

# Housing and Taxation

Duncan Bowie  
Housing Studies Association  
6 April 2017

# Why discuss tax ?

---

- ❑ Policy objectives on housing supply:
  - ❑ Increase quantum of new housing supply
  - ❑ Increase affordability of new and existing housing supply
  - ❑ Increase effective use of existing and new supply
  - ❑ Taxation policy impacts on all 3 objectives
-

# Theoretical contexts

---

- ❑ The financialisation debate: the housing system based on asset appreciation not on effective occupation (Lapavitsas, Aalbers, Edwards – *Foresight* report on housing)
  - ❑ `The commons`
  - ❑ Common ownership of land
  - ❑ `Right to the city`
  - ❑ access to land ( and services)
  - ❑ `Public utility`
  - ❑ Utilitarian argument for public benefit
-

# Research proposal

---

- This research is to model the impact of tax reform options proposed in my recent book: *Radical Solutions to the Housing Supply Crisis* (Policy Press 2017). The project will review the impact of a minimum of 6 tax reform proposals and model their impact on government tax revenue, land and development costs, house-prices and rents, housing development output, the distribution of residential property wealth.
-

# Wealth in residential property

---

- Housing wealth now more important than wealth in undeveloped land
  - Increasing recognition of role of land and residential property wealth in the economy
  - Previous work of Alan Murie and Ray Forrest
  - John Hills et al *Wealth in the UK*(2013)
  - Recent work of New Economics Foundation and Centre for Progressive Capitalism
-

# Purposes of taxation

---

- ❑ A) Raise revenue for Government
  - ❑ B) Redistribution
  - ❑ C) Incentive to influence personal and household behaviour in public interest
  - ❑ D) To maximise public benefit (and limit extent of private gain)
  - ❑ Current negative perspective of tax as a burden and restriction on personal choice
  - ❑ Positive perspective of tax as a contribution to community/ collective provision of services
-

# A Tax to raise resources to fund services

---

- ❑ Political perspectives of tax minimisation/ electoral unpopularity
  - ❑ Labour Party decision in 1997 to work within inherited budget
  - ❑ Current LP position to avoid any impression that any taxes might be raised ( even nervous as to repealing recent Govt changes)
  - ❑ But any Govt not only has choices on spending priorities but choices on how to raise funds to support spending priorities
-

# B Taxes for redistributive/ equalising purposes

---

- ❑ Ownership of residential property to key component of inequality
  - ❑ Inequity between owners and renters
  - ❑ Inequity between outright owners and mortgaged owners
  - ❑ Inter-generational inequity – access to owner occupation increasing limited to those with financial support from parents/ grand-parents (living) or departed (inheritance)
  - ❑ Ownership gives security , avoidance of enforced transience ( so long as mortgage paid) and can also be basis for access to services such as education.
-



## C Taxation to incentivise effective use of land and property

---

- Taxes to incentive appropriate development ( through taxing undeveloped sites or under-developed sites)
  - Taxes to ensure effective use of development through penalising vacancy or under-use.
-

## D Utilitarian taxes aimed at maximising public benefit

---

- Taxes to ensure maximum public benefit from development and to minimise private asset appreciation derived from public policy decisions – ie taxing the 'unearned increment'
-

# Key point

---

- ❑ Different taxes have different objectives. Need to be clear what purpose of each tax is before assessing potential impact/ contribution toward objective or objectives.
  - ❑ Specific taxes generally do not meet all 4 criteria – can meet one or more , but have negative impact on other objectives
  - ❑ For example, Georgite concept of a single tax on land value, may contribute to objective 1 and 2 but not necessarily 3 or 4.
-

---

# Residential wealth and national wealth

---

verage: UK

1995 2005 2015

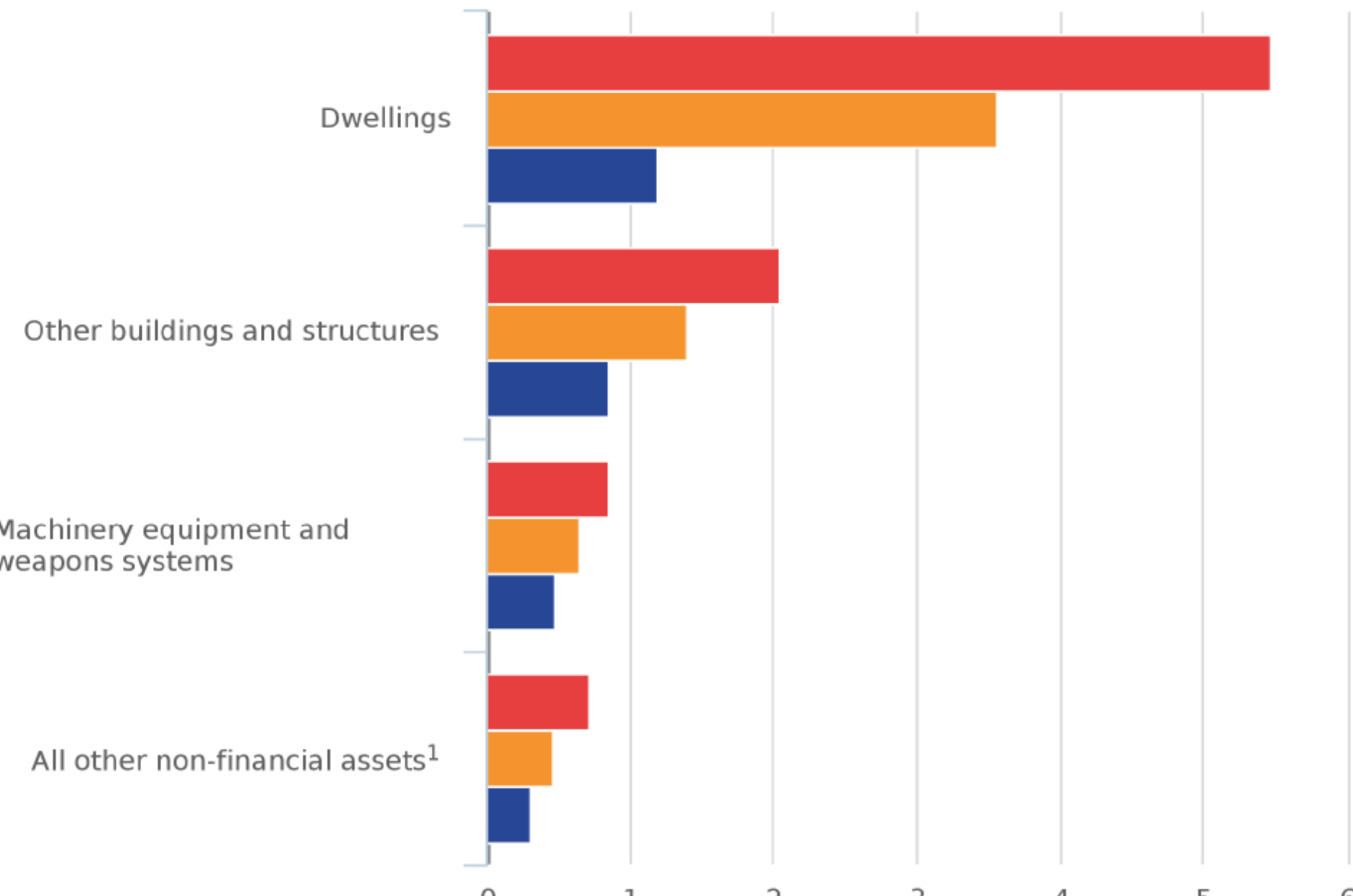
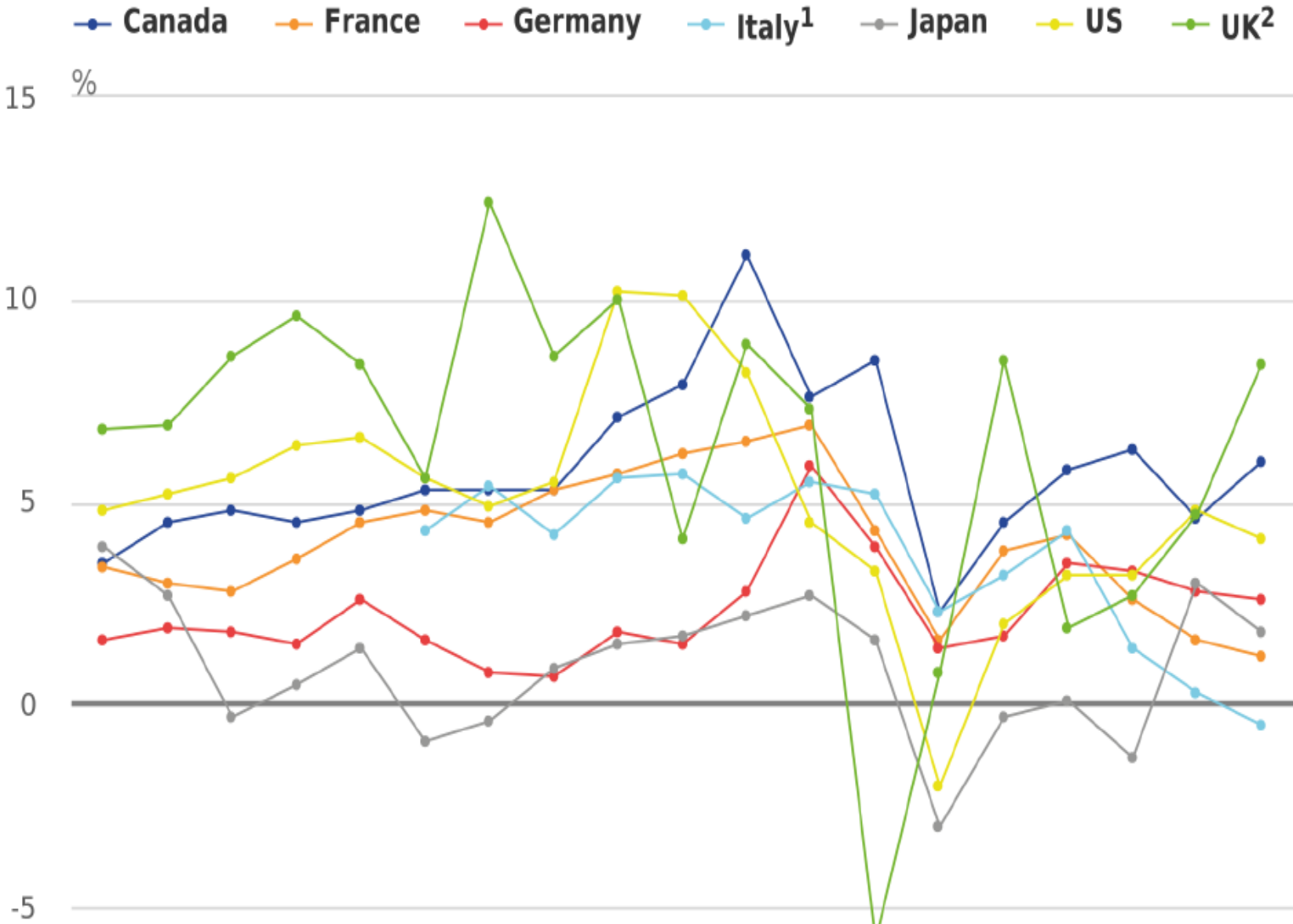


Figure 5: Annual growth rates of produced fixed assets for the G7 countries, 1996 to 2014



# Regional split of residential value

	£ billion		
	2015 Value	1 year change	5 year change
LONDON	1,612	126	589
SOUTH EAST	1,160	93	253
EAST	646	55	133
SOUTH WEST	553	31	72
NORTH WEST	439	16	7
WEST MIDLANDS	380	18	30
SCOTLAND	331	6	25
YORKSHIRE & THE HUMBER	322	10	8
EAST MIDLANDS	311	15	32
WALES	190	5	4
NORTH EAST	135	3	-4
NORTHERN IRELAND	85	7	-13
<b>UK</b>	<b>6,165</b>	<b>385</b>	<b>1,136</b>

Source: Savills Research

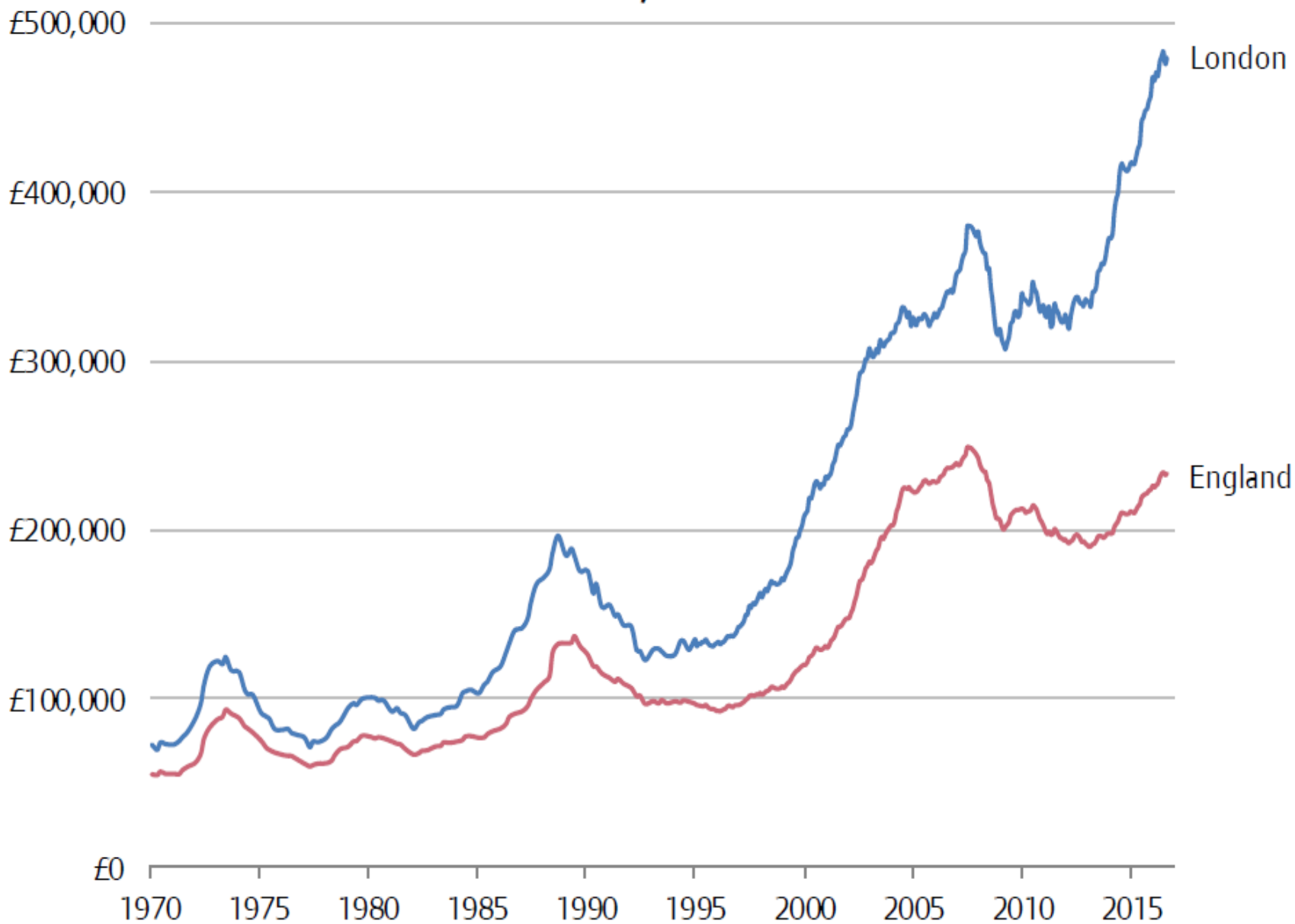
---

Inequity generated by house-price  
inflation and asset appreciation by  
property owners

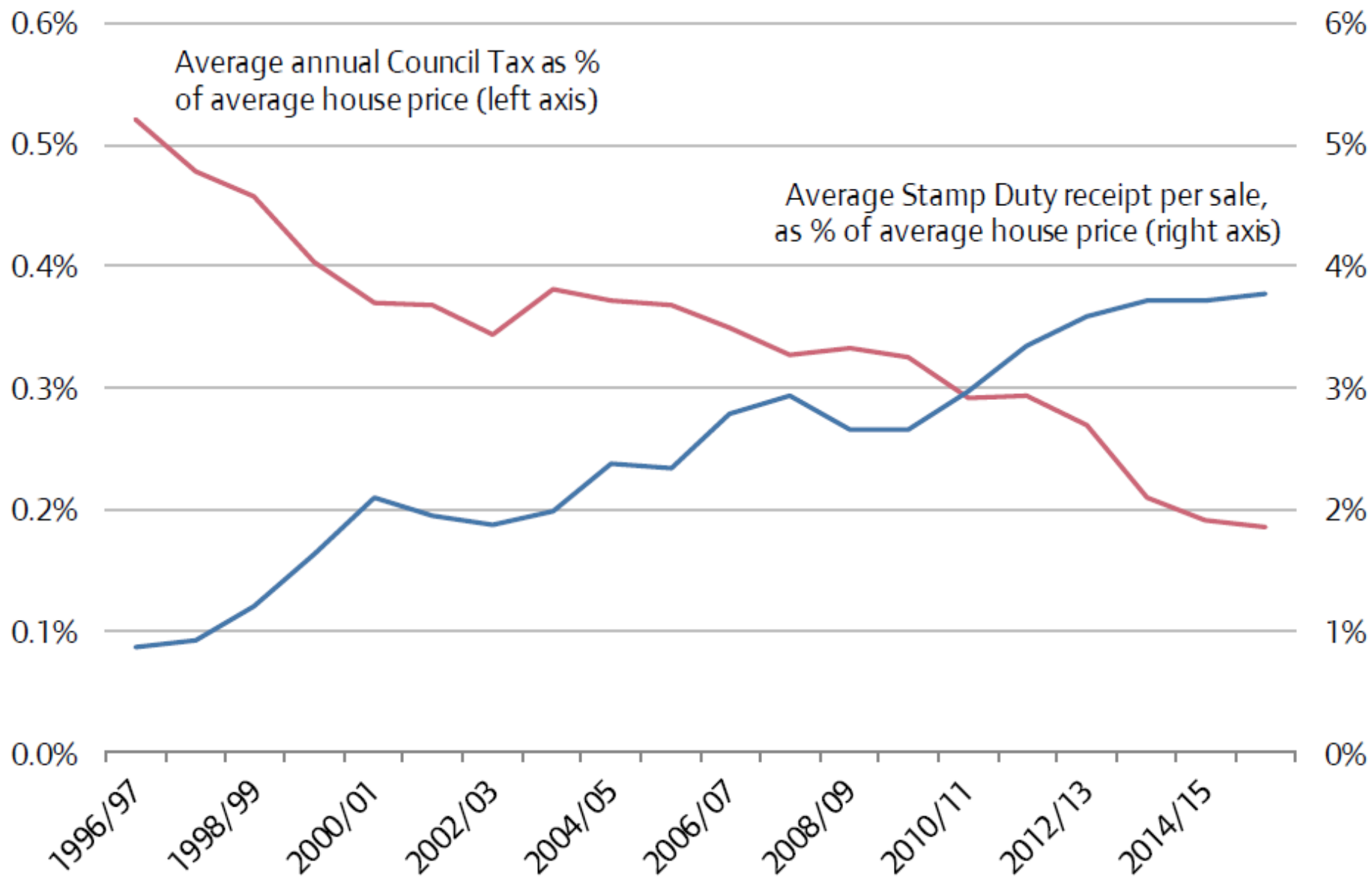
---



**Average house prices in London and England after adjusting for inflation, 1970-2016**



## Average Council Tax and Stamp Duty as % of average house price, London 1996/97 to 2015/16



# Tax options

---

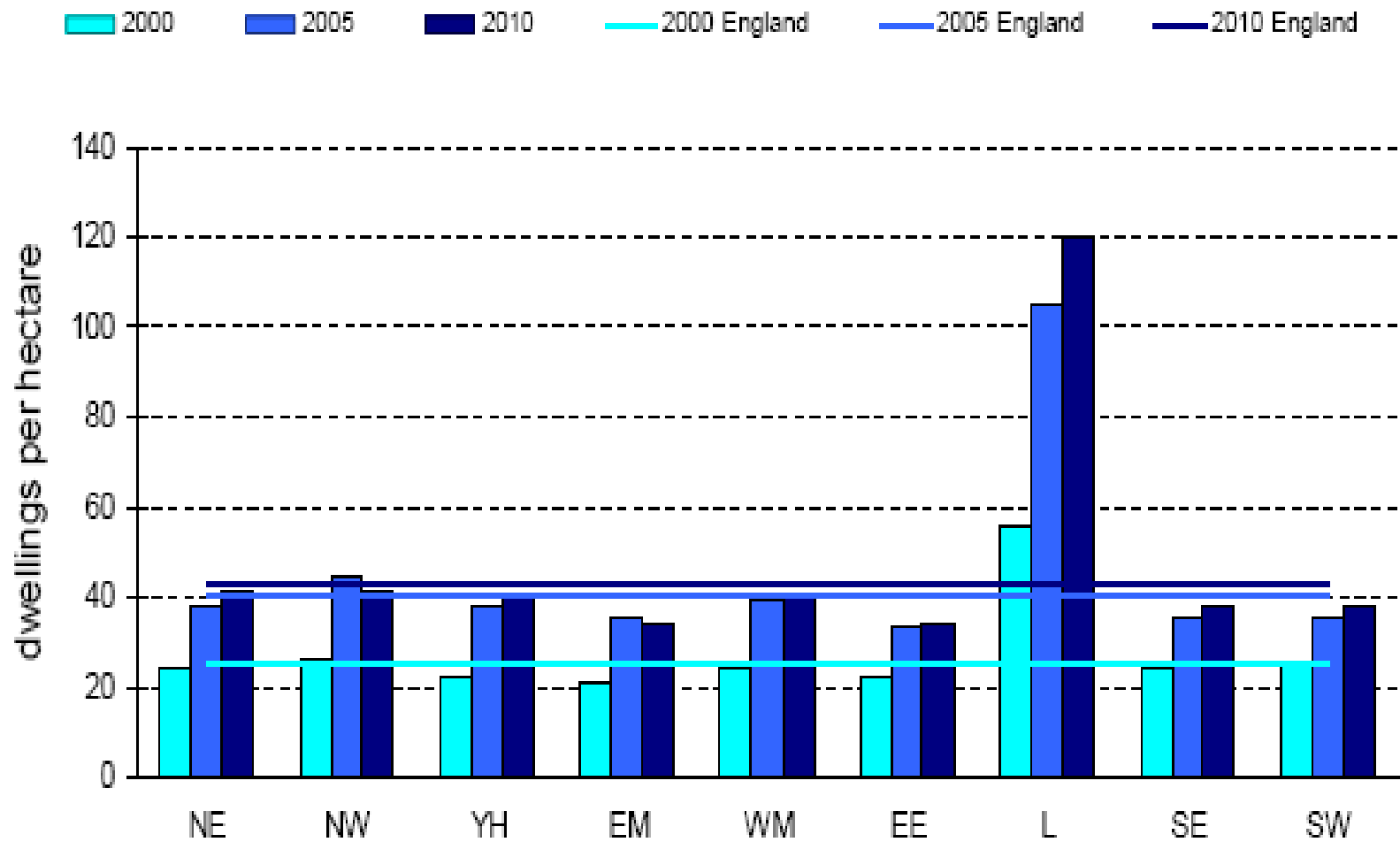
- ❑ Annual residential wealth tax
  - ❑ Reintroduce schedule A – tax on imputed rental value of owner-occupied dwellings
  - ❑ Revaluation of residential values for council tax purposes, with introduction of higher rates for new higher value bands
  - ❑ Capital gains tax on all residential dwellings on disposal ( to replace stamp duty) with discounts for downsizers
  - ❑ Alternative is to make stamp duty liability of seller not purchaser
  - ❑ Tax on inheritance of residential property ( after death) or gifts (before death)
-

---

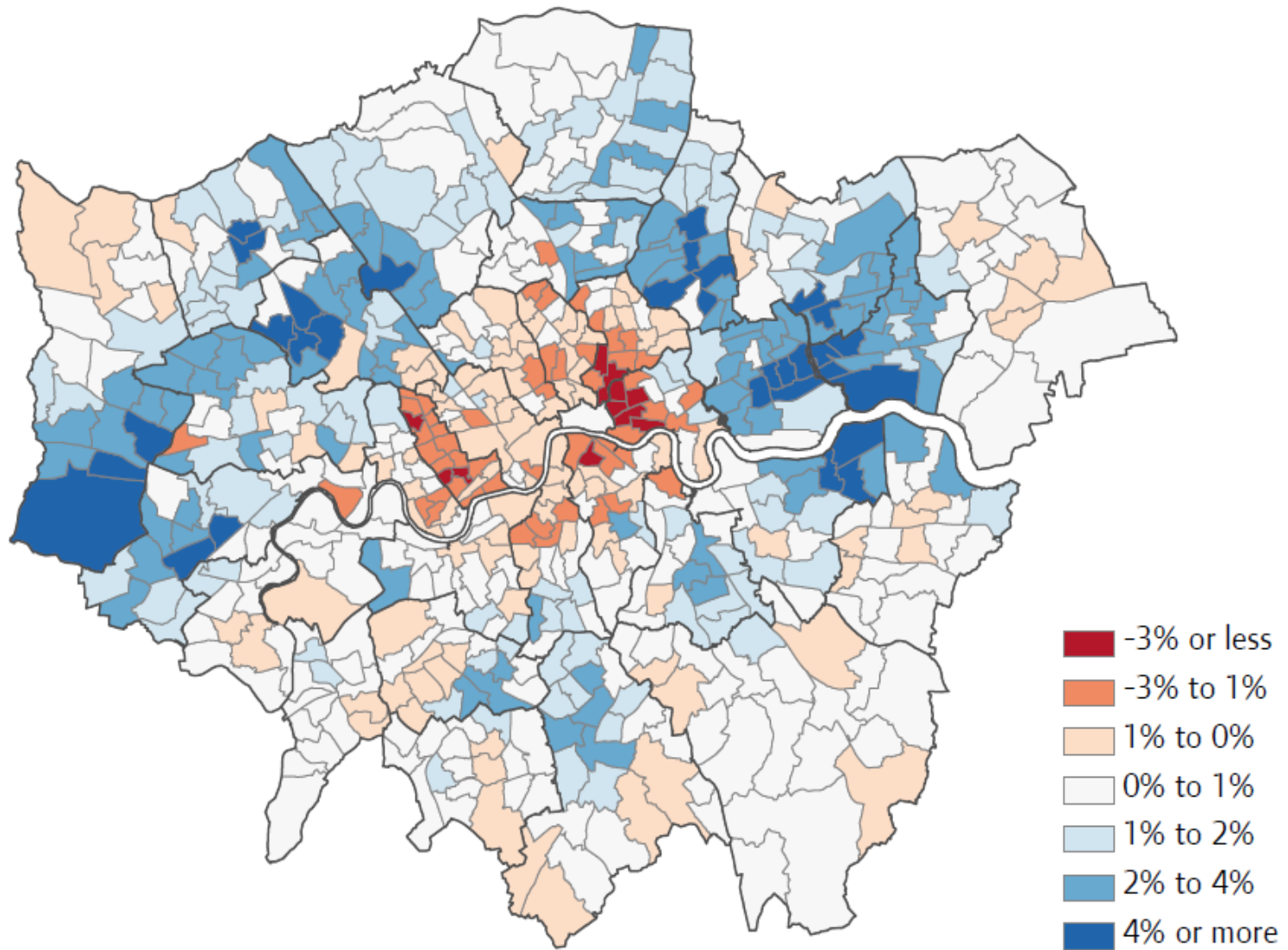
# Ineffective use of land and capacity

---

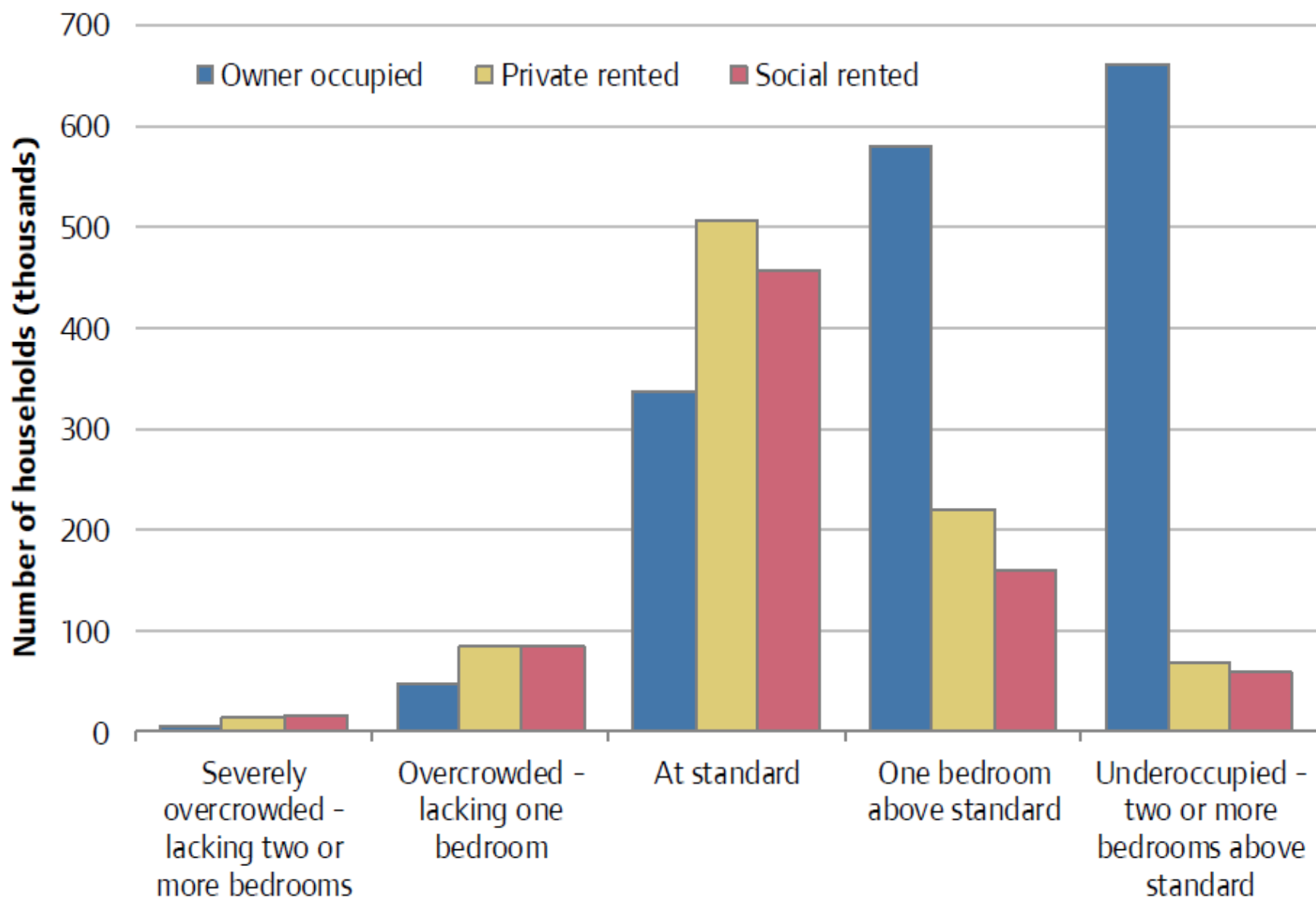
Figure 5: Density of new dwellings, by region, 2000, 2005 and 2010



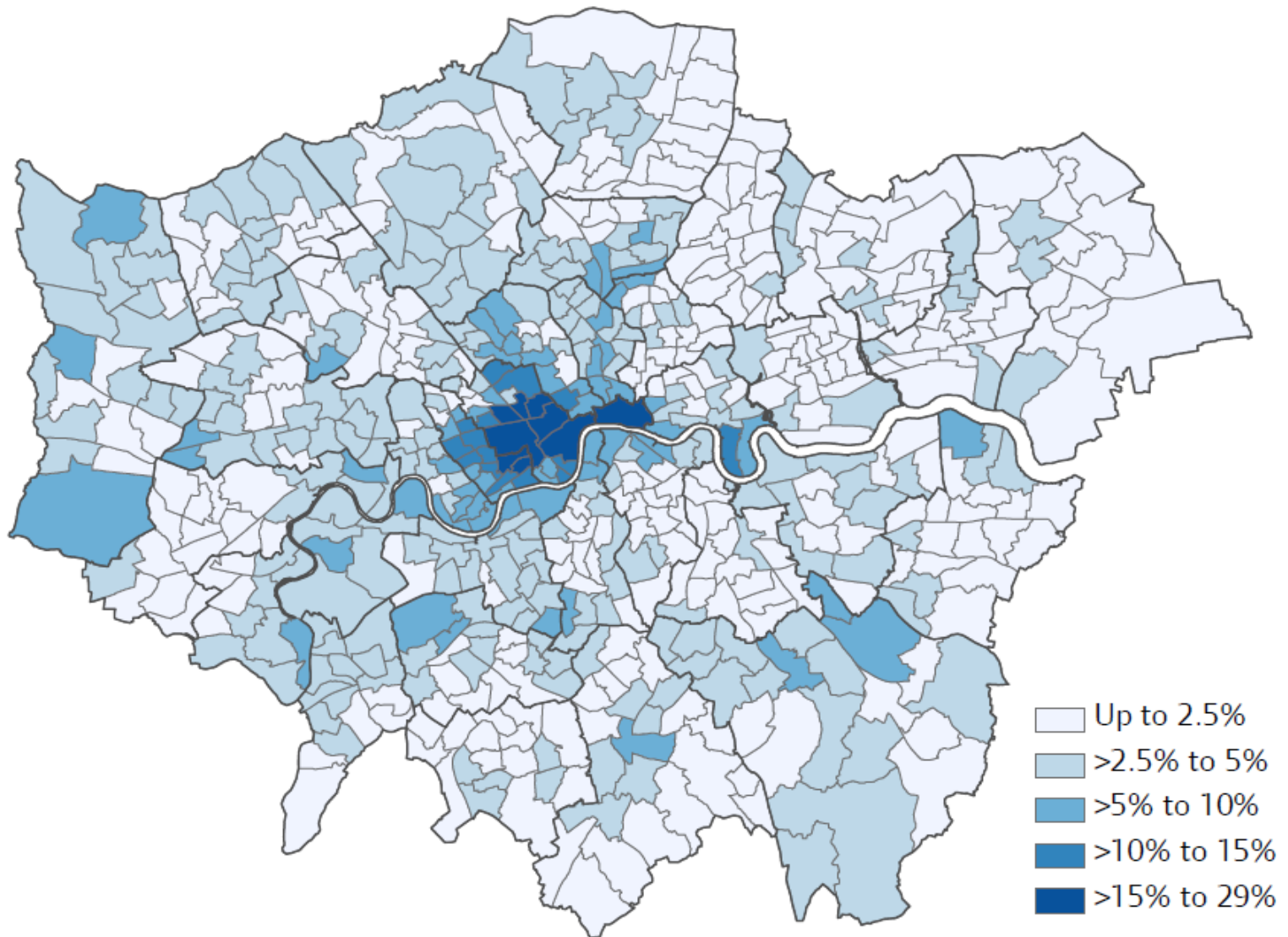
### Percentage point change in overcrowding rate (persons per room) by ward, 2001 to 2011



## Overcrowding and under-occupation by tenure, London 2012/13 - 2014/15



## Household spaces without usual residents as % of total by ward, 2011





# Tax options

---

- ❑ Tax on undeveloped land which is suitable for development
- ❑ Tax on land with residential planning consent but where no substantive start on site
- ❑ Tax on developments which do not optimise development capacity (in effect a tax on low density developments/ very large homes)
- ❑ Penal tax on vacant units
- ❑ Penal tax on second homes (through higher council tax rate)
- ❑ Council tax related to size of home( not just historic value)
- ❑ Council tax related to effective occupation – ie higher tax for dwellings not occupied to norm occupation standard

---

# Capital gain from residential development

---

# Agricultural land values (2015) per hectare

---

	Estimated value <sup>4</sup> of a typical agricultural site
East	£24,000
East Midlands	£23,000
North East	£16,000
North West	£22,000
South East	£22,000
South West	£21,000
West Midlands	£24,000
Yorkshire and the Humber	£21,000
England (mean)	£21,000

# Industrial land values (2015)

---

	<b>Estimated value<sup>5</sup> of a typical industrial site</b>
East	£675,000
East Midlands	£450,000
London <sup>6</sup>	£2,733,000
North East	£180,000
North West	£400,000
South East	£1,100,000
South West	£430,000
West Midlands	£500,000
Yorkshire and the Humber	£375,000
England excluding London (mean)	£514,000
England including London (mean)	£760,000

# Housing land values (2015)

---

<b>Regional and England weighted averages<sup>3</sup></b>	
East	£2,600,000
East Midlands	£1,100,000
London	£29,100,000
North East	£1,000,000
North West	£1,400,000
South East	£3,600,000
South West	£2,000,000
West Midlands	£1,500,000
Yorkshire and the Humber	£1,400,000
England including London	£6,900,000
England excluding London	£2,100,000

---

# Highest housing land values

---

Camden	£41,600,000
City of London	£118,700,000
Hammersmith & Fulham	£65,000,000
Islington	£53,186,000
Kensington & Chelsea	£134,030,000
Southwark	£49,000,000
Westminster	£110,000,000

# Impact of land costs on development costs (GLA 2016)

	London Affordable Rent		
	1 bed	2 bed	3 bed
Camden	£ 306,422	£ 398,897	£ 526,002
City of London	£ 573,993	£ 777,894	£ 1,001,139
Hackney	£ 266,062	£ 329,281	£ 413,419
Hammersmith and Fulham	£ 460,388	£ 626,055	£ 774,964
Haringey	£ 194,883	£ 249,163	£ 311,622
Islington	£ 265,540	£ 374,921	£ 480,280
Kensington and Chelsea	£ 533,909	£ 707,169	£ 893,630
Lambeth	£ 237,306	£ 309,306	£ 382,126
Lewisham	£ 203,608	£ 264,966	£ 336,199
Newham	£ 210,062	£ 286,930	£ 374,029
Southwark	£ 258,139	£ 372,628	£ 469,827
Tower Hamlets	£ 228,116	£ 301,750	£ 381,796
Wandsworth	£ 255,207	£ 335,044	£ 433,239
Westminster	£ 513,265	£ 677,234	£ 864,344

# Tax options

---

- ❑ Reformed Community Infrastructure Levy/ s 106 ( but this relates to levy based on value at consent or start on site)
  - ❑ Tax on land sale price relative to existing use value
  - ❑ Tax on completions/ disposal
  - ❑ Public sector equity stake on all new private development, with pay back based on share of sale and resale values in perpetuity
-



# The Proposed Research Project

---

- The research would be do model the impact of a range of tax reform options. Some of these have been considered in policy reports from other bodies, including recently the House of Lords Economic Affairs Committee and Ryan-Collins, Lloyd and MacFarlane Rethinking the Economics of Land and Housing (Zed 2017)
  - The research project will have regard to the proposals in the Mirlees review, *Tax by Design*, published by the Institute of Fiscal Studies (IFS) in 2010.
  - Potential collaboration with NEF, SHELTER, Smith Institute and Pete Redman– all members of Highbury Group
-

# Core tax options to be modelled

---

- ❑ a) Alternative options for taxing land including land identified with development potential.
  - ❑ b) Abolition of stamp duty land tax (SDLT) and replacement by capital gains tax on residential property
  - ❑ c) Reintroduction of schedule A income tax ( imputed rental value of owner-occupied property)
  - ❑ d) Changes to residential council tax banding and rates ( including introduction of multipliers in relation to levels of occupation)
  - ❑ e) Reforms to inheritance tax in relation to residential properties
  - ❑ f) Reforms to levies on new development (currently through Community Infrastructure Levy and planning obligations)
-

# Assessment criteria

---

- The project would consider impacts (including indirect impacts) of each policy option on;
    - 1) National and local government revenue income
    - 2) Land and development costs
    - 3) House-prices and rents
    - 4) New housing development output
    - 5) The distribution of residential property wealth
    - 6) The affordability of both new and existing housing in terms of the proportion of income spent on housing costs by households in different income bands
    - 7) The effective use on existing and new housing stock
  - The analysis of outputs would be at a regional level given cost, value and income differentials between English regions.
-

# Conclusion

---

- ❑ Fiscal policies must support housing policy objectives not be the determinant of them. A package of reforms is required:
  - ❑ To increase national and local govt revenue to support investment in new rented homes for lower and middle income groups
  - ❑ To limit gains made by owner occupiers and reduce inequity in household wealth and opportunities and to reduce spatial inequity and social polarisation
  - ❑ To generate a more effective use of both development capacity and both new and existing residential property stock (thus reducing overcrowding and homelessness)
  - ❑ To ensure increases in land value and property value arising from planning decisions and development contribute more effectively to the provision of public infrastructure and therefore are of wider public benefit
-