Explanatory Memorandum to The Land Transaction Tax (Modification of Relief for Acquisitions Involving Multiple Dwellings) (Wales) Regulations 2026

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 2026. I am satisfied that the benefits justify the likely costs.

Mark Drakeford MS
Cabinet Secretary for Finance and Welsh Language
20 January 2026

PART 1 – EXPLANATORY MEMORANDUM

1. Description.

1.1 The Welsh Government is proposing the following change to the rules governing the land transaction tax (LTT) Relief for Acquisitions Involving Multiple Dwellings, also known as Multiple-Dwellings Relief (MDR),

- an increase to the rate at which the MDR minimum tax rule is set, from 1% to 3%.

1.2 The change will be made through amending Schedule 13 of the Land Transaction Tax and Anti-avoidance of Devolved Taxes (Wales) Act 2017 (the LTTA)[1].

1.3 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, and
v) Contribute directly to the Well-being of Future Generations Act goal of creating a more equal Wales.

1.4 This proposal follows legislative changes made in February 2025 to improve MDR rules. At that time the Welsh Ministers announced the intention to further monitor and consider the role of MDR, and that it would be subject to further decisions as appropriate[2].

1.5 Details of the current rules and the proposed changes 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 None.

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[1] Legislation.gov.uk - Land Transaction Tax and Anti-avoidance of Devolved Taxes (Wales) Act 2017

[2] Explanatory Memorandum to The Land Transaction Tax (Modification of Relief for Acquisitions Involving Multiple Dwellings) (Wales) Regulations 2025, 14 January 2025

3. Legislative Background.

3.1 The UK Government (UKG) introduced MDR into stamp duty land tax (SDLT) legislation in 2011, with the aim of reducing 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).

3.2 With marginal changes, MDR was carried over into LTT legislation in 2018.

3.3 The UKG abolished SDLT MDR on 1 June 2024, stating[3] it had a "minimal positive impact on overall housing supply or PRS supply", and that it was "not cost effective in meeting its original objectives".

3.4 The Welsh Government then consulted the public on the option of abolishing LTT MDR (8 April to 19 May 2024), as part of a wider consultation on LTT reliefs (see below, Section 5. Consultation).

3.5 Subsequently, in January and February 2025, the Welsh Government proposed, and the Senedd agreed, amendments to the rules governing LTT MDR to discontinue the possibility for taxpayers to benefit from both MDR and the Subsidiary Dwelling Exception in the same multiple-dwelling transactions liable to the main residential rates.

3.6 When proposing legislative changes in January 2025, the Welsh Government set out that MDR would be subject to further consideration during the course of 2025. The current proposal is the result of that further consideration.

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.

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[3] SDLT MDR was abolished on 1 June following an announcement on 6 March (Spring Budget). SDLT abolition of MDR - GOV.UK (www.gov.uk)

4. Purpose and Intended Effect of the Legislation.

4.1 The Regulations will make one amendment to the LTTA.

4.2 It is anticipated the amendment will improve fairness in the treatment of multiple-dwelling transactions. The change may marginally increase LTT revenues to the Welsh Government. The proposed changes are set out in detail from paragraph 4.15.

<u>Current rules</u>

4.3 MDR is a partial relief of LTT, which can be claimed by a taxpayer when they acquire more than one dwelling from the same seller, in a single transaction or in linked transactions. 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 paragraph 4.7).

4.4 Claims are made in LTT self-assessments and are checked by the WRA. As an example, a purchase of four dwellings together costing £1million would be liable to a LTT charge of £111,200 without MDR, or £59,800 with MDR (based on the rates in force on 1 November 2025).

4.5 MDR is applied differently in the following two categories of transaction,

- **residential property transactions**, in which only dwellings are sold/purchased,
- **mixed-use transactions**, in which the property sold/purchased consists of both residential and non-residential portions.

4.6 In residential property multiple-dwelling transactions, MDR is applied to the total cost of the transaction, which is liable at the LTT ***higher*** residential rates. In mixed-use transactions, MDR is applied to the residential portion only, which is liable at the LTT ***main*** residential rates (the non-residential portions are liable at non-residential rates).

4.7 **Calculating MDR in residential property transactions.** Residential property multiple-dwelling transactions are subject to the LTT higher residential rates. When MDR is claimed, the following calculation formula is used to establish LTT liability on the whole transaction:

notional LTT charge on an average priced dwelling (the average price of those purchased) X *number of dwellings purchased*

Example[4].

- Purchase of 4 dwellings in the same transaction.
- Total cost £1million.
- The dwellings would cost £200K, £225K, £250K and £325K if purchased separately.
- Average price of dwelling £250K.
- The purchaser may choose to claim MDR.

	Cost of transaction	LTT liability
If MDR is not claimed	£1,000,000	**£111,200**
If MDR is claimed	£1,000,000	**£59,800**
MDR given = **£51,400**		

NOTE. MDR Minimum Tax Rule. In rare cases in which the liability calculated by the calculation method above arrives at a sum which is less than 1% of the value of the dwellings purchased, the minimum tax rule is applied so that the liability then becomes the rate at which the minimum tax rule is set. The rate is currently 1%. (See also paragraph 4.12.iii and 4.13.)

4.8 **Calculating MDR in mixed-use transactions**. As set out initially (para. 4.6), LTT liability is generally lower in mixed-use multiple-dwelling transactions than in residential property multiple-dwelling transactions, for two reasons.

4.9 First, while residential property multiple-dwelling transactions are subject to the more expensive LTT *higher* residential rates, in mixed-use multiple-dwelling transactions, the residential portions of transactions, on which MDR is claimed, are subject to the less expensive *main* residential rates.

4.10 Second, non-residential portions of mixed-use transactions are liable at the less expensive non-residential rates.

4.11 The process of establishing liability in mixed-use multiple-dwelling transactions is more involved than that used in residential property multiple-dwelling transactions. This reflects the need to provide fairness in taxing transactions which can potentially encompass wide differences in value between residential and non-residential portions.

4.12 The following 5 steps are taken to calculate liability.

i. **Apportionment**, to establish what part of the total cost is for the residential and non-residential portions respectively,

[4] *calculations based on LTT rates in force in October 2025*

ii. **Calculation of liability for the residential portion**: the LTT *main* residential rates are applied to the MDR calculation formula, where MDR is claimed,
iii. If MDR is claimed, the **MDR Minimum Tax Rule** must be considered and either applied or not: if the liability for the residential portion alone as calculated above comes to less than 1% of the cost of that portion, the liability for that portion is then set at 1% of the total cost of that portion,
iv. **Calculation of liability for the non-residential portion** (see detail below),
v. **Addition**: the liability for the two portions is added to arrive at the total liability.

4.13 **MDR Minimum tax rule.** This rule exists to increase fairness in tax treatment. It prevents the possibility that dwellings in mixed-use multiple-dwelling transactions could be exchanged tax-free. Tax-free treatment would occur because of the combination of these two factors:

i. the LTT *main* residential rates apply in this category of transaction, and

ii. there is a threshold below which dwellings can be purchased without paying LTT, when they are subject to the main residential rates – this is currently £225,000.

This tax-free treatment would be unfair by comparison with residential property multiple-dwelling transactions. The minimum tax rule therefore provides an element of rebalancing and fairness between residential and mixed-use multiple-dwelling transactions.

4.14 **Establishing liability on the non-residential portion**. This is calculated by the following 3 steps:

i. calculate the *notional liability for the whole transaction* (residential and non-residential portions combined) according to the *non-residential rates,*
ii. calculate the percentage *proportion of the full transaction price attributable to the non-residential portion*, as follows, <u>cost of non-residential portion</u> / <u>full cost</u>
iii. calculate the total liability for the non-residential portion by multiplying the sums arrived at in steps i. and ii. above.

Example.

A £600,000 purchase of a ground floor shop and 2 flats above.

Calculation of liability follows the 5-step approach (see paragraph 1.15 above).

i. Apportionment: shop worth £250,000; 2 flats worth £350,000 combined (£150,000 and £200,000 each).
ii. Liability on the **residential portion = £3,500**
   - notional average price of the dwellings = (£200k + £150k)/2 = £175k,
   - £175k is below the LTT main residential rates starting threshold of £225k, therefore no LTT is due by this stage in the calculation.
iii. Given the result in Step ii., the MDR Minimum Tax Rule is applied, giving the liability on the residential portion as 1% of £350k = £3,500.
iv. Liability on the **non-residential portion = £7,396**

- *notional liability for the whole transaction* (residential and non-residential portions combined) according to the *non-residential rates = £17,750*
- *proportion of the full transaction attributable to the non-res. portion = 41.67%*
- total liability for the non-residential portion = £17,750 x 41.67% = £7,395.83

v. **Total liability, £600K mixed-use transaction** = £3,500 + £7,396 = **£10,896**

<u>Proposed amendment to the LTTA</u>

4.15 The Regulations will change the MDR rules as follows:

the rate of the MDR minimum tax rule will increase from 1% to 3%.

4.16 Transitional rules will apply, so that transactions entered into, but not completed before the date the new Regulations come into force, will be subject to the rules and rate previously in force.

4.17 Currently, there is a significant difference between the levels of tax liability in mixed-use and residential property multiple-dwelling transactions. Liability can be significantly lower in mixed-use transactions for the two reasons that the residential portion is liable to the LTT main residential rates (whereas residential-only transactions are liable to the higher residential rates) and that the non-residential portion is liable to the lower non-residential rates.

4.18 The Welsh Government is content that an advantageous treatment, with lower levels of liability, should remain for mixed-use transactions. However, the difference between liability levels for these two categories should be reduced, to increase fairness.

4.19 This change may marginally increase LTT revenues to the Welsh Government, which will support the funding of public services. The Welsh Government believes the increases in liability brought about by the proposed increase will ensure reasonable and proportionate tax contributions.

5. Consultation.

5.1 The Welsh Government consulted the public on MDR and other questions related to LTT reliefs 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 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?

5.4 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.

5.5 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 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) 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 In January 2025 the Welsh Government set out the proposals to amend MDR rules[5]. The Senedd approved these proposals and the changes came into force on 10 February 2025.

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

5.10 At that time, the Welsh Government said, as it was anticipated that the value of MDR would increase over time, and against the background at the time for public finances, the Welsh Government would retain MDR in the longer-term only if it had confidence that it was likely to remain an appropriate policy lever and provide value for money. Therefore, MDR would continue to be monitored, and would be subject to further decisions as appropriate.

6. Policy Considerations.

6.1 The Welsh Government has decided to retain and further improve MDR because it is a policy lever which, by offering benefits to the PRS, may support the delivery of housing commitments. These commitments are set out in the Welsh Government's Consultation on the White Paper on securing a path towards Adequate Housing, including Fair Rents and Affordability (October 2024)[6],

> "We are acutely aware of … the importance of the Private Rented Sector in providing a range and choice of accommodation for families and individual households … numbers of people presenting to homelessness services and supported with temporary accommodation continue to rise. As we continue to face uncertain times and ongoing financial pressures it is critical we continue our work to increase access to, and the affordability of, all housing tenures to meet the housing needs of everyone across Wales."

6.2 The Welsh Government recognises MDR bears a certain cost, in that it is drawn from LTT revenues which support the public services. The Welsh Government recognises that it is not possible to objectively ascertain whether MDR is a determining factor which aids PRS businesses to support Welsh Government housing commitments. And therefore, it is not possible to know with certainty the precise balance of benefit and cost of retaining MDR. However, MDR is clearly a potential benefit to the PRS, and may assist businesses to provide housing, including in cases when ownership of portfolios of dwellings must be transferred in order for the dwellings to remain viable.

6.3 Since 2018, the Welsh Government has provided over £79 million in relief through MDR. As at least some part of this sum is potentially revenue which would otherwise support the public finances, and in particular against the background of challenging times for public spending, it is important to ensure MDR is a valuable policy lever and represents value for money. It will therefore be important for MDR to be re-evaluated again in future, to ensure it remains on balance a beneficial measure.

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[6] Consultation on the White Paper on securing a path towards Adequate Housing, including Fair Rents and Affordability

PART 2 – REGULATORY IMPACT ASSESSMENT

7. Options.

<u>7.1 Option 1 – Retain Current MDR Rules.</u>

7.1.1 The LTTA would not be amended.

7.1.2 Advantages. Taxpayers may benefit from continuity. Some calculations made in the past regarding tax liability may be unaffected.

7.1.3 Disadvantages. The need to improve fairness in tax rules governing multiple-dwelling transactions would remain. Fairness is one of the Welsh Government's tax principles, and promoting and improving fairness is a key element in ongoing work to ensure devolved taxation works appropriately.

<u>7.2 Option 2 – Abolish MDR.</u>

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

7.2.2 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 some increase in LTT revenue.

7.2.3 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 impact housing supply. Transactions in which a portfolio of dwellings changes hands would be disadvantaged. This may negatively impact housing supply.

<u>7.3 Option 3 – Amend the LTTA as proposed.</u>

7.3.1 The LTTA would be amended so that the rate of the MDR minimum tax rule would increase from 1% to 3%.

7.3.2 Advantages. The amendment would maintain a distinct tax treatment for multiple-dwelling transactions, increase fairness in tax treatment and may marginally increase LTT revenue which supports the funding of public services.

7.3.3 This improvement to 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 as clear and simple as possible.

7.3.2 Disadvantages. Taxpayers would see an increase in their tax liabilities in defined circumstances. These increases are anticipated to be marginal.

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

8. Costs and Benefits

8.1 Option 1 – Retain Current MDR Rules unchanged.

8.1.1 Costs. It is estimated that retaining current MDR rules (following the amendment introduced in February 2025) would represent an ongoing cost to the Welsh Government of between £3 million and £9 million per year in reduced LTT revenues, based on averages for 2018-19 to 2024-25 revenues, discounting exceptional years. It should be noted that annual levels of LTT reliefs have tended to be somewhat volatile.

Table - the value of MDR, 2018-19 to 2025-26, £m

2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
3.4	22.5	6.2	17.9	10.9	9.4	8.2*

Source: Stats Wales LTT reliefs (gov.wales)

*LTT MDR amended on 7 February 2025 to disallow the concurrent use of MDR and the Subsidiary Dwelling Exception in the same transactions
** Full year data for 2025-26 unavailable

8.1.2 Benefits. Direct benefits would be experienced by those claiming MDR. Indirect benefits may be experienced by those reliant upon and/or connected to direct beneficiaries.

8.2 Option 2 – Abolish MDR.

8.2.1 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.

8.2.2 Benefits. Given the uncertainties inherent in forecasting behavioural impact, and the historical volatility in levels of MDR claims, providing detailed forecasts is challenging. However, it is estimated that abolishing MDR may increase LTT revenues by around £3m-£9m/year, assuming no significant behavioural impact. If behavioural impact were factored in, the post-abolition increase may be reduced to £1.5m/year to £4.5m/year. Therefore, depending on the scale of behavioural responses, the benefit to LTT revenues could be somewhere in the range of £1.5million/year to £9million/year. Abolition would also provide the benefit of simplification by aligning with SDLT rules.

8.3 Option 3 – Amend the LTTA as proposed.

8.3.1 Costs. It is anticipated that the proposed change would increase liability in multiple-dwelling transactions in which the minimum tax rule were applied. The increase would be an additional 2% to the liability on the dwellings purchased. It is not possible to present an estimate of the aggregate impact of this option (see also paragraph 8.3.2).

8.3.2 As with Option 2, it is possible the proposed change could result in a reduction in housing supply or could result in increased rental fees if landlords opted to pass on additional costs to tenants. However, these risks are considered to be significantly lower than under Option 2.

8.3.3 Benefits. Estimating the benefits to the public finances in terms of the increase in revenue is challenging given the several factors involved. The increase is anticipated to be marginal only, and lower than the estimates presented under Option 2. Given the marginal impact on tax liability on a per-transaction basis, significant behavioural impact is not anticipated.

8.3.4 This option would improve the fairness of MDR rules.

8.4 Costs and Benefits Summary.

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

9. Competition Assessment

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

9.2 The change may introduce requirements for businesses to change practices, with the potential to incur cost. However, it does not introduce prejudice or favour to any sector or individual business.

9.3 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 the 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

10. Justice system impact assessment

10.1 The assessment is that the change proposed here will have nil or minimal impact on the justice system

10.2 Welsh Ministers and the Senedd from time to time make changes to the legislation governing LTT. The relevant authority for LTT is the Welsh Revenue Authority (WRA). Across the UK, taxpayers who disagree with decisions made by the relevant tax authorities may appeal to the First Tier Tribunal (Tax), which is administered by the UK Government's Ministry of Justice. Therefore, the Welsh Government, when introducing changes to devolved tax legislation, must inform the Ministry of Justice of its assessment of the likely impact of any proposed changes on Tribunals.

10.3 The Welsh Government has informed the Ministry of Justice of its assessment that the impact of the changes proposed here on the First Tier Tribunal (Tax), in terms of the number of appeals which may reach it, will be nil or extremely low, for the following reasons,

- the proposed amendment to the LTTA will give a high degree of clarity regarding rule changes,

- the WRA will update existing guidance for taxpayers, including on rights of appeal, and directly contact registered agents to signpost the change to the LTTA,

- the WRA will continue to practice well-established measures to address taxpayer disagreements and disputes, including the right to an initial WRA review, and signpost where appropriate to Alternative Dispute Resolution processes,

- it is anticipated the numbers of transactions affected by the proposed changes will be low, given that the average number of MDR claims has heretofore been around 400 per year from a total 55,000 LTT transactions, and that the transactions impacted by the changes are likely to be a small minority of those, with the cases reaching the Tax Tribunal, if any, representing an even smaller number.

11. Post-Implementation Review

11.1 The WRA provides monthly, quarterly and annual data on LTT transactions. These include the numbers and costs of relief claims, which provide the Welsh Government, citizens and other interested parties with the opportunity to analyse the impact of changes.