RADIX PAPER NO 20
JANUARY 2021

Produced in partnership with

SHOOSMITHS

RADIX

THINK TANK FOR THE **RADICAL CENTRE**

MODERNISING PROPERTY TAXES

"OUT-OF-DATE, REGRESSIVE AND UNFAIR, THE WAY WE TAX PROPERTY IN THE UK MUST BE A PRIORITY FOR REFORM IF WE ARE REALLY TO BUILD BACK BETTER"

FOREWORD

Following the Government's commitment to 'levelling up', many would have expected 2020 to see the political football of the UK's housing crisis tackled. Inevitably, however, the triple distractions of Brexit, the US election and most of all, Covid-19, have dominated the political agenda. We must instead return to the issue with renewed urgency in 2021.

The living sector has faced numerous challenges in recent years, from lack of stock to regional pricing imbalance to changing design needs and now the impact of a global pandemic. However, the sector is nothing if not resilient and innovative and, while these challenges remain very real, it is increasingly clear that the sector is in desperate need of tax reform. There have been constant tweaks to Stamp Duty Land Tax (SDLT) – from "slab" to "slice" to new bands to surcharges – resulting in an unwieldy and distinctly unsatisfactory system. Council Tax, however, has been left well alone for 30 years but nevertheless feels outdated and unfair.

As lawyers, legitimacy and fairness are at the heart of the cases we study and the theory of law. In our day-to-day roles, we must argue both sides of a point, whether it reflects our personal beliefs or not.

When we were asked to partner with Radix to bring forward these essays, we jumped at the chance as we believe that facilitating broad views and ideas is important in helping the decision makers in government to effect much needed positive change for the benefit of those looking to get on, or off, the housing ladder, as well as encouraging economic growth, workforce mobility and dealing with the homelessness crisis.

The essays that follow contain a variety of views and proposals from contributors in their personal capacity on reform of our property tax system. While we do not necessarily endorse the views provided, we encourage and welcome a stimulating debate from a variety of different stakeholders. We hope that in coming together and working collaboratively, regardless of political persuasions, this will help us to consider a better, fairer way forward.

Catherine Williams

Head of Living Sector
Shoosmiths LLP

CONTENTS

INTRODUCTION

Ask any economist or local authority leader and they will tell you that many of the challenges we face in the UK today, including regeneration, inequality and poverty, come down to how we tax property. These taxes influence people's ability to own their own home, the quality (and quantity) of housing stock and how we invest our capital - so getting them right is important.

> EVER SINCE THE POLL TAX POLITICIANS HAVE BEEN UNWILLING TO OFFER SUGGESTIONS FOR REFORMING PROPERTY TAXES LEST THEY START A RIOT IN TRAFALGAR SQUARE

This should be easy. Property value and liability can be calculated with relative certainty, ownership is recorded and it cannot be hidden offshore. Yet, many agree property taxes in the UK are in need of significant and overdue reform. Out-of-date, regressive and unfair, UK property taxes no longer fulfill their purpose and may actually be doing more economic harm than good.

Reform has proven a tricky subject ever since the Poll Tax, thirty years ago, with many politicians unwilling to offer suggestions lest they upset constituents or start a riot in Trafalgar Square. But if we don't make some changes, we are going to face many more problems.

In the wake of the Covid-19 pandemic and its resulting economic impact, the issue of raising taxes has come to the forefront. 'Build Back Better' won't happen without a reasonable budget.

This paper takes as its starting point the Radix webinar entitled 'Modernising Property Taxes' in September 2020. In that discussion we heard from: Andrew Dixon of the Fairer Share campaign; Kevin Hollinrake MP, a member of the Housing Select Committee and founder of Hunters Estate Agency; Beth Stratford, co-author of Labour's Land for the Many report; and Vaqas Farooq, a leading Real Estate and Regeneration Lawyer at Shoosmiths LLP. The resulting essays contained in this paper further develop their contributions to that discussion, as well as providing a platform for a number of important new voices.

As you might expect from Radix our contributors do not always agree, although there is a strong consensus that Council Tax in its current form must go. In response, our essayists offer a range of alternatives, from the introduction of a Proportional Property Tax to a Singapore-style leveraging of land value, as well as flagging other important measures which they believe will improve the operation of the housing market, enhance fairness and mobility, and improve the quality of housing stock in this country.

In addition, some of our contributors go on to consider how we can find the political capital to enact change.

Despite everything that has happened in the UK over the past year, the underlying economic, social and practical implications of the state of the UK housing market remains at the core of many of the challenges which our country faces. How do we provide security if young people can't afford the first step onto the housing ladder? How do we ensure economic and social mobility without a thriving and affordable private rental market? How do we protect the most vulnerable in our society without an adequate supply of quality social housing? And as we seek to set a path to recovery post-Covid, how do we make our housing stock fit for a new work-from-home culture, let alone responsive to climate change?

What is the future of the high street and how might it be repurposed, if required? And how do we ensure that housing plays its part in the creation of a fairer, 'levelled up' society which enhances life chances and encourages sustainable growth?

Our essayists seek to tackle all these questions and others in the chapters that follow. We hope that this collection of essays will further debate and while we may not all agree on the answers we can at least begin to identify and debate the urgent challenges which confront us all.

Ben Rich

Radix Chief Executive

THE CASE FOR REFORM

by Kevin Hollinrake MP

Kevin Hollinrake represents the Thirsk and Malton constituency where he was born and brought up. He was elected to Parliament in May 2015 and holds the position of Parliamentary Private Secretary to Michael Gove. He serves on the Housing, Communities and Local Government Select Committee. Kevin was a founder partner and now Chairman of Hunters Estate Agents, which is one of the largest independent networks of sales and letting agents in the UK. In 2008, he founded Vizzihome and the search agent, Shoptility.com, where he became Chairman in 2013.

WHY DO WE NEED REFORM?

I have lived in many different types of homes during my life and the one consistency I have noted is that the Council Tax bill I receive on my doormat rarely matches the value of my property. Whether you live in a great big house or a more modest one is not necessarily reflected in the amount you pay each year. In a society where we are united in our belief in fair play, Council Tax seems like an anachronism.

Criticism of property taxes is not new. We saw riots break out across the country in 1990 in protest against the 'Community Charge'; its replacement, Council Tax, has been repeatedly bashed for three decades now, but nothing has changed. If this Government truly wants to 'Level Up', it has to enact tangible policies that can and will be felt.

Regional disparity in the UK is obvious and damning. Nowhere can this be seen more clearly than in the Council Tax levied in different parts of the country. With our current system, homeowners in the North East are consistently paying more than those living in wealthier parts of the nation, such as London. Local governments still find it difficult to raise revenue for budgets even with Council Tax and Business Rates, leading to extra tariffs and top-ups.

Our system of local collection means that the most deprived areas, which are most in need, naturally struggle to raise enough in taxes from their community to cover the costs of vital local services. Some low-income households can get into debt - and even be imprisoned - if they are unable to pay. With millions more debt accrued during the Covid-19 pandemic, reform is needed more than ever.

Stamp Duty is another tricky tax which has never been implemented successfully. Punitive for everyone at both ends of the wealth spectrum, it functions as a transaction tax, discouraging mobility and harming the economy.

Neither of these taxes are fit-for-purpose anymore and should be replaced with a system which makes sense, collects equitably and encourages aspiration.

To my mind, the Fairer Share campaign opens up an opportunity for renewed discussion on this subject and a chance for real reform (see Andrew Dixon's essay for more details). By replacing our current Council Tax system with a proportional charge based on up-dated property valuations, we can rebalance the burden of payments and put more money back into the pockets of our regional populations. The simplicity of a 0.48% flat-rate is another plus, removing the baffling and distorting scheme of Council Tax bands and exemptions.

Abolishing Stamp Duty on owner-occupied residential properties, meanwhile, could decrease highly-inflated prices at the top end of our housing market. This is unlikely to have a profound effect but could help even out property prices across the country. In turn, this would make it easier for people to move out of their area to take up job opportunities, as well as facilitating up/downsizing.

WE NEED TO RAISE REVENUE AND THE FAIREST WAY TO DO THIS IS THROUGH FIXING OUR BROKEN PROPERTY TAX SYSTEM.

The Chancellor has already noted the problems of Stamp Duty when he introduced a 'holiday' on all house purchases under £500,000 last summer; making this change permanent makes sense given the predicted long-term impact of Covid-19 on the UK economy.

Some have raised concerns about the transferral of increased charges, levied through Proportional Property Tax (PPT), back onto renters, or the price tag of Stamp Duty, no longer collected by government, being pocketed by property sellers. I am less worried and instead have confidence that a highly competitive market will pull down and even out these prices. Rent controls to prevent owners passing PPT onto renters have no use in the long-term and would instead decrease housing supply as people remain in low-cost accommodation even as they achieve higher incomes.

Critics call PPT a wealth tax, but I would argue that it is not dissimilar to Business Rates. The losers of reform will be those in expensive houses who have lived there for a long time. We may be able to create measures to support some of those individuals, especially the elderly. But I believe these changes are still necessary and appropriate given the financial situation we face.

Ronald Reagan once said, 'there are no easy answers, but there are simple answers'. Reforming property taxation in the UK should be simple, but it is unlikely to be easy to implement. Property tax reform has never been an uncontroversial topic in the UK. However, something must be done about the huge amount of debt we still carry and which has, necessarily, been added to during the Covid-19 pandemic. We need to raise revenue and the fairest way to do this, in my opinion, is through fixing our broken property tax system.

Parliament needs to be braver, to debate the more radical alternatives to current policy and make difficult choices. Now is the time for a proper debate on this issue in the hope that we can see some strong and meaningful change.

Each time I have stood for election (three times in the last 5 years), I have stood on a platform of a fairer society and a fairer deal for the North. Reforming the UK's property tax system is an important step in bridging that gap between rhetoric and results.

THE CASE FOR A PROPORTIONAL PROPERTY TAX

by Andrew Dixon

Andrew Dixon is an angel investor, founder of ARC InterCapital. Starting his career at Société Générale and Goldman Sachs, he has spent over two decades investing in small and medium-sized UK businesses. He is the founder of the Woodhaven Trust. Andrew co-authored The Commercial Landowner Levy, LVT solution for business rates[(1)] and founded Fairer Share, the proportional property tax to reform Council Tax and Stamp Duty[(2)].

INTRODUCTION

Each year 24 million households pay around £35 billion to fund their local services. Without Council Tax, residents would not be able to access social care, road maintenance, refuse collection, leisure centres and libraries, to name a few of these vital services that underpin our communities up and down our country. As much as we may not welcome taxation, we all appreciate its necessity. What we do not appreciate is Council Tax that leaves some of the least well-off bearing the greatest burden.

Take two houses, one in Middlesbrough worth £150,000 and one in Westminster worth £8 million. Under the current system, the owner or tenant of the former pays £1,702, or 1.1% of the property value, in Council Tax each year. In the latter case, meanwhile, they pay £1,560, or just 0.02%. The tax paid as a percentage of house prices averages out to 0.77% in the North East, compared with 0.28% in London. In effect, the rates have a very tenuous link to the actual value of property and do not reflect the distribution of wealth in the UK. Paul Johnson from The Institute for Fiscal Studies put it well: “We wouldn’t charge a lower rate of VAT on a Ferrari than on a Nissan. It is not much more evident why we should charge a lower rate of council tax on a £2 million mansion than on a £50,000 flat.”[(3)] .

COUNCIL TAX LEAVES SOME OF THE LEAST WELL-OFF BEARING THE GREATEST BURDEN

Is this fair? Can any population, which is becoming increasingly aware of the gap between rich and poor, continue to accept a disparity like this a disparity which will only worsen over time? The top 10% of UK households own 45% of the wealth, whilst the bottom 50% own just 8%[4]. No wonder a recent survey found 69% of the public think that "rich people get an unfair advantage" in this society. And it is this belief in a sense of fair play, which underpins Fairer Share.

I founded Fairer Share because we live in critical times. Regional and intergenerational inequality runs through our communities, with unemployment rising and many households relying on food banks. The Covid-19 pandemic is only making our differences more polarised as gig economy workers either lose already-unstable employment or risk infection, whilst other professionals have been able to work-from-home or receive sick pay. The impact on our economy has been tremendous - a financial hit which will add further burden to under-funded local governments already struggling to plug the holes against a tidal wave of health and social care crises. We know the solutions to our current situation will have to be much larger than what we are proposing and we believe reforming the UK's property taxes is an integral part of building a better, fairer society.

COUNCIL TAX: NO BETTER THAN THE POLL TAX?

When the Battle of Trafalgar Square stopped the dreaded Community Charge (Poll Tax) - and perhaps brought down Margaret Thatcher - this was seen as a victory against flat-rate charges which moved the burden of payment from the rich to the poor. So why is our current system so unfair? Did we implement a Poll Tax after all?

> THE BAND STRUCTURE MEANS HOUSEHOLDS AT THE LOWER END OF THEIR BAND ARE PAYING PROPORTIONATELY MORE THAN THOSE AT THE TOP

One reason is that the property valuations which form the basis of Council Tax are now 30 years out of date. But house prices have increased dramatically over the past three decades, especially for those owning homes at the top end of the market.

Valuations are grossly out of date and completely ignore the sky-rocketing effect for those with the more valuable assets in the more prosperous areas.

The band structure, too, means households at the lower end of their band are paying proportionately more than those at the top. This penalises younger homeowners at the foot of the property ladder whilst shielding those who can afford to purchase their second home. Meanwhile, studies have estimated that 216,000 homes have been empty for six months[5], and housing stock valued at £123 billion is rarely used[6].

The problem is large and growing. Approximately a quarter of all residential property purchases are now made by investors and those wanting second homes. 'Land banking', where developers put off construction until land value has risen and do not have to pay Council Tax despite having planning permission, has gone from a niche issue to a central part of the housing crisis. Our housing stock isn't being used efficiently.

STAMP DUTY LAND TAX

Stamp Duty is another part of the problem. By taxing property transactions, Stamp Duty discourages homeowners from moving – be it an older couple downsizing or a growing family upsizing – that would lead to more efficient use of the country's housing stock. The fall in transactions ultimately results in fewer new homes being built because the market signals, to which housebuilders respond, are distorted.

This has wider consequences for welfare and productivity when it results in people stepping on to the housing ladder later than would otherwise be the case or turning down job opportunities outside of their area due to the cost of moving home. These effects are even more damaging during an unprecedented economic crisis that is set to sharply increase levels of unemployment and both regional and intergenerational inequality.

The Government has implicitly acknowledged the economic harm inflicted by Stamp Duty by cutting the tax where it is seen to be most burdensome. In addition to the tax-free threshold for first-time buyers mentioned above, last year, in response to the downturn caused by the pandemic, Chancellor Rishi Sunak announced the exemption from Stamp Duty of all residential property transactions worth up to £500,000 until April 2021. The benefits of this policy have already been seen. Despite the devastating impact of Covid-19 on the UK's economy, property sales have soared in recent months as buyers take advantage of the Stamp Duty discount, increasing by 15.6% in August and 21.3% in September(7).

OUR SOLUTION

We need a comprehensive and multi-strand approach to solve our housing problem. If the Government truly wants Britain to "level up", we need a new property tax based on up-to-date wealth valuations and the occupiers' ability to pay. What's more, it should encourage efficient use of our land, redistribute tax revenue across our regions and be simple to enact.

The solution I favour is that proposed by the Fairer Share campaign: a Proportional Property Tax (PPT) to replace Council Tax and Stamp Duty. The proposal is made up of seven parts and is strongest when all parts are applied in conjunction. Given that the devolved nations control their Council Tax, our solution would only apply to England, but we would encourage the entirety of the UK to adopt similar reforms.

> IF THE GOVERNMENT TRULY WANTS BRITAIN TO "LEVEL UP", WE NEED A NEW PROPERTY TAX BASED ON UP-TO-DATE WEALTH VALUATIONS AND THE OCCUPIERS' ABILITY TO PAY

- *Instead of confusing bands, our rate would be a fixed flat percentage of a property's value. Our research and analysis has put this figure at 0.48%. Second or empty homes and non-resident owned houses would pay a surcharge, giving a total rate of 0.96%. The average saving per household for those in the North East, for instance, would be around £615. Even in the South East, savings would add up to £155 per single-home household.*
- *Abolish Stamp Duty and see an increase in property turnover. With more downsizing, larger, more expensive, homes could be occupied by growing families. Our housing stock would be used more efficiently and be more affordable for all. Stamp Duty would remain for sales of second homes and non-resident buyers.*
- *The tax would be collected from owners, not renters. Not only is this the norm around the world but it would reduce administration costs. Local councils would see combined annual savings of £400 million.*
- *If people are unable to pay, they should be able to defer. The tax could be collected at a later date or upon sale of the house, with a modest interest rate. This could lighten the burden of Council Tax debt, which, as of March 2020, stood at £3.6 billion (8). The Government spends over £300 million each year to collect these debts. These administrative and human costs could be significantly alleviated by a fairer and more accommodating system.*
- *Ending well-intended but unfair exemptions would make our system simpler and more equitable. These tax reliefs include those for single-occupancy, empty houses and second homes. The widely-disliked "Bedroom Tax" should also be abolished.*
- *Property valuations need to be updated. Each property should then pay the flat rate percentage of its average value across the previous three years. Today's technology makes annual valuations much more feasible than they were when Council Tax was designed and increases in property value should be subject to taxation.*
- *To avoid land banking, the PPT should be levied on undeveloped land which has received planning permission in order to encourage property developers to start work building new houses.*

75% OF HOUSEHOLDS WOULD BE BETTER OFF, MEANING 18 MILLION HOUSEHOLDS WOULD SAVE

THE OUTCOMES OF PPT

75% of households would be better off, meaning 18 million households would save. This adds up to £6.5 billion which would remain in the pockets of those outside Central London - a huge boost for local communities and economies in England's neglected regions. 4.6 million single occupants would save under PPT compared to our current system.

Scrapping Stamp Duty would also simplify the tax system and provide a saving for 750,000 house buyers each year.

The impact of a fairer tax on our regions is crucial to our proposal. Local councils have been struggling to cover costs of providing good local services for a while, and this is only harder in the wake of Covid-19. To maintain the important democratic link between local expenditure and local taxation, the 0.48% rate would consist of two components. A fixed national rate (0.32%) would go to central government for redistribution and an initial floating local rate (0.16%) would go straight to the local authority and could subsequently be moved up or down by that authority. In this way, local authorities retain flexibility over taxation and voters can still judge them on value for money.

As part of our focus on redressing regional inequalities, London would pay more overall. This has been calculated as £260 for an average household - but many lower income households would still benefit under a revised scheme. Owners of the 1.4 million second, empty and undeveloped homes would also finally pay their fair share. We expect that the introduction of surcharges on second or empty houses will encourage more owners to place the property on the rental market, thereby increasing the housing stock and reducing high renting costs.

The Proportional Property Tax would rebalance our tax system whilst still bringing in the same amount of revenue as Council Tax and Stamp Duty.

PROPORTIONAL PROPERTY TAX WOULD REBALANCE OUR TAX SYSTEM WHILST STILL BRINGING IN THE SAME AMOUNT OF REVENUE AS COUNCIL TAX AND STAMP DUTY

The lowering of administration costs and the removal of discretionary exemptions and loopholes further streamlines the system. A higher rate for offshore owners, meanwhile, could raise £2 billion.

If the Government is serious about - in the Prime Minister's own words – building back better and levelling up the country, it should fully abolish Stamp Duty on residential property. Given the ongoing impact of Covid-19 on the economy and the long recovery that is likely to follow, returning Stamp Duty to its pre-crisis levels next April would be an unnecessary and unaffordable act of self-harm. The Chancellor himself has highlighted the role of reinvested Stamp Duty savings in "firing up local businesses, supporting, creating and protecting jobs across the country". Indeed, recent data suggests that 33% of homebuyers will spend their Stamp Duty savings on home improvements and renovations, further boosting demand.

Given the major benefits the Government's Stamp Duty holiday has already generated, one can only imagine the boost full abolition would provide at a time when our economy needs it more than ever.

Scrapping Stamp Duty would also put society on a fairer basis for the future, enabling more young people to get on the housing ladder whilst making it easier to move home for those who wish to relocate in the new era of flexible and remote working.

The impact of additional money in the pockets of lower earners, an increased supply of housing and a fairer society makes implementing PPT and abolishing Stamp Duty more valuable than continuing with our current system.

WIDE BREADTH OF SUPPORT

The Fairer Share campaign is not alone in thinking that our housing system is in dire need of reform. Just 33% of the UK public think we should leave Council Tax untouched, whilst Paul Johnson, the Director of the Institute for Fiscal Studies, has called the Stamp Duty Land Tax "economic nonsense". Ireland, Denmark, the United States and Australia have all introduced progressive or proportional property taxes.

Fairer Share is aware of the need to build a broad coalition to support our proposed reforms. Tax is a tricky subject, but absolutely one that needs to be discussed if we are to weather the economic damage of the Covid-19 pandemic. We decided it was not our job to suggest increasing tax revenue through the PPT, though this is a conversation that may become more prominent over the next months. We are aiming for a tax that does not unfairly target the less well-off in our society.

We are, of course, aware that changes to local taxation have in part not taken place because of a political unwillingness to tackle the issue. But this short-term political expediency is having long-term consequences and the issue is starting to rise up the agenda. The UK's housing and tax inequalities have long been on the Left's radar, whilst the 2019 Conservative manifesto promised to "redesign the tax system" and reduce "arbitrary tax advantages for the wealthiest in society". We therefore believe our proposals can win support from those across the political spectrum. Our key strength is our grassroots campaign, with over 100,000 signatures already attached to our petition. We believe the value of fairness behind our campaign is of intrinsic value to the majority of the UK public and our proposed reforms can find success through that broad point of agreement. Politics can no longer be the excuse for failing to implement meaningful property tax reform. Instead, politics may be the catalyst for reform.

NOTES

1 Commercial Landowner Levy - https://www.libdems.org.uk/taxingland-notinvestment

2 Fairer Share – www.fairershare.org.uk

3 P Johnson, Fairer by design: efficient tax reform for those on low to middle incomes, Resolution Foundation

4 Office for National Statistics, Total wealth in Great Britain: April 2016 to March 2018, December 2019

5 MHCLG, Local Authority Council Tax base England, November 2018

6 Jonathan Bourne, Empty homes: mapping the extent and value of low-use domestic property in England and Wales, Palgrave Communications, February 2019

7 https://www.gov.uk/government/news/stamp-duty-holiday-continues-to-help-hundreds-of-thousands-of-jobs-after-further-213-boost-in-september

8 Collection rates and receipts of council tax and non-domestic rates in England 2019-20 (MHCLG

A FAIRER PROPERTY SYSTEM FOR A FAIRER SOCIETY

by Beth Stratford

Beth Stratford is a fellow at the New Economics Foundation and was a lead author of the Land for the Many report for the Labour Party. She is a co-founder of the London Renters Union and researches and lectures on housing and ecological economics at the University of Leeds.

INTRODUCTION

The UK's property tax system has played a significant role in fuelling the UK's housing crisis and the rising inequality and financial vulnerability we now face as a society.

The data is very clear: the gap that has opened up between incomes and house prices over the last quarter of a century cannot be explained by shortages of supply. We had a greater surplus of houses compared to households in 2008 than we did in 1991, when the average house price was £55,000(1). The Government's own house price model suggests that even if the number of homes had grown by 300,000 every year since 1996, far outstripping the growth of households, the average house today would be only 7% cheaper(2).

To explain the unprecedented divergence of house prices and incomes we must look more broadly at what has been fuelling the fierce bidding war in the UK housing market. It is demand for housing, not need for housing, that has outpaced the supply at an aggregate level. What has made bidders in the UK housing market both able and inclined to bid higher and higher, particularly in hotspots like London? The short answer is cheap mortgage credit alongside the expectation of extracting unearned wealth from the rising value of land – through rental income and/or capital gains. This is what has turned homes (or to be more accurate, the plots of land underneath homes) into lucrative financial assets and made it seem perfectly sensible for ordinary households to take on extraordinary levels of mortgage debt in order to "get on the housing ladder".

THE GAP BETWEEN INCOMES AND HOUSE PRICES CANNOT BE EXPLAINED BY SHORTAGES OF SUPPLY

A WELL-DESIGNED TAX SYSTEM...

... would have dampened the expectations of extracting unearned income through the ownership of housing. It would have encouraged those with surplus savings to put their money into more productive and socially beneficial investments, rather than use their economic power and borrowing capacity to bid up the price of inherently scarce assets.

... would have minimised the number of homes left vacant or empty and encouraged people to downsize where possible. It would have discouraged landowners from sitting on vacant or derelict plots after planning is granted. Rather than discouraging this inefficiency, our council tax system actually offers discounts for second homes and for single people occupying large homes and levies no tax at all on undeveloped land.

... would have harnessed the £4 trillion increase in land value since 1995[3] *to pay for the green infrastructure we so urgently need and for the health and care costs of an aging population. Instead, this windfall has been overwhelmingly captured by private landowners and homeowners.*

... would have ensured that those with the broadest shoulders (the asset rich) contribute the most. Our tax system does the opposite. If you live in a home worth £100,000, you could pay a higher rate of council tax than someone owning a house worth £1 million.

This is not to say that tax policy is the only thing to blame for the over-heating of the UK housing market. There are four other factors worth noting. First, deregulation and innovation in the financial sector contributed to a flood of easy credit and an explosion of risky lending, particularly for Buy to Let mortgages. Second, landlordism was made far more attractive by Margaret Thatcher's dismantling of tenants' rights and the privatisation of our social housing stock, which created the conditions for a dramatic rise in rents. Rents tripled as a proportion of renters' income between 1980 and 1994[4]. Landlords subsequently piled into the housing market in vast numbers, outbidding first time buyers, so that the proportion of households trapped in Britain's private rented sector doubled. Third, the flaws in our speculative house building model have meant that new housing has been drip-fed. Fourth, the exceptional lack of transparency around property ownership in the UK boosted the attractiveness of UK real estate for money launderers and tax dodgers.

Nevertheless, a better designed tax system could have substantially dampened the bidding war in property hotspots and better shared out the windfall gains arising from the housing boom.

WHAT CAN BE DONE TO FIX OUR PROPERTY TAX SYSTEM?

- To remove the regressivity from the current property tax system and contribute to a regional rebalancing of the UK economy, council tax should be replaced with a Progressive Property Tax which is proportional to up-to-date house prices, and designed so that those with the broadest shoulders pay more.

- To promote a more efficient use of the housing stock, empty and vacant houses must face higher annual taxes and Stamp Duty should be phased out for main residences, so that people are not discouraged from down-sizing.

- To discourage speculative demand and encourage people to invest their wealth in a more benign way, capital gains tax on investment properties and second homes must be significantly increased.

- To limit the scope for inherited housing wealth to entrench inequality across generations, the Inheritance Tax System should be replaced with a Lifetime Gifts Tax.

- To reduce the attractiveness of UK real estate for money launderers and tax dodgers, a 15% tax should be applied to the price of land or real estate when purchased by companies owned, directly or indirectly, in secret jurisdictions.

- To discourage land hoarding, land with planning permission should be brought into the Progressive Property Tax system, and land without planning permission should be subjected to a Land Value Tax alongside all commercial land holdings.

- To mitigate the risks that these tax changes pose to renters and to the stability of the economy as a whole, tenants' rights should be substantially strengthened, and a Common Ground Trust should be established (to enable, among other things, tenants to buy any homes put up for sale by landlords).

TO LIMIT THE SCOPE FOR INHERITED HOUSING WEALTH TO ENTRENCH INEQUALITY ACROSS GENERATIONS, THE INHERITANCE TAX SYSTEM SHOULD BE REPLACED WITH A LIFETIME GIFTS TAX.

REPLACE COUNCIL TAX WITH A PROGRESSIVE PROPERTY TAX

Council Tax is a highly regressive tax that has come to resemble the unpopular poll tax it replaced. It should be replaced with a Progressive Property Tax based on contemporary and regularly updated property values. The tax should be paid by the owners, not tenants, which would result in significant administrative savings, lower levels of arrears and court action.

Rates should be set nationally, rather than locally determined. Currently, poorer local authorities are forced to set higher council tax rates to compensate for their lower tax base and often higher levels of need. This pressure should be alleviated by better redistribution between local authorities, which in turn would leave areas with lower land values less dependent on central government.

> A REGIONALLY-VARIABLE, TAX-FREE ALLOWANCE ON THE LOWEST-VALUE 10% OF PROPERTIES COULD BE INTRODUCED TO GUARD AGAINST THE SOCIAL CLEANSING OF HIGH LAND VALUE NEIGHBOURHOODS.

A regionally-variable, tax-free allowance on the lowest-value 10% of properties could be introduced to help guard against the social cleansing of high land value neighbourhoods. Socio-economically- homogeneous neighbourhoods are not good for the social fabric of society. To fund this, the top three deciles of property by value could be allocated a progressively higher rate of taxation.

The tax should be levied at a significantly higher rate on second homes and empty houses, along with "main residences" for those who are non-domiciled in the UK for tax purposes. Vacant and derelict residential land – that the council tax currently exempts – would be brought into this progressive property tax system, to discourage land hoarding.

SCRAP STAMP DUTY ON MAIN RESIDENCES

As the Progressive Property Tax is phased in, Stamp Duty should be phased out for those purchasing homes in which to live. Although Stamp Duty is broadly progressive, it actively discourages mobility, penalising those who wish to move for job relocations or up/down-sizing. It is also levied on the wrong people: the purchasers, who are already having to shell out for the inflated costs of a home, rather than the sellers, who are harvesting any gains in the sale price. Stamp Duty should be increased, however, for second-home buyers, non-doms, companies and investors.

> ALTHOUGH STAMP DUTY IS BROADLY PROGRESSIVE, IT ACTIVELY DISCOURAGES MOBILITY, PENALISING THOSE WHO WISH TO MOVE FOR JOB RELOCATIONS OR UP/DOWN-SIZING

REFORM CAPITAL GAINS AND INHERITANCE TAX

For 10 out of the last 20 years, the owner of an average house in London has reaped more in annual price growth than the average full time UK worker earns in a year[5]. The fact that we tax such windfall gains, which require no work to obtain, at a lower rate than income derived from labour, which requires significant exertion on the part of the worker, is intuitively unfair.

The rate of capital gains tax for second homes and investment properties should be increased so that it is at least in line with income tax rates (currently 20 per cent for basic rate payers, 40 per cent for higher rate taxpayers). The top rate of tax should also apply in case of property owned by 'non-doms', companies, and non-residents.

The Capital Gains Tax exemption for primary residences (valued at £28 billion in 2017-18) has encouraged many to rely on rising house prices to pay for retirement and social care. Introducing Capital Gains Tax on primary residences would therefore be highly controversial and make it difficult for some home movers seeking to purchase at equivalent or higher value.

However, we can stop the wealth inequalities created by the housing boom from entrenching across generations. To this end, inheritance tax should be replaced with a lifetime gifts tax, as has been proposed by the Resolution Foundation and IPPR[6]. Under this system, tax would be levied on the gifts received above a lifetime allowance of £125,000. When this lifetime limit is reached, any income from gifts would be taxed annually at the same rate as income derived from labour under the income tax schedule. The Resolution Foundation estimates that taxing gifts through the income tax system would raise £15 billion in 2020/21, £9.2 billion more than the current inheritance tax system, and would do so more progressively.

Under IPPR's proposal there would be conditional exemptions for business and agricultural property, under which tax could be deferred until the asset is sold or until the business ceases to be a trading entity and becomes an investment entity. This would allow families to maintain the integrity of agricultural land or business assets but would also prevent inheritors from gaining large tax-free windfall gains, as is permitted by inheritance tax exemptions such as Agricultural Relief and Entrepreneurs Relief. Given these loopholes, is it any wonder that estate agents promote farmland as a "tax-efficient means of transferring wealth from one generation to the next" or that, in 2017, only 40% of farm purchases were by farmers[7]?

Since implementing a lifetime gifts tax may take time, reversing the Conservative government's recent inheritance tax break for main residences is an important interim step. The transferable main residence allowance currently allows a married couple to pass down £1 million in housing wealth entirely untaxed.

A SMOOTH TRANSITION - RENT CONTROLS AND A ROLL-OVER OPTION FOR LANDLORDS

Some landlords may respond to the tax changes outlined above by trying to pass on the costs to their tenants. This would be grossly unfair. Housing costs already consume 36% of household income for renters, compared to just 12% for the average mortgaged home-owning household[8].

TO PROTECT RENTERS FROM SUDDEN AND UNAFFORDABLE RENT INCREASES, RENT CAPS SHOULD BE INTRODUCED AHEAD OF THE TAX POLICY ANNOUNCEMENTS

To protect renters from sudden and unaffordable rent increases, rent caps or some more sophisticated form of rent control should be introduced ahead of the tax policy announcements. Rent controls are common across many European countries and polling of voters across the UK has shown that they would be popular here[9].

Some form of rent control will be necessary in any case to make the Government's promised scrapping of Section 21 "no fault" evictions fully effective. (Section 21 of the 1988 Housing Act gives landlords the power to evict a tenant without giving any reason). In the absence of rent controls, landlords will be able to use unaffordable rent hikes as an effective alternative to retaliatory eviction. There may be some landlords for whom cash flow problems arise from the combination of higher tax liabilities and rent controls which limit their ability to pass the costs on to tenants. One solution proposed is that, where the extra tax liability would leave landlords unable to cover maintenance costs, landlords should be permitted to roll over a portion of their tax liabilities and pay upon sale out of their capital gains.

SHRINKING THE SIZE OF THE PRIVATE RENTED SECTOR IN A MANAGED WAY

The policies proposed here would prompt some landlords to sell and would discourage new Buy To Let investment. A shrinking of the private rented sector would be a positive development. The survey data is clear: only 6% of people want to rent privately and half of these only want to do so for a few years[(10)]. This is hardly surprising given that private renters in the UK suffer some of the highest rents and weakest protections in the world[(11)].

However, it is essential that the transfer of homes from landlords to owner-occupiers and social housing providers is managed carefully. Before announcing any tax changes that could prompt landlords to sell, eviction notice periods ought to be increased to four months and compensation (equivalent to three months' rent) introduced for tenants who are forced to move through no fault of their own. This would encourage landlords to sell to sitting tenants wherever possible and help tenants to manage the disruption and costs associated with moving if they are forced to do so.

It would also be prudent to have a scheme in place to help tenants to buy the properties that are coming up for sale and to manage the risks associated with a shock to the housing market. One option would be a Common Ground Trust[(12)] – a publicly-backed but member-owned non-profit institution that would facilitate the voluntary separation of the ownership of land and housing. The idea, in brief, is that tenants and first-time buyers would approach the Trust when they had identified a house they wanted to buy to ask the Trust to purchase the land underneath. Buyers would purchase only the bricks and mortar. Since bricks and mortar account for 30% of the price of an average property, this would allow people to put down much lower deposits and take on much lower mortgage debt than is currently the case. The new buyers would sign a lease that would make them members of the Trust and entitle them to exclusive use of the land in return for paying a land rent. When moving house, members would sell their bricks and mortar, while the Common Ground Trust would retain the title to the land.

By supporting tenants to buy the houses coming onto the market, the Common Ground Trust would help to prevent a sudden shortage of demand in the housing market. It would also allow for the redistribution of land rents that are currently captured by landlords and financiers. Finally, if house prices were to fall in some areas, the Trust could also offer heavily-indebted households a route out of negative equity, without losing their homes. Heavily indebted households could also sell the land from underneath their homes to the Trust at the same price they originally bought it for, enabling them to pay down their mortgage debt. They too would become members of the Trust and start to pay a land rent.

WITHOUT A RADICAL OVERHAUL OF OUR TAX SYSTEM THE CHASM BETWEEN PROPERTY HAVES AND HAVE-NOTS WILL ONLY WIDEN FURTHER

CONCLUSION

The proposals outlined in this short essay may seem ambitious. But without a radical overhaul of our tax system the chasm between property haves and have-nots will only widen further. Inheritance and windfall gains from rising property prices will continue to overshadow the rewards of work. Poorer households will find themselves increasingly priced out of areas with good schools, clean air, jobs, parks and public transport links. And increasing numbers will be dangerously exposed to a fall in house prices or a rise in interest rates.

The tax reforms described in this report would be most effective if introduced as part of the broader project of reform as outlined in Land For The Many, the paper I helped author for the Labour Party in 2019[13]. Those broader measures the paper suggested included reining in inflationary lending, improving transparency around property ownership and democratising our planning system.

But even on their own, the reforms discussed here could generate more revenue, while leaving the large majority of households better off. Moreover, by redistributing the tax burden away from the asset poor and onto the asset rich, these reforms would offer a powerful boost to demand and thus help to speed our recovery from the pandemic.

NOTES

(1) For Great Britain as a whole, 2.9% of the housing stock was surplus to requirement in 1991, compared to 4.3% in 2008. Author calculations, using data from the government's live tables on dwelling stock and household projections. House price for 1991 taken from Nationwide data - https://www.nationwide.co.uk/about/house-price-index/download-data

(2) These results are in line with other studies, including from the Office of Budgetary Responsibility, the OECD, G. Meen at Reading University, and Oxford Economics for the Redfern Review, 2016. See I. Mulheirn, 2018. What Would 300,000 Houses per Year Do to Prices?, Medium (blog), April 20.

(3) Office for National Statistics, 2017. UK National Balance Sheet Estimates

(4) A. Corlett, L. Judge, Home Affront, London, Resolution Foundation, 2017, 17

(5) Author calculations using Land Registry Data and Annual Survey of Hours and Earnings

(6) A. Corlett, Passing on: options for reforming inheritance taxation, Resolution Foundation, 2018; C. Roberts, G. Blakeley and L. Murphy, A Wealth of Difference: reforming the taxation of wealth, Discussion paper, IPPR, 2018

(7) I. Bailey and A. Lawson, Global Market Tips, Savills, 24 February 2016; I. Bailey and A. Lawson, Spotlight: GB Agricultural Land 2018, Savills, 2018

(8) A. Corlett and L. Judge, Home Affront, Resolution Foundation, 30, 2017

(9) H. Wheatley, S. Arnold, J. Beswick, Getting Rents under Control; New Economics Foundation, 2019; M. Haffner, M Elsinga, J. Hoekstra, Rent Regulation: The Balance between Private Landlords and Tenants in Six European Countries. European Journal of Housing Policy, 8 (2), 2008, 217–233; K. Scanlon, B. Kochen, Towards a Sustainable Private Rented Sector: The Lessons from Other Countries, 2011; Ipsos Mori, Ipsos Mori Campaign Tracker - Housing, 2019

(10) B. Pannell, Home-Ownership or Bust? Consumer Research into Tenure Aspirations; Council of Mortgage Lenders, 2016

(11) D. Baxter, L. Murphy, 2019. Sign on the dotted line? A new rental contract. IPPR.; Generation Rent, 2016. Secure tenancies, strong families, stable communities: reforming private renting.

(12) B. Stratford and D. McCann. 2019. The Common Ground Trust: a route out of the housing crisis. Progressive Economics Group.

(13) G. Monbiot, R. Grey, T. Kenny, L. Macfarlane, A. Powell-Smith, G. Shrubsole, B. Stratford, Land for the Many, Labour Party, 2019

AVOID THE POLITICAL POTHOLES

by Vaqas Farooq

Vaqas Farooq is a leading Real Estate and Regeneration lawyer at Shoosmiths LLP. He works with developers and local authorities across the UK on large scale housing led projects and town centre regeneration. Vaqas has a particular interest in reform of the housing market and methods to accelerate delivery of new homes.

THE POSSIBILITY FOR REGENERATION

I was 14 when the Poll Tax riots occurred, but even then I could not see how the new Council Tax solved the issues of the Community Charge which had caused so much anger - had the protest movement really been successful? After lower income families have paid up, paid the rent/mortgage, utility costs and other vital living expenses, there isn't much disposable cash left, if any.

Stamp Duty, meanwhile, is indefensible. Having started as a tax on the wealthy buying expensive homes, it has failed to keep up with house price inflation. Instead, it targets everyone on what is a fundamental human right: buying a home for you and your family. Moreover, Stamp Duty distorts the market. In the end, it causes more harm than good, adding extra financial pressure on the public and discouraging labour mobility. That in itself is why Stamp Duty actually reduces the amount of tax the Government would be able to collect through a healthy and vibrant economy. It harms our wellbeing too, with older people unable to downsize and growing families quickly running out of space.

Leaving more pounds in more pockets could be the dynamite charge to boost our economy, especially given the extra difficulty of a recession in the wake of Covid-19. The knock-on effect could be revolutionary. Speak to any housebuilder and they will agree that abolishing Stamp Duty, for instance, would pave the way for more construction. More houses would then tip the scales of supply and demand, making more homes more affordable.

This will also support growth of our towns with the vital benefit of a redirection of capital to those town centres, allowing them to redefine themselves in the 'post-town centre retail' economy. The onset of agile working post-Covid and the move away from big cities will contribute to this significantly.

An improved tax system could, therefore, usher in a renaissance of house building and regeneration of our towns and cities.

A fitting policy, then, for the current Government's renewed focus on our regions, especially in the 'Red Wall' areas of the North and Midlands, as part of their greater programme of 'levelling up'.

THE QUESTION, THEN, IS HOW

The three big taxes - the workhorses of our economy - are Income Tax, National Insurance and VAT. But in our recent history, there has been a fear of touching any of these main measures, resulting in revenue being sought through smaller taxes like Stamp Duty and Council Tax. With the 2015 Government prioritising the 'triple tax lock', the latter, in particular, has been relied upon to compensate to some degree for deep cuts to local government budgets over the last decade. This tax increase is necessary to keep up with the costs of running the UK, but surely defraying the hike on to the smaller taxes is just dishonest.

1p extra on Income Tax would raise roughly £7 billion. Stamp Duty, meanwhile, brings in a similar figure, usually fluctuating around £8 billion. As minimal a raise as a penny on Income Tax could actually allow us to abolish Stamp Duty. A raise of 5p might cover the £36 billion raised every year from Council Tax.

I'm not advocating the use of direct taxation to replace these property taxes, but it could be part of a solution. Income Tax is already progressive. Raising rates slightly for the top earners might even complement Andrew Dixon's Fairer Share scheme, allowing the 0.48% currently proposed to be lowered. I support Beth Stratford's proposal for ensuring progressivity in property taxes, which matches the progressivity we already accept and implement when collecting Income Tax.

CAPITAL GAINS TAX AN HOME EQUITY

A quick word on Capital Gains Tax and home equity: my concerns here are likely to reflect those of the general public. The question we should be asking when we make decisions on tax is: 'is it necessary or not?'. Enjoying the appreciation on property, which you have paid for through taxed income earned by your labour, is an expectation of the British public I do not think we should undermine. We have other ways of raising required revenue through means such as Income Tax, which I have already suggested.

My plea to Boris Johnson and his colleagues is that, if he really believes in his 'levelling up' agenda, wants to give the economy a boost following the Covid-19 pandemic and is serious about combating the long-term decline of our town centres, then Parliament needs to make a significant change by abolishing Stamp Duty and reforming Council Tax.

A NECESSARY AND IMPORTANT DISCUSSION

The Fairer Share campaign and Land for the Many report are exciting additions to this debate, inspiring new ideas for discussion and renewing enthusiasm for reform. Above all, any proposed changes to property taxes will require thorough consultation with key stakeholders.

Council Tax and Stamp Duty have faced criticism for years, but many would hesitate to touch these issues due to their controversial histories.

One political pothole could be dodged if this campaign focuses exclusively on these unfair property taxes and avoids association with calls for rent controls and other related policies. In my view, renting not only increases mobility for our population, but it has also become a preferred way of life for many people, and we can expect it to keep rising over the next few years. No doubt some measures of support for renters, such as rent controls, could be discussed but bringing in additional areas of debate will only turn people off who disagree in part and dilute overall support. Concentrated calls for change in one area are more manageable and likely to succeed, creating individual incremental improvements, which will affect the overall situation and make a lasting difference.

To enable action, we need to build a broad coalition. This should combine the strengths of activists, charities, media and local governments, in particular. Speaking as a real estate and regeneration lawyer, I believe the private sector should also play a key role.

Housebuilders and institutional investors, which are growing in importance within the 'build-to-rent' sector, would greatly boost the profile and vigour of this campaign and help it get the traction it needs to start seeing some movement.

A smart, targeted call for reform, which focuses on a well-defined area of property policy, will be key to win over these powerful advocates. Collaborations such as this one between Radix and Shoosmiths are crucial to opening up dialogue with the industry and bringing more stakeholders on board, and I am excited to see how this discussion will move forward.

TO ENABLE ACTION, WE NEED TO BUILD A BROAD COALITION. THIS SHOULD COMBINE ACTIVISTS, CHARITIES, MEDIA AND LOCAL GOVERNMENTS AND THE PRIVATE SECTOR SHOULD ALSO PLAY A KEY ROLE

HARNESSING PROPERTY TAXES TO PAY FOR COVID

by Michael Johnson

Michael Johnson is a former investment banker and actuarial consultant turned leading voice on pensions policy and taxation. He frequently advises politicians on economic policy and gives expert evidence to Parliamentary select committees.

INTRODUCTION

In 2020, I wrote a paper entitled 'Paying for the Coronavirus', published by the Social Market Foundation. Covid-19 has had a huge impact on the UK's national accounts, boosting government borrowing and, ultimately, risking the Treasury's on-going ability to issue gilts at affordable yields. We now need to consider sources other than additional debt to fund the dramatic rise in government spending during the pandemic.

Given that hiking Income Tax, National Insurance, VAT or Corporation Tax at a time of rising unemployment would further diminish the Government's political capital, I argue that it is now necessary to consider taxing wealth.

Much of this nation's wealth is tied up in equity in property, roughly £5,200 billion (220% of GDP). It is largely owned by the elderly. I believe that any new taxes should be applied fairly, especially across intergenerational lines. The following proposals also consider when cash is most available, ease of administration and overall simplicity. They should, over time, bring in enough revenue to cover the costs necessary to pay for the pandemic.

PROPERTY CAPITAL GAINS TAX

Principal Private Residence (PPR) relief provides exemption from capital gains tax (CGT) on the disposal of the main home. It should be scrapped to open up a significant revenue stream for the Treasury. Property Capital Gains Tax (PCGT) would then be payable on residential property sales, the settling of an estate following the death of the last living owner and any other form of passing of title to a third party (including gifting). PCGT would be applied on the difference between the purchase price and the sale price.

> PROPERTY CAPITAL GAINS TAX WOULD BE PAYABLE ON RESIDENTIAL PROPERTY SALES, THE SETTLING OF AN ESTATE FOLLOWING THE DEATH OF THE LAST LIVING OWNER AND ANY OTHER FORM OF PASSING OF TITLE TO A THIRD PARTY

I have suggested a rate of 10%, though I expect a lower figure would be more politically digestible. There may be room for a graduated scale matched to the size of the gains.

For simplicity, PCGT should exclude house price inflation and, to encourage the creation of more housing units, property subdivision could be exempt. PCGT would obviously not apply in event of a capital loss at sale, but any loss would not be carried over. Corporate and trust ownership structures would require transparency for liability to be assessed.

A simple PCGT would be easy to apply because, barring title transfers, it would only be payable at a time when cash was available to do so. This would avoid the possible pitfalls of an annual Council Tax based on house prices ("mansion tax"), for example, which would unfairly penalise long-term owners whose incomes have lagged the rise in property prices.

Removing Inheritance Tax (IHT) on main properties would complement the introduction of PCGT.

At the moment, this tax raises comparatively very little - £5 billion in 2016-17 from a mere 4.6% of the recorded 610,000 deaths. IHT receipts would then fall by roughly 50% to become focused on "moveable" assets (such as securities and cash) which today form the basis for half of today's IHT liability assessment.

If PCGT were introduced, then we should scrap Stamp Duty Land Tax (SDLT), which raised £8.4 billion last year (net of rebates). Higher Rates for Additional Dwellings (which apply to second-home purchases, and company and foreign buyers) account for some 45% of SDLT receipts; these should still apply.

CONSEQUENCES AND CONSIDERATIONS

Some people may be concerned that these proposals would cause housing prices to fall (albeit welcomed by many others, notably younger adults). However, today's serious shortage of housing stock, combined with a likely increase in demand (SDLT having been scrapped) would serve to support current prices. In parallel, economic sentiment and consumer confidence will remain significant influences on house prices.

PCGT is unlikely to have a material impact on down-sizing because emotions, rather than economics, usually play the bigger part in older couples' reluctance to leave large family homes.

Scrapping Stamp Duty would not benefit first-time buyers because they are already exempt through First Time Buyers' Relief (FTBR).

Consequently, if the Chancellor wants to maintain some form of incentive to help young adults get onto the property ladder, then the cost of today's FTBR (£542 million in 2019-20) could be redeployed in another guise.

PCGT would impinge upon some equity release schemes; home reversions are a form of property sale. Conversely, lifetime mortgages are debt, but the Equity Release Council's lending criteria are such that debt would remain substantially below the historic purchase price, likely leaving sufficient equity to pay any capital gains liability upon eventual sale. The equity release market currently only amounts to 0.08% of property wealth in the UK.

A final consideration concerns the very wealthy, who would benefit from a 10% PCGT rate replacing their 40% IHT rate on their primary residence. A banded structure might therefore be preferred with, for example, a 30% rate on capital gains in excess of £1 million.

IMPLEMENTATION AND REVENUE POTENTIAL

A transition period may be necessary to slowly phase out Inheritance Tax and Stamp Duty as PCGT were introduced, helping maintain cash flow. Implementation of PCGT could be designed in a way to actively encourage down-sizing with, for example, annual increments of 2% say, up to 10% after five years. Further cash flow modelling would help define the transition period.

Roughly 80% of the total £5,200 billion of equity in houses is represented by capital gains made over the last 20 years; £4,160 billion. If, by a conservative estimate, house prices were to only increase by 1% per annum over the next 25 years, we could expect another £2,087 billion in capital gains.

Over the next 25 years it is likely that almost all homeowners' equity will be "realised" through sale or death. PCGT at 10% would therefore raise £625 billion (albeit it would not be equally distributed over the period).

Factoring in the changes I have proposed to IHT and SDLT, alongside a potential £600 million for a first-time buyers' incentive, would raise for the Treasury approximately £421 billion over the next 25 years. This assumes a PCGT rate of 10%, and likely underestimates an increase in property prices.

INTRODUCING PCGT WOULD BOOST THE TREASURY'S COFFERS ON A SCALE COMMENSURATE WITH THE ADDITIONAL EXPENDITURE REQUIRED TO COUNTER THE CORONAVIRUS, AND WITHOUT PENALISING THE YOUNG

FOR THE FUTURE

Even before the Covid-19 pandemic, public sector borrowing and the nation's liabilities indicated a future where our financial commitments would far outstrip our assets and tax revenues. Now, in the wake of Covid-19's impact on the economy (and the Government's policy responses), the Office for Budget Responsibility expects 2020's GDP to contract by roughly 11% with further decline to come in Q1 2021. This, combined with soaring government debt, is driving the debt-to-GDP ratio to over 100%, and imperils affordable access to international capital markets. Meanwhile, we expect unemployment to peak at about 8% in the middle of 2021 (about 2.6 million people out of work), up from about 4% before the pandemic struck. Tax receipts will fall substantially relative to the pre-pandemic plan, by perhaps £150 billion for 2020-21.

The UK public is not wanting another decade of economic austerity - a recent YouGov poll found only 27% of respondents elected for further cuts to public spending, whilst 47% prefer tax increases. Introducing PCGT would boost the Treasury's coffers on a scale commensurate with the additional expenditure required to counter the coronavirus, and without penalising the young. They already face unaffordable housing, earnings and productivity stagnation, rapidly rising unemployment, zero hours contracts, and relatively thin pension provision. In addition, many are loaded with a mountain of student debt, of which previous generations have no conception. Furthermore, the young are increasingly having to support an ageing population. Enough is enough.

INTELLIGENTLY DESIGNED PROPERTY TAXES

by Hugh McNeill

Hugh McNeill is a passionate explorer of economic reform, in particular with a view to justice and fairness. His professional career has spanned over 20 years in financial services and he has an eye on pragmatic policy solutions in the use of government fiscal policy to bring about a less extreme and more just distribution of wealth.

GARDEN TAXES A POLITICIAN'S NIGHTMARE, OR REVENUE OPPORTUNITY?

What politician seeking election would dare to wander into the minefield of property taxation? The clamour of 'Garden Tax!' is enough to make any of them blanch with the fear of losing their seat or, at best, another 5 years in opposition.

So why are property taxes so strongly resisted? Generally, we recognise our duty to contribute to the payment of taxes, and we all feel that tax should be fair. Indeed, none of us grumble too much (!) if income taxes, fuel duties and other taxes are tweaked to make the books balance.

Economists are nearly universal in their support of property taxes as being 'efficient' and 'non-distorting', indicating strong support there also. So why do we still resist?

The answer lies in logic first constructed by the Physiocrats, built on by Henry George(1) in Progress & Poverty published in 1879, and adopted as policy by the Liberal Government in 1909. The Physiocrats argued that all taxes ultimately had to be paid out of land rents. Their argument noted that if a tax were increased on any other part of the value chain, then price increases would ripple out through the system ultimately leaving less surplus from which to pay for land rents: this led them to conclude that all taxes are paid out of land rents. Their radical proposal was to sweep away all other taxes and make the legal and actual incidence the same.

Fast forward to the present day, and their logic has been demonstrated to hold true. The experiment with Enterprise Zones since the 1980s demonstrated the accuracy of their theory.

THE PHYSIOCRATS ARGUED THAT ALL TAXES ULTIMATELY HAD TO BE PAID OUT OF LAND RENTS

Analysis produced for HM Treasury in 2008[2] concluded that 100% of the benefits passed to landlords in higher rents meaning that all tax-saving benefits ultimately accrued to landlords rather than tenants – exactly as the Physiocrats predicted.

That fact is at the core of the issue: when a tenant agrees to pay a rent to the landlord, in effect they are agreeing to pay the full value of the locational advantage that they receive by occupying the site at hand. The very issue that each plot is unique and that there is a scarcity of those plots versus the demand for them means that the rent paid is typically the maximum the tenant can afford.

If the Government then tries to levy an additional tax on the tenant, it's only natural that they should cry blue murder – to the tenant it's equivalent to an increase in their rent payments, which are already maximised by the landlord. The legal incidence of the tax is on the tenant, but if the obligation to pay the tax makes the site unaffordable to the tenant, it leads to substantial distress whilst they cut back on spending until they can break their tenancy and then further dislocation for them and their family whilst they find somewhere else to live. The impact on the local community is that the house sits empty, and all things being equal, the landlord must reduce his rent demands to accommodate the higher taxation payment before they can find a new tenant. In essence, the landlord's claim on rent has been displaced by the HM Treasury's senior claim on rent; and the effective incidence is on the landlord.

So, the logical solution is that instead of levying the tax on the tenant, why not levy the tax directly on the landlord? This would at least put an end to the human misery caused and the landlord coming to terms with a lower rent before another resident can take the site.

The key issue posed by this solution is that the landlord has in many cases committed their rental income to service debt raised to purchase that property, and so they can, in some circumstances, find themselves in the same position as the tenant – paying the maximum they are able to pay, this time to the bank – and thus unable to pay any increased taxes.

INSTEAD OF LEVYING TAX ON THE TENANT, WHY NOT LEVY THE TAX DIRECTLY ON THE LANDLORD?

What we see through this example is that both taxes and interest payments act as competing secondary claims on rents (the primary claimant being the freehold owner). I would argue that the failure to recognise and allow for this is the principal reason that suggestions of land taxes have failed.

An intelligent design must recognise that, for any tax to be paid, claims on rents need to be released. This applies as much to commercial real-estate as to residential real-estate.

It is worth spending a moment to consider residential real estate. Residential land prices are principally a function of three things: disposable income, interest rates, and the availability of money to lend. Since Margaret Thatcher's Big Bang in the 1980s, any constraint on the availability of money has been muted due to the magic of our fractional reserve banking system [(3)]. Consequently, as profit maximising agents, banks have expanded the money supply in order to maximise their take of rents through interest charges. If a property tax is suggested, the idea of 'paying twice' for their dwelling is abhorrent, because people are already paying a whole host of other taxes and debt service charges to the banks.

However, with an intelligent design, increased government revenue can be achieved by simply displacing the secondary claims of banks. Here's a simple example to illustrate the point [(4)]: for any property with a mortgage outstanding, the Government buys a share of that mortgage debt from the relevant commercial bank. As a sovereign currency issuer, there is no 'cost' to the Government in doing that; we simply replace commercial bank money with sovereign currency. The exact share would be calculated in order to achieve a set level of revenue to HM Treasury.

This would transfer the secondary claim placed on rents by the commercial banking system to the Government.

AS A SOVEREIGN CURRENCY ISSUER, THERE IS NO 'COST' TO THE GOVERNMENT IN SIMPLY REPLACING COMMERCIAL BANK MONEY WITH SOVEREIGN CURRENCY.

The Government would then be in the position to claim the interest and capital repayments in place of the commercial bank, increasing government revenues without impairing bank balance sheets or changing the money supply (purchase of the asset from the bank is done by replacing commercial bank money with central bank money).

To the site owner, there should be complete indifference as to whether they pay their debt service to the bank or the exchequer. And the best thing to the daring politician? We don't even have to call it a tax…

Notes

1 A highly popular figure who died in 1897 whilst running for Mayor of New York. His book, Progress and Poverty, which advocated the capture of property rents for public revenue, at the time thought to have outsold all other books except the Bible. Over 300,000 people attended his funeral in New York, rivalling the size and stature of only that of Abraham Lincoln.

2 The Relationship between National Non-Domestic Rates and Rents on Commercial Property: Empirical Evidence from Enterprise Zones, HM Treasury, February 2008

3 Banks create new money when they lend. See Money Creation in the Modern Economy, Bank of England, 2014

4 A detailed policy would need much more careful thought around implementation – this is intended only to illustrate the principle.

LESSONS FROM THE FAR EAST

by Andrew Purves

Andrew Purves has been in the furniture business for over thirty-five years, and co-founded Purves & Purves in 1992. Having become fascinated by the role of land value in economics, he teaches a course, Economics with Justice, and is currently researching for a PhD at UCL, on the effect of collecting economic rent on inequality in Singapore.

WHAT CAN WE LEARN FROM HONG KONG AND SINGAPORE?

Recurrent taxes on immovable property have long been acknowledged by economists as being the most efficient, particularly when applied to land value only, rather than including any improvements on the land in the assessment: "The economic case for a land value tax is simple, and almost undeniable" given that taxes on production and consumption can only increase prices; whereas taxing land value is only diverting the economic rent from the private owner of land to the public purse[1].

"If rent is privatised then the core functions of the state...must be funded via the socialisation of part of the wealth produced by human exertion", which explains why, in the UK, over 50% of public revenue comes from Income Tax and VAT[2]. Currently, only 10% of revenue is received from the main property taxes (estimated receipts for 2019-20 counts £36.3bn (4.5%) from Council Tax, £31.3bn (3.8%) from Business Rates and £12.5bn (1.6%) from Stamp Duty Land Tax)[3]. But, as an article in The Economist recently argued, "taxes on property values – and ideally on land values – should also rise", not only to limit house price inflation, but to plug the coming budget shortfalls[4].

In general terms, we can classify property taxes as taxes on ownership, as well as use, particularly of land and buildings. But the same principles could apply to ownership of certain other assets. In the case of Singapore, I estimate that 52% of public revenue is derived from this wider definition of property taxes.

The purpose of this essay is to indicate the opportunity to collect more public revenue from property taxes and land value. I will give examples from other jurisdictions, particularly Hong Kong and Singapore, where substantially more revenue is collected from land and property, with no adverse effect on economic activity.

COUNCIL TAX

Council Tax is unpopular because it is one of the few taxes that people pay directly or are aware of paying. (Many taxes, such as VAT or excise duties, are hidden within the price tag). Therefore, politicians of all persuasions have been reluctant to review or revalue property for council tax ever since the tax was conceived in 1991.

In Singapore, conventional property taxes only raise $4.44bn, about 4% of total revenue. All properties are assessed based on an Annual Value (AV), which is an estimate of the annual rental value, unfurnished. Owner-occupiers are charged at 4% of the AV, rising in stages to 16% for higher value properties; non-owner-occupiers are charged at higher rates – 10% rising to 20% for higher value properties; commercial and industrial property is charged at 10%, while vacant land, and properties in development are charged at 5%. In addition, rental income on non-owner-occupied properties in Singapore are separately charged under the personal income tax assessment.

Here is one opportunity for the UK Chancellor to increase revenue by levying a property tax on vacant land, as in Singapore. A welcome recent reform in the UK was to limit empty rates relief to six months - this further reform would encourage development and discourage land from being held speculatively against a future uplift in value. As such a levy would fall between business rates and council tax, it could be assessed by special means, or an arbitrary rate, such as the 5% in Singapore.

STAMP DUTIES

Stamp Duty discourages mobility, downsizing and transactions, whilst not collecting any uplift in land values over time. However, it can be used effectively to achieve short term objectives, such as to temper excessive price increases, as was seen in the UK in 2016, when rates were increased for high value property in London, and to incentivise/discourage certain behaviours. For most buyers, Stamp Duty is factored into the price you are willing or can afford to pay.

In Singapore, Stamp Duty on transactions applies to all property starting at 3% for non-residential property; higher rates apply to second properties, while foreign purchasers pay 20% on all transactions. Sellers are charged an additional duty if they sell within three years, at varying rates.

HIGHER RECURRENT ANNUAL PROPERTY TAXES WOULD BE MORE EFFICIENT AND HAVE THE POTENTIAL TO RAISE MORE REVENUE THAN THE EXISTING SUITE OF STAMP DUTIES.

This latter measure again discourages speculative purchases during periods of high property price rises. Penalising second-home ownership and foreign owners is also reasonable, given its luxury nature, whilst, in theory, it will give more opportunity for local buyers to participate in the market. Higher rates of Stamp Duty have also been used in the UK for second properties, but many second homes are also used for holiday lets, which mean they are assessed for business rates and, given the Small Business Rates Relief, often pay nothing in recurrent property taxes as a result. Overall, however, higher recurrent annual property taxes would be more efficient and have the potential to raise more revenue than the existing suite of stamp duties.

OTHER PROPERTY TAXES

Planning Obligations

The principle of collecting some of the uplift in land value from development was established in the UK in the 1947 Town and Country Planning Act, when development rights were nationalised and permission was required to undertake any development. Since then, Section 106 agreements and an optional Community Infrastructure Levy (CIL) have been introduced. The CIL/ Section 106 system is generally considered a success - however, even in its most successful year in 2007-08 the £4.8bn collected amounted to less than 1% of total government revenue for that year(5). In contrast, between 1994-95 and 2000-01, 1.8% to 14.1% of Hong Kong's total government revenue came from lease modification premiums alone(6). These premiums are negotiated in the process of seeking permission to redevelop sites. In Singapore, development charges apply at the rate of 70% of the value uplift on redevelopment of property.

All land in Hong Kong is owned by the Government and is made available to businesses and individuals by way of lease, whilst in Singapore 90% of land is state owned. Additional public revenue is collected from land (lease) sales. When land is offered for development (whether it has been reclaimed from the sea, has never been developed, or the previous lease expires) a comprehensive tender document is issued, listing all conditions and particulars.

ALL LAND IN HONG KONG IS OWNED BY THE GOVERNMENT AND IS MADE AVAILABLE TO BUSINESSES AND INDIVIDUALS BY WAY OF LEASE

In Hong Kong, developers offer sealed bids through an online auction and the results are published. This system can raise up to 20% of public revenue in a good year. Lease length is usually for between 50 and 70 years, with an upfront premium payable, and a Government Rent is imposed after completion of the site or five years, whichever is sooner, at 3% of its rateable value (revalued every two years)[(7)]. In Singapore, similar auctions are managed by several government agencies, and generated nearly S$16bn in 2017, almost 15% of total government receipts for that year.

Increasing the effectiveness of planning obligations in raising revenue does not rely on the state owning land, but experience in these nations suggests that there is considerable scope to capture more from uplifts in land value in the UK. Planning obligations, if factored into the prices paid for land, would have the effect of reducing what developers can pay for land, under the logic of residual land value. The current Government has released a White Paper on Planning, which among other things proposes replacing Section 106 with a reworked CIL. It is not clear whether the aim of the new method is to raise more public revenue from development or change of use.

In Singapore, total capital receipts are transferred to the reserves each year. Government receipts include Investment Income generated from previous transfers to reserves and is, therefore, derived from previous land sales and ownership of other asset classes (equities/bonds). The level of revenue generated reached 30% of total government receipts in 2017[(8)]. However, only up to 50% of this income is available to the Government to spend in any given Parliament - except with the permission of the President - and differs from year to year. This flexibility ensures that the Singapore Government generally operates a budget surplus[(9)]. Last year, the Singapore Government drew $52bn from reserves to ameliorate the effect of Covid-19, rather than being forced to increase debt (not that the Singapore Government has any debt).

HOW TO FUND TRANSPORT INFRASTRUCTURE WITHOUT TAXATION

There are several other aspects of public investment in both Hong Kong and Singapore which enter the revenue/expenditure analysis in unique ways, or not at all, relating to public transport infrastructure. Hong Kong's Mass Transit Railway opened its first line in 1983. The Government-owned MTR Corporation was established to build and operate the system, and they were empowered to purchase land from existing leaseholders at a 'pre-railway' price. In conjunction with construction of lines and stations, commercial development was enabled above and around the stations.

Some properties were leased to private developers, whilst the MTRC retained ownership of others and continues to generate income from tenants, both retail and office. Residential development was typically entrusted to private companies, in return for a share of the gross development value. Having built the railway, the value of these developments rose, and in effect, the difference between the pre- and post-railway price has paid for the provision of a first-class public transport network.

On average, between 2001 and 2005, the MTRC generated revenue from the following sources: railway 28%, property development 52%, property investment and management 10%, non-fare (such as advertising) 10%. Whilst most western governments subsidise their public transport system to varying degrees, Hong Kong's MTRC is consistently profitable, with profits rising to HK$10,894m in 2015. MTRC has been so successful that in 1999 the Hong Kong Government decided to sell 23% of the corporation to the public through an initial public offering (IPO), which generated HK$9.2bn for the government. The dividend paid in 2015 was HK$6,207m (£477m) of which the Hong Kong Government received 77%, commensurate with their continued majority ownership of the corporation [10].

A similar method was employed to build a new airport in the 1990s. Hong Kong International Airport (HKIA) is operated by the Airport Authority Hong Kong, a statutory body wholly owned by the Government.

In return for a lease from 1995 to 2047, the airport authority had to construct the airport itself (built on land reclaimed from the eastern tip of Lantau Island). In 2015, 68.5 million passengers passed through, from over 190 destinations around the world. Operating revenue in the year to March 2016 was HK$ 18.2bn, HK$7.5bn of which comes from retail licenses and advertising, HK$4.2bn from landing charges, and HK$2.5bn from airside service franchises (11). The airport has a total debt to capital ratio of 5%, although with a commitment to build a third runway, this is due to rise in the coming years.

These examples demonstrate other ways to fund infrastructure by using the natural uplift in land values around transport infrastructure, instead of increasing taxes. London's airports are now private, but Transport for London have been researching the options for similar mechanisms to finance extensions to the Underground lines, although so far have not adopted anything significant. Perhaps this is because the UK Compulsory Purchase Act (1961) allows landowners to claim hope value in any sale, thus capturing the value of any proposed development themselves.

SUMMARY

I set out below, a summary of public revenue derived from land rent and other property income in Singapore.

Revenue from land rent, or other property income $bn	*Actual 2017*	*% of total revenue*
ASSETS TAX *Property tax and Estates duty*	*4.44*	
STAMP DUTY *on documents and sales of property*	*4.91*	
OTHER - foreign worker levy, development charge, water conservation, annual tonnage	*6.02*	
Vehicle quota premium	*5.80*	
Investment income and interest	*16.14*	
Capital receipts including land sales	*15.87*	
Fees and charges, including road use charges	*3.28*	
TOTAL	***56.46***	***52.36***

Table 1. Public revenue from land value and other property income, Singapore.

The total $56.46bn is over 52% of public revenue, although this revenue is not spent through the annual government expenditure outlined in the budget. Much of the investment income and capital receipts accumulate as government reserves, thus creating an enormous source of future income. Total government receipts last year were $107.83bn, with $90.54bn available for public spending. An additional $4.87bn was generated in 2017 from Contributions to the Operating Revenue paid by some public agencies; a small number also pay dividends, where revenues have built up over time (I have not included these revenues in the table).

GIVEN THAT TAXES ON PRODUCTION AND CONSUMPTION CAN ONLY INCREASE PRICES; WHEREAS TAXING LAND VALUE IS ONLY DIVERTING THE ECONOMIC RENT FROM THE PRIVATE OWNER OF LAND TO THE PUBLIC PURSE

In Hong Kong, public revenue from land value is closer to 35% of the total in any given year, which includes general rates, government rent, land sale and lease modification premiums, stamp duty and investment income. The Government has a similar Wealth Fund to draw upon (managed by the Hong Kong Monetary Authority) but the mechanism of accumulation and amount spent every year is more transparent[12].

WHY THIS MATTERS

Both Hong Kong and Singapore have enjoyed enormous growth in GDP over the last seventy years, and, in the same period, have kept personal income taxes relatively low compared to the OECD average - a maximum of 22% in Singapore and 15% in Hong Kong; neither country has any net public debt. I suggest that this is partly due to their extensive use of land value as a source of public revenue, which is the least disruptive to investment and economic activity. In contrast, the UK's performance in growth and productivity gains is sluggish, and public debt is now over 100% of our GDP, as a result of our over reliance on taxes on production and consumption. Time for reform?

NOTES

1 J. Mirrlees et al, Tax by Design, 2011, 373

2 G. Kerr, Neo-classical liberalism, 'market freedom', and the right to private property, Critical Review of International Social and Political Philosophy, 2020, 1– 22, https://doi.org/10.1080/13698230.2020.1805192

3 https://obr.uk/forecasts-in-depth/brief-guides-and-explainers/public-finances/ #income viewed 12/10/20

4 'The house party returns', The Economist, 3rd October 2020

5 T. Crook, J. Henneberry, C.M.E. Whitehead, Planning gain: providing infrastructure & affordable housing, John Wiley & Sons Inc, 2016, 161; Government revenue in 2007/08 was £553bn https://en.wikipedia.org/wiki/2007_United_Kingdom_budget viewed 13/1/18

6 E. Chi-Man Hui, V. Sze-Mun Ho, D. Kim-Hin Ho, Land value capture mechanisms in Hong Kong and Singapore: A comparative analysis, Journal of Property Investment & Finance, Vol. 22 Issue 1, 2004, pp.76-100 (Table VIII, p.92)

7 Full details of the system can be seen in R. Nissim, Land administration and practice in Hong Kong, 2nd ed, Hong Kong University Press, 2008 or A. Purves, No debt, high growth, low tax: Hong Kong's economic miracle explained, 2015

8 Full details available here: https://www.singaporebudget.gov.sg/budget_2020/budget- archives viewed 12/10/20

9 For more info see Singstat, Yearbook of statistics, Department of Statistics, Ministry of Trade & Industry, Singapore, 2019, 242

10 MTRC Annual reports and Accounts.

11 HKIA Annual reports and Accounts.

12 For a more detailed comparison, between Hong Kong and Singapore, see A. Purves, Models of fair public ownership: lessons from Singapore and Hong Kong, Int. J. Public Policy 15, 59–75.

HOW TO SUPPORT HOMES FOR RENT

by Rachel Kelly

Rachel is an Assistant Director at the British Property Federation, a trade body representing the commercial real estate industry. Her role involves formulating industry responses on matters that impact the flows of capital into UK real estate; including tax, regulatory and reporting issues. A primary objective of Rachel's work at the BPF is to promote a proportionate and stable tax and regulatory environment for investors in UK property.

THE CASE FOR HOMES FOR RENT

There are two main challenges with housing in the UK: we don't have enough; and much of the stock we do have is not to a high enough standard – both from an environmental and a health and safety perspective.

Home ownership remains the aspiration of many in the UK and, as such, policies predominantly focus on stimulating the homes for sale market.

Political rhetoric has changed a little in recent years and there is growing acknowledgement that we will need to stimulate the supply of all tenures of housing to help address the housing crisis. However, tax policy has not kept up and, in some cases, is a direct hindrance to the rental sector.

Suggested improvements to VAT, capital allowances and Stamp Duty, which would support investment in homes for rent, are set out in turn below, followed by some comments on council tax.

VAT

The construction of new homes is not subject to VAT, while repair and maintenance works to existing homes are chargeable to VAT. This disparity makes no sense given the emissions targets to which we have committed ourselves. Real estate accounts for 40% of our carbon emissions in the UK, and 80% of the properties that will be in existence in 2050 have already been built [1].

NEW HOMES ARE NOT SUBJECT TO VAT, WHILE REPAIR AND MAINTENANCE WORKS TO EXISTING HOMES ARE... VAT RULES SHOULD ENCOURAGE US TO UPGRADE WHAT WE HAVE, NOT 'KNOCK IT DOWN AND START AGAIN'

We are only going to meet our next zero carbon targets by making significant improvements to the energy efficiency performance and wider sustainability credentials of our existing housing stock. The VAT rules should be encouraging us to upgrade what we have, not 'knock it down and start again'. In addition, the recent changes to our fire safety regulations and the cladding crisis in the wake of the Grenfell tragedy will take significant investment to address – the tax rules should be supporting this investment in repairing our housing stock and not creating an additional barrier to fund it.

Reducing the VAT in respect of repairs and maintenance of residential properties would also help align the VAT treatment of residential property with that of commercial property investments, where the VAT incurred on repairs and maintenance is generally recoverable. By allowing these costs to be recovered for residential property, the returns would improve, which would attract more investment and, ultimately, more homes would be built.

CAPITAL ALLOWANCES

Capital allowances are currently only available on commercial buildings, not residential property, and in a similar vein to VAT on repairs and maintenance, investors in commercial property get more favourable tax treatment in respect of their capital expenditure on a building than their residential counterparts. Given the need to build more homes, we should at the very least align the tax relief available to professional investors in residential and commercial property.

By expediting the tax relief available on expenditure that improves the energy efficiency or other sustainability credentials of our buildings, capital allowances could also be a helpful tax lever to support retrofitting works.

STAMP DUTY

Stamp Duty Land Tax (SDLT) is a barrier to transactional activity and a blocker to social mobility. It is a damaging tax for both commercial and residential property, whether it is built for sale or for rent.

Many economists would agree that it would be preferable to charge tax on the gains made on a transaction, when there is cash available to pay the tax, rather than SDLT at the front end of the transaction when there is limited cash available.

To that end, it is questionable whether the exemption from capital gains tax on principal primary residences (PPR) is the right approach to help facilitate property transactions. The value of the capital gains tax relief on primary residences was estimated to have cost the Government almost £28bn in 2017/18 (2). Its abolition would more than fund the removal of SDLT on both residential and commercial property, with over £10bn to spare.

If SDLT cannot be abolished in its entirety, it would be helpful to address recent changes to the SDLT rules that have inadvertently caught the build to rent sector – notably, the surcharge on additional dwellings and the forthcoming non-resident surcharge.

Both of these measures were introduced to help first time buyers get on the ladder by putting buy to let landlords and overseas buyers at a relative disadvantage. But build to rent is contributing to the housing supply and, as a rental product, does not compete with first time buyers. As such, it should not be caught by these surcharges.
A carve out for transactions of six or more units, as has been introduced in Scotland, would help to minimise the damage of these new surcharges on the build to rent sector.

COUNCIL TAX

Council tax was introduced in its current form in the early 1990s, but the bands which determine how much tax each household should pay have not been reviewed since then. This has resulted in a tax system which is not progressive, where two bed flats in some parts of the country can pay the same council tax as mansions in other parts of the country.
By reviewing the bands and adding a couple of higher rate bands at the top, this will go some way to making council tax more progressive. The tax raised by the higher bands could be used to reduce the tax due on those properties on the lower bands, or it could give government some scope to reduce the business rates burden, which is currently putting excessive pressure on some businesses, particularly in the retail sector.

SUMMARY

Over the last decade the UK housing market has evolved, with the widespread development of purpose-built student accommodation, followed by an emergence of build to rent and, more recently, a growing interest in retirement living, reflecting the significant under-supply of appropriate housing for our elderly in the UK.

These sectors have seen a significant increase in investment from professional and institutional investors who are seeking long term returns from a rental product in return for providing a high quality and professionally managed rental product. If the tax rules were more supportive of the residential rental sector, the contributions from this sector to our housing supply over the next decade could be even greater.

Notes

1 UK Green Build Council's statement on Climate Change - https://www.ukgbc.org/climate-change/

2 Estimated costs of principle tax reliefs, UK Government publishing service, 2018 -

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/737597/Dec_17_Main_Reliefs_Final.pdf

SUMMARY OF KEY RECOMMENDATIONS

To avoid repetition, where proposals are replicated by two or more essayists they may be limited to one appearance in the list below. Please review the essays themselves for full recommendations:

Kevin Hollinrake MP

- **Replace Council Tax and Stamp Duty** with a system which makes sense, collects equitably and encourages aspiration.
- **Encourage a proper debate by Parliament on how this is best achieved** effectively, fairly and politically, in the hope that we can see some strong and meaningful change.

Andrew Dixon

- **Introduce a proportional property tax (PPT)** based on a fixed flat percentage of updated property values with surcharges for second or empty homes and non-resident owned houses.
- **Collect PPT from owners rather than tenants** and enable deferment of payment for those who can't afford to pay increased costs as a result of the new system.
- **Abolish Stamp Duty** on sales of primary residences.
- **Avoid land banking by levying PPT on undeveloped land** which has received planning permission.

Beth Stratford

- **Replace Council Tax with a Progressive Property Tax** - similar to the Proportional Property Tax proposal but designed so those with the broadest shoulders pay more.
- **Strengthen tenants' rights and establish a Common Ground Trust** to mitigate the risks associated with tax changes.
- **Increase Capital Gains Tax on investment properties** and second homes, to discourage speculative demand
- **Replace Inheritance Tax with a Lifetime Gifts Tax**, to limit the entrenchment inequality across generations
- **Apply a 15% tax to the price of land or property** when purchased by companies owned, directly or indirectly, in secret jurisdictions.

Vaqas Farooq

- **Abolish Stamp Duty and reform Council Tax** to enable funds to be redirected to support the growth of towns centres and away from big cities.
- **Consider their replacement with fairer proportional direct and/or property taxes.**
- **Avoid rent controls** which would reduce the availability of private rented accommodation and be a political pothole for reformers.
- **Build a broad coalition** of housebuilders and institutional investors, as well as activists, charities, media and local governments, for targeted reforms.

Michael Johnson

- **Scrap Principal Private Residence (PPR) relief on the disposal of main homes** and make Property Capital Gains Tax (PCGT) payable on all residential property sales, to include title transfers when estates are settled (excluding living spouse).
- **To encourage down-sizing, PCGT could be introduced in 2% annual increments,** to reach 10% after a four-year transition period.
- **Use new revenue in part to abolish Inheritance Tax on main properties** and scrap Stamp Duty Land Tax on the purchase of the main home.

Hugh McNeill

- **Design property taxes taking into account the fact that property income streams will already be claimed by other parties** (e.g. property rents needed to pay interest on bank debt). Consequently, in order to implement a property tax, those prior claims need to be displaced or redeemed.
- **Enable the government to buy a share of the debt on any property with an outstanding mortgage,** which would replace commercial bank money with sovereign currency, and allow the government to capture property rents through interest and capital repayments.

Andrew Purves

- **Look at replacing some direct taxes with a range of property and land taxes** modelled on Singapore and Hong Kong.

Rachel Kelly

- **Reduce VAT on repairs and maintenance** of residential properties to help meet emissions targets and align the treatment of commercial property investments.
- **Introduce capital allowances on residential property** at least to align the tax relief available to professional investors with commercial property and to encourage more housebuilding.
- **Expedite the tax relief available** on expenditure that improves buildings' energy efficiency.
- **Review Council Tax Bands** and add further higher rate bands at the top to make Council Tax more progressive.

ABOUT RADIX

RADIX is a non-aligned think tank for the radical centre. We welcome people from all parties and none. We challenge established notions and work to re-imagine our societies. We focus our efforts on policy initiatives that can drive towards system change rather than putting sticking plasters on the existing system. Our goals are to revitalize our liberal democracies, re-define capitalism, and re-build cohesive communities and societies. We want all citizens to live securely, with dignity, be active participants in society, and be free to pursue their own interpretation of the good life.

ABOUT RADIX PUBLICATIONS

Radix exists to challenge established notions and to re-imagine societies. As such, we welcome the opportunity to publish original papers which promote political, economic and social system change. The opinions expressed within any Radix papers are those of the named authors and publication does not imply agreement by the Radix Group Ltd or any of its Trustees with specific conclusions or recommendations. We hope nevertheless that all our publications provoke more informative, intelligent and thoughtful debate.

 A CIP catalogue for this publication is available from the British Library.

ISBN (ePub) 978-1-912880-32-4

Radix Brand and Layout:
Mark Huddleston - talktohuddy.com

CONTACT US

RADIX,
14 Sandringham St,
York, YO10 4BA

hello@radixuk.org

Published in January 2021
by Radix Group Ltd

www.radixuk.org

"THE GOVERNMENT WHO ROBS PETER TO PAY PAUL CAN ALWAYS DEPEND ON THE SUPPORT OF PAUL."

GEORGE BERNARD SHAW

RADIX

THINK
TANK
FOR THE
RADICAL
CENTRE

www.radixuk.org
hello@radixuk.org
14 Sandringham St
York
YO10 4BA

Registered Education Charity
1167393