

Explanatory Memorandum to The Land Transaction Tax (Modification of Relief for Acquisitions Involving Multiple Dwellings) (Wales) Regulations 2025

This Explanatory Memorandum has been prepared by the Welsh Treasury and is laid before Senedd Cymru in conjunction with the above subordinate legislation, and in accordance with Standing Order 27.1.

Cabinet Secretary's Declaration

In my view, this Explanatory Memorandum gives a fair and reasonable view of the expected impact of The Land Transaction Tax (Modification of Relief for Acquisitions Involving Multiple Dwellings) (Wales) Regulations 2025. I am satisfied that the benefits justify the likely costs.

Mark Drakeford MS Cabinet Secretary for Finance and Welsh Language
14 January 2025

PART 1 – EXPLANATORY MEMORANDUM

1. Description

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 (the LTTA)¹.

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 creating a more equal Wales

1.3 Details of the current rules and the proposed change are set out in Section 4., Purpose and Intended Effect of the Legislation.

2. Matters of special interest to the Legislation, Justice and Constitution Committee

2.1 The Committee will wish to be aware of the Justice Impact Assessment which is set out in the Integrated Impact Assessment and summarised below.

<https://www.gov.wales/land-transaction-tax-modification-of-multiple-dwellings-relief-wales-regulations-2025-integrated-impact-assessment>

Justice System Impact.

The Welsh Government anticipates the impact of these proposed changes on the First Tier Tribunal (Tax), in terms of the number of appeals which may reach it, will be nil or extremely low, for four reasons,

- 1. the amendment to the LTTA will give a high degree of clarity regarding the tax rule changes,*
- 2. the WRA will continue to practice well-established measures to address taxpayer disagreements and disputes regarding claims, including the right to an initial WRA review, and signposting where appropriate to Alternative Dispute Resolution,*

¹ [Legislation.gov.uk - Land Transaction Tax and Anti-avoidance of Devolved Taxes \(Wales\) Act 2017](https://www.legislation.gov.uk/ukdsi/2017/0001/eng/schedule/schedule-13)

3. *the WRA will update pre-existing guidance and directly contact registered agents to signpost the change to the LTTA, and*
4. *it is anticipated that the actual numbers of transactions affected by the proposed changes will be very low, as the average annual number of MDR claims is low, (around 400 from a total of around 55,000 LTT transactions), those transactions impacted by the changes will be a small minority of those, and cases reaching the Tax Tribunal, if any, will be an even smaller number.*

Also, against the background of a small number of HMRC appeals heard under the current arrangements, the Welsh Government considers that the proposed changes are likely to lead to fewer, if any tribunal appeals. The Welsh Government has informed the Ministry of Justice of its assessment.

3. Legislative Background

3.1 MDR and the SDE were introduced into SDLT legislation in 2011 and 2016 respectively and, with marginal changes, became part of LTT from 1 April 2018.

3.2 The policy aims of the UK government in introducing MDR were to reduce a potential barrier to investment in residential property, to support housebuilders following the financial crash and to promote housing supply from the private rented sector (PRS).

3.3 The aim of the SDE has been to provide fair tax treatment to homebuyers purchasing property which includes a main dwelling alongside an additional dwelling which, as defined in the legislation, is subsidiary to the main dwelling. The rule ensures that those who are liable to main residential rates when buying a single dwelling, will also pay the main residential rates when buying a main dwelling with a subsidiary dwelling (e.g. an annex that meets the conditions to also be a separate dwelling). The LTT regime could be unfair if it required such transactions to be subject to the higher residential rates in the same way as transactions involving the purchase of two separate and equal dwellings by, for example a PRS landlord.

3.4 In England and Northern Ireland, SDLT MDR was abolished on 1 June 2024. The UK Government stated² that MDR had a “minimal positive impact on overall housing supply or PRS supply”, and that it was “not cost effective in meeting its original objectives.’ The SDE remains part of SDLT legislation.

3.5 The Welsh Government conducted a public consultation on the option of abolishing LTT MDR between 8 April and 19 May 2024. Views were invited as part of a wider consultation (see below, Section 5. Consultation).

3.6 The current legislative proposals are made in the context of the responses to the earlier consultation.

² SDLT MDR was abolished on 1 June following an announcement on 6 March (Spring Budget). [SDLT abolition of Multiple Dwellings Relief from 1 June 2024 - GOV.UK](https://www.gov.uk/government/news/sdl-tax-relief-for-multiple-dwellings-to-end-from-1-june-2024)

3.7 Section 30 of the LTTA introduces Schedules 9 to 22 which make provision for reliefs that can be claimed in respect of certain transactions normally liable to LTT. Schedule 13 provides for relief for acquisitions involving multiple dwellings, also known as multiple-dwellings relief, or MDR. Under section 30(6)(b), the Welsh Ministers may amend the LTTA by regulations to modify a relief to LTT. Regulations made under section 30(6) of the LTTA are subject to the draft affirmative procedure.

3.8 Under Section 78 of the LTTA, the Welsh Ministers may also by regulations make such incidental, consequential, supplemental, transitional, transitory or saving provision as they think appropriate for the purposes of, or in connection with, or for giving full effect to, any provision made by or under this Act. These Regulations will include transitional provisions to provide clarity on applicable MDR rules for land transactions; effected in pursuance of a contract (or a contract that is substantially performed) before the rule changes and completed after, and, where there are linked transactions either side of these new rules coming into force.

4. Purpose and Intended Effect of the Legislation

4.1 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.

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

4.3 While the proposed rule changes may change tax outcomes in transactions involving the purchase of multiple dwellings, where one of the dwellings is subsidiary to another, 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.

4.4 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, if it applies, both reduce tax liability on multiple-dwelling transactions, in different ways (see paragraphs 4.6 to 4.11).

4.5 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 residential rates, as dwellings in such transactions do not come within the scope of the higher residential rates rules in Schedule 5 of the LTTA. The Welsh Government considers that, for multiple-dwelling transactions that are not mixed-use transactions and subject to the main residential rates, that the dual benefit of MDR plus SDE is an inappropriate consequence of the legislation.

MDR.

4.6 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 LTT returns and are checked by the Welsh Revenue Authority (WRA). As an example, a purchase of five dwellings together costing £1million would be liable to a LTT charge of £101,200 without MDR, or £43,500 with MDR (based on 1 December 2024 rates).

4.7 In summary, the MDR calculation formula, for transactions consisting of dwellings alone, operates 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.

4.8 The SDE^{3,4} 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 4.10).

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

4.10 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.

4.11 The SDE is intended to protect taxpayers from liability to LTT higher residential rates⁵ if their transaction would be liable to the main rates⁶ 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.)

³ The SDE: [LTTA \(legislation.gov.uk\)](https://legislation.gov.uk)

⁴ The SDE (WRA) : [technical guidance | GOV.WALES](#)

⁵ [Land Transaction Tax rates and bands | GOV.WALES](#)

⁶ [Land Transaction Tax rates and bands | GOV.WALES](#)

The proposal to amend the LTTA.

4.12 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.

4.13 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.

5. Consultation

5.1 The Welsh Government consulted the public on MDR, and LTT reliefs more generally, between 8 April and 19 May 2024.

5.2 The consultation document can be found here: [Public consultation on land transaction tax reliefs \[HTML\] | GOV.WALES.](#)

5.3 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 \[HTML\] | GOV.WALES.](#) In the report, the Welsh Government gave an undertaking to conduct a 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.

5.4 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?

5.5 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.

5.6 Some supporting the abolition of MDR mentioned the budgetary pressure 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.

5.7 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.

5.8 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, alongside the options of retention and abolition.

5.9 The benefits and costs of the three options are set out in the accompanying Regulatory Impact Assessment (RIA). The options analysis underlines the Welsh Government's position that the preferred option is to amend MDR.

5.10 In the longer term, the Welsh Government will undertake further monitoring of the application of MDR to evaluate its role, in particular with regard to the private rented sector and housing supply.

5.11 Since 2018, the Welsh Government has provided over £60million in relief through MDR. This is potentially revenue which would otherwise have supported the public finances. That amount may increase significantly over time. Therefore, in particular against the background of challenging times for the public finances, it is important to ensure MDR is a valuable policy lever and represents value for money.

PART 2 – REGULATORY IMPACT ASSESSMENT

6. Options

6.1 Option 1 – Retain Current MDR Rules.

6.1.1 As they may currently, taxpayers would continue to be able to benefit from both MDR and the SDE in the same transaction when paying the main and the higher residential rates. The LTTA would not be amended.

6.1.2 Advantages. Businesses and individuals may benefit from unchanged rules, and no new elements of cost.

6.1.3 Disadvantages. The need would remain to improve LTT rules by removing the opportunity for taxpayers to benefit from both MDR and the SDE in the same transaction, in transactions subject to the LTT main residential rates.

6.2 Option 2 – Abolish MDR.

6.2.1 The LTTA would be amended so that LTT MDR would no longer be available.

6.2.2 Advantages. Abolition would potentially provide the benefit of simplification, in particular for businesses operating across devolved tax borders, by aligning with SDLT rules in England and Northern Ireland. It is anticipated that abolition of MDR would lead to increased LTT revenue.

6.2.3 Disadvantages. Many respondents to the recent Welsh Government consultation (see Explanatory Memorandum, 5. Consultation) said that abolition could increase the cost to businesses of entering or expanding in the private rented sector (PRS). Such impact may be transferred to tenant households as increased rent. Increased LTT costs resulting from the abolition of MDR could also impact housing supply. Very low costs may arise for both advisers and the WRA, related to the need for awareness of the abolition of MDR and, for the WRA, related to updating guidance and systems. (WRA costs would be met from current funding.)

6.3 Option 3 – Amend the LTTA as proposed.

6.3.1 The LTTA would be amended to provide that certain transactions could no longer benefit from both MDR and the SDE when paying the main residential rates.

6.3.2 Advantages. The amendment would largely retain MDR and the SDE as currently provided but enhance their focus and thereby improve their application. Taxpayers could continue to benefit from MDR and the SDE when a transaction is subject to the higher residential rates. The amendment would lead to increased LTT revenues of between £1 million/year and £2 million/year. The Welsh Government regards the opportunity to take advantage of both MDR and the SDE when paying the main residential rates to be inappropriate. This amendment, an improvement in LTT rules, would align with the Welsh Government's tax principles of aiming to raise revenue to fund public services as fairly as possible, and of being clear and simple.

6.3.3 Disadvantages. Taxpayers expecting to make continued combined use of MDR and SDE in transactions liable to the LTT main residential rates would see an increase in their tax liabilities. Relatively low costs will arise for advisers and the WRA, related to the need for familiarisation with the new rules and, for the WRA, the production of guidance and staff training. WRA costs will be met from current funding.

6.4 Options Summary.

Option 3 is preferred on the grounds of the balance of advantage over disadvantage.

6.5 Ongoing Evaluation. The Welsh Ministers intend that, following the implementation of Option 3, a period of further consideration of the wider application of MDR will follow. See under paragraph 7.4.2, Ongoing Evaluation.

7. Costs and Benefits

7.1 Option 1 – Retain Current MDR Rules unchanged.

7.1.1 Costs. Retaining current MDR rules would represent an ongoing cost to the Welsh Government of between £5million and £10million per year in reduced LTT revenues (based on averages for 2018-19 to 2023-24 revenues, discounting exceptional years). It should be noted that the amount which relates to MDR claimed by those who have also benefitted from the SDE and are paying LTT at the main residential rates will be a lower amount (although a precise figure cannot be established).

Table D - the value of MDR, 2018 to 2024

	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
MDR: tax relieved (£m)	2m	23m	6m	18m	11m	9m

Source: Stats Wales [LTT reliefs \(gov.wales\)](https://gov.wales/ltt-reliefs)

7.1.2 Benefits. Direct benefits would be experienced by those claiming MDR and benefiting from the SDE in the same transactions. Indirect benefits may be experienced by those reliant upon and/or connected to direct beneficiaries.

7.2 Option 2 – Abolish MDR.

7.2.1 Costs. Consultation respondents and others have said that abolition could increase the cost of entering or expanding in the PRS. These costs may potentially reduce supply, and/or increase costs to tenants, thus impacting businesses, tenants and Welsh Government housing policy objectives.

7.2.2 Benefits. Given the uncertainties inherent in forecasting behavioural impact, and the historical volatility in levels of MDR claims and those benefiting from the SDE,

providing detailed forecasts is challenging. However, it is estimated that abolishing MDR may increase LTT revenues by around £5m-£10m/year, assuming no significant behavioural impact. If behavioural impact were factored in, the post-abolition increase may be reduced to £2.5m/year to £5m/year. Therefore, depending on the scale of behavioural responses, the benefit to LTT revenues could be somewhere in the range of £2.5million/year to £10million/year. Abolition would also provide the benefit of simplification by aligning with SDLT rules.

7.3 Option 3 – Amend the LTTA as proposed.

7.3.1 Costs. It is anticipated that the proposed change would result in increased tax revenues of between £1million and £2million per year (see paragraph 7.3.2.) paid by those taxpayers paying the LTT main residential rates. Therefore, the annual cost to the Welsh Government of providing MDR would fall from £5million to £10 million per year (current) to between £3million and £9million per year.

7.3.2 Benefits. An additional £1.5m-2m/year in revenue may be collected, if MDR were not claimed in transactions to which the main residential rates apply and the SDE is relevant, and before any factoring in of behavioural effects.⁷ However, if potential behavioural impacts are factored in, LTT revenue might only increase by £1million/year to £1.5million/year, from the removal of this specific, narrow opportunity to claim MDR. (However, many of the transactions under consideration here are cases of people buying homes, and it is anticipated that in such cases behavioural impact may be lower than in transactions for business purposes.)

7.3.3 This option would improve the focus of MDR and the SDE. The proposed amendment would affect a minority of future MDR-related transactions (the WRA estimates 100-120 transactions/year, around a third of all MDR claims), and therefore would not impact the primary benefits of MDR and the SDE. The amendment may help reduce compliance work for WRA in this particularly contested area of the legislation, in which incorrect claims are made by homebuyers contending they have acquired subsidiary dwellings, with a MDR claim, whilst also seeking to pay the LTT main residential rates.

7.4 Costs and Benefits Summary.

7.4.1 Option 3 is preferred on the grounds of cost and benefit.

7.4.2 Ongoing Evaluation. The Welsh Government has provided over £60million in relief through MDR since 2018. As it is anticipated that the value of MDR will increase over time, and against the current background for public finances, the Welsh Government will retain MDR in the longer-term only if it has confidence that it is likely

⁷ The WRA estimate is based on multiple-dwelling transaction numbers in an average year, in which MDR was claimed and LTT paid at the main rather than higher residential rates, because of the subsidiary dwelling exemption applying, and reflects varying annual transaction levels.)

to remain an appropriate policy lever and provide value for money. Therefore, MDR will continue to be monitored, and will be subject to further decisions as appropriate.

8. Competition Assessment

8.1 The Welsh Government considers that a full Competition Assessment is not required for these proposed changes, as demonstrated by the result of a Competition Filter Test (see Table E, below).

8.2 The changes may introduce requirements for businesses to change practices, with the potential to incur cost. However, they do not introduce prejudice or favour to any sector or individual business.

8.3 There are two stages to a full Competition Assessment. The first, the competition filter test, assesses whether there is a risk of significant detrimental effect on competition. The filter test result, set out below in Table E, indicates there is no anticipated significant impact on competition and therefore the risk of significant detrimental impact on competition is low. As the filter test suggests, the second stage of eth competition assessment (which comprises a fuller assessment) has not been conducted.

Table E - Competition Filter Test

1. In the market(s) affected by the new regulation, does any firm have more than 10% market share?	No
2. In the market(s) affected by the new regulation, does any firm have more than 20% market share?	No
3. In the market(s) affected by the new regulation, do the largest three firms together have at least 50% market share?	No
4. Would the costs of the regulation affect some firms substantially more than others?	No
5. Is the regulation likely to affect the market structure, changing the number or size of firms?	No
6. Would the regulation lead to higher set-up costs for new or potential suppliers that existing suppliers do not have to meet?	No
7. Would the regulation lead to higher ongoing costs for new or potential suppliers that existing suppliers do not have to meet?	No
8. Is the sector characterised by rapid technological change?	No
9. Would the regulation restrict the ability of suppliers to choose the price, quality, range or location of their products?	No

9. Post-Implementation Review

9.1 The WRA provides monthly and quarterly data on LTT transactions including the number and cost of relief claims, which provide the Welsh Government, citizens and other interested parties with the opportunity to analyse the impact of changes.