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IFS-CIOT debate

@TheIFS

How is tax damaging the housing market and how can we fix it?

Tax and housing supply



- Tax can affect the supply of housing:
 - Affects house prices and therefore incentives to build
 - Taxation of developers' profits, developer contributions, etc.
 - VAT treatment of new build vs renovation
 - Council tax vs business rates

- But effects small in aggregate: supply doesn't respond much to financial incentives
 - Crudely, 10% rise in price → 1% growth in housing stock after 25 years
 - Constrained by other factors, notably planning system – much more important

Tax with inelastic housing supply



Insofar as tax doesn't affect supply of housing:

- Doesn't affect overall affordability
- Overall (expected) tax on a property gets reflected in the property value
 - e.g. cut council tax on a property → rent rises £-for-£ → total cost (rent + tax) unchanged
- Tax can affect allocation of housing – both ownership and occupation
 - Relative affordability for different groups
 - Crucial to make best use of the existing housing stock

Tax and housing allocation



- Stamp duty land tax (and Scottish & Welsh equivalents)
 - Discourages transactions → properties not owned by the people who value them most
 - Barrier to downsizing/upsizing, moving for work, etc.
 - Abolish, and make up revenue from higher (reformed) council tax

- Council tax
 - Based on 1991 valuations & regressive → affects fairness, not affordability or allocation
 - 25% single-adult discount → single-adult households live in bigger properties, and multi-adult households in smaller properties, than they would otherwise choose
 - Reform so that discount no longer depends on value of property

Tax on rented vs owner-occupied housing



Private rental housing

Owner-occupied (main) home

Tax on rented vs owner-occupied housing



Private rental housing

Owner-occupied (main) home

Income tax on rental income

CGT on rise in value

Tax on rented vs owner-occupied housing



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No tax on imputed rental income

CGT on rise in value

No CGT

Tax on rented vs owner-occupied housing



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Owner-occupied (main) home

Income tax on rental income

- and mortgage interest deduction restricted to basic rate

No tax on imputed rental income

CGT on rise in value

No CGT

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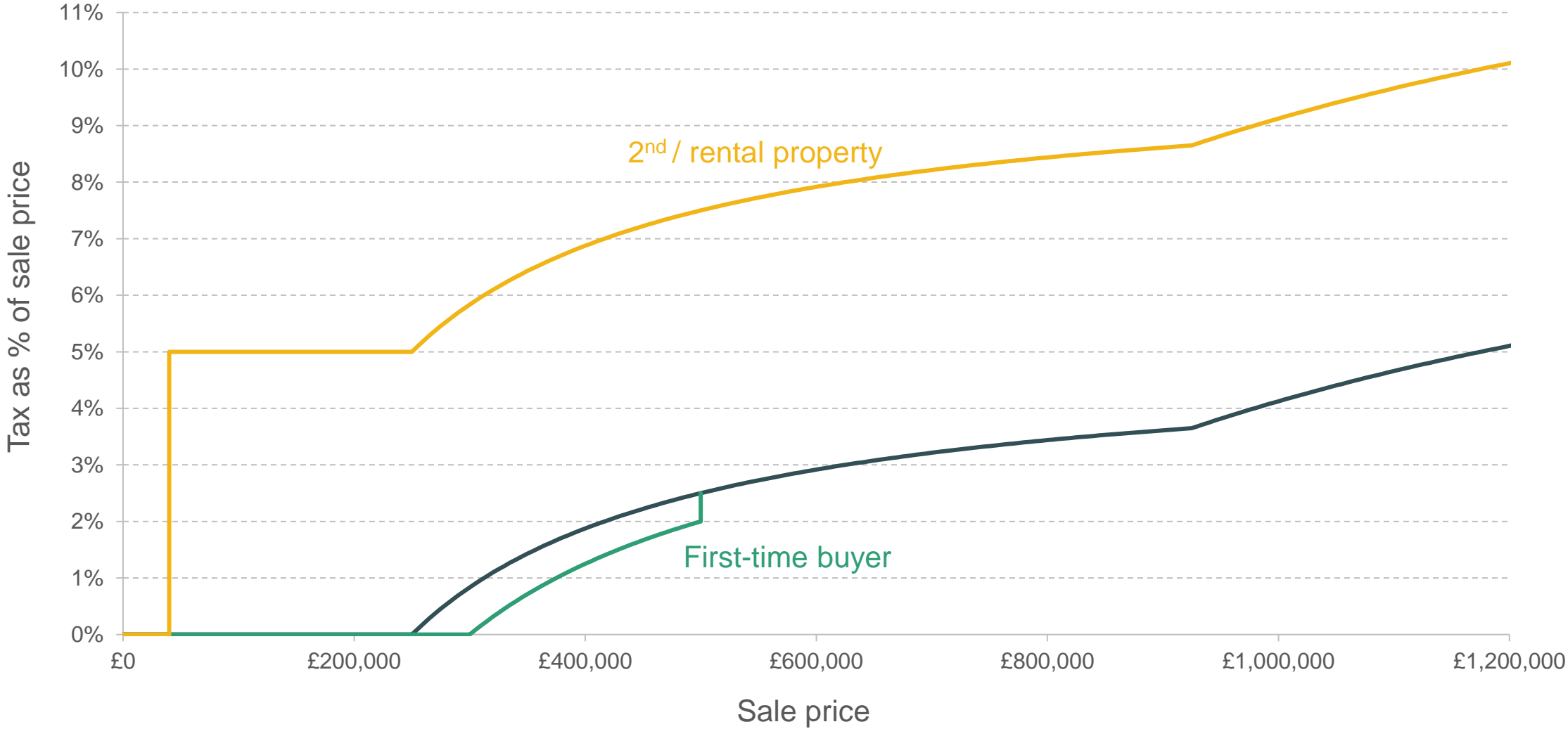
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Stamp duty with 5ppt supplement

Stamp duty with 1st-time buyer's discount

Stamp duty land tax, April 2025



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Inheritance tax with residence nil-rate band

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Lifetime ISA, previously Help to Buy,...

Tax on rented vs owner-occupied housing



- All this has little effect on overall affordability of housing
- But does affect the allocation of housing
 - More owner-occupation, less rental
 - Cheaper to become owner-occupier, but those left renting pay more
- Debatable whether any justification for favouring owner-occupation
 - But certainly not on this scale
 - And certainly not in this odd cocktail of ways

Conclusion: what should we do?



- Remove most of the features introduced in past 10 years
- Introduce a 'rate of return allowance' regime for landlords
 - And possibly owner-occupiers in long run
- Abolish / replace stamp duty land tax
- Abolish / reform single person discount in council tax

- Tax having little effect on supply and affordability of housing overall
- But means we're not making best use of existing housing stock – focus on that!