Welsh Government proposals and other issues to do with LTT reliefs. The proposal outlined in this IIA partly addresses some of the issues detailed in the consultation.

6.3 The positive impact of the measure outlined in this IIA is anticipated to be an increase in Welsh Government tax revenue of potentially between £1 million and £2 million per year, which will support the public finances. This may have a positive impact on socio-economic disadvantage.

Section 7. List of impact assessments completed

Annex A: Children's rights

Annex B: Equality

Annex C: Welsh Language

Annex D: Biodiversity

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Annex E: Socio-economic duty

Annex F: Justice

Regulatory impact assessment: see Part 2 of the [Explanatory Memorandum to The Land Transaction Tax \(Modification of Relief for Acquisitions Involving Multiple Dwellings\) \(Wales\) Regulations 2025](https://senedd.wales/media/ah2pakdq/sub-ld16911-em-e.pdf) (<https://senedd.wales/media/ah2pakdq/sub-ld16911-em-e.pdf>)

Section 8. Conclusion

The Welsh Government believes that, as set out in this IIA, the new tax rules which will be introduced by the SI “The Land Transaction Tax (Modification of Relief for Acquisitions Involving Multiple Dwellings) (Wales) Regulations 2025” will introduce fairer tax treatment by disallowing the concurrent use of MDR and the SDE, and will lead to an increase in Welsh Government tax revenue, which will support the public finances.

Section 9. Declaration

I am satisfied that the impact of the proposed action has been adequately assessed and recorded.

Name of Senior Responsible Officer / Deputy Director: Anna Adams

Department: Welsh Treasury

Date: 14 January 2025

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Annex A. Children's rights impact assessment

The new rules will improve taxpayer treatment, and subsequently increase tax revenue, in relation to a narrow range of property transactions.

The increase in tax revenue may directly or indirectly benefit children who are beneficiaries of services provided by the Welsh Government or others funded by the Welsh Government.

Benefit may be experienced in the context of the following children's rights:

UNCRC Article 9

Children should not be separated from their parents unless it is for their own good, for example if a parent is mistreating or neglecting a child. Children whose parents have separated have the right to stay in contact with both parents, unless this might hurt the child.

UNCRC Article 19

Governments should ensure that children are properly cared for, and protect them from violence, abuse and neglect by their parents or anyone else who looks after them.

Annex B. Equality impact assessment

1. No differential impact is expected from the new rules on any people with protected characteristics as described in the Equality Act 2010.

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2. The Welsh Revenue Authority (WRA) will implement and deliver a service with regard to protected characteristics.

3. The WRA will monitor and report on issues to do with accessing its services.

4. No differential impact is expected from the new rules on human rights, UN Conventions, EU/EEA and Swiss citizens' rights, residency rights, mutual recognition of professional qualifications, access to social security systems, or workers' rights.

Annex C. Welsh language impact assessment

1. The new rules are not expected to differentially impact the Welsh Language.

2. The WRA is the body responsible for advising taxpayers on the operation of devolved taxes. The WRA comply with the Welsh Language standards and treat the Welsh and English languages equally. The introduction of the new rules is an opportunity to reaffirm this practice and ensure taxpayers in Wales can continue to communicate in both languages regarding their tax affairs.

Annex D. Biodiversity Impact Assessment

1. The new rules are not expected to have a differential impact on biodiversity.

Annex E. Socio-economic duty assessment

1. The new tax rules will be equally applicable to all eligible taxpayers, regardless of their socio-economic circumstances.

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2. It is anticipated that the benefits afforded by the new rules may have a higher value to those experiencing socio-economic advantage. No disadvantageous socio-economic impact is anticipated from the new rules.

Annex F. Justice impact assessment

1. A minor impact on the justice system is considered possible, but unlikely. The new rules will change taxpayer rights, and may potentially give rise to claims which are ultimately unsuccessful and/or self-assessments which become the subject of dispute between the taxpayer and the WRA. There is a possibility that some may ultimately come before the First Tier Tribunal (Tax). Such steps would incur administrative cost, including potentially some cost to taxpayers bringing appeals.

2. However, we anticipate that the impact on the First Tier Tribunal (Tax) will be minimal or nil, for 4 reasons:

- i. the legislative amendments will give a high degree of clarity regarding the limits of taxpayers' rights, giving maximum clarity in the law, minimal discretion for the WRA in decision making and minimum divergence across outcomes
- ii. the WRA will continue to practice well-established measures to address taxpayer disputes, including the right to an initial WRA review, and signposting where appropriate to Alternative Dispute Resolution
- iii. the WRA will provide guidance on the rule changes, and already provide guidance on the application of taxpayer rights of appeal, and
- iv. on the basis of the WRA assessment that the current annual average number of transactions in which both MDR and the SDE are applied (and therefore the number from which appeals may be expected to arise) is no more than 120, appeals which may reach the Tribunal is expected to be nil or extremely low.

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