



Institute for
Fiscal Studies

Housing taxation

Stuart Adam, Institute for Fiscal Studies

ESRC-British Academy event: 'UK housing: setting out the challenge'

London, 29 October 2014

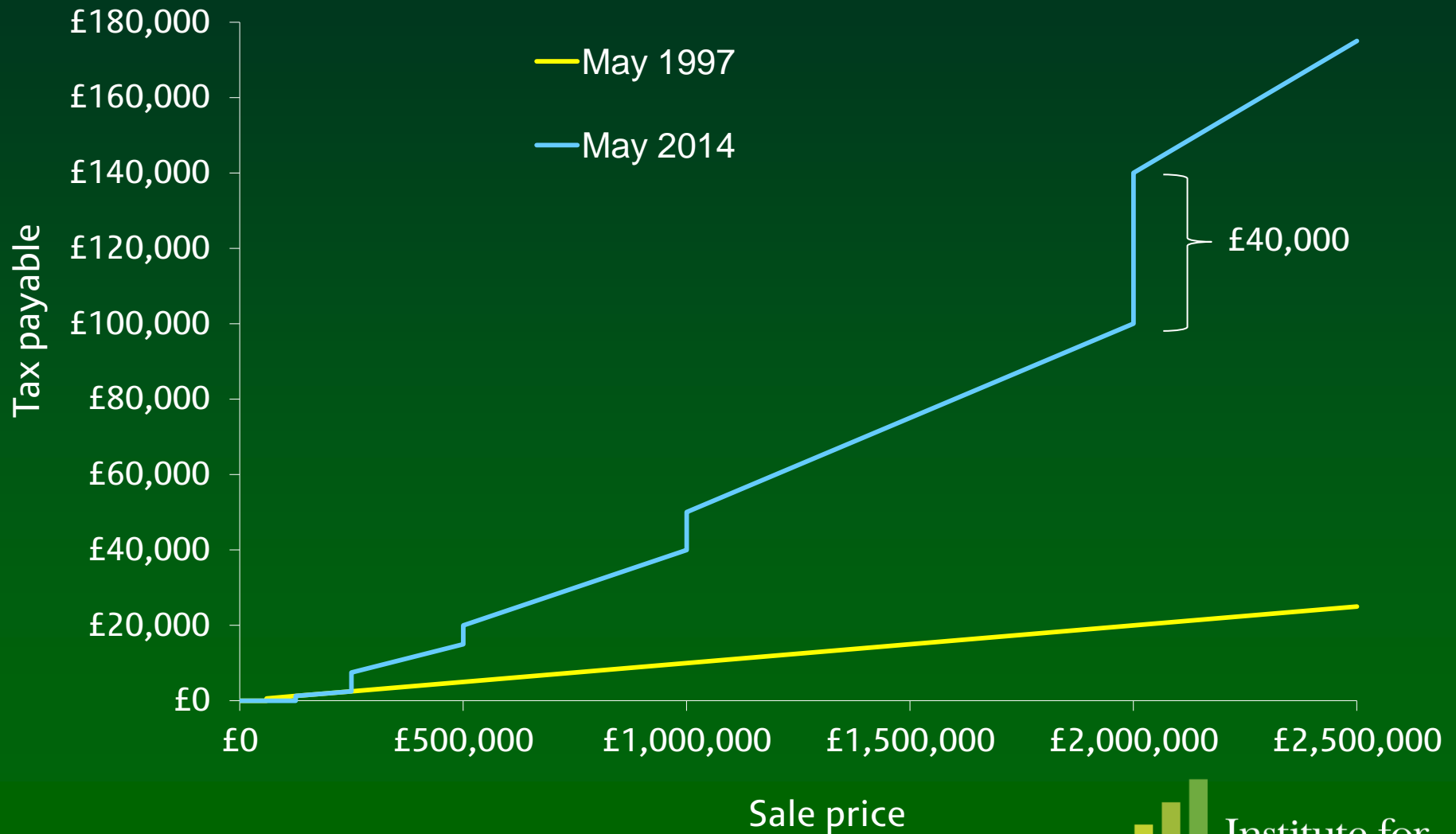


Housing in the tax system

*Based on Chapter 16 of Tax by Design: the Mirrlees Review
(<http://www.ifs.org.uk/mirrleesreview>)*

- Consider the tax system as a whole
 - Use the right tools for each objective
 - Different parts of the system should fit together coherently
- Neutrality is an important benchmark in tax design
 - Tends to be simpler, fairer and less distortionary
 - Not always – but should have a high hurdle to justify exceptions
- Housing is both a consumption good and an asset
 - Tax system should treat it appropriately from both perspectives
- But first, an aside...

Stamp duty land tax on housing transactions



Stamp duty land tax on housing transactions

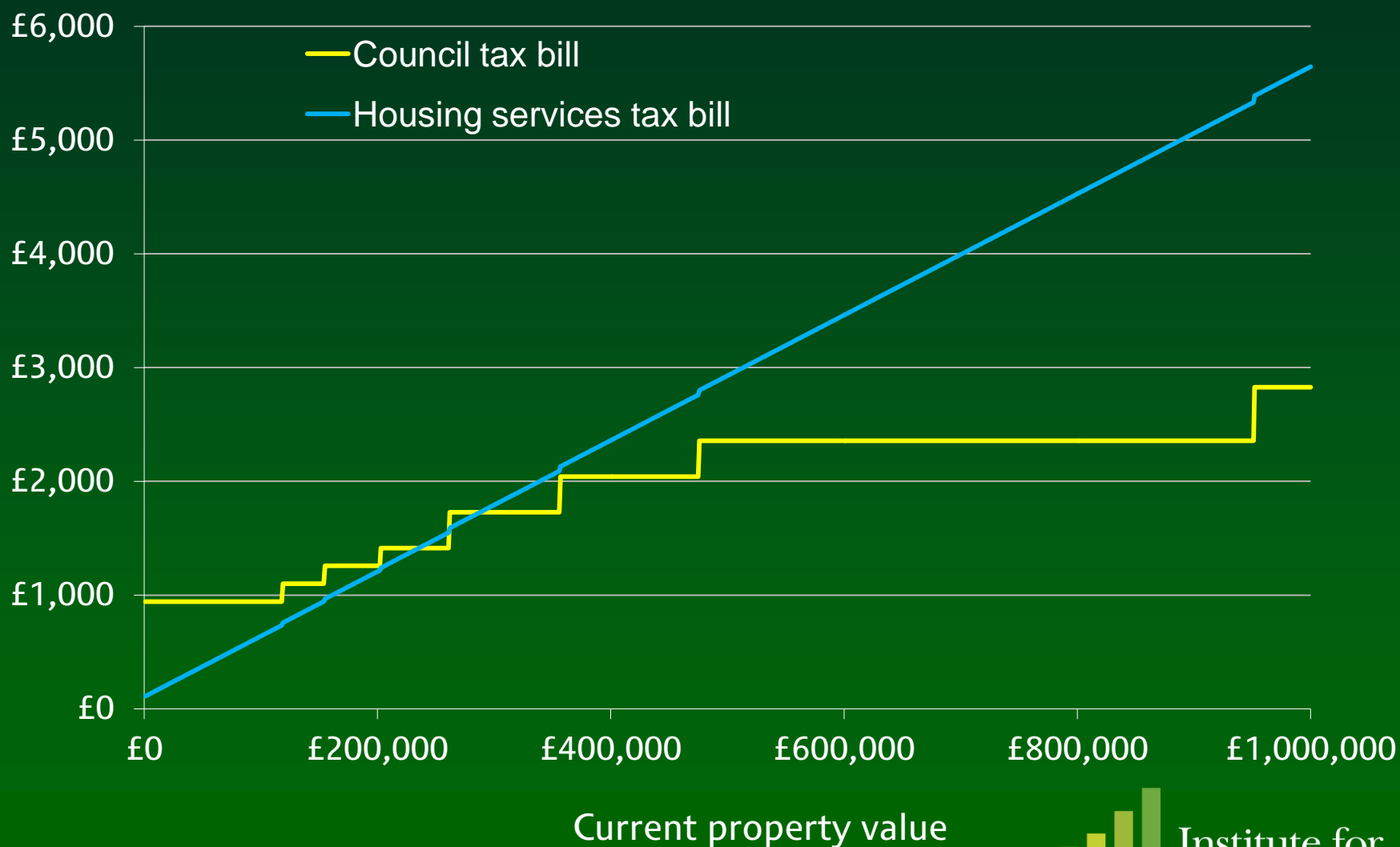
- ‘Slab’ structure absurd
 - £1 higher price can mean £40,000 higher tax bill
 - Scotland is sensibly moving away from this; Wales yet to decide
- More fundamentally, transactions should not be taxed at all
 - Why impose heavier tax on properties that change hands more often?
 - Assets should be held by the people who value them most
 - Reduced labour mobility one symptom of this more fundamental problem
- Stamp duties should not be part of the tax system
 - But don’t want to give up revenue / give windfall gains to current owners
 - So look to replace with better taxes rather than simply abolish

Taxing consumption of housing services

- Housing should be taxed like other consumption
- Two ways this could be done
 1. VAT on new build
 2. Annual tax on the stream of consumption
- From where the UK starts, the latter makes more sense
- Tax the annual consumption value of housing: substitute for VAT
- Looks like a sensibly reformed council tax
 - Based on up-to-date valuations (rather than 1991 values)
 - Proportional to values (rather than regressive with wide bands)

A 'housing services tax'

Note: rough guide only – see Chapter 16 of *Tax by Design* for details



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- Looks like a sensibly reformed council tax
 - Based on up-to-date valuations (rather than 1991 values)
 - Proportional to values (rather than regressive with wide bands)
 - No discounts for single occupancy (rather than 25% discount)
- And replace stamp duty on housing in the process
 - Initially on a revenue-neutral basis

Taxing property income

- Housing is an investment as well as a consumption good
 - Returns are (actual or imputed) rent and capital gains
- Income tax and CGT on rental housing, but not owner-occupied
- Taxing returns to rental housing distorts behaviour...
 - Investing in property is discouraged
 - Inflation and capital gains cause particular problems
- ...not taxing returns to owner-occupation seems too generous...
 - Enormous returns (including disguised labour) go untaxed
- ...and distinction creates major bias in favour of owner-occupation
 - And between each of them and many other assets
- Exempt a 'normal' return; apply full labour income tax rates above that
 - Rental property initially; perhaps owner-occupied in longer term
 - Best as part of wider rationalisation of savings taxation



Summary of recommendations

- Replace council tax and SDLT on housing with a 'housing services tax'
 - Proportional to up-to-date values
- Introduce a 'rate-of-return allowance' system for rental property
 - And perhaps owner-occupied housing in the (even) longer term

See also <http://www.ifs.org.uk/publications/6773> on how to help those with low incomes



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