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# Housing taxation & support for housing costs

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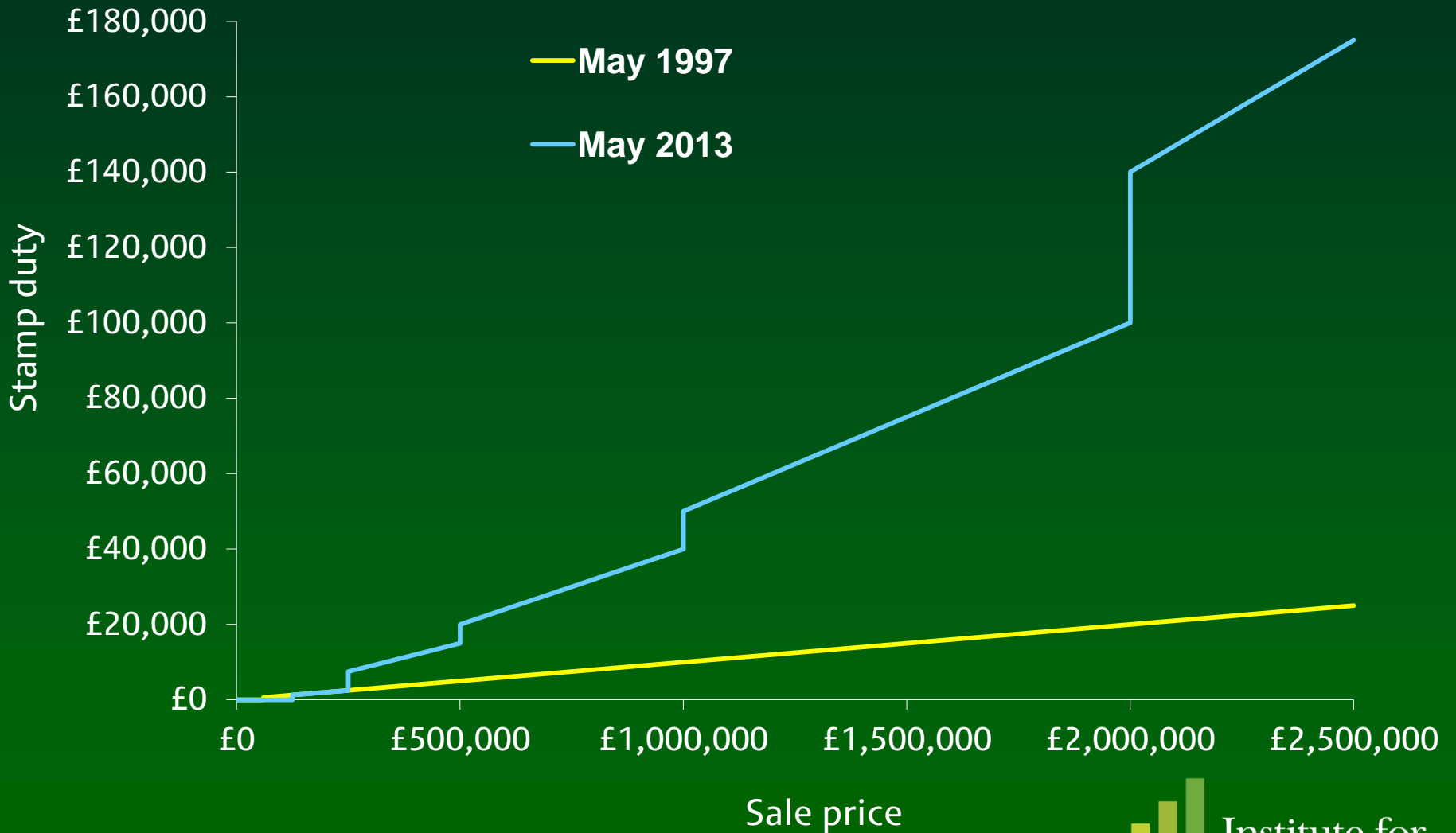
*ESRI Budget Perspectives 2014 conference, Dublin, 25 June 2013*

# Housing in the tax system

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

- 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
- Focus today on taxing housing consumption
  - Paper also discusses taxation of housing as an asset (see section 3)
- But first, an aside...

# Stamp duty on housing in the UK



# Stamp duty on housing

- ‘Slab’ structure absurd
  - £1 higher price can mean £40,000 higher tax bill
- 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

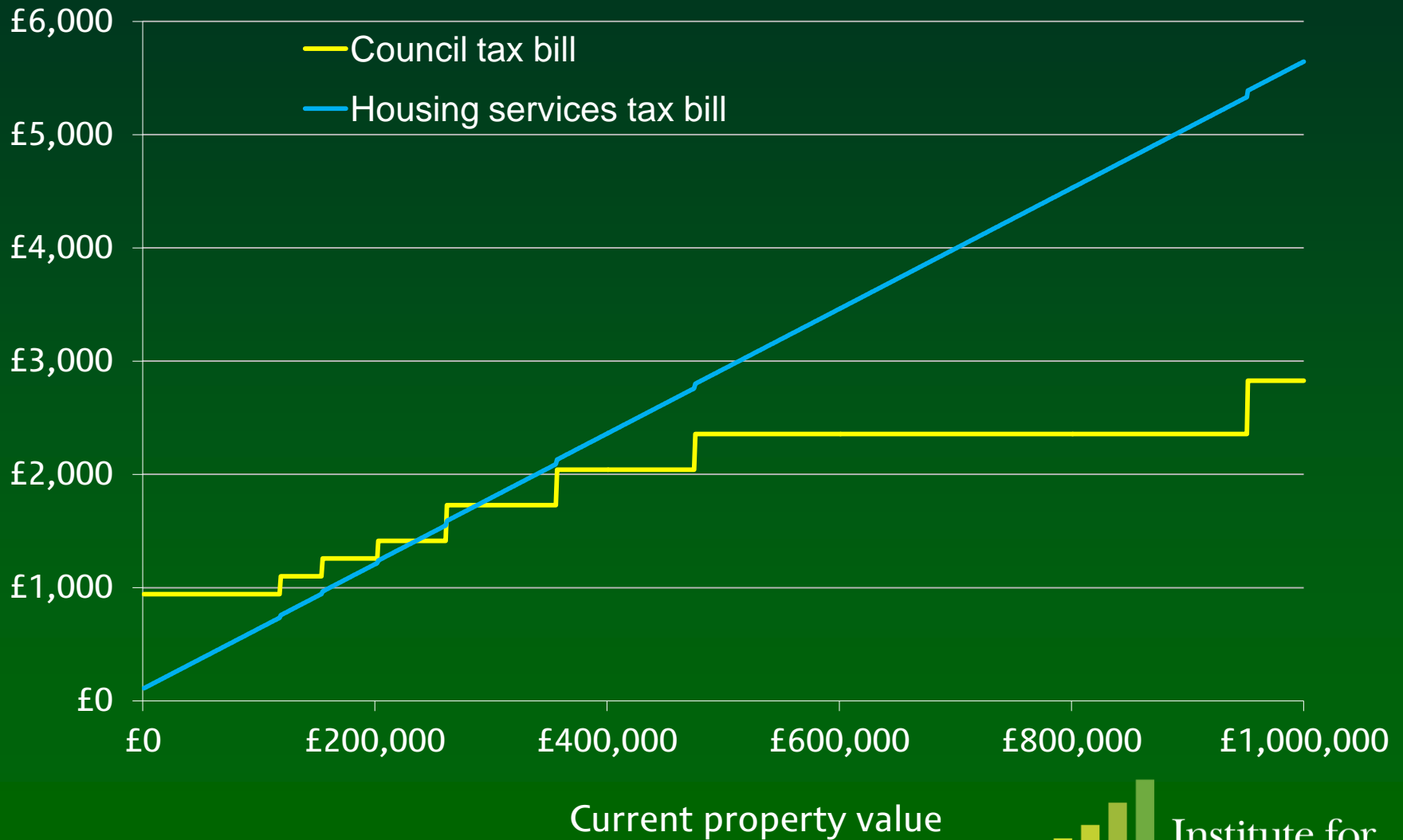
- Housing should be taxed like other consumption
- Two ways this could be done
  1. VAT on new build
  2. Annual tax on the stream of consumption
- There are pros and cons of each
  - Or a combination could be used
  - Choice may depend on the starting point in a particular country
- From where the UK starts, taxing the annual flow makes more sense
  - New build not currently subject to VAT
  - There is an existing annual tax on property values: council tax
- Recommendation for the UK: transform council tax into a ‘housing services tax’

# A 'housing services tax'

- Tax the annual consumption value of housing, as a 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 paper for details



# A 'housing services tax'

- Tax the annual consumption value of housing, as a 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 pointlessly regressive and banded)
  - No discounts for single occupancy (rather than 25% discount)
- Ideally based on rental values rather than capital values
  - But there may be a trade-off with practicality here
- And replace stamp duty on housing in the process
  - Initially on a revenue-neutral basis



# Difficulty paying housing taxes

- Housing has important advantages as a tax base
  - Immobile, supply (and demand) unresponsive to price, ownership easily established
- But owner-occupied housing has one big disadvantage
  - The stream of services is not linked to a cash flow
- Distinguish between two different concerns:
  1. Well-off people who own a valuable asset but lack liquidity
    - *Allow deferral of tax payments as a form of loan?*
  2. People who lack the underlying ability to pay
    - *The state benefits safety-net should incorporate an allowance for housing costs (including housing taxes)*

# Deferral of housing tax payments

- Would help some taxpayers; but should governments be wary?
- Deferral should always be with interest
  - Interest-free loans give preferential treatment to those who pay later – unfair, inefficient and potentially expensive
- Allow deferral only until sale of property or death
- Secured against housing equity
  - So restricted to home-owners
  - And perhaps restricted to those who lack the liquidity to pay the tax?
  - Those with no current income or net assets get outright support instead
- Long-term credibility of the policy matters
  - Government & taxpayers need to be sure the tax will ultimately be paid
  - Political consensus therefore especially valuable
  - Err on the restrictive side until well established?

# Support for housing costs

- Housing taxes are one part of housing costs
- Benefit system provides a ‘safety net’ to guarantee minimum income
  - Housing is clearly an essential of life which should be included
  - No judgement on how generous it should be
- Best to include housing support in an integrated benefit
  - UK’s ‘universal credit’ is a (partial and imperfect) attempt to do this
- If means-testing on assets as well as income, don’t exclude housing
  - Housing is illiquid, but that’s what deferral is for

# Support for actual or 'reasonable' housing costs?

- If level of housing costs is a choice, 'reasonable' is better
  - Taxpayer shouldn't pay for me to choose somewhere expensive
- If level of housing costs is fixed, 'actual' is better
  - These costs are part of my basic needs
- Reality is somewhere in between
  - Short-run vs long-run
  - Social vs private housing
  - Rent + tax vs energy + water bills
  - Area vs specific property
- No simple 'right answer'
  - UK has moved towards capping rent support as part of welfare cuts
  - Council tax support localised: the end of a national after-tax safety net

# Conclusions: recommendations for the UK

- Replace council tax and stamp duty on housing with a ‘housing services tax’ to stand in place of VAT
  - Proportional to up-to-date values
- Reform the income tax & CGT treatment of (initially rental) housing
  - See section 3 of the paper
- There is a case for allowing some home-owners to defer payment
  - With interest, until sale of the property or death
- Benefits should include an allowance for (actual or ‘reasonable’) housing costs
  - Preferably as part of a single integrated benefit



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